



**OFFICE OF AUDITOR OF STATE**  
STATE OF IOWA

David A. Vaudt, CPA  
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NEWS RELEASE

FOR RELEASE

December 3, 2010

Contact: Andy Nielsen  
515/281-5834

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

The City's receipts totaled \$9,228,513 for the year ended June 30, 2010, a 38 percent increase over the prior year. The receipts included \$2,458,847 in property tax, \$635,143 from tax increment financing, \$1,014,243 from charges for service, \$1,176,485 from operating grants, contributions and restricted interest, \$1,453,339 from capital grants, contributions and restricted interest, \$1,404,550 from bond proceeds, \$582,483 from local option sales tax, \$99,708 from hotel/motel tax, \$294,473 from grants and contributions not restricted to specific purpose, \$4,332 from unrestricted interest on investments and \$104,910 from other general receipts.

Disbursements for the year totaled \$9,252,662, a 26 percent increase over the prior year, and included \$1,495,033 for public safety, \$1,329,434 for debt service and \$2,340,834 for capital projects. Also, disbursements for business type activities totaled \$388,226.

The significant increase in receipts and disbursements is due primarily to the receipt of general obligation bond proceeds and the related disbursements for projects.

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/1020-0220-B00F.pdf>.

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**CITY OF DENISON**

**INDEPENDENT AUDITOR'S REPORTS**  
**BASIC FINANCIAL STATEMENTS**  
**AND SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**JUNE 30, 2010**

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**City of Denison**

**Officials**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>(Before January 2010)</b>		
Nathan Mahrt	Mayor	Jan 2010
Eric Skoog	Mayor Pro tem	Jan 2010
Garry Chapman	Council Member	Jan 2010
Cecil Blum, Jr.	Council Member	Jan 2010
Gordon Hough	Council Member	Jan 2012
Kenneth Madsen	Council Member	(Resigned)
Daniel Ahart (Appointed)	Council Member	Nov 2009
Greg Seefeldt	City Manager	(Resigned)
Kevin Flanagan	City Manager	Indefinite
Marcia L. Bretey	Clerk	Indefinite
Rick Franck	Attorney	Indefinite
<b>(After January 2010)</b>		
Dennis Fineran	Mayor	Jan 2012
Jean Heiden	Mayor Pro tem	Jan 2014
Daniel Ahart	Council Member	Jan 2012
Gordon Hough	Council Member	Jan 2012
Cecil Blum, Jr.	Council Member	Jan 2014
Pedro Rodriguez	Council Member	Jan 2014
Kevin Flanagan	City Manager	Indefinite
Marcia L. Bretey	Clerk	Indefinite
Rick Franck	Attorney	Indefinite

**City of Denison**



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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, the aggregate discretely presented component units and the aggregate remaining fund information of the City of Denison, Iowa, as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Denison'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 Denison Municipal Utilities, a discretely presented component unit. Those financial statements were audited by another auditor whose report has been furnished to us, and our opinion, insofar as it relates to the condensed financial information included in Note 9 for the discretely presented component unit, is based on the report of the other auditor.

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 and the report of the other auditor 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.

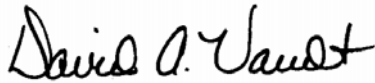
As described in Note 9, the City has chosen to present condensed financial information for the Denison Municipal Utilities, a discretely presented component unit, since complete financial statements of the component unit have been audited by another auditor and are available from the component unit. The report of the other auditor, dated September 16, 2010, expressed an unqualified opinion on the financial statements.

In our opinion, based on our audit and the report of the other auditor, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund, the aggregate discretely presented component units and the aggregate remaining fund information of the City of Denison as of June 30, 2010, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

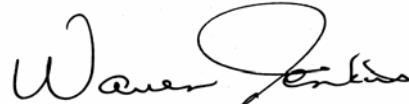
In accordance with Government Auditing Standards, we have also issued our report dated November 16, 2010 on our consideration of the City of Denison's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 8 through 13 and 32 through 34 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 Denison's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the seven years ended June 30, 2009 (which are not presented herein) and expressed unqualified opinions on those financial statements which were prepared in conformity with an other comprehensive basis of accounting. Other supplementary information included in Schedules 1 through 5, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, 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, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



DAVID A. VAUDT, CPA  
Auditor of State



WARREN G. JENKINS, CPA  
Chief Deputy Auditor of State

November 16, 2010

**City of Denison**



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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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

### 2010 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities increased 39%, or approximately \$2,480,000, from fiscal year 2009 to fiscal year 2010. Property tax increased approximately \$96,000, operating grants, contributions and restricted interest increased approximately \$97,000, capital grants, contributions and restricted interest increased approximately \$850,000 and bond proceeds increased approximately \$1,405,000.
- Disbursements for governmental activities increased 28%, or approximately \$1,919,000, over fiscal year 2009. Capital project disbursements increased approximately \$1,204,000.
- The City's total cash basis net assets decreased 1%, or approximately \$24,000, from June 30, 2009 to June 30, 2010. Of this amount, the assets of the governmental activities decreased approximately \$19,000 and the assets of the business type activities decreased approximately \$5,000.

### 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 City's nonmajor governmental funds and its indebtedness. In addition, the Schedule of Expenditures of Federal Awards provides details of various federal programs benefiting the City.

## **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 solid waste system. This activity is 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, Employee Benefits, Local Option Sales Tax, Urban Renewal Tax Increment and Denison Foundation, 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.

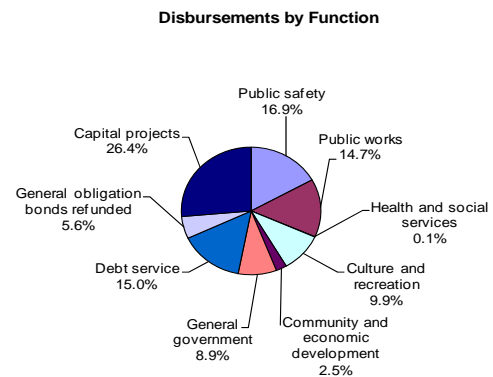
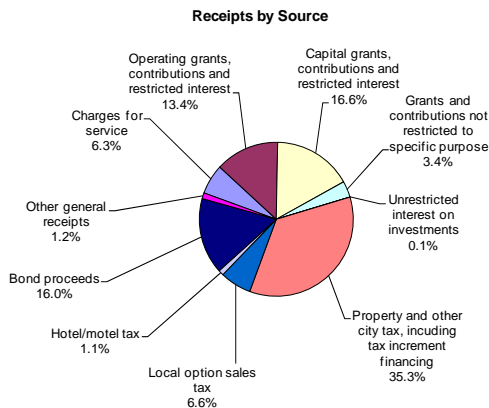
2) Proprietary funds account for the City's Enterprise Fund. Enterprise Funds are used to report business type activities. The City maintains one Enterprise Fund to provide information for the Solid Waste Fund, which is considered to be a major fund of the City.

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 decreased slightly from a year ago, decreasing from approximately \$1.86 million to approximately \$1.84 million. The following analysis focuses on the changes in cash basis net assets of governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities (Expressed in Thousands)		
	Year ended June 30,	
	2010	2009
Receipts:		
Program receipts:		
Charges for service	\$ 556	598
Operating grants, contributions and restricted interest	1,176	1,079
Capital grants, contributions and restricted interest	1,453	603
General receipts:		
Property and other city tax, including tax increment financing	3,094	2,998
Local option sales tax	582	542
Hotel/motel tax	100	104
Grants and contributions not restricted to specific purpose	294	258
Unrestricted interest on investments	4	25
Bond proceeds	1,405	-
Other general receipts	105	82
Total receipts	8,769	6,289
Disbursements:		
Public safety	1,495	1,369
Public works	1,301	1,281
Health and social services	9	8
Culture and recreation	879	914
Community and economic development	222	294
General government	793	716
Debt service	1,329	1,226
Capital projects	2,341	1,137
General obligation bonds refunded	495	-
Total disbursements	8,864	6,945
Change in cash basis net assets before transfers	(95)	(656)
Transfers, net	75	50
Change in cash basis net assets	(20)	(606)
Cash basis net assets beginning of year	1,857	2,463
Cash basis net assets end of year	\$ 1,837	1,857



The City's total receipts for governmental activities increased 39%, or approximately \$2,480,000. The total cost of all programs and services increased approximately \$1,919,000, or 28%, with no new programs added this year. The significant increase in receipts was primarily the result of a RISE grant, hospital project contributions and proceeds received from issuance of general obligation bonds.

