



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE February 21, 2007

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

The City has implemented new reporting standards for the year ended June 30, 2006, with significant changes in content and structure of the financial statements. The new financial statements now include a Statement of Activities and Net Assets which provides information about the activities of the City as a whole. Also included is Management's Discussion and Analysis of the City's financial statements.

The City's receipts totaled \$1,917,915 for the year ended June 30, 2006. The receipts included \$708,225 in property tax, \$117,253 from tax increment financing, \$554,005 from charges for service, \$229,991 from operating grants, contributions and restricted interest, \$206,424 from capital grants, contributions and restricted interest, \$67,440 from local option sales tax, \$18,720 from unrestricted interest on investments, \$10,600 from cable franchise fees and \$5,257 from other general receipts.

Disbursements for the year totaled \$1,857,011, and included \$390,894 for public works, \$355,515 for debt service and \$265,436 for general government. Also, disbursements for business type activities totaled \$326,472.

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/reports.htm>.

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CITY OF DURANT
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS
JUNE 30, 2006

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City of Durant

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January 2006)		
Rich Harmsen	Mayor	Jan 2006
Mark Clark	Mayor Pro tem	Jan 2008
Teresa Benischek	Council Member	Jan 2006
Wesley H. Muller	Council Member	Jan 2006
Matthew Weih	Council Member	Jan 2006
Mike Foland	Council Member	Jan 2008
(After January 2006)		
Rich Harmsen	Mayor	Jan 2008
Mark Clark	Mayor Pro tem	Jan 2008
Mike Foland	Council Member	Jan 2008
Mike McKinley	Council Member	Jan 2010
Nik Seibel	Council Member	Jan 2010
Dawn Smith	Council Member	Jan 2010
Jerry Tutskey	City Administrator	Indefinite
Carla Graves	Clerk	Indefinite
Kathy Keese	Deputy City Clerk	Indefinite
Philip L. Keese	Treasurer	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, 2006, which collectively comprise the 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 11 for the discretely presented component unit, is based on the report of the other auditor.

Except as noted, 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, 2005.

As described in Note 11, 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 May 4, 2006, 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 omission of a component unit, as discussed above, the financial statements referred to above do not present fairly, in conformity with U.S. generally accepted accounting principles, 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, 2006, 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, 2005, as discussed in the third paragraph, 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, 2006, 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.

As described in Note 10, during the year ended June 30, 2006, the City adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences.

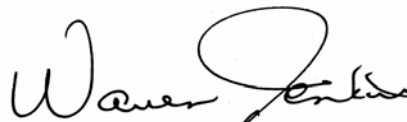
In accordance with Government Auditing Standards, we have also issued our report dated October 19, 2006 on our consideration of the City of Durant’s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and 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 internal control over financial reporting or 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 28 through 30 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 Durant’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, because of the omission of a component unit, as discussed in the fifth paragraph, is not presented fairly, 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

October 19, 2006

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, 2006. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

Because the City is implementing new reporting standards for this fiscal year with significant changes in content and structure, and since 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.

2006 FINANCIAL HIGHLIGHTS

- The cash basis net assets of the City's governmental activities increased 21%, or approximately \$108,000, primarily due to the receipt of a RISE grant of \$48,788 and an \$80,902 contribution from the Durant Development Corporation for streets.
- The cash basis net assets of the City's business type activities decreased 8%, or approximately \$47,500, due to increased fuel costs, water tower repair and maintenance and transfers to the General Fund.

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 special revenue funds and the City's general obligation and revenue debt.

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, culture and recreation, community and economic development, general government and debt service. 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 and Urban Renewal Tax Increment, and 3) the Debt Service Fund. The governmental fund financial statement provides 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.

