

CITY OF DUNKERTON, IOWA  
INDEPENDENT AUDITOR'S REPORTS  
BASIC FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION  
SCHEDULE OF FINDINGS

JUNE 30, 2005

- Prepared By -

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CITY OF DUNKERTON, IOWA

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CITY OF DUNKERTON, IOWA

OFFICIALS

<u>NAME</u>	<u>TITLE</u>	<u>TERM EXPIRES</u>
Michael Schares	Mayor	January 2006
Tom Adamson	Council Member	January 2006
Terry Manchester	Council Member	January 2006
Monica Smith	Council Member	January 2006
Tom Bagby	Council Member	January 2006
Mark Brandes	Council Member	January 2006
Teresa Wheeler	Clerk	Indefinite
Marge Grady	Treasurer	Indefinite
Carter Stevens	Attorney	Indefinite



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**INDEPENDENT AUDITOR'S REPORT**

To the Honorable Mayor and  
Members of the City Council:

I have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Dunkerton, Iowa, as of and for the year ended June 30, 2005, 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 Dunkerton's management. My responsibility is to express opinions on these financial statements based on my audit.

I conducted my 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 I 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. I believe that my audit provides a reasonable basis for my opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles. Also, as permitted by the Code of Iowa, the accounting records of the City have not been audited for all prior years. Accordingly, I was unable to satisfy myself as to the distribution of the total fund balance at July 1, 2004.

In my opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had I been able to verify the distribution by fund of the total fund balance at July 1, 2004, as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Dunkerton as of June 30, 2005, 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, I have also issued my report dated September 29, 2005 on my consideration of the City of Dunkerton's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of my audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 8 and 23 through 25 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. I applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Dunkerton's basic financial statements. Other supplementary information included in Schedules 1 through 4 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 my audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in cursive script that reads "Larry Pump".

September 29, 2005

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Dunkerton 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, 2005. I encourage readers to consider this information in conjunction with the City's financial statements, which follow.

### **2005 FINANCIAL HIGHLIGHTS**

Revenues of the City's governmental activities increased 21.5%, or approximately \$138,000 from fiscal 2004 to fiscal 2005. Property tax increased approximately \$82,000 and charges for services increased \$36,000.

Disbursements decreased 44.1%, or approximately \$486,000, in fiscal 2005 from fiscal 2004. Public safety, culture and recreation and general government disbursements decreased approximately \$267,000, \$67,000 and \$254,000, respectively.

The City's total cash basis net assets increased 46%, or approximately \$183,000, from June 30, 2004 to June 30, 2005. Of this amount, the assets of the governmental activities increased approximately \$163,000 and the assets of the business type activities increased by approximately \$20,000.

### **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 nonmajor governmental funds.

### **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, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting

## **REPORTING THE CITY'S FINANCIAL ACTIVITIES**

### *Government-wide Financial Statement*

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

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

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

Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.

Business Type Activities include the waterworks and the sanitary sewer system. These activities are financed primarily by user charges.

### *Fund Financial Statements*

The City has two kinds of funds:

1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Urban Renewal Tax Increment, 3) the Debt Service Fund, 4) the Capital Projects Fund and 5) the Permanent 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 statements for governmental funds include a statement of cash receipts, disbursements and changes in cash balances.

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

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

## **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased sharply from a year ago, increasing from \$193,000 to \$356,000. The analysis that follows focuses on the changes in cash balances for governmental activities.

**Changes in Cash Basis Net Assets of Governmental Activities**

(Expressed in Thousands)

	<u>Year ended June 30,</u>	
	<u>2005</u>	<u>2004</u>
Receipts and transfers:		
Program receipts:		
Charges for service	\$ 60	\$ 24
Operating grants, contributions and restricted interest	265	269
General receipts:		
Property tax	326	244
Local option sales tax	77	73
Grants and contributions not restricted to specific purposes	2	2
Unrestricted investment earnings	6	6
Other general receipts	45	25
Transfers, net	(2)	(2)
Total receipts and transfers	<u>\$ 779</u>	<u>\$ 641</u>
Disbursements:		
Public safety	\$ 142	\$ 409
Public works	69	94
Culture and recreation	68	135
Community and economic development	190	101
General government	51	305
Debt service	96	58
Total disbursements	<u>\$ 616</u>	<u>\$1,102</u>
 Increase (decrease) in cash basis net assets	 \$ 163	 \$ (461)
Cash basis net assets beginning of year	<u>193</u>	<u>654</u>
 Cash basis net assets end of year	 <u>\$ 356</u>	 <u>\$ 193</u>

The City's total receipts for governmental activities increased by 21.5%, or \$138,000. The total cost of all programs and services decreased by approximately \$486,000, or 44.1%, with no new programs added this year. The significant increase in receipts was primarily the result of proceeds received from the issuance of urban renewal tax increment financing revenue bonds.

