



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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FOR RELEASE _____ March 9, 2009 _____

Auditor of State David A. Vaudt today released a special report on the Dunkerton Community School District for the period July 1, 2005 through December 31, 2008. The District requested the State Auditor's assistance in determining the propriety of tax levied, collected and recorded by the District, including tax remitted by Black Hawk and Bremer Counties to the District during the period July 1, 2005 through December 31, 2008.

As a result of the procedures performed, Vaudt determined the District levied and collected \$181,604 of property tax, as of December 31, 2008, from a debt service levy which should not have been levied or collected by the District or certified by the Black Hawk County Auditor. Vaudt recommended the District return the \$181,604 of property tax for debt service levied and collected in error as follows: \$180,377 to Black Hawk County and \$1,227 to Bremer County. In addition to the \$181,604, the District, with assistance from Black Hawk and Bremer Counties, should determine the amount of future property tax collected for debt service for the District which should be retained by or returned to Black Hawk and Bremer Counties for subsequent refund to taxpayers.

A copy of the report has been filed with the Black Hawk and Bremer County Attorneys, the Iowa Department of Education and the Iowa Department of Management to determine any further corrective action required.

The report also addressed other statutory compliance requirements, including a corrective transfer from the Special Revenue, Physical Plant and Equipment Levy (PPEL) Fund to the Debt Service Fund, revenue bond sinking and reserve fund requirements and

closing the Debt Service Fund. The District's responses to the recommendations were favorable and are included in the report.

A representative from the State Auditor's Office will be attending a special Board meeting to review the report. The meeting will be held at 6:00 p.m. on March 9, 2009 in the District's ICN room at 509 South Canfield in Dunkerton.

A copy of the report is available for review in the District's Business Office, in the Office of Auditor of State and on the Auditor of State's web site at <http://auditor.iowa.gov/specials/specials.htm>.

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DUNKERTON COMMUNITY SCHOOL DISTRICT
INDEPENDENT ACCOUNTANT'S REPORT ON
APPLYING AGREED UPON PROCEDURES
FOR THE PERIOD
JULY 1, 2005 THROUGH DECEMBER 31, 2008

Table of Contents

	<u>Page</u>
Officials	3
Independent Accountant’s Report on Applying Agreed Upon Procedures	5-6
Detailed Findings:	
	<u>Finding</u>
Property Tax Levied and Collected in Error	A 8-9
Physical Plant and Equipment Levy (PPEL)	B 10
Sinking and Reserve Funds	C 10
Closing the Debt Service Fund	D 10-11
	<u>Exhibit</u>
Property Tax Levied for Debt Service	1 14
Property Tax Received for Debt Service	2 15
Staff	16

Dunkerton Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education (As of December 31, 2008)		
Mark Brandes	President	2009
Alen Nagel	Vice President	2009
Tony Gamerdinger	Board Member	2009
Joe Stafford	Board Member	2011
Chris Gibson	Board Member	2011
District Officials		
James C. Stanton	Superintendent	2009
Beth Weepie	District Secretary/Treasurer	2009
Elizabeth A. Grob	Attorney	2009

Dunkerton Community School District



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Independent Accountant's Report on Applying Agreed Upon Procedures

To the Board of Education of the
Dunkerton Community School District:

We have performed the following procedures, which were agreed to by the Dunkerton Community School District, solely to assist you in determining the propriety of tax levied, collected and recorded by the District, including tax remitted by Black Hawk and Bremer Counties to the District for the period July 1, 2005 through December 31, 2008. The Dunkerton Community School District's management is responsible for compliance. This agreed upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the Dunkerton Community School District (District). Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures we performed were as follows:

1. Reviewed copies of the District's local option sales and services tax referendums dated May 25, 1999 and December 16, 2008.
2. Reviewed copies of the District's physical plant and equipment levy (PPEL) referendums dated September 12, 2000 and February 6, 2007.
3. Reviewed the District's minutes pertaining to the issuance of the revenue bonds and obtained copies of the District's resolutions pertaining to the issuance of \$2,800,000 School Infrastructure Sales and Services Tax Revenue Bonds, dated April 1, 2000, and the issuance of \$490,000 School Infrastructure Local Option Sales and Services Tax Revenue Refunding Bonds, Series 2007, dated December 1, 2007.
4. Obtained and reviewed the District's certified budgets and related property tax levies.
5. Obtained documentation of the property tax collected and remitted to the District by Black Hawk and Bremer Counties.
6. Reconciled property tax remitted by Black Hawk and Bremer Counties to amounts recorded in the District's general ledger.
7. Reviewed District audit reports and related workpapers prepared by the District's independent auditor, Keith Oltrogge, CPA, P.C., pertaining to property tax revenue and distributions of property tax revenue by fund.
8. Compared revenue bond principal and interest payments to the sources of revenue from which the payments were made.
9. Analyzed the District's Debt Service Fund balance to determine the source of the fund balance as of June 30, 2008 and December 31, 2008.

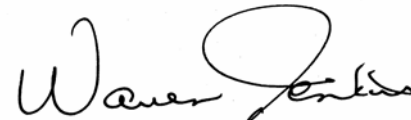
Based on the performance of the procedures described above, we identified instances of non-compliance and have developed various recommendations for the District. Our recommendations and the instances of non-compliance are described in the Detailed Findings section of this report. Unless reported in the Detailed Findings, no items were noted during the performance of the specific procedures listed above.

We were not engaged to and did not conduct an audit of the Dunkerton Community School District, the objective of which would be the expression of an opinion on the financial statements of the Dunkerton Community School District. Accordingly, we do not express such an opinion. Had we performed additional procedures, or had we performed an audit of financial statements of the Dunkerton Community School District, other matters might have come to our attention that would have been reported to you. Pursuant to Chapter 11.15 of the Code of Iowa, copies of this report have been filed with the Black Hawk and Bremer County Attorneys for their review and determination of further action, if any. Copies of this report have also been filed with the Iowa Department of Education and the Iowa Department of Management.

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

We would like to acknowledge the assistance extended to us by personnel of the Dunkerton Community School District. 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

February 17, 2009

Detailed Findings

Dunkerton Community School District

Detailed Findings

For the Period July 1, 2005 through December 31, 2008

- (A) Property Tax Levied and Collected in Error – During the year ended June 30, 2000, the District sold \$2,800,000 School Infrastructure Sales and Services Tax Revenue Bonds, dated April 1, 2000. During the year ended June 30, 2008, the District refinanced the remaining debt from the April 1, 2000 bond issue through the sale of \$490,000 School Infrastructure Local Option Sales and Services Tax Revenue Refunding Bonds, Series 2007, dated December 1, 2007.

Chapter 423E.5 of the 2007 Code of Iowa states, in part, “The board of directors of a school district shall be authorized to issue negotiable, interest-bearing school bonds, without election, and utilize tax receipts derived from the sales and services tax for school infrastructure purposes and the supplemental school infrastructure amount distributed pursuant to section 423E.4, subsection 2, paragraph ‘b’, for principal and interest repayment.”

Section 4 of the “Resolution Directing the Sale of \$490,000 School Infrastructure Local Option Sales and Services Tax Revenue Refunding Bonds, Series 2007” states:

“The Bonds herein authorized and Parity Bonds and the interest thereon shall be payable solely and only from the Local Option Tax Revenues and shall be a first lien on the future Local Option Tax Revenues received by the School District under the Act. **The Bonds shall not be general obligations of the Issuer nor shall the Issuer’s full faith and credit and taxing power be pledged to the payment thereof** (emphasis added). The Issuer is not obligated to levy any ad valorem taxes nor to expend any moneys of the Issuer to pay the Bonds, except the Local Option Tax Revenues pledged under this Resolution. The Issuer shall be in no manner liable by reason of failure of the Local Option Tax Revenues to be sufficient for the payment of the Bonds.”

Similar language was included in the April 1, 2000 revenue bond resolution.

Chapter 76.2 of the 2007 Code of Iowa, unnumbered paragraph one states:

“The governing authority of these political subdivisions before issuing bonds shall, by resolution, provide for the assessment of an annual levy upon all the taxable property in the political subdivision sufficient to pay the interest and principal of the bonds within a period named not exceeding twenty years. A certified copy of this resolution shall be filed with the county auditor or the auditors of the counties in which the political subdivision is located; and the filing shall make it a duty of the auditors to enter annually this levy for collection from the taxable property within the boundaries of the political subdivision until funds are realized to pay the bonds in full. The levy shall continue to be made against property that is severed from the political subdivision after the filing of the resolution until funds are realized to pay the bonds in full.”