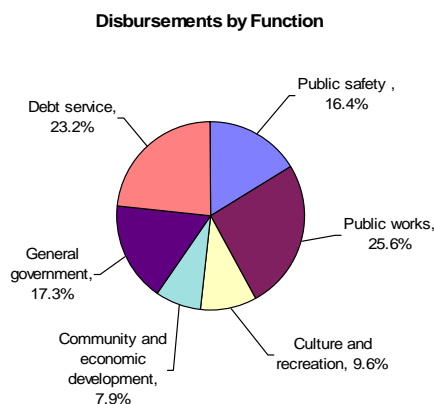
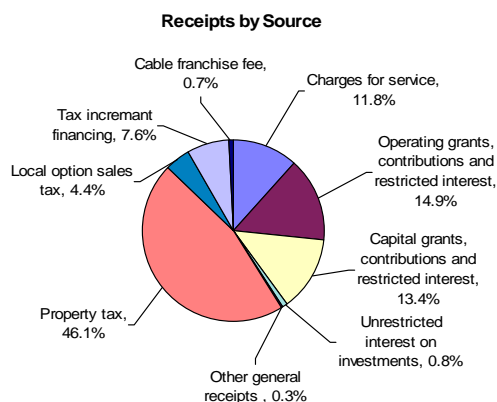
2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains two Enterprise Funds to provide separate information for the water and sewer funds, considered to be major funds of the City.

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 from a year ago, increasing from \$506,177 to \$614,614. 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, 2006
Receipts:	
Program receipts:	
Charges for service	\$ 181,542
Operating grants, contributions and restricted interest	229,991
Capital grants, contributions and restricted interest	206,424
General receipts:	
Property tax	708,225
Tax increment financing	117,253
Local option sales tax	67,440
Unrestricted interest on investments	12,244
Cable franchise fee	10,600
Other general receipts	5,257
Total receipts	<u>1,538,976</u>
Disbursements:	
Public safety	250,388
Public works	390,894
Culture and recreation	146,749
Community and economic development	121,557
General government	265,436
Debt service	355,515
Total disbursements	<u>1,530,539</u>
Excess of receipts over disbursements	8,437
Operating transfers, net	100,000
Cash basis net assets beginning of year	<u>506,177</u>
Cash basis net assets end of year	<u>\$ 614,614</u>



Changes in Cash Basis Net Assets of Business Type Activities	
	Year ended June 30, 2006
Receipts:	
Program receipts:	
Charges for service:	
Water	\$ 150,098
Sewer	222,365
General receipts:	
Unrestricted interest on investments	6,476
Total receipts	<u>378,939</u>
Disbursements:	
Water	133,613
Sewer	192,859
Total disbursements	<u>326,472</u>
Excess of receipts over disbursements	52,467
Operating transfers, net	(100,000)
Cash basis net assets beginning of year	<u>567,590</u>
Cash basis net assets end of year	<u>\$ 520,057</u>

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Durant completed the year, its governmental funds reported a combined fund balance of \$614,614, an increase of \$108,437 above last year's total of \$506,177. 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 increased \$9,180 from the prior year to \$296,896. The increase is due to property valuation increases resulting in more property tax collections.
- The Road Use Tax Fund cash balance increased by \$11,745 to \$66,415 during the fiscal year. This increase was a result of Iowa Department of Transportation transfer of jurisdiction payments received by the City and less road work on West 2nd Avenue.
- The Urban Renewal Tax Increment Fund cash balance decreased by \$2,640 to \$78,119 during the fiscal year. The decrease is primarily due to rebate payments to developers and requesting less tax increment funds in an effort to decrease funds on hand.
- The Debt Service Fund cash balance increased by \$75,129 to \$82,773 during the fiscal year. This increase was due to an increase in special assessment collections in the Debt Service Fund to pay general obligation principal and interest. This will reduce the amount of Debt Service Fund property tax collections in the future. Bond principal, interest and bond registrar fee payments totaled \$355,515 during the fiscal year.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance decreased by \$31,404 to \$136,082, due primarily to fuel costs, water tower repair and maintenance and a transfer to the General Fund.
- The Sewer Fund cash balance decreased by \$16,129 to \$383,975, due primarily to a transfer to the General Fund.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget one time. The amendment was approved on March 14, 2006 and resulted in a decrease in operating disbursements of \$219,242, primarily related to rescheduling the Phase II portion of the West 2nd Avenue to fiscal year 2007.