The cost of all governmental activities this year was \$615,787 compared to \$1,103,058 last year. However, as shown in the Statement of Activities and Net Assets on pages 9-12, the amount taxpayers ultimately financed for these activities was only \$290,422 because some of the cost was paid by those directly benefited from the programs (\$59,767) or by other governments and organizations that subsidized certain programs with grants, contributions, and restricted interest (\$265,598). Overall, the City's governmental activities receipts, including governmental aid and fees for service, increased in 2005 from approximately \$138,000 to approximately \$779,000, principally due to increased property taxes. The City paid for the remaining "public benefit" portion of governmental activities with approximately \$326,000 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,	
	2005	2004
Receipts:		
Program receipts:		
Charges for service:		
Water	\$ 62	\$ 63
Sewer	101	305
Other	26	29
General receipts:		
Unrestricted interest on investments	2	-
Other general receipts	13	-
Transfers	2	-
Total receipts	\$ 206	\$ 397
Disbursements and transfers:		
Water	\$ 65	\$ 71
Sewer	93	532
Other	27	28
Total disbursements and transfers	\$ 185	\$ 631
Increase (decrease) in cash balance	\$ 21	\$ (234)
Cash basis net assets beginning of year	201	435
Cash basis net assets end of year	\$ 222	\$ 201

Total business type activities receipts for the fiscal year were \$206,000 compared to \$397,000 last year. This significant decrease was due primarily to the prior year receipt of sewer construction proceeds. The cash balance increased by approximately \$21,000 from the prior year. Total disbursements and transfers for the fiscal year decreased by 70.7% to a total of \$185,000.

**INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS**

As the City of Dunkerton completed the year, its governmental funds reported a combined fund balance of \$356,625, an increase of more than \$163,000 above last year's total of \$193,366. 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 \$29,264 from the prior year to \$28,381. Intergovernmental revenues increased by approximately \$34,000.

The Road Use Tax Fund cash balance increased by \$553 to \$36,931 during the fiscal year. Both receipts and disbursements were nearly identical to 2004.

The Urban Renewal Tax Increment Fund cash balance increased by \$115,875 to \$199,997 during the fiscal year. This increase is due to the increase in TIF revenues.

**INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS**

The Water Fund cash balance increased by \$3,443 to \$54,409, due primarily to a decrease in operating expenses.

The Sewer Fund cash balance increased by \$18,273 to \$153,785, due primarily to decrease in operating expenses.

**BUDGETARY HIGHLIGHTS**

Over the course of the year, the City did not amend its budget.

**DEBT ADMINISTRATION**

At June 30, 2005, the City had approximately \$775,000 in bonds and other long-term debt, compared to approximately \$868,000 last year, as shown below.

**Outstanding Debt at Year-End**  
(Expressed in Thousands)

	June 30,	
	2005	2004
General obligation bonds	\$ 430	\$ 490
Revenue notes	270	295
Contingency loan	75	83
Total	<u>\$ 775</u>	<u>\$ 868</u>

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$505,000 is significantly below its constitutional debt limit of \$1,631,224.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

The City of Dunkerton elected and appointed officials and citizens considered many factors when setting the fiscal year 2005 budget, tax rates, and fees that will be charged for various City activities. One of those factors is the economy.