According to the Iowa Department of Management budget instructions, school districts in multiple counties have a “control” county. Black Hawk County is the “control” county for the Dunkerton Community School District. As such, pursuant to Chapter 76.2 of the Code of Iowa, a copy of the bond resolution should have been filed with Black Hawk County for the County Auditor to verify the debt as a general obligation subject to “the assessment of an annual levy upon all the taxable property in the political subdivision.” A representative of the Black Hawk County Auditor’s Office verified the County Auditor’s Office had no record of the revenue bond resolutions from the Dunkerton Community School District. However, the budget including the debt service levy was certified by Black Hawk County and filed with the Iowa Department of Management.

According to the District’s certified budgets, the District began levying a debt service levy for the year ended June 30, 2006 and continued to levy debt service through the year ending June 30, 2009. **Exhibit 1** details the amount of property tax levied for debt service by the District for fiscal years 2006 through 2009. **Exhibit 2** details the amount of property tax collected for debt service and remitted by Black Hawk and Bremer Counties compared to the amounts recorded by the District from July 1, 2005 through December 31, 2008.

As a result, the District levied and collected \$181,604 of property tax for debt service as of December 31, 2008. This amount does not include debt service levied but not yet collected. Except as noted in item (B) below, the District reported the debt service property tax in its financial records and audit report in the Debt Service Fund. Since the District’s debt is revenue debt, payable solely and only from local option sales tax revenue, the debt service levy should not have been certified and the District should not have levied and/or collected property tax for debt service.

The District’s fiscal 2008 audit report included note disclosure of a contingent liability as a result of budgeting the debt service levy. The note identified a contingent liability through June 30, 2008 consisting of “\$101,859 of collections made under a debt service levy that may have to be repaid.” Based on confirmation with Black Hawk and Bremer Counties, as shown on **Exhibit 2**, the correct amount of debt service property tax collected through June 30, 2008 was \$175,292.

Recommendation – The District should return the \$181,604 of property tax for debt service collected in error as follows: \$180,377 to Black Hawk County and \$1,227 to Bremer County. In addition to the \$181,604, the District, with assistance from Black Hawk and Bremer Counties, should determine the amount of future property tax collected for debt service for the District which should be retained by or returned to Black Hawk and Bremer Counties for subsequent refund to taxpayers.

Because of the circumstances described above, a copy of this report is being filed with the Black Hawk and Bremer County Attorneys and the Iowa Department of Management to determine any further corrective action required. The District should also consult legal counsel regarding the disposition of this matter.

Response – The District will work with the Department of Management and the Black Hawk and Bremer County Auditors to resolve this issue. The District will also consult with legal counsel.

Conclusion – Response accepted.

- (B) Physical Plant and Equipment Levy (PPEL) – During the year ended June 30, 2006, the District certified and levied taxes for regular PPEL and debt service. However, Black Hawk County recorded the property tax for debt service as voted PPEL property tax in its tax system and incorrectly remitted the property tax for debt service to the District as voted PPEL property tax. The debt service levy was correctly recorded and remitted by Bremer County. As a result, the District incorrectly recorded \$69,504 of property tax for debt service from Black Hawk County as voted PPEL property tax in its financial records and audit report. This noncompliance was not identified or reported by the District’s independent auditor during the audit of the District’s financial statements for the year ended June 30, 2006 or audits of subsequent periods.

Recommendation – The District should make a corrective transfer of \$69,504 from the Special Revenue, PPEL Fund to the Debt Service Fund.

Response – The District will make a corrective transfer in the amount of \$69,504 from the Special Revenue, PPEL Fund to the Debt Service Fund.

Conclusion – Response accepted.

- (C) Sinking and Reserve Funds – Section 15 of the \$490,000 School Infrastructure Local Option Sales and Services Tax Revenue Refunding Bonds, Series 2007, dated December 1, 2007 revenue bond resolution requires the District to establish a sinking fund. While the resolution includes language regarding establishing a reserve fund, Section 15(2) states in part, “A reserve fund shall not be established for the bonds.”