The City's receipts were \$87,466 more than budgeted. This was primarily due to the City receiving more in local option sales tax, RISE grant funds and transfer of jurisdiction funds than anticipated, even after the amendment.

Total disbursements were \$111,927 less than budgeted. Actual disbursements for public safety, culture and recreation and general government were less than budgeted, primarily due to cutbacks in overtime and fewer staff. Public works actual disbursements were less than budgeted due to less road work than anticipated, even after the amendment.

DEBT ADMINISTRATION

At June 30, 2006, the City had \$2,890,000 in bond/note debt outstanding, compared to \$3,198,000 at June 30, 2005, as shown below.

Outstanding Debt at Year-End		
	June 30,	
	2006	2005
General obligation bonds	\$ 735,000	790,000
General obligation notes	1,490,000	1,695,000
Revenue bonds	665,000	713,000
Total	\$ 2,890,000	3,198,000

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 \$2,225,000 is significantly below its constitutional debt limit of \$4,075,307.

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 2007 budget, tax rates and fees charged for various City activities. The City's fiscal year 2007 assessed value increased 4.50%, or \$1,923,272, from the fiscal year 2006 level.

The fiscal year 2007 budget includes total receipts of \$2,016,938 and disbursements of \$2,125,766.

The fiscal year 2007 levy is \$15.56 per \$1,000 of taxable valuation, which is unchanged from fiscal year 2006 but includes the addition of an employee benefits levy of \$.36 per \$1,000 of taxable property valuation.

At the time these financial statements were prepared and audited, the City was aware of the following existing circumstances that could affect its financial health in the future.

- Residential development is continuing to occur, with subdivisions on both the north and south ends of town.
- The development of a second Industrial Park by the local economic development group is expected to assist growth in the long term.
- The street project funded with RISE grant funds was delayed from fiscal year 2006 to 2007.
- The local option sales tax election referendum passed, adding receipts to be utilized 25% for property tax relief and 75% for designated purposes.
- The City continues to apply for grants to use in fiscal year 2007. A fire truck grant was received and a grant was submitted to purchase land for a ballpark expansion.

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 Carla Graves, 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, 2006

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions/Programs:				
Governmental activities:				
Public safety	\$ 250,388	13,984	72,316	745
Public works	390,894	108,629	152,658	129,690
Culture and recreation	146,749	30,366	5,017	2,549
Community and economic development	121,557	-	-	-
General government	265,436	28,563	-	-
Debt service	355,515	-	-	73,440
Total governmental activities	1,530,539	181,542	229,991	206,424
Business type activities:				
Water	133,613	150,098	-	-
Sewer	192,859	222,365	-	-
Total business type activities	326,472	372,463	-	-
Total	\$ 1,857,011	554,005	229,991	206,424
General Receipts:				
Property and other city tax levied for:				
General purposes				
Debt service				
Tax increment financing				
Local option sales tax				
Unrestricted interest on investments				
Cable franchise fee				
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:				
Streets				
Urban renewal purposes				
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
(163,343)	-	(163,343)
83	-	83
(108,817)	-	(108,817)
(121,557)	-	(121,557)
(236,873)	-	(236,873)
(282,075)	-	(282,075)
(912,582)	-	(912,582)
-	16,485	16,485
-	29,506	29,506
-	45,991	45,991
(912,582)	45,991	(866,591)
351,022	-	351,022
357,203	-	357,203
117,253	-	117,253
67,440	-	67,440
12,244	6,476	18,720
10,600	-	10,600
5,257	-	5,257
100,000	(100,000)	-
1,021,019	(93,524)	927,495
108,437	(47,533)	60,904
506,177	567,590	1,073,767
\$ 614,614	520,057	1,134,671
\$ 66,415	-	66,415
78,119	-	78,119
82,773	76,100	158,873
90,411	-	90,411
296,896	443,957	740,853
\$ 614,614	520,057	1,134,671