**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, Teresa Wheeler, City Clerk, City of Dunkerton.

CITY OF DUNKERTON, IOWA  
 STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS  
 AS OF AND FOR THE YEAR ENDED JUNE 30, 2005

	<u>Disbursements</u>	<u>Program Receipts</u>		
		<u>Charges for Service</u>	<u>Operating Grants, Contributions and Restricted Interest</u>	<u>Capital Grants, Contributions and Restricted Interest</u>
<b>FUNCTIONS/PROGRAMS:</b>				
Governmental activities:				
Public Safety	\$ 141,778	\$ 58,314	\$ 4,614	\$ -
Public works	69,277	-	62,294	-
Culture and recreation	68,008	1,453	3,657	-
Community and economic development	190,081	-	195,033	-
General government	50,943	-	-	-
Debt service	<u>95,700</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total governmental Activities	<u>\$ 615,787</u>	<u>\$ 59,767</u>	<u>\$ 265,598</u>	<u>\$ -</u>
Business type activities:				
Water	\$ 64,535	\$ 62,153	\$ -	\$ -
Sewer	92,774	101,207	-	-
Other	<u>28,072</u>	<u>26,345</u>	<u>-</u>	<u>-</u>
Total business type activities	<u>\$ 185,381</u>	<u>\$ 189,705</u>	<u>\$ -</u>	<u>\$ -</u>
Total	<u>\$ 801,168</u>	<u>\$ 249,472</u>	<u>\$ 265,598</u>	<u>\$ -</u>

(continued)

**Net (Disbursements) Receipts and  
Changes in Cash Basis Net Assets**

<b>Governmental Activities</b>	<b>Business Type Activities</b>	<b>Total</b>
\$ (78,850)	\$ -	\$ (78,850)
(6,983)	-	(6,983)
(62,898)	-	(62,898)
4,952	-	4,952
(50,943)	-	(50,943)
<u>(95,700)</u>	<u>-</u>	<u>(95,700)</u>
<u>\$ (290,422)</u>	<u>\$ -</u>	<u>\$ (290,422)</u>
\$ -	\$ (2,382)	\$ (2,382)
-	8,433	8,433
<u>-</u>	<u>(1,727)</u>	<u>(1,727)</u>
<u>\$ -</u>	<u>\$ 4,324</u>	<u>\$ 4,324</u>
<u>\$ (290,422)</u>	<u>\$ 4,324</u>	<u>\$ (286,098)</u>

CITY OF DUNKERTON, IOWA  
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2005

**General Receipts:**

Property tax levied for:  
    General purposes  
    Tax increment financing  
    Debt service  
Local option sales tax  
Grants and contributions not restricted to specific purpose  
Unrestricted interest on investments  
Miscellaneous  
Transfers  
  
Total general receipts and transfers  
  
Change in cash basis net assets  
  
Cash basis net assets beginning of year  
  
Cash basis net assets end of year

**Cash Basis Net Assets**

Restricted:  
    Streets  
    Urban renewal purposes  
    Debt service  
    Other purposes  
Unrestricted

**Total cash basis net assets**

*See Notes to Financial Statements.*

**Net (Disbursements) Receipts and  
Changes in Cash Basis Net Assets**

<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
\$ 109,798	\$ -	\$ 109,798
153,841	-	153,841
62,187	-	62,187
76,769	-	76,769
1,996	-	1,996
6,132	1,574	7,706
44,627	13,139	57,766
<u>(1,669)</u>	<u>1,669</u>	<u>-</u>
<u>\$ 453,681</u>	<u>\$ 16,382</u>	<u>\$ 470,063</u>
\$ 163,259	\$ 20,706	\$ 183,965
<u>193,366</u>	<u>201,053</u>	<u>394,419</u>
<u><b>\$ 356,625</b></u>	<u><b>\$ 221,759</b></u>	<u><b>\$ 578,384</b></u>
\$ 36,931	\$ -	\$ 36,931
199,997	-	199,997
799	-	799
90,517	-	90,517
<u>28,381</u>	<u>221,759</u>	<u>250,140</u>
<u><b>\$ 356,625</b></u>	<u><b>\$ 221,759</b></u>	<u><b>\$ 578,384</b></u>

CITY OF DUNKERTON, IOWA  
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES  
GOVERNMENTAL FUNDS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2005