The City increased property tax rates for fiscal year 2010 by an average of 1%. This increase, in conjunction with an increase in assessed valuation, increased the City's property tax receipts other than tax increment financing approximately \$199,000 in fiscal year 2010. Property tax receipts are budgeted to increase approximately \$293,000 next year.

The cost of all governmental activities this year was approximately \$8.9 million compared to approximately \$6.9 million last year. However, as shown in the Statement of Activities and Net Assets on pages 16-17, the amount taxpayers ultimately financed for these activities was only \$5.2 million because some of the cost was paid by those directly benefited from the programs (\$556,000) or by other governments and organizations which subsidized certain programs with grants, contributions and restricted interest (\$2,630,000). The City paid for the remaining "public benefit" portion of governmental activities with approximately \$5.66 million in tax (some of which could only be used for certain programs) and with other receipts, such as interest and general entitlements.

Changes in Cash Basis Net Assets of Business Type Activities (Expressed in Thousands)		
	Year ended June 30,	
	2010	2009
Receipts:		
Program receipts:		
Charges for service:		
Solid waste	\$ 458	421
Disbursements:		
Solid waste	388	374
Change in cash basis net assets before transfers	70	47
Transfers, net	(75)	(50)
Change in cash basis net assets	(5)	(3)
Cash basis net assets beginning of year	76	79
Cash basis net assets end of year	\$ 71	76

Total business type activities receipts for the fiscal year were approximately \$458,000 compared to approximately \$421,000 last year. Total disbursements for the fiscal year increased 4% to approximately \$388,000. The cash balance decreased approximately \$5,000 from the prior year.

### **INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS**

As the City of Denison completed the year, its governmental funds reported a combined fund balance of \$1,837,232, a decrease of approximately \$19,000 from last year's total of \$1,856,699. 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 \$16,763 over the prior year to \$614,919. Total receipts increased 2% and total disbursements increased 4%. Net transfers from other funds decreased approximately \$66,000. Proceeds from the sale of bonds increased approximately \$114,000. Charges for service receipts decreased \$142,962, due primarily to a decrease in airport fuel sales.

- The Special Revenue, Road Use Tax Fund cash balance decreased \$37,490 to \$378,320. The receipts increased 12%, or approximately \$72,000, due primarily to increases in road use tax and I-JOBS receipts. Total disbursements decreased 4%, or approximately \$28,000.
- The Special Revenue, Employee Benefits Fund cash balance decreased \$21,677 to \$511,708. Receipts increased 11% and disbursements increased 16%. The City increased property tax receipts to cover higher health insurance costs.
- The Special Revenue, Local Option Sales Tax Fund was established to account for special sales tax collected. At the end of the fiscal year, the cash balance was \$175,386, an increase of \$60,723 over the previous year. Receipts increased 6%, or approximately \$34,000, during the fiscal year. Net transfers from the Local Option Sales Tax Fund decreased \$226,831, mainly due to decreases in transfers to the General and Debt Service Funds.
- The Special Revenue, Urban Renewal Tax Increment Fund cash balance decreased \$15,882 to \$232,842. Net transfers out decreased \$120,182 from the previous year due to decreases in net transfers to the Debt Service and Capital Projects Funds.
- The Special Revenue, Denison Foundation Fund cash balance increased \$62,345 to \$245,583. Receipts increased 70%, or approximately \$56,000, due to increased contributions. Disbursements increased 38%, or approximately \$21,000.
- The Debt Service Fund cash balance decreased \$39,048 to \$87,414. The City refunded \$495,000 of general obligation bonds originally issued in 2004.
- The Capital Projects Fund cash balance decreased \$37,174 to (\$554,119). The decrease was due primarily to additional costs paid on projects during the year to be covered by future receipts and bond proceeds.

#### **INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS**

The Enterprise, Solid Waste Fund cash balance decreased \$4,682 to \$71,263 during the fiscal year.

#### **BUDGETARY HIGHLIGHTS**

Over the course of the year, the City amended its budget once on May 4, 2010. The amendment resulted in an increase in miscellaneous receipts and an increase in operating disbursements in the public works, general government and debt service functions. The amendment was made for snow removal costs, airport heating and equipment repairs, reallocation of salary costs and refunding of the 2004 general obligation bonds.

The City's receipts were \$1,327,806 less than budgeted. This was primarily due to the City receiving \$1,594,936 less than budgeted for intergovernmental receipts due to projects not being completed in the current year and the City not receiving a large fire department grant. In addition, the City received \$336,132 less than budgeted for charges for service due to budgeting the intergovernmental payment in lieu of taxes as charges for service and receiving less in airport fuel sales.

With the amendment, total disbursements were \$3,524,221 less than the amended budget. Actual disbursements for the public safety and capital projects functions were \$1,673,825 and \$1,056,146, respectively, less than the amended budget due to the delay in fire department capital purchases and capital projects.

## DEBT ADMINISTRATION

At June 30, 2010, the City had \$9,330,000 in bonds and other long-term debt outstanding, compared to \$9,320,000 last year, as shown below.

	Outstanding Debt at Year-End	
	(Expressed in Thousands)	
	June 30,	
	2010	2009
General obligation bonds/notes	\$ 7,875	7,750
Revenue bonds/notes	1,455	1,570
Total	\$ 9,330	9,320

During the year, the City issued \$1,435,000 of general obligation debt and redeemed general obligation and revenue notes/bonds of \$1,425,000, including \$495,000 of general obligation bonds which were refunded early.

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 property within the City's corporate limits. The City's outstanding general obligation and TIF revenue debt of \$8,820,000 is below its constitutional debt limit of \$13,063,000.

## ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City of Denison's elected and appointed officials and citizens considered many factors when setting the fiscal year 2011 budget, tax rates and fees charged for various City activities. One of these factors is the increase in property valuations used to calculate tax askings and levy rates. The total tax asking increased \$292,306 overall due to property valuations for fiscal year 2011 increasing \$15,261,811 and the overall tax rate increasing less than 1%.

These factors were taken into account when adopting the budget for fiscal year 2011. The City will use these receipts to finance programs we currently offer. Budgeted disbursements are expected to decrease approximately \$3,200,000. The decrease is due to decreases in amounts budgeted for public safety and capital projects.

If these estimates are realized, the City's budgeted cash balance is expected to decrease approximately \$324,000 by the close of fiscal year 2011.

## 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 Marcia Bretey, City Clerk, 111 North Main Street, City of Denison, Iowa 51442-0668.

**City of Denison**

## **Basic Financial Statements**



City of Denison

Statement of Activities and Net Assets – Cash Basis

As of and for the year ended June 30, 2010

Functions/Programs:	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Governmental activities:				
Public safety	\$ 1,495,033	183,068	42,902	-
Public works	1,300,901	-	706,690	-
Health and social services	8,587	-	-	-
Culture and recreation	879,424	308,192	220,878	-
Community and economic development	222,102	529	153,133	-
General government	793,121	63,910	8,638	-
Debt service	1,329,434	-	29,144	-
Capital projects	2,340,834	-	15,100	1,453,339
Total governmental activities	8,369,436	555,699	1,176,485	1,453,339
Business type activities:				
Solid waste	388,226	458,544	-	-
<b>Total Primary, Government</b>	<b>\$ 8,757,662</b>	<b>1,014,243</b>	<b>1,176,485</b>	<b>1,453,339</b>
<b>Component Units:</b>				
Denison Library Friends	\$ 5,407	-	4,979	-
Denison Volunteer Firefighters Association	32,340	-	119,744	-
Total component units	\$ 37,747	-	124,723	-
<b>General Receipts and Transfers:</b>				
Property and other city tax levied for:				
General purposes				
Debt service				
Tax increment financing				
Local option sales tax				
Hotel/motel tax				
Grants and contributions not restricted to specific purpose				
Unrestricted interest on investments				
Bond proceeds, net of \$30,450 discount and fees				
General obligation bonds refunded				
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				
<b>Cash Basis Net Assets</b>				
Restricted:				
Streets				
Urban renewal purposes				
Employee benefits				
Debt service				
Other purposes				
Unrestricted				
<b>Total cash basis net assets</b>				

See notes to financial statements.