City of Durant

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

As of and for the year ended June 30, 2006

	Special Revenue		
	Road		Urban
	General	Use Tax	Renewal Tax Increment
Receipts:			
Property tax	\$ 351,022	-	-
Tax increment financing	-	-	117,253
Other city tax	78,040	-	-
Licenses and permits	13,093	-	-
Use of money and property	40,309	-	-
Intergovernmental	76,801	152,658	-
Charges for service	132,219	-	-
Special assessments	-	-	-
Miscellaneous	5,229	941	-
Total receipts	696,713	153,599	117,253
Disbursements:			
Operating:			
Public safety	250,388	-	-
Public works	123,296	149,104	-
Culture and recreation	146,749	-	-
Community and economic development	1,664	-	119,893
General government	265,436	-	-
Debt service	-	-	-
Total disbursements	787,533	149,104	119,893
Excess (deficiency) of receipts over (under) disbursements	(90,820)	4,495	(2,640)
Other financing sources:			
Sale of capital assets	-	7,250	-
Operating transfers in	100,000	-	-
Total other financing sources	100,000	7,250	-
Net change in cash balances	9,180	11,745	(2,640)
Cash balances beginning of year	287,716	54,670	80,759
Cash balances end of year	\$ 296,896	66,415	78,119
Cash Basis Fund Balances			
Reserved for debt service	\$ -	-	-
Unreserved:			
General fund	296,896	-	-
Special revenue funds	-	66,415	78,119
Total cash basis fund balances	\$ 296,896	66,415	78,119

See notes to financial statements.

Debt Service	Nonmajor	Total
357,203	-	708,225
-	-	117,253
-	-	78,040
-	-	13,093
-	1,005	41,314
-	48,788	278,247
-	-	132,219
73,441	-	73,441
-	83,724	89,894
430,644	133,517	1,531,726
-	-	250,388
-	118,494	390,894
-	-	146,749
-	-	121,557
-	-	265,436
355,515	-	355,515
355,515	118,494	1,530,539
75,129	15,023	1,187
-	-	7,250
-	-	100,000
-	-	107,250
75,129	15,023	108,437
7,644	75,388	506,177
82,773	90,411	614,614
82,773	-	82,773
-	-	296,896
-	90,411	234,945
82,773	90,411	614,614

City of Durant

City of Durant

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

As of and for the year ended June 30, 2006

	Enterprise		
	Water	Sewer	Total
Operating receipts:			
Charges for service	\$ 149,524	222,365	371,889
Miscellaneous	574	-	574
Total operating receipts	150,098	222,365	372,463
Operating disbursements:			
Business type activities	133,613	116,553	250,166
Excess of operating receipts over operating disbursements	16,485	105,812	122,297
Non-operating receipts (disbursements):			
Interest on investments	2,111	4,365	6,476
Debt service	-	(76,306)	(76,306)
Total non-operating receipts (disbursements)	2,111	(71,941)	(69,830)
Excess of receipts over disbursements	18,596	33,871	52,467
Operating transfers out	(50,000)	(50,000)	(100,000)
Net change in cash balances	(31,404)	(16,129)	(47,533)
Cash balances beginning of year	167,486	400,104	567,590
Cash balances end of year	\$ 136,082	383,975	520,057
Cash Basis Fund Balances			
Reserved for debt service	\$ -	76,100	76,100
Unreserved	136,082	307,875	443,957
Total cash basis fund balances	\$ 136,082	383,975	520,057

See notes to financial statements.

City of Durant

Notes to Financial Statements

June 30, 2006

(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, health and social services, 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 statements presented in Note 11 were 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 for by the Durant Fire Department. The Corporation 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 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: 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 two categories:

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 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 road construction and maintenance.

The Urban Renewal Tax Increment Fund is used to account for urban renewal projects financed by tax increment financing.

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

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 waste water treatment and sanitary sewer system.