	<u>General</u>	<u>Special Revenue</u>	
		<u>Road Use Tax</u>	<u>Urban Renewal Tax Increment</u>
<b>RECEIPTS:</b>			
Property tax	\$ 109,798	\$ -	\$ -
Tax increment financing collections	-	-	153,841
Other city tax	76,769	-	-
Use of money and property	5,416	-	-
Licenses and permits	14,653	-	-
Intergovernmental	242,079	62,294	-
Charges for service	22,987	-	-
Miscellaneous	27,245	65	-
Total receipts	<u>\$ 498,947</u>	<u>\$ 62,359</u>	<u>\$ 153,841</u>
<b>DISBURSEMENTS:</b>			
Public safety	\$ 141,778	\$ -	\$ -
Public works	7,471	61,806	-
Culture and recreation	68,008	-	-
Community and economic development	190,081	-	-
General government	50,943	-	-
Debt service	-	-	37,966
Total disbursements	<u>\$ 458,281</u>	<u>\$ 61,806</u>	<u>\$ 37,966</u>
Excess of receipts over disbursements	<u>\$ 40,666</u>	<u>\$ 553</u>	<u>\$ 115,875</u>
Other financing sources (uses):			
Operating transfers in	\$ 8,267	\$ -	\$ -
Operating transfers out	(19,669)	-	-
Total other financing sources (uses)	<u>\$ (11,402)</u>	<u>\$ -</u>	<u>\$ -</u>
Net change in cash balances	\$ 29,264	\$ 553	\$ 115,875
Cash balances beginning of year	(883)	36,378	84,122
<b>Cash balances end of year</b>	<b><u>\$ 28,381</u></b>	<b><u>\$ 36,931</u></b>	<b><u>\$ 199,997</u></b>
<b>Cash Basis Fund Balances:</b>			
Reserved:			
Debt service	\$ -	\$ -	\$ -
Unreserved:			
General fund	28,381	-	-
Special revenue funds	-	36,931	199,997
Total cash basis fund balances	<u>\$ 28,381</u>	<u>\$ 36,931</u>	<u>\$ 199,997</u>

*See Notes to Financial Statements.*

<b>Other Nonmajor Governmental Funds</b>	<b>Total</b>
\$ 62,187	\$ 171,985
-	153,841
-	76,769
716	6,132
-	14,653
-	304,373
-	22,987
2,665	29,975
<u>\$ 65,568</u>	<u>\$ 780,715</u>
\$ -	\$ 141,778
-	69,277
-	68,008
-	190,081
-	50,943
57,734	95,700
<u>\$ 57,734</u>	<u>\$ 615,787</u>
<u>\$ 7,834</u>	<u>\$ 164,928</u>
\$ 18,000	\$ 26,267
(8,267)	(27,936)
<u>\$ 9,733</u>	<u>\$ (1,669)</u>
\$ 17,567	\$ 163,259
73,749	193,366
<u>\$ 91,316</u>	<u>\$ 356,625</u>
\$ 799	\$ 799
-	28,381
<u>90,517</u>	<u>327,445</u>
<u>\$ 91,316</u>	<u>\$ 356,625</u>

CITY OF DUNKERTON, IOWA  
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND  
CHANGES IN CASH BALANCES  
PROPRIETARY FUNDS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2005

	<u>Enterprise Funds</u>		Other Nonmajor Enterprise	<u>Total</u>
	<u>Water</u>	<u>Sewer</u>	<u>Funds</u>	
Operating receipts:				
Charges for service	\$ 62,153	\$ 101,207	\$ 26,345	\$ 189,705
Miscellaneous	25	8,405	4,709	13,139
Total operating receipts	<u>\$ 62,178</u>	<u>\$ 109,612</u>	<u>\$ 31,054</u>	<u>\$ 202,844</u>
Operating disbursements:				
Business type activities	<u>64,535</u>	<u>53,634</u>	<u>28,072</u>	<u>146,241</u>
Excess (deficiency) of operating receipts over (under) operating disbursements	<u>\$ (2,357)</u>	<u>\$ 55,978</u>	<u>\$ 2,982</u>	<u>\$ 56,603</u>
Non-operating receipts (disbursements):				
Interest on investments	\$ 139	\$ 1,435	\$ -	\$ 1,574
Debt service	<u>-</u>	<u>(39,140)</u>	<u>-</u>	<u>(39,140)</u>
Total non-operating receipts (disbursements)	<u>\$ 139</u>	<u>\$ (37,705)</u>	<u>\$ -</u>	<u>\$ (37,566)</u>
Excess (deficiency) of receipts over (under) disbursements	<u>\$ (2,218)</u>	<u>\$ 18,273</u>	<u>\$ 2,982</u>	<u>\$ 19,037</u>
Other financing sources (uses):				
Operating transfers in	\$ 5,661	\$ -	\$ 1,669	\$ 7,330
Operating transfers out	<u>-</u>	<u>-</u>	<u>(5,661)</u>	<u>(5,661)</u>
Total other financing sources (uses)	<u>\$ 5,661</u>	<u>\$ -</u>	<u>\$ (3,992)</u>	<u>\$ 1,669</u>
Net change in cash balances	\$ 3,443	\$ 18,273	\$ (1,010)	\$ 20,706
Cash balances beginning of year	<u>50,966</u>	<u>135,512</u>	<u>14,575</u>	<u>201,053</u>
Cash balances end of year	<u>\$ 54,409</u>	<u>\$ 153,785</u>	<u>\$ 13,565</u>	<u>\$ 221,759</u>
<b>Cash Basis Fund Balances:</b>				
Unreserved	<u>\$ 54,409</u>	<u>\$ 153,785</u>	<u>\$ 13,565</u>	<u>\$ 221,759</u>