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets			Component Unit	
Governmental Activities	Business Type Activities	Total	Denison Library Friends	Denison Volunteer Firefighters Association
(1,269,063)	-	(1,269,063)	-	-
(594,211)	-	(594,211)	-	-
(8,587)	-	(8,587)	-	-
(350,354)	-	(350,354)	-	-
(68,440)	-	(68,440)	-	-
(720,573)	-	(720,573)	-	-
(1,300,290)	-	(1,300,290)	-	-
(872,395)	-	(872,395)	-	-
(5,183,913)	-	(5,183,913)	-	-
-	70,318	70,318	-	-
(5,183,913)	70,318	(5,113,595)	-	-
-	-	-	(428)	-
-	-	-	-	87,604
-	-	-	(428)	87,604
\$ 2,166,664	-	2,166,664	-	-
292,183	-	292,183	-	-
635,143	-	635,143	-	-
582,483	-	582,483	-	-
99,708	-	99,708	-	-
294,473	-	294,473	-	-
4,332	-	4,332	-	-
1,404,550	-	1,404,550	-	-
(495,000)	-	(495,000)	-	-
104,910	-	104,910	-	-
75,000	(75,000)	-	-	-
5,164,446	(75,000)	5,089,446	-	-
(19,467)	(4,682)	(24,149)	(428)	87,404
1,856,699	75,945	1,932,644	66,814	-
\$ 1,837,232	71,263	1,908,495	66,386	87,404
\$ 185,325	-	185,325	-	-
113,162	-	113,162	-	-
511,708	-	511,708	-	-
400,089	-	400,089	-	-
567,882	-	567,882	-	-
59,066	71,263	130,329	66,386	87,404
\$ 1,837,232	71,263	1,908,495	66,386	87,404

City of Denison

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

As of and for the year ended June 30, 2010

	Special Revenue				
	General	Road Use Tax	Employee Benefits	Local Option Sales Tax	Urban Renewal Tax Increment
<b>Receipts:</b>					
Property tax	\$ 1,410,431	-	705,105	-	-
Tax increment financing	-	-	-	-	635,143
Other city tax	107,900	-	4,102	582,483	-
Licenses and permits	149,016	-	-	-	-
Use of money and property	186,209	-	-	424	-
Intergovernmental	366,644	680,778	-	-	-
Charges for service	312,204	-	-	-	-
Special assessments	-	-	-	-	-
Miscellaneous	204,546	-	22,107	-	-
Total receipts	<u>2,736,950</u>	<u>680,778</u>	<u>731,314</u>	<u>582,907</u>	<u>635,143</u>
<b>Disbursements:</b>					
Operating:					
Public safety	1,135,096	-	328,297	1,403	-
Public works	486,809	613,161	164,263	36,668	-
Health and social services	8,013	-	574	-	-
Culture and recreation	738,755	-	137,421	-	-
Community and economic development	107,952	-	-	32,500	-
General government	690,118	-	90,284	12,719	-
Debt service	-	38,763	-	-	116,393
Capital projects	-	-	-	-	-
Total disbursements	<u>3,166,743</u>	<u>651,924</u>	<u>720,839</u>	<u>83,290</u>	<u>116,393</u>
Excess (deficiency) of receipts over (under) disbursements	<u>(429,793)</u>	<u>28,854</u>	<u>10,475</u>	<u>499,617</u>	<u>518,750</u>
<b>Other financing sources (uses):</b>					
Bond proceeds, net of \$30,450 discount and fees	113,769	-	-	-	-
General obligation bonds refunded	-	-	-	-	-
Operating transfers in	346,259	-	-	13,472	-
Operating transfers out	(13,472)	(66,344)	(32,152)	(452,366)	(534,632)
Total other financing sources (uses)	<u>446,556</u>	<u>(66,344)</u>	<u>(32,152)</u>	<u>(438,894)</u>	<u>(534,632)</u>
Net change in cash balances	16,763	(37,490)	(21,677)	60,723	(15,882)
Cash balances beginning of year	598,156	415,810	533,385	114,663	248,724
Cash balances end of year	<u>\$ 614,919</u>	<u>378,320</u>	<u>511,708</u>	<u>175,386</u>	<u>232,842</u>
<b>Cash Basis Fund Balances</b>					
Reserved for debt service	\$ -	192,995	-	-	119,680
Unreserved:					
General fund	614,919	-	-	-	-
Special revenue funds	-	185,325	511,708	175,386	113,162
Capital projects fund	-	-	-	-	-
Total cash basis fund balances	<u>\$ 614,919</u>	<u>378,320</u>	<u>511,708</u>	<u>175,386</u>	<u>232,842</u>

See notes to financial statements.

Denison Foundation	Debt Service	Capital Projects	Nonmajor	Total
-	290,493	-	38,609	2,444,638
-	-	-	-	635,143
-	1,690	-	225	696,400
-	-	-	-	149,016
263	-	-	3,329	190,225
-	-	975,343	-	2,022,765
-	-	-	-	312,204
-	-	38,968	-	38,968
137,120	29,144	454,129	29,014	876,060
137,383	321,327	1,468,440	71,177	7,365,419
-	-	-	30,237	1,495,033
-	-	-	-	1,300,901
-	-	-	-	8,587
-	-	-	3,248	879,424
75,038	-	-	6,612	222,102
-	-	-	-	793,121
-	1,174,278	-	-	1,329,434
-	-	2,340,834	-	2,340,834
75,038	1,174,278	2,340,834	40,097	8,369,436
62,345	(852,951)	(872,394)	31,080	(1,004,017)
-	496,657	794,124	-	1,404,550
-	(495,000)	-	-	(495,000)
-	812,246	41,096	-	1,213,073
-	-	-	(39,107)	(1,138,073)
-	813,903	835,220	(39,107)	984,550
62,345	(39,048)	(37,174)	(8,027)	(19,467)
183,238	126,462	(516,945)	153,206	1,856,699
245,583	87,414	(554,119)	145,179	1,837,232
-	87,414	-	-	400,089
-	-	-	-	614,919
245,583	-	-	145,179	1,376,343
-	-	(554,119)	-	(554,119)
245,583	87,414	(554,119)	145,179	1,837,232

**City of Denison**

City of Denison

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

As of and for the year ended June 30, 2010

	<u>Enterprise</u>
	<u>Solid Waste</u>
Operating receipts:	
Charges for service	\$ 458,544
Operating disbursements:	
Business type activities	<u>388,226</u>
Excess of operating receipts over operating disbursements	70,318
Operating transfers out	<u>(75,000)</u>
Net change in cash balances	(4,682)
Cash balances beginning of year	<u>75,945</u>
Cash balances end of year	<u>\$ 71,263</u>
<b>Cash Basis Fund Balances</b>	
Unreserved	<u>\$ 71,263</u>

See notes to financial statements.

City of Denison

Notes to Financial Statements

June 30, 2010

**(1) Summary of Significant Accounting Policies**

The City of Denison is a political subdivision of the State of Iowa located in Crawford County. It was first incorporated in 1875 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.

A. Reporting Entity

For financial reporting purposes, the City of Denison 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 Denison (the primary government) and its component units. The component units discussed below are included in the City's reporting entity because of the significance of their operational or financial relationship with the City.