C. Measurement Focus and Basis of Accounting

The City of Durant 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, 2006, disbursements did not exceed the amounts budgeted.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2006 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, general obligation notes and sewer 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
2007	\$ 55,000	28,812	210,000	57,052	50,000	26,068	315,000	111,932
2008	60,000	26,656	210,000	49,992	51,000	24,108	321,000	100,756
2009	60,000	24,304	220,000	42,402	53,000	22,109	333,000	88,815
2010	65,000	21,952	235,000	34,015	56,000	20,031	356,000	75,998
2011	65,000	19,404	240,000	24,623	58,000	17,836	363,000	61,863
2012 - 2016	355,000	56,840	375,000	22,323	324,000	53,390	1,054,000	132,553
2017	75,000	2,940	-	-	73,000	2,862	148,000	5,802
Total	\$ 735,000	180,908	1,490,000	230,407	665,000	166,404	2,890,000	577,719

The resolution providing for the issuance of the revenue bonds include the following provisions.

- (a) The bonds will only be redeemed from the future earnings of the municipal sanitary sewer system of the City and the bond holders hold a lien on the future earnings of the funds.
- (b) 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.

- (c) 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.

(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 3.70% of their annual covered salary and the City is required to contribute 5.75% 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, 2006 was \$25,135, equal to the required contribution for each year.

(5) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2006 is as follows:

Transfer to	Transfer from	Amount
General	Enterprise:	
	Water	\$ 50,000
	Sewer	50,000
Total		<u>\$ 100,000</u>

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

(6) Risk Management

The City of Durant 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 the fiscal year ended June 30, 2006.

(7) 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 hours payable to employees at June 30, 2006, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Vacation	\$ 14,000
Personal leave	<u>4,000</u>
Total	<u>\$ 18,000</u>

This liability has been computed based on rates of pay in effect at June 30, 2006.

(8) Development and Rebate Agreements

The City has entered into three development agreements to assist in certain urban renewal projects. The City agreed to rebate incremental taxes paid by developers in exchange for development of industrial facilities and a physician's office and pharmacy building constructed by the developers as set forth in the urban renewal plan and the individual development and rebate agreements. The incremental taxes to be received by the City under Chapter 403.19 of the Code of Iowa from the developers will be rebated to the industrial facilities developers at 100 percent for seven years and to the physician's office and pharmacy building developer at 85 percent for five years, beginning with the tax year in which the property taxes on the completed value of the improvements are first paid.

During the year ended June 30, 2006, the City rebated \$115,700 of incremental taxes under the agreements.

(9) Subsequent Events

In July 2006, the City entered into a development agreement authorizing an annual appropriation of tax increment financing receipts for the expansion of a light manufacturing facility located in the City's urban renewal area. The agreement provides for semi-annual tax increment payments for five years, totaling \$125,000, beginning on December 1, 2008.

In September 2006, the City agreed to purchase land for a ball park expansion at a cost not to exceed \$47,500.

(10) Accounting Change

Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures, and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences, were implemented for the year ended June 30, 2006. The statements create new basic financial statements for reporting the City's financial activities. The financial statements now include a government-wide financial statement and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

Implementation of these standards had no effect on the beginning balances of the City.

(11) 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, 2005.

Condensed Statement of Net Assets		
Assets		
Current assets		\$ 946,512
Capital assets, net of accumulated depreciation		1,581,164
Other		4,922
Total assets		2,532,598
Liabilities		
Current liabilities		199,805
Noncurrent liabilities		510,000
Total liabilities		709,805
Net Assets		
Invested in capital assets, net of related debt		986,164
Unrestricted		836,629
Total net assets		\$ 1,822,793
Condensed Statement of Revenues, Expenses and Changes in Net Assets		
Operating revenues:		
Electric sales		\$ 1,410,881
Other		1,933
Total operating revenues		1,412,814
Operating expenses:		
Production	\$ 724,047	
Distribution	165,719	
General and administrative	164,628	
Depreciation	82,459	1,136,853
Operating income		275,961
Non-operating revenues (expenses):		
Interest income		5,681
Other income		36,481
Interest expense		(38,198)
Other expenses		(1,341)
Total non-operating revenues (expenses)		2,623
Net income		278,584
Net assets beginning of year		1,544,209
Net assets end of year		\$ 1,822,793