*See Notes to Financial Statements.*

CITY OF DUNKERTON, IOWA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2005

(1) Summary of Significant Accounting Policies

The City of Dunkerton is a political subdivision of the State of Iowa located in Black Hawk County. It was first incorporated in 1899 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 services. The City also provides water and sewer utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Dunkerton 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. The City has no component unit which meet the Governmental Accounting Standards Board Criteria.

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 Black Hawk County Assessor's Conference Board.

B. Basis of Presentation

Government-wide Financial Statements - 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 services.

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 that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

CITY OF DUNKERTON, IOWA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2005

(1) Summary of Significant Accounting Policies - continued

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 that are not paid from other funds.

Special Revenue:

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

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

The City reports the following major proprietary funds:

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

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

CITY OF DUNKERTON, IOWA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2005

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

C. Measurement Focus and Basis of Accounting

The City of Dunkerton 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.

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

(2) **Cash and Investments**

The City's deposits in banks at June 30, 2005 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's investments are categorized to give an indication of the level of risk assumed by the City at year end. The City's investments are all category 1, which means the investments are insured or registered or the securities are held by the City or its agent in the City's name.

Interest Rate Risk - The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the City.

CITY OF DUNKERTON, IOWA  
 NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2005

(3) Bonds and Notes Payable

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

Year Ending June 30,	General Obligation Notes		Sewer Revenue Notes		Contingency Loan		Total General Obligation	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2006	\$ 40,000	\$ 11,848	\$ 30,000	\$ 12,714	\$ 7,500	\$ -	\$ 77,500	\$ 24,562
2007	45,000	9,788	30,000	11,365	7,500	-	82,500	21,153
2008	45,000	7,447	30,000	10,015	7,500	-	82,500	17,462
2009	45,000	5,085	30,000	8,665	7,500	-	82,500	13,750
2010	50,000	2,700	35,000	7,285	7,500	-	92,500	9,985
2011-2015	-	-	115,000	11,600	37,500	-	152,500	11,600
Total	<u>\$225,000</u>	<u>\$ 36,868</u>	<u>\$270,000</u>	<u>\$ 61,644</u>	<u>\$ 75,000</u>	<u>\$ -</u>	<u>\$570,000</u>	<u>\$ 98,512</u>

The Code of Iowa requires principal and interest on general obligation notes be paid from the Debt Service Fund. However, during the year, \$3,654 of general obligation bond interest was paid from the General Fund.

The resolution providing for the issuance of the sewer revenue notes include the following provisions:

- (a) The notes will only be redeemed from the future earnings of the enterprise activities and note holders hold a lien on the future earnings of the funds.
- (b) Sufficient monthly transfers shall be made to a separate sewer revenue note sinking account for the purpose of making the note principal and interest payments when due.
- (c) Additional monthly transfers shall be made to a sewer revenue note reserve account until the required balances are accumulated. Each month an amount equal to 25 percent of the amount required to be deposited in the month in the sewer sinking fund shall be deposited in the sewer reserve account. The sewer revenue note reserve account is restricted for the purpose of paying principal and interest due on the sewer revenue capital loan notes when sufficient money is available in the sewer revenue note sinking account.
- (d) At the option of the City, notes due on the Sewer Revenue Capital Loan Notes issue of July 1, 2001, are subject to redemption and prepayment in any order of maturity beginning June 1, 2008, and on any interest payment date thereafter, at a price of par plus accrued interest to call date, by giving proper notice.