The District did not establish a sinking fund for the \$490,000 School Infrastructure Local Option Sales and Services Tax Revenue Refunding Bonds, Series 2007, dated December 1, 2007, as required. This noncompliance was not identified or reported by the District’s independent auditor in the fiscal 2008 audit of the District.

Recommendation – The District should establish the sinking fund pursuant to the revenue bond covenants. Since the \$490,000 School Infrastructure Local Option Sales and Services Tax Revenue Refunding Bonds, Series 2007, dated December 1, 2007 revenue bonds will be paid in full during the year ending June 30, 2009, the District should consult legal counsel to determine whether the District should establish the sinking fund to demonstrate compliance with the revenue bond covenants for the year ending June 30, 2009.

Response – The District will establish a sinking fund as required by the resolution authorizing the issuance of \$490,000 School Infrastructure Local Option Sales and Services Revenue Refunding Bonds, dated December 1, 2007.

Conclusion – Response accepted.

- (D) Closing the Debt Service Fund – Chapter 298A.10 of the Code of Iowa states, in part:

“A debt service fund must be established in any school corporation which issues bonds or other authorized indebtedness. The debt service fund shall be used to pay interest as it becomes due and the amount necessary to pay the principal when due on bonds or other authorized indebtedness issued by the district, and to make payments required under a loan, lease-purchase agreement, or other evidence of indebtedness authorized by this Code. Moneys available to service this debt and received from other sources

shall be transferred to the debt service fund and the payment of the debt shall be made from this fund.”

As previously noted in item (C), the District should have established a Debt Service Fund for the sinking fund for repayment of the revenue bonds and related interest on the bonds.

Recommendation – After the revenue bonds and interest have been repaid in full, and after making all of the corrective repayments and transfers noted above, the District should close the Debt Service Fund by transferring the remaining balance to the Capital Projects Fund since funds remaining, if any, would consist of local option sales and services tax revenue transferred in excess of amounts needed for payment of principal and interest. If a deficit exists in the Debt Service Fund after making all of the corrective repayments and transfers noted above, the District should eliminate the Debt Service Fund deficit by transferring from the Capital Projects Fund.

Response – After the Sales Tax Revenue Bonds have been paid in full and after making the corrective transfers indicated above, the District will close the Debt Service Fund and make the appropriate transfers indicated in the recommendation.

Conclusion – Response accepted.

Dunkerton Community School District

Exhibits

Exhibit 1

Dunkerton Community School District

Property Tax Levied for Debt Service

For the years ended June 30, 2006 through June 30, 2009

Year ended June 30:	
2006	\$ 69,721
2007	52,200
2008	53,242
2009	<u>12,325</u>
	<u>\$ 187,488</u>

Dunkerton Community School District

Property Tax Received for Debt Service

For the period July 1, 2005 through December 31, 2008

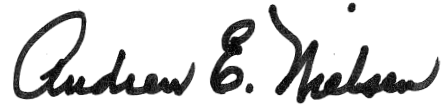
	From Black Hawk County			From Bremer County			Total Received		
	Recorded In			Recorded In			Recorded In		
	Debt Service Fund	PPEL Fund	Total	Debt Service Fund	PPEL Fund	Total	Debt Service Fund	PPEL Fund	Grand Total
Year ended June 30:									
2006	\$ -	69,504	69,504	450	-	450	450	69,504	69,954
2007	51,629	-	51,629	362	-	362	51,991	-	51,991
2008	52,970	-	52,970	377	-	377	53,347	-	53,347
2009 (half year)	6,274	-	6,274	38	-	38	6,312	-	6,312
	<u>\$ 110,873</u>	<u>69,504</u>	<u>180,377</u>	<u>1,227</u>	<u>-</u>	<u>1,227</u>	<u>112,100</u>	<u>69,504</u>	<u>181,604</u>

Dunkerton Community School District

Staff

This agreed upon procedures engagement was performed by:

Susan D. Battani, CPA, Director
Donna F. Kruger, CPA, Manager
Jennifer L. Wall, CPA, Senior Auditor

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

Andrew E. Nielsen, CPA
Deputy Auditor of State