Blended Component Unit

The Denison Foundation has been incorporated under the provisions of the Iowa Nonprofit Corporation Act to operate for charitable purposes and economic development in the City of Denison. The Foundation is governed by a seven-member board appointed by the Mayor and approved by the City Council. In accordance with criteria set forth by the Governmental Accounting Standards Board, the Foundation meets the definition of a component unit which should be blended. The financial activity of the component unit has been blended as a Special Revenue Fund of the City.

Discretely Presented Component Units

The Denison Library Friends, Inc. (Friends) has been incorporated under the provisions of the Iowa Nonprofit Corporation Act to operate exclusively for charitable purposes for the enhancement and improvement of the Denison Public Library. In accordance with criteria set forth by the Governmental Accounting Standards Board, Friends meets the definition of a component unit which should be discretely presented. Based on these criteria, the economic resources received or held by Friends are substantially for the direct benefit of the City of Denison Library.

The Denison Volunteer Firefighters Association, Inc. (Association) has been incorporated under the Iowa Nonprofit Corporation Act to protect human life and property through fighting fires and providing community education in fire prevention and first aid/safety practices. In accordance with criteria set forth by the Governmental Accounting Standards Board, the Association meets the definition of a component unit which should be discretely presented. Based on these criteria, the economic resources received or held by the Association are substantially for the direct benefit of the City of Denison Fire Department.

The Denison Municipal Utilities was established under Chapter 388 of the Code of Iowa to operate the City's municipal utilities. The Municipal Utilities is governed by a five-member board appointed by the Mayor and approved by the City Council. In accordance with criteria set forth by the Governmental Accounting Standards Board, the Municipal Utilities meets the definition of a component unit which should be discretely presented. Condensed financial information presented in Note 9 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 Denison Municipal Utilities, W. Broadway & 7<sup>th</sup> St., P.O. Box 518, Denison, Iowa 51442.

#### 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: Crawford County Assessor's Conference Board, Crawford County Emergency Management Commission, Crawford County Joint E911 Service Board and Crawford County Area Solid Waste 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 and the payment of principal and interest on Road Use Tax Fund debt.

The Employee Benefits Fund is used to account for the collection and use of tax for pension, retirement and insurance benefits.

The Local Option Sales Tax Fund is utilized to account for the collection and use of the local option sales tax.

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

The Denison Foundation Fund is used to account for the resources of the nonprofit corporation used for charitable and economic development purposes.

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

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

The City also reports the following major proprietary fund:

The Solid Waste Fund accounts for the operation and maintenance of the City's garbage operations.

### C. Measurement Focus and Basis of Accounting

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

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net assets available to finance the

program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2010, disbursements did not exceed the amounts budgeted.

**(2) Cash and Pooled Investments**

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

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$1,340,085 pursuant to Rule 2a-7 under the Investment Company Act of 1940. The investments in the Iowa Public Agency Investment Trust are unrated for credit risk purposes.

**(3) Bonds/Notes Payable**

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

Year Ending June 30,	General Obligation Bonds/Notes		Revenue Bonds/Notes		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2011	\$ 895,000	303,900	120,000	64,142	1,015,000	368,042
2012	920,000	276,208	125,000	59,400	1,045,000	335,608
2013	945,000	245,868	130,000	54,318	1,075,000	300,186
2014	935,000	213,098	140,000	48,918	1,075,000	262,016
2015	800,000	178,905	145,000	42,896	945,000	221,801
2016 - 2020	2,885,000	453,205	775,000	111,311	3,660,000	564,516
2021 - 2023	495,000	45,203	20,000	855	515,000	46,058
Total	\$ 7,875,000	1,716,386	1,455,000	381,840	9,330,000	2,098,226

### Childhood Center Revenue Notes

On July 1, 2001, the City entered into a revenue note agreement with United Bank of Iowa in Ida Grove to borrow \$350,000 to construct a building to be leased to the Crawford County Early Childhood Center (Childhood Center). The notes are payable through 2021 solely from revenues received by the City from the Childhood Center pursuant to a lease. Annual principal and interest payments on the notes will require 100 percent of the lease payments. The total principal and interest remaining to be paid on the notes is \$327,742. For the current year, principal and interest paid and receipts from the Childhood Center were \$29,144. The resolution providing for the issuance of the revenue notes includes the following provisions:

- (a) The notes will only be redeemed from the revenues received by the City from the Childhood Center and the note holder holds a lien on the future earnings of the Childhood Center.
- (b) Sufficient amounts shall be set aside in a revenue note sinking account for the purpose of making the note principal and interest payments when due.

During the year ended June 30, 2010, the City was in compliance with the note provisions.

### Road Use Tax Revenue Notes

On May 1, 2004, the City entered into a revenue note agreement with Ruan Securities Corporation to borrow \$395,000 to purchase equipment for the street department and street improvement projects. The notes are payable solely from road use tax funds received from the State of Iowa and are payable through 2019. Annual principal and interest payments on the notes are expected to require less than 6 percent of road use tax receipts. The total principal and interest remaining to be paid on the notes is \$333,433. For the current year, principal and interest paid and road use tax receipts were \$38,363 and \$648,724, respectively. The resolution providing for the issuance of the revenue notes includes the following provisions:

- (a) The notes will only be redeemed from the road use tax funds received from the State of Iowa.
- (b) At the time of the delivery of the notes, a separate reserve account of \$39,275 shall be established.
- (c) Sufficient monthly transfers shall be made to a separate road use tax revenue sinking account for the purpose of making note principal and interest payments when due.
- (d) All funds remaining in the road use tax fund after payment of road related improvements and services authorized by state law and required transfers shall be placed in a surplus revenue account. This account is restricted to payments to the sinking and reserve accounts if these accounts are in default. If the sinking and reserve accounts are fully funded, the surplus may be used for road related improvements and services authorized by state law.

During the year ended June 30, 2010, the City was in compliance with the note provisions.

### Urban Renewal Tax Increment Revenue Bonds

Urban renewal tax increment revenue bonds were issued for the purpose of paying the costs of an urban renewal project, consisting of constructing a new community conference center. The bonds are payable solely from the income and proceeds of the urban renewal project in accordance with Chapter 403.19 of the Code of Iowa. Annual principal and interest payments on the bonds are expected to require less

than 19 percent of TIF receipts. The proceeds of the bonds shall be expended only for purposes consistent with the plans of the City's urban renewal area. The total principal and interest remaining on the bonds is \$1,175,665, payable through 2020. For the current year, principal and interest paid and tax increment receipts were \$115,993 and \$635,143, respectively. The bonds are not a general obligation of the City, but the debt is subject to the constitutional debt limitation of the City. The resolution providing for the issuance of the bonds includes the following provisions:

- (a) The bonds will only be redeemed from the urban renewal tax increment financing received from the county. The City accounts for this activity within the Special Revenue, Urban Renewal Tax Increment Fund.
- (b) A separate reserve fund shall be established to maintain a required debt service reserve. The City is to deposit bond proceeds of \$119,680 into this reserve fund. This fund is restricted for the purpose of paying principal and interest when funds in the Urban Renewal Tax Increment Fund are inadequate.

During the year ended June 30, 2010, the City was in compliance with the bond provisions.

#### Refunding Bonds

On July 1, 2009, the City issued \$1,435,000 of general obligation bonds, of which \$495,000 was used for a current refunding to retire the outstanding balance of the general obligation street improvement notes originally issued on May 1, 2004 for \$650,000.

The City obtained an economic gain (difference between the present value of the debt service payments on the old and new debt) of approximately \$12,300.

#### **(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 plan members are required to contribute 4.10% of their annual covered salary and the City is required to contribute 6.35% of annual 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 years ended June 30, 2010, 2009 and 2008 were \$126,933, \$124,584 and \$108,212, respectively, equal to the required contributions for each 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 and retirees and their spouses. There are 39 active and 2 retired members in the plan. Participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with Wellmark. Retirees under age 65 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 retiree benefit plan on a

pay-as-you-go basis. The most recent active member monthly premiums for the City and plan members are \$400 – \$500 for single coverage and \$780 - \$1,240 for family coverage. The same monthly premiums apply to retirees. For the year ended June 30, 2010, the City contributed \$58,137 and plan members eligible for benefits contributed \$20,513 to the plan.