Required Supplementary 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

Required Supplementary Information

Year ended June 30, 2006

	Governmental Funds Actual	Proprietary Funds Actual	Total
Receipts:			
Property tax	\$ 708,225	-	708,225
Tax increment financing	117,253	-	117,253
Other city tax	78,040	-	78,040
Licenses and permits	13,093	-	13,093
Use of money and property	41,314	6,476	47,790
Intergovernmental	278,247	-	278,247
Charges for service	132,219	371,889	504,108
Special assessments	73,441	-	73,441
Miscellaneous	89,894	574	90,468
Total receipts	1,531,726	378,939	1,910,665
Disbursements:			
Public safety	250,388	-	250,388
Public works	390,894	-	390,894
Culture and recreation	146,749	-	146,749
Community and economic development	121,557	-	121,557
General government	265,436	-	265,436
Debt service	355,515	-	355,515
Business type activities	-	326,472	326,472
Total disbursements	1,530,539	326,472	1,857,011
Excess (deficiency) of receipts over (under) disbursements	1,187	52,467	53,654
Other financing sources, net	107,250	(100,000)	7,250
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	108,437	(47,533)	60,904
Balances beginning of year	506,177	567,590	1,073,767
Balances end of year	\$ 614,614	520,057	1,134,671

See accompanying independent auditor's report.

Budgeted Amounts		Final to
Original	Final	Total Variance
697,301	697,301	10,924
113,000	113,000	4,253
100,205	56,620	21,420
18,775	16,628	(3,535)
37,000	39,500	8,290
461,565	258,618	19,629
492,600	517,300	(13,192)
54,500	45,500	27,941
21,800	78,732	11,736
1,996,746	1,823,199	87,466
322,202	280,843	30,455
536,450	409,049	18,155
174,745	174,087	27,338
123,395	123,395	1,838
346,366	285,542	20,106
355,822	355,822	307
329,200	340,200	13,728
2,188,180	1,968,938	111,927
(191,434)	(145,739)	199,393
-	-	7,250
(191,434)	(145,739)	206,643
966,613	1,073,768	(1)
775,179	928,029	206,642

City of Durant

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2006

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 except its component units. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund and the Proprietary 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 decreased budgeted disbursements by \$219,242. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2006, disbursements did not exceed the amounts budgeted.

Other Supplementary Information

City of Durant

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

As of and for the year ended June 30, 2006

	RISE - West 2nd Avenue	Feldhahn Memorial	Fire/Hartz Memorial
Receipts:			
Use of money and property	\$ -	16	516
Intergovernmental	48,788	-	-
Miscellaneous	80,902	-	745
Total receipts	129,690	16	1,261
Disbursements:			
Operating:			
Public works	118,494	-	-
Net change in cash balances	11,196	16	1,261
Cash balances beginning of year	500	1,178	38,713
Cash balances end of year	\$ 11,696	1,194	39,974
Cash Basis Fund Balances			
Unreserved:			
Special revenue funds	\$ 11,696	1,194	39,974

See accompanying independent auditor's report.

Library Donations	Community Center Memorial	Total
307	166	1,005
-	-	48,788
-	2,077	83,724
307	2,243	133,517
-	-	118,494
307	2,243	15,023
23,135	11,862	75,388
23,442	14,105	90,411
23,442	14,105	90,411

City of Durant
Schedule of Indebtedness
Year ended June 30, 2006

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation bonds:			
Sewer improvement	Jun 13, 1997	3.92%	\$ 1,113,000
Gener obligation notes:			
Street, sewer and sidewalk improvements	Mar 1, 1996	4.00-5.40%	\$ 670,000
Corporate purpose	Mar 1, 2003	1.80-4.00	1,655,000
Total			
Revenue bonds:			
Sewer	Jun 13, 1997	3.92%	\$ 1,000,000

See accompanying independent auditor's report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
790,000	-	55,000	735,000	30,968
325,000	-	50,000	275,000	16,755
1,370,000	-	155,000	1,215,000	46,597
\$ 1,695,000	-	205,000	1,490,000	63,352
713,000	-	48,000	665,000	27,950