The City has not established the required sewer sinking and sewer reserve funds.

CITY OF DUNKERTON, IOWA  
 NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2005

(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 statement and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the City is required to contribute 5.75% of annual covered payroll except for police employees, in which case the percentages are 6.16% and 9.23%, respectively. Contribution requirements are established by State statute. The City's contribution to IPERS for the year ended June 30, 2005 was \$7,047, which was equal to the required contribution for the year.

(5) Compensated Absences

City employees earn vacation at rates dependent on years of service and sick leave is accrued at a rate of one-half day for every full month of service. Compensatory time may be accumulated to a maximum of 60 hours. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation payable and comp time payable to employees at June 30, 2005, primarily relating to the General Fund, is \$4,489. This liability has been computed based on rates of pay as of June 30, 2005.

(6) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2005 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Special Revenue:	
	Library Board	\$ 2,978
	Library Building	5,289
		<u>\$ 8,267</u>
Special Revenue:		
Ambulance	General	<u>\$ 5,000</u>
Police	General	<u>\$ 3,000</u>
Capital Improvement	General	<u>\$ 10,000</u>
Enterprise:	Enterprise:	
Water	Meter Deposit	<u>\$ 5,661</u>
Solid Waste	General	<u>\$ 1,669</u>
Total		<u>\$ 33,597</u>

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

CITY OF DUNKERTON, IOWA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2005

(7) **Related Party Transactions**

The City had business transactions between the City and City officials totaling \$2,145 during the year ended June 30, 2005.

(8) **Risk Management**

The City is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 509 members include various governmental entities throughout the State of Iowa. The Pool was formed in August, 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, property, police professional liability, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 300 percent of the total current member's basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

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

The City's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The City's annual contributions to the Pool for the year ended June 30, 2005 were \$15,838.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$250,000 per claim. Claims exceeding \$250,000 are reinsured in an amount not to exceed \$1,750,000 per claim and \$5,000,000 in aggregate per year. For members requiring specific coverage from \$2,000,000 to \$10,000,000, such excess coverage is also reinsured. Automobile physical damage risks are retained by the Pool up to \$100,000 each accident, each location, with excess coverage reinsured on an individual-member basis. All property risks are also reinsured on an individual-member basis.

CITY OF DUNKERTON, IOWA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2005

(8) Risk Management - continued

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event that a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. As of June 30, 2005, settled claims have not exceeded the risk pool or reinsurance company coverage since the pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon such withdrawal, payments for all claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal.

Members withdrawing within the first six years of membership may receive a partial refund of their capital contributions. If a member withdraws after the sixth year, the members in refunded 100 percent of its capital contributions, however, the refund is reduced by an amount equal to the annual operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

The City also carries commercial insurance purchased from other insurers for coverage associated with public employee dishonesty coverage and workers compensation coverage. The City assumes liability for any deductibles, and claims in excess of coverage limitations.

Required Supplementary Information

CITY OF DUNKERTON, IOWA  
 BUDGETARY COMPARISON SCHEDULE OF RECEIPTS, DISBURSEMENTS  
 AND CHANGES IN BALANCES  
 BUDGET AND ACTUAL (CASH BASIS) - ALL  
 GOVERNMENTAL FUNDS AND PROPRIETARY FUNDS  
 REQUIRED SUPPLEMENTARY INFORMATION  
 YEAR ENDED JUNE 30, 2005

	Governmental Funds <u>Actual</u>	Proprietary Funds <u>Actual</u>	Less Funds Not Required <u>To Be Budgeted</u>
<b>RECEIPTS:</b>			
Property tax	\$ 171,985	\$ -	\$ -
Tax increment financing collections	153,841	-	-
Other city tax	76,769	-	-
Use of money and property	6,132	1,574	-
Licenses and permits	14,653	-	-
Intergovernmental	304,373	-	-
Charges for service	22,987	189,705	-
Miscellaneous	29,975	13,139	-
Total receipts	<u>\$ 780,715</u>	<u>\$ 204,418</u>	<u>\$ -</u>
<b>DISBURSEMENTS:</b>			
Public safety	\$ 141,778	\$ -	\$ -
Public works	69,277	-	-
Culture and recreation	68,008	-	-
Community and economic development	190,081	-	-
General government	50,943	-	-
Debt service	95,700	-	-
Business type activities	-	185,381	-
Total disbursements	<u>\$ 615,787</u>	<u>\$ 185,381</u>	<u>\$ -</u>
Excess (deficiency) of receipts over (under) disbursements	\$ 164,928	\$ 19,037	\$ -
Other financing sources, net	<u>(1,669)</u>	<u>1,669</u>	<u>-</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	\$ 163,259	\$ 20,706	\$ -
Balance beginning of year	<u>193,366</u>	<u>201,053</u>	<u>-</u>
<b>Balance end of year</b>	<u><b>\$ 356,625</b></u>	<u><b>\$ 221,759</b></u>	<u><b>\$ -</b></u>