**(6) Compensated Absences**

City employees accumulate a limited amount of earned but unused vacation, compensatory and sick leave hours for subsequent use or for payment upon termination, retirement or death. Employees who have accumulated at least 90 days of sick leave may elect to convert earned sick leave above 90 days to cash at one-half of their rate of pay or may elect to convert sick leave to additional vacation time at a rate of one-half day of vacation time for each day of sick leave converted.

These accumulations are not recognized as disbursements by the City until used or paid. The City’s approximate liability for earned vacation, compensatory leave and sick leave payable to employees at June 30, 2010, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Vacation	\$ 21,000
Compensatory leave	27,000
Sick leave	<u>15,000</u>
Total	<u>\$ 63,000</u>

This liability has been computed based on rates of pay in effect at June 30, 2010.

**(7) Interfund Transfers**

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

Transfer to	Transfer from	Amount
General	Special Revenue:	
	Employee Benefits	\$ 32,152
	Local Option Sales Tax	200,000
	Emergency	39,107
	Enterprise:	
	Solid Waste	<u>75,000</u>
		<u>346,259</u>
Special Revenue:	General	<u>13,472</u>
Local Option Sales Tax		
Debt Service	Special Revenue:	
	Road Use Tax	66,344
	Local Option Sales Tax	211,270
	Urban Renewal Tax Increment	<u>534,632</u>
		<u>812,246</u>
Capital Projects	Special Revenue:	
	Local Option Sales Tax	<u>41,096</u>
Total		<u>\$ 1,213,073</u>

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

**(8) Construction Commitments**

The City entered into construction contracts for various construction and street improvements during the year ended June 30, 2010. The unpaid contract balances at June 30, 2010 totaled \$491,798.

**(9) Denison Municipal Utilities**

The Denison Municipal Utilities provides electric, sewer, water and joint treatment for industrial waste services to the City of Denison. As permitted by GASB Statement No. 34, the City has opted to present condensed financial information for this discretely presented component unit. Following is the condensed financial information for the Municipal Utilities for the year ended June 30, 2010.

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Condensed Statement of Net Assets	
Assets:	
Current and other assets	\$ 14,367,861
Capital assets	25,303,088
Total assets	<u>39,670,949</u>
Liabilities:	
Long-term debt	4,030,968
Other liabilities	2,018,611
Total liabilities	<u>6,049,579</u>
Net assets:	
Invested in capital assets, net of related debt	20,711,477
Restricted for debt service and customer deposits	1,171,572
Unrestricted	<u>11,738,321</u>
Total net assets	<u>\$ 33,621,370</u>

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Condensed Statement of Revenues, Expenses and Changes in Net Assets	
Operating revenues:	
Sales to customers	\$ 12,793,648
Other	32,503
Total operating revenues	<u>12,826,151</u>
Operating expenses:	
Electric	\$ 7,967,351
Water	1,371,153
Sewer	723,297
Joint treatment	748,633
Depreciation	<u>1,328,885</u>
	<u>12,139,319</u>
Operating income	686,832
Non-operating revenues (expenses):	
Miscellaneous	225,812
Interest income	200,804
Interest expense	(156,236)
Economic development	<u>(160,333)</u>
Total non-operating revenues (expenses)	<u>110,047</u>
Net income	796,879
Net assets beginning of year	<u>32,824,491</u>
Net assets end of year	<u>\$ 33,621,370</u>

**(10) 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.

The City self funds dental coverage for its employees. The plan is funded by the City and is administered by Employee Benefit Systems. The agreement is subject to automatic renewal. The City provides annual coverage up to \$2,000 per individual. Monthly payments of administrative services fees and claims are paid from the City's General Fund. During the year ended June 30, 2010, the City transferred \$32,152 from the Special Revenue, Employee Benefits Fund to the General Fund to fund the fees and claims paid by the City.

**(11) Deficit Balances**

The Special Revenue, Trees Forever Fund had a deficit balance of \$1,734 at June 30, 2010. The deficit will be eliminated through a reduction of future disbursements.

The Capital Projects Fund had a deficit balance of \$554,119 at June 30, 2010. The deficit will be eliminated through future bond sales, intergovernmental reimbursements, LOST receipts and other abatement methods.

**(12) Economic Development Grant Agreements**

During the year ended June 30, 2004, the City entered into an agreement with Premium Protein Products LLC d/b/a Crawford County Foods, LLC, which then became Denison Foods. Denison Foods agreed to utilize the unused space in its facility, make building improvements and invest in certain equipment, create at least 25 jobs paying at least \$8 per hour and maintain those jobs for at least five years. The City agreed to pay an economic development grant totaling \$75,000 over a period of five years after the jobs are created. The City paid \$60,000 under the agreement in prior years. The remaining balance of the \$15,000 will not be paid to Crawford County Foods, LLC since the company has been dissolved.

**(13) Special Investigation**

The City requested the Office of Auditor of State to perform a special investigation of the City as a result of concerns identified with the City's Fire Department. The special investigation is being performed for the period July 1, 2004 through February 10, 2010.

Copies of the special investigation report will be filed with the Crawford County Attorney's Office, the Division of Criminal Investigation and the Attorney General's office when completed.

**(14) Subsequent Event**

On October 1, 2010, the City issued \$4,090,000 of general obligation refunding bonds to advance refund a portion of four general obligation bonds/notes previously issued by the City.

**Required Supplementary Information**



City of Denison

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

Required Supplementary Information

Year ended June 30, 2010

	Governmental Funds Actual	Proprietary Fund Actual	Total Actual
Receipts:			
Property tax	\$ 2,444,638	-	2,444,638
Tax increment financing	635,143	-	635,143
Other city tax	696,400	-	696,400
Licenses and permits	149,016	-	149,016
Use of money and property	190,225	-	190,225
Intergovernmental	2,022,765	-	2,022,765
Charges for service	312,204	458,544	770,748
Special assessments	38,968	-	38,968
Miscellaneous	876,060	-	876,060
Total receipts	<u>7,365,419</u>	<u>458,544</u>	<u>7,823,963</u>
Disbursements:			
Public safety	1,495,033	-	1,495,033
Public works	1,300,901	-	1,300,901
Health and social services	8,587	-	8,587
Culture and recreation	879,424	-	879,424
Community and economic development	222,102	-	222,102
General government	793,121	-	793,121
Debt service	1,329,434	-	1,329,434
Capital projects	2,340,834	-	2,340,834
Business type activities	-	388,226	388,226
Total disbursements	<u>8,369,436</u>	<u>388,226</u>	<u>8,757,662</u>
Excess (deficiency) of receipts over (under) disbursements	(1,004,017)	70,318	(933,699)
Other financing sources (uses), net	984,550	(75,000)	909,550
Deficiency of receipts and other financing sources under disbursements and other financing uses	(19,467)	(4,682)	(24,149)
Balances beginning of year	1,856,699	75,945	1,932,644
Balances end of year	<u>\$ 1,837,232</u>	<u>71,263</u>	<u>1,908,495</u>

See accompanying independent auditor's report.

Budgeted Amounts		Final to
Original	Final	Actual Variance
2,507,727	2,507,727	(63,089)
493,688	493,688	141,455
538,722	538,722	157,678
12,300	12,300	136,716
49,500	49,500	140,725
3,617,701	3,617,701	(1,594,936)
1,106,880	1,106,880	(336,132)
-	-	38,968
145,674	825,251	50,809
8,472,192	9,151,769	(1,327,806)
3,168,858	3,168,858	1,673,825
1,282,795	1,352,795	51,894
9,091	9,091	504
941,082	941,082	61,658
256,500	256,500	34,398
768,315	813,315	20,194
1,207,035	1,841,612	512,178
3,396,980	3,396,980	1,056,146
501,650	501,650	113,424
11,532,306	12,281,883	3,524,221
(3,060,114)	(3,130,114)	2,196,415
2,605,500	2,675,500	(1,765,950)
(454,614)	(454,614)	430,465
2,331,424	2,331,424	(398,780)
1,876,810	1,876,810	31,685

City of Denison

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2010

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

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except the discretely presented component units. 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 Proprietary Fund. 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 \$749,577. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2010, disbursements did not exceed the amounts budgeted.