Schedule 3

City of Durant
Bond and Note Maturities
June 30, 2006

Year Ending June 30,	General Obligation Bonds		General Obligation Notes					
	Sewer		Street, Sewer and			Corporate		
	Improvement		Sidewalk Improvements			Purpose		
	Issued Jun 13, 1997		Issued Mar 1, 1996			Issued Mar 1, 2003		
	Interest		Interest			Interest		
	Rates	Amount	Rates	Amount		Rates	Amount	Total
2007	3.92%	\$ 55,000	5.00%	\$ 50,000		2.85%	\$ 160,000	\$ 210,000
2008	3.92	60,000	5.10	50,000		3.15	160,000	210,000
2009	3.92	60,000	5.20	55,000		3.35	165,000	220,000
2010	3.92	65,000	5.30	60,000		3.55	175,000	235,000
2011	3.92	65,000	5.40	60,000		3.70	180,000	240,000
2012	3.92	70,000		-		3.85	185,000	185,000
2013	3.92	70,000		-		4.00	190,000	190,000
2014	3.92	70,000		-			-	-
2015	3.92	70,000		-			-	-
2016	3.92	75,000		-			-	-
2017	3.92	75,000		-			-	-
Total		<u>\$ 735,000</u>		<u>\$ 275,000</u>			<u>\$ 1,215,000</u>	<u>\$ 1,490,000</u>

Year Ending June 30,	Revenue Bonds	
	Sewer	
	Issued Jun 13, 1997	
	Interest	
	Rates	Amount
2007	3.92%	\$ 50,000
2008	3.92	51,000
2009	3.92	53,000
2010	3.92	56,000
2011	3.92	58,000
2012	3.92	60,000
2013	3.92	62,000
2014	3.92	65,000
2015	3.92	67,000
2016	3.92	70,000
2017	3.92	73,000
Total		<u>\$ 665,000</u>

See accompanying independent auditor's report

**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**

City of Durant



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

David A. Vaudt, CPA
Auditor of State

State Capitol Building
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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 Durant, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated October 19, 2006. Our report expressed an adverse opinion on the governmental activities and aggregate remaining fund information due to the omission of a component unit which should be blended with the City's financial statements. Our report on the financial statements, which were prepared in conformity with an other comprehensive basis of accounting, expressed qualified opinions on the business type activities and each major fund since we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2005. 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 Durant's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of Durant's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item (A) is a material weakness.

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 that are described in the Schedule of Findings.

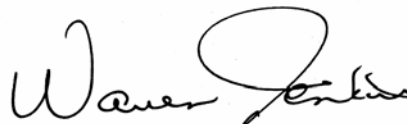
Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions 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.

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. 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 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

October 19, 2006

City of Durant

Schedule of Findings

Year ended June 30, 2006

Findings Related to the Financial Statements:

REPORTABLE CONDITIONS:

- (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. One person had control over each of the following areas for the City:

- (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) Long term debt – recording, reconciling and performing cash functions.
- (4) Receipts – collecting, depositing, journalizing and recording.
- (5) Utility receipts – billing, collecting, depositing, recording and reconciling.
- (6) Information system (computer usage) – performing all general accounting functions and controlling all data input and output.
- (7) 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. Evidence of various reviews should be indicated by initials of the independent reviewer.

Response – The City staff continues to understand the issue associated with internal controls and a small organization, and continue to use and implement proper controls possible with available personnel.

Conclusion – Response accepted.

- (B) Written Accounting Procedures Manual – We encourage the development of an office procedures and standardized accounting manual for the City's financial accounting system. This written manual should provide the following benefits:

- (1) Help in achieving uniformity in accounting and application of written policies and procedures.
- (2) Save supervisory time by recording decisions so that they will not have to be made each time the same or similar situation arises.
- (3) Aid in training additional of replacement personnel.

City of Durant

Schedule of Findings

Year ended June 30, 2006

Recommendation – A written office procedures and standardized accounting manual should be prepared.