**Other Supplementary Information**

City of Denison

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

As of and for the year ended June 30, 2010

	Special Revenue				
	Emergency	Trees Forever	Library Trust	Aquatic Trust	Dog Pound Trust
Receipts:					
Property tax	\$ 38,609	-	-	-	-
Other city tax	225	-	-	-	-
Use of money and property	-	-	3,329	-	-
Miscellaneous	-	5,425	-	960	22,629
Total receipts	38,834	5,425	3,329	960	22,629
Disbursements:					
Operating:					
Public safety	-	-	-	-	30,237
Culture and recreation	-	-	2,857	-	-
Community and economic development	-	6,612	-	-	-
Total disbursements	-	6,612	2,857	-	30,237
Excess (deficiency) of receipts over (under) disbursements	38,834	(1,187)	472	960	(7,608)
Other financing uses:					
Operating transfers out	(39,107)	-	-	-	-
Net change in cash balances	(273)	(1,187)	472	960	(7,608)
Cash balances beginning of year	745	(547)	113,946	10,010	24,877
Cash balances end of year	\$ 472	(1,734)	114,418	10,970	17,269
<b>Cash Basis Fund Balances</b>					
Unreserved:					
Special revenue funds	\$ 472	(1,734)	114,418	10,970	17,269

See accompanying independent auditor's report.

Memorial Gardens	Boulders Center Trust	Johnson Park Bridge	Total
-	-	-	38,609
-	-	-	225
-	-	-	3,329
-	-	-	29,014
-	-	-	71,177
-	-	-	30,237
-	-	391	3,248
-	-	-	6,612
-	-	391	40,097
-	-	(391)	31,080
-	-	-	(39,107)
-	-	(391)	(8,027)
620	2,250	1,305	153,206
620	2,250	914	145,179
620	2,250	914	145,179

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

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation bonds/notes:			
Corporate purpose	Aug 1, 2003	1.70-4.30%	\$ 3,740,000
Street improvement	May 1, 2004	1.65-4.15	650,000
Street improvement	Jan 15, 2006	3.65-4.30	1,320,000
Local option sales tax	May 15, 2006	3.80-4.55	1,700,000
Street improvement	Oct 1, 2006	3.75-4.15	650,000
Corporate purpose	Mar 15, 2008	3.50-6.00	880,000
Street improvement	Mar 15, 2008	2.85-4.30	405,000
Corporate purpose - refunding	Jul 1, 2009	1.10-3.50	1,435,000
Total			
Revenue bonds/notes:			
Childhood center	Jul 1, 2001	4.75-5.70%	\$ 350,000
Road use tax	May 1, 2004	2.05-5.20	395,000
Urban renewal tax increment	Aug 15, 2005	3.05-4.45	1,310,000
Total			

See accompanying independent auditor's report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
2,870,000	-	325,000	2,545,000	105,512
495,000	-	495,000	-	1,657
1,095,000	-	120,000	975,000	44,035
1,480,000	-	100,000	1,380,000	63,150
575,000	-	60,000	515,000	22,955
845,000	-	45,000	800,000	45,062
390,000	-	20,000	370,000	14,980
-	1,435,000	145,000	1,290,000	29,808
<b>\$ 7,750,000</b>	<b>1,435,000</b>	<b>1,310,000</b>	<b>7,875,000</b>	<b>327,159</b>
260,000	-	15,000	245,000	14,144
290,000	-	25,000	265,000	13,363
1,020,000	-	75,000	945,000	40,993
<b>\$ 1,570,000</b>	<b>-</b>	<b>115,000</b>	<b>1,455,000</b>	<b>68,500</b>



City of Denison  
Bond/Note Maturities  
June 30, 2010

Year Ending June 30,	General Obligation Bonds/Notes					
	Corporate Purpose		Street Improvement		Local Option Sales Tax	
	Issued Aug 1, 2003		Issued Jan 15, 2006		Issued May 15, 2006	
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount
2011	3.20%	\$ 340,000	3.80%	\$ 125,000	3.95%	\$ 100,000
2012	3.40	355,000	3.90	130,000	4.00	105,000
2013	3.60	365,000	3.95	130,000	4.10	110,000
2014	3.75	375,000	4.05	140,000	4.15	115,000
2015	3.90	205,000	4.10	145,000	4.20	120,000
2016	4.00	210,000	4.20	150,000	4.30	125,000
2017	4.10	220,000	4.30	155,000	4.35	130,000
2018	4.20	230,000	-	-	4.40	135,000
2019	4.30	245,000	-	-	4.45	140,000
2020	-	-	-	-	4.50	145,000
2021	-	-	-	-	4.55	155,000
2022	-	-	-	-	-	-
2023	-	-	-	-	-	-
Total		<u>\$ 2,545,000</u>		<u>\$ 975,000</u>		<u>\$ 1,380,000</u>

Year Ending June 30,	Revenue Bonds/Notes					
	Childhood Center		Road Use Tax		Urban Renewal TIF	
	Issued Jul 1, 2001		Issued May 1, 2004		Issued Aug 15, 2005	
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount
2011	5.25-5.30%	\$ 15,000	4.00%	\$ 25,000	3.60%	\$ 80,000
2012	5.35	20,000	4.20	25,000	3.70	80,000
2013	5.40	20,000	4.35	25,000	3.80	85,000
2014	5.45	20,000	4.50	30,000	3.90	90,000
2015	5.50	25,000	4.65	30,000	4.00	90,000
2016	5.55	25,000	4.80	30,000	4.10	95,000
2017	5.55-5.60	25,000	4.95	30,000	4.15	100,000
2018	5.60	25,000	5.10	35,000	4.25	105,000
2019	5.65	25,000	5.20	35,000	4.35	110,000
2020	5.65-5.70	25,000	-	-	4.45	110,000
2021	5.70	20,000	-	-	-	-
Total		<u>\$ 245,000</u>		<u>\$ 265,000</u>		<u>\$ 945,000</u>

See accompanying independent auditor's report.

<u>Street Improvement</u>		<u>Corporate Purpose</u>		<u>Street Improvement</u>		<u>Corp Purpose-Refunding</u>		<u>Total</u>
<u>Issued Oct 1, 2006</u>		<u>Issued Mar 15, 2008</u>		<u>Issued Mar 15, 2008</u>		<u>Issued July 1, 2009</u>		
<u>Interest</u>		<u>Interest</u>		<u>Interest</u>		<u>Interest</u>		
<u>Rates</u>	<u>Amount</u>	<u>Rates</u>	<u>Amount</u>	<u>Rates</u>	<u>Amount</u>	<u>Rates</u>	<u>Amount</u>	
3.85%	65,000	4.00%	\$ 45,000	3.15%	\$ 25,000	1.55%	195,000	895,000
3.90	65,000	4.30	45,000	3.30	25,000	1.90	195,000	920,000
3.95	70,000	4.55	50,000	3.40	25,000	2.10	195,000	945,000
4.00	55,000	4.80	50,000	3.55	25,000	2.40	175,000	935,000
4.05	70,000	5.05	55,000	3.70	25,000	2.60	180,000	800,000
4.10	95,000	5.30	55,000	3.85	25,000	2.90	85,000	745,000
4.15	95,000	5.50	60,000	4.00	30,000	3.10	85,000	775,000
	-	5.65	65,000	4.05	30,000	3.30	90,000	550,000
	-	5.80	65,000	4.10	30,000	3.50	90,000	570,000
	-	5.90	70,000	4.15	30,000		-	245,000
	-	6.00	75,000	4.20	30,000		-	260,000
	-	6.00	80,000	4.25	35,000		-	115,000
	-	6.00	85,000	4.30	35,000		-	120,000
	<u>\$ 515,000</u>		<u>\$ 800,000</u>		<u>\$ 370,000</u>		<u>\$ 1,290,000</u>	<u>7,875,000</u>

<u>Total</u>
120,000
125,000
130,000
140,000
145,000
150,000
155,000
165,000
170,000
135,000
20,000
<u>1,455,000</u>

City of Denison

Schedule of Receipts By Source and Disbursements By Function -  
All Governmental Funds

For the Last Eight Years

	2010	2009	2008	2007
<b>Receipts:</b>				
Property tax	\$ 2,444,638	2,246,204	2,148,752	2,187,386
Tax increment financing	635,143	738,227	662,631	494,404
Other city tax	696,400	659,497	674,898	607,044
Licenses and permits	149,016	66,412	69,214	65,521
Use of money and property	190,225	181,905	210,635	248,607
Intergovernmental	2,022,765	1,433,805	1,323,886	2,380,969
Charges for service	312,204	455,166	265,759	273,638
Special assessments	38,968	29,668	37,920	63,745
Miscellaneous	876,060	478,667	492,595	405,886
<b>Total</b>	<b>\$ 7,365,419</b>	<b>6,289,551</b>	<b>5,886,290</b>	<b>6,727,200</b>
<b>Disbursements:</b>				
<b>Operating:</b>				
Public safety	\$ 1,495,033	1,368,729	1,368,015	1,384,149
Public works	1,300,901	1,280,531	1,051,195	1,092,494
Health and social services	8,587	7,877	9,105	7,665
Culture and recreation	879,424	914,219	809,028	862,449
Community and economic development	222,102	293,880	217,581	346,308
General government	793,121	716,396	806,279	661,247
Debt service	1,824,434	1,226,574	1,315,254	1,681,161
Capital projects	2,340,834	1,137,105	1,118,990	2,291,216
<b>Total</b>	<b>\$ 8,864,436</b>	<b>6,945,311</b>	<b>6,695,447</b>	<b>8,326,689</b>

See accompanying independent auditor's report.

2006	2005	2004	2003
2,073,291	2,087,521	2,135,128	1,854,448
425,836	417,671	319,292	519,558
646,521	604,991	532,164	523,997
37,570	46,149	31,199	32,810
128,376	77,770	68,661	47,347
1,210,342	1,413,492	1,349,715	1,109,095
212,371	197,352	235,334	411,741
111,173	23,287	156,734	-
636,182	612,662	537,069	176,427
5,481,662	5,480,895	5,365,296	4,675,423
1,269,071	1,216,268	1,212,053	1,231,143
916,930	802,145	863,252	855,477
10,398	6,406	9,489	11,392
592,860	521,236	543,157	540,320
227,392	246,706	209,126	76,026
900,186	887,499	478,426	544,350
1,242,378	850,961	638,433	495,734
5,682,712	3,133,687	3,690,442	859,204
10,841,927	7,664,908	7,644,378	4,613,646

**Schedule 5**

City of Denison  
 Schedule of Expenditures of Federal Awards  
 Year ended June 30, 2010

Grantor/Program	CFDA Number	Agency Pass-through Number	Program Expenditures
Direct:			
U.S. Department of Justice:			
Bulletproof Vest Partnership Program	16.607		717
U.S. Department of Transportation:			
Airport Improvement Program	20.106	3-19-0026-08-2009	53,428
Airport Improvement Program	20.106	3-19-0026-09-2010	31,686
			85,114
Total Direct			85,831
Indirect:			
U.S. Deptment of Housing and Urban Development:			
Iowa Department of Economic Development:			
Home Investment Partnerships Program	14.239	06-HM-115-69	60,044
U.S. Department of Transportation:			
Iowa Department of Transportation:			
Highway Planning and Construction	20.205	STP-U-1920(617)--70-24	392,000
Highway Planning and Construction	20.205	STP-U-1920(619)--70-24	19,412
			411,412
U.S. Department of Education:			
Iowa Department of Transportation:			
ARRA - State Fiscal Stabilization Fund (SFSF) - Government Services, Recovery Act	84.397	S397A090016A	8,764
Total Indirect			480,220
Total			\$ 566,051

**Basis of Presentation** – The Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Denison and is presented in conformity with an other comprehensive basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

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 Denison**



**OFFICE OF AUDITOR OF STATE**  
STATE OF IOWA

David A. Vaudt, CPA  
Auditor of State

State Capitol Building  
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

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, the aggregate discretely presented component units and the aggregate remaining fund information of the City of Denison, Iowa, as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated November 16, 2010. Our report expressed unqualified opinions on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. 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 Denison's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the City of Denison's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Denison's internal control over financial reporting.

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

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 Denison's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in Part II of the accompanying Schedule of Findings and Questioned Costs as items II-A-10 and II-B-10 to be material weaknesses.



## Compliance and Other Matters

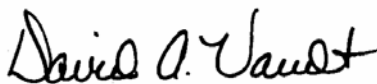
As part of obtaining reasonable assurance about whether the City of Denison's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material 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 Part IV of the accompanying Schedule of Findings and Questioned Costs.

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

The City of Denison's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the City's responses, we did not audit the City of Denison'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 Denison and other parties to whom the City of Denison may report, including federal awarding agencies and pass-through entities, 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 Denison 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

November 16, 2010

**Independent Auditor's Report on Compliance with Requirements  
Applicable to Each Major Program and on Internal Control over Compliance  
in Accordance with OMB Circular A-133**

**City of Denison**



# OFFICE OF AUDITOR OF STATE

STATE OF IOWA

David A. Vaudt, CPA  
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Independent Auditor's Report on Compliance with Requirements  
Applicable to Each Major Program and on Internal Control over Compliance  
in Accordance with OMB Circular A-133

To the Honorable Mayor and  
Members of the City Council:

### Compliance

We have audited the compliance of the City of Denison, Iowa, with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal program for the year ended June 30, 2010. The City of Denison's major federal program is identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to its major federal program is the responsibility of the City of Denison's management. Our responsibility is to express an opinion on the City of Denison's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Denison's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Denison's compliance with those requirements.

In our opinion, the City of Denison complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2010.

### Internal Control Over Compliance

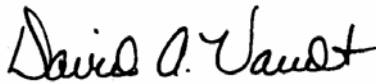
The management of the City of Denison is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grant agreements applicable to federal programs. In planning and performing our audit, we considered the City of Denison's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Denison's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance 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 discussed below, we identified a deficiency in internal control over compliance we consider to be a material weakness.

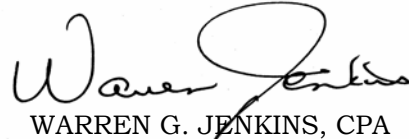
A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis. We consider the deficiency in internal control over compliance described in Part III of the accompanying Schedule of Findings and Questioned Costs as item III-A-10 to be a material weakness.

The City of Denison's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusion on the City's response, we did not audit the City of Denison's response and, accordingly, we express no opinion on it.

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 Denison and other parties to whom the City of Denison may report, including federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.



DAVID A. VAUDT, CPA  
Auditor of State



WARREN G. JENKINS, CPA  
Chief Deputy Auditor of State

November 16, 2010

City of Denison  
Schedule of Findings and Questioned Costs  
Year ended June 30, 2010

**Part I: Summary of the Independent Auditor's Results:**

- (a) Unqualified opinions were issued on the financial statements which 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.
- (b) Material weaknesses in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) A material weakness in internal control over the major program was disclosed by the audit of the financial statements.
- (e) An unqualified opinion was issued on compliance with requirements applicable to the major program.
- (f) The audit disclosed an audit finding required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) The major program was CFDA Number 20.205 – Highway Planning and Construction.
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) The City of Denison did not qualify as a low-risk auditee.