Response – Following staff changes, the importance of written policies has been elevated to Council to receive direction and priority. Policies will be written.

Conclusion – Response accepted.

- (C) Accounting Record Reconciliations – Monthly financial reports, general ledger/balance sheet printouts and bank balances were not reconciled during the fiscal year ended June 30, 2006.

Recommendation – Monthly financial reports and general ledger/balance sheet printouts should be reconciled to the bank balances each month. The financial reports, general ledger/balance sheet printouts and reconciliation should be provided to City officials for review and approval each month.

Response – The City Clerk has now worked with the accounting software company to reconcile the general ledger to the monthly financial reports. The financial reports, general ledger/balance sheet and bank reconciliation will be provided to City officials for review and approval each month.

Conclusion – Response accepted.

- (D) Records of Accounts/Separately Maintained Records – The Durant Community Center and the Durant Police each maintained bank accounts separate from the City Clerk's records, hereinafter referred to as the "Trivia Nuts" account and the "Skateboard Park" account, respectively. The transactions and resulting balances of these accounts were not reported the City Council each month and the transactions were not recorded in the City Clerk's accounting 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 – Although the "Trivia Nuts" account was closed during the fiscal year ended June 30, 2006, the financial transactions for both accounts should have been included in the City Clerk's financial accounting system and included on monthly financial reports to City officials. Internal controls could be strengthened and operating efficiency could be increased by integrating the accounting receipts and disbursements with the City's accounting records.

Response – Internal controls will be strengthened to ensure the City Clerk is provided with detailed statement of all public funds collected, received or expended for any City purpose. The Trivia Nuts account was closed in fiscal year 2006 and the Skateboard Park account will be closed in fiscal year 2007.

Conclusion – Response accepted.

City of Durant

Schedule of Findings

Year ended June 30, 2006

(E) Information Systems – During our review of internal control, the existing control activities in the City's computer-based 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-based 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.

The City does not have written policies for:

- Password privacy and confidentiality.
- Logging off unattended computers.
- Ensuring only software licensed to the City is installed on City computers.
- Internet usage.
- Requiring user profiles to help limit access to programs to those who have a legitimate need.
- Usage of City owned computer equipment and software.
- A disaster recovery plan.

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

Response – Policies will be written for information systems as recommended. Staff will work with the City's software company to apply an automatic requirement to periodically change log-ins/passwords.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

City of Durant
Schedule of Findings
Year ended June 30, 2006

Findings Related to Required Statutory Reporting:

- (1) Certified Budget – Disbursements during the year ended June 30, 2006 did not exceed the amounts budgeted.
- (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 – No business transactions between the City and City officials or employees were noted.
- (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 insure 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.

Although minutes of Council proceedings were published, they did not include a summary of all receipts as required by Chapter 372.13(6) of the Code of Iowa.

Recommendation – The City should publish minutes as required including a summary of receipts.

Response – The City will publish minutes to include a summary of receipts.

Conclusion – Response accepted.

- (7) Deposits and Investments – 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.
- (8) Revenue Bonds – Section 6 of the Sewer Revenue Bond resolution approved June 13, 1997 states, in part, "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 and operation of the Utility." Several City departments do not pay for sewer usage as required by the bond resolution.

Recommendation – The City should review the provisions of the Sewer Revenue Bond resolution and ensure the City pays for services as required by the bond resolution.

Response – The City reviewed the provision of Section 6 and will follow the bond resolution requiring the City pay for services at the rate established in the City's Code of Ordinances.

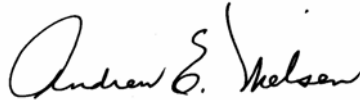
Conclusion – Response accepted.

City of Durant

Staff

This audit was performed by:

Marlys K. Gaston, CPA, Manager
John G. Vanis, CGFM, Senior Auditor
Kurt D. Goldsmith, Audit Intern

A handwritten signature in black ink, reading "Andrew E. Nielsen". The signature is fluid and cursive, with the first name "Andrew" and last name "Nielsen" clearly legible.

Andrew E. Nielsen, CPA
Deputy Auditor of State