City of Denison

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

**Part II: Findings Related to the Financial Statements:**

**INTERNAL CONTROL DEFICIENCIES:**

II-A-10 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. For the City, one or two individuals have control over each of the following areas:

- (1) Cash – handling petty cash, reconciling and depositing.
- (2) Investments – investing, recording and custody.
- (3) Receipts – collecting, depositing, recording and daily reconciling.

For the Denison Library Friends, one person handles and records collections, prepares deposits, prepares, signs and mails checks and reconciles the bank account.

For the Denison Volunteer Firefighters Association, one person handles and records collections, prepares deposits, prepares, signs and mails checks and reconciles the bank account.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the City, Denison Library Friends and Denison Volunteer Firefighters Association should review their control procedures to obtain the maximum internal control possible under the circumstances.

Responses and Corrective Action Planned:

City – The City will establish internal procedures adequate to ensure a greater degree of both segregation and oversight are incorporated in cash handling, investment and receipting procedures.

Library Friends – This matter will be put on the Agenda for the next meeting of the Denison Library Friends Board of Directors. We will discuss having the Board review bank statements and bank reconciliations on a regular basis.

Firefighters Association - The Denison Volunteer Firefighters Association is in favor of maximum internal control. Therefore, we will review our operating procedures and make adjustments to improve controls. We currently read all accounts payable to the Association for approval and two signatures are required on all bank withdrawal transactions. We also have a yearly internal audit of the treasurer's books to help prevent any issues.

Conclusion – Responses accepted.

II-B-10 Financial Reporting – We identified a material amount of receipts improperly coded as miscellaneous receipts rather than intergovernmental receipts. An adjustment was subsequently made to the City's financial statements to properly record the transactions.

Recommendation – The City should ensure receipts are properly classified in the financial statements.

City of Denison

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

Response – The City has taken measures in 2010 – including the establishment of a Deputy Clerk position and increasing administrative and financial training for personnel – to help create more shared responsibility in administrative duties. The City will continue to act in a manner encouraging administrative checks and balances and extensive recording and performance oversight.

Conclusion – Response accepted.

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.



City of Denison

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

**Part III: Findings and Questioned Costs For Federal Awards:**

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

**INTERNAL CONTROL DEFICIENCIES:**

**CFDA Number 20.205: Highway Planning and Construction**  
**Pass-through Agency Numbers: STP-U-1920(617)--70-24 and**  
**STP-U-1920(619)--70-24**  
**Federal Award Year: 2010**  
**U.S. Department of Transportation**  
**Passed through the Iowa Department of Transportation**

- III-A-10 Segregation of Duties over Financial Receipts – The City did not properly segregate collecting, depositing, recording and daily reconciling, including those related to federal programs. See item II-A-10.

City of Denison

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

**Part IV: Other Findings Related to Required Statutory Reporting:**

- IV-A-10 Certified Budget – Disbursements during the year ended June 30, 2010 did not exceed the amounts budgeted.
- IV-B-10 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.
- IV-C-10 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- IV-D-10 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>
Nancy McKinnon, wife of former Fire Chief, owner of NRFM	Cleaning	\$ 540
Kim Ingerslev, Boulder Conference Center Board Member, owner of PCS	Computer service	7,378
Mike McKinnon, former Fire Chief, owner of D&S Emergency Equipment	Truck repair	18,180

In accordance with Chapter 362.5(10) of the Code of Iowa, the transactions with the former Fire Chief’s wife do not appear to represent a conflict of interest since the total transactions were less than \$1,500 during the fiscal year. The transactions with the Board Member and the former Fire Chief may represent conflicts of interest in accordance with Chapter 362.5(10) and Chapter 362.5(4) of the Code of Iowa since the transactions exceeded \$1,500 during the fiscal year and were not entered into through competitive bidding.

Recommendation – The City should consult legal counsel to determine disposition of these matters.

Response - The City will competitively bid contracts for network services in the future to avoid occurrences of possible conflicts of interest. Services, in this case, span over more than one department. The City will investigate competitively bidding network services in one government wide contract, reaching across departmental lines and ensuring more oversight and economy of scale in purchase costs. The City is currently investigating the disposition of disbursements relating to the former administration of the Fire Department. The City is waiting on the conclusion of a departmental audit from which information will be obtained allowing for conclusive finality as to this department’s activities during the period in question. Appropriate action, to the recommendation of legal counsel, will be taken should any information culminating from the City’s inquiry prove to be necessary.

Conclusion – Response accepted.

City of Denison

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

IV-E-10 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.

IV-F-10 Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.

IV-G-10 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 except as follows:

Interest on investments of bond proceeds has not been credited to the proper fund. In addition, interest earned on the balances in the Special Revenue, Urban Renewal Tax Increment and Debt Service Funds is not credited to the Special Revenue, Urban Renewal Tax Increment and Debt Service Funds, respectively. In accordance with Chapter 12C.9 of the Code of Iowa, such interest shall be used to pay the principal or interest on the indebtedness or be credited to the Capital Projects Fund for which the indebtedness was issued.

Recommendation - The City should comply with Chapter 12C.9 of the Code of Iowa and allocate interest to the proper funds.

Response – In the future, the City will comply with Chapter 12C.9 of the Code of Iowa and allocate interest to the proper funds.

Conclusion – Response accepted.

IV-H-10 Revenue Bonds/Notes – No instances of non-compliance with the revenue bond and note resolutions were noted.

IV-I-10 Financial Condition – The Special Revenue, Trees Forever Fund and the Capital Projects Fund had deficit balances of \$1,734 and \$554,119, respectively, at June 30, 2010.

Recommendation – The City should evaluate the reasons for the deficits and investigate alternatives to eliminate the deficits in order to return the funds to a sound financial position.

Response – The City will work to eliminate these deficits through bond sales, intergovernmental reimbursements, LOST receipts and other abatement methods in the future.

Conclusion – Response accepted.

IV-J-10 Tax Increment Financing Debt – During the year ended June 30, 2010, the City issued 2009 general obligation bonds, a portion of which was used to refund the outstanding balance of the 2004 general obligation notes. The City previously certified the 2004 notes as tax increment financing debt. The TIF debt certification for December 1, 2009 did not properly decertify the 2004 notes or certify as new

City of Denison

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

debt the refunding portion of the 2009 bonds. For the years ended June 30, 2010 and June 30, 2011, the refunding portion of the principal and interest on the 2009 bonds was paid or budgeted from the Debt Service Fund rather than the Special Revenue, Urban Renewal Tax Increment Fund.

Recommendation – The City should decertify the retired 2004 notes and certify the refunding portion of the 2009 bonds, less any related payments made from the Debt Service Fund.

Response – The City will decertify the retired 2004 notes and certify the refunding portion of the 2009 bonds as advised. Future certifications will be in accordance with related TIF specific indebtedness.

Conclusion – Response accepted.

IV-K-10 Tax Increment Financing Receipt – During the year ended June 30, 2010, the City received \$5,206 from the Denison Community School District for tax increment financing receipts related to the District's Physical Plant and Equipment Levy (PPEL) based on a written request the City made to the County Auditor. In accordance with Chapter 403.19(2) of the Code of Iowa, the City may receive the portion of taxes for PPEL to pay principal and interest on debt issued by the City to finance urban renewal projects if the debt was issued prior to July 1, 2001. Because the City's urban renewal debt was issued after July 1, 2001, the City should not have received the PPEL taxes from the District. This non-compliance may also apply to prior and subsequent years.

Recommendation – The City should contact the County Auditor and determine the amount of PPEL taxes inappropriately received by the City for all applicable years. The City should repay the District for the amount of excess PPEL taxes received.

Response – The City will contact the County Auditor and determine the exact amount of Physical Plant and Equipment Levy funds to be returned to the Denison Community School District.

Conclusion – Response accepted.

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City of Denison

Staff

This audit was performed by:

Donna F. Kruger, CPA, Manager  
Michael R. Field, Staff Auditor  
Daniel W. Henaman, Assistant Auditor  
Melody M. Babcock, 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