*See Accompanying Independent Auditor's Report.*

<u>Net</u>	<u>Budgeted Amounts</u>		<u>Final to Net Variance</u>
	<u>Original</u>	<u>Final</u>	
\$ 171,985	\$ 166,065	\$ 166,065	\$ 5,920
153,841	50,000	50,000	103,841
76,769	74,579	74,579	2,190
7,706	5,000	5,000	2,706
14,653	6,640	6,640	8,013
304,373	311,614	311,614	(7,241)
212,692	243,000	243,000	(30,308)
43,114	20,000	20,000	23,114
<u>\$ 985,133</u>	<u>\$ 876,898</u>	<u>\$ 876,898</u>	<u>\$ 108,235</u>
\$ 141,778	\$ 151,104	\$ 151,104	\$ 9,326
69,277	69,375	69,375	98
68,008	71,679	71,679	3,671
190,081	200,000	200,000	9,919
50,943	61,762	61,762	10,819
95,700	111,688	111,688	15,988
185,381	216,724	216,724	31,343
<u>\$ 801,168</u>	<u>\$ 882,332</u>	<u>\$ 882,332</u>	<u>\$ 81,164</u>
\$ 183,965	\$ (5,434)	\$ (5,434)	\$ 189,399
<u>          -</u>	<u>          -</u>	<u>          -</u>	<u>          -</u>
\$ 183,965	\$ (5,434)	\$ (5,434)	\$ 189,399
<u>394,419</u>	<u>288,380</u>	<u>288,380</u>	<u>106,039</u>
<u><b>\$ 578,384</b></u>	<u><b>\$ 282,946</b></u>	<u><b>\$ 282,946</b></u>	<u><b>\$ 295,438</b></u>

CITY OF DUNKERTON, IOWA  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING  
JUNE 30, 2005

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 Internal Service Funds and Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and nonprogram. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, the budget was not amended.

During the year ended June 30, 2005, the amounts budgeted were not exceeded.

Other Supplementary Information

CITY OF DUNKERTON, IOWA  
 STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES  
 NONMAJOR GOVERNMENTAL FUNDS  
 AS OF AND FOR THE YEAR ENDED JUNE 30, 2005

	<u>Special Revenue</u>			
	<u>Police</u>	<u>Capital Improvement</u>	<u>Library Board</u>	<u>Library Building</u>
<b>RECEIPTS:</b>				
Property tax	\$ -	\$ -	\$ -	\$ -
Use of money and property	55	-	-	264
Miscellaneous	-	-	130	2,535
Total receipts	<u>\$ 55</u>	<u>\$ -</u>	<u>\$ 130</u>	<u>\$ 2,799</u>
<b>DISBURSEMENTS:</b>				
Debt service	-	-	-	-
Excess of receipts over disbursements	<u>\$ 55</u>	<u>\$ -</u>	<u>\$ 130</u>	<u>\$ 2,799</u>
Other financing sources (uses):				
Operating transfers in	\$ 3,000	\$ 10,000	\$ -	\$ -
Operating transfers out	-	-	(2,978)	(5,289)
Total other financing sources (uses)	<u>\$ 3,000</u>	<u>\$ 10,000</u>	<u>\$ (2,978)</u>	<u>\$ (5,289)</u>
Net change in cash balances	\$ 3,055	\$ 10,000	\$ (2,848)	\$ (2,490)
Cash balances beginning of year	<u>5,939</u>	<u>-</u>	<u>6,970</u>	<u>36,687</u>
<b>Cash balances end of year</b>	<b><u>\$ 8,994</u></b>	<b><u>\$ 10,000</u></b>	<b><u>\$ 4,122</u></b>	<b><u>\$ 34,197</u></b>
<b>Cash Basis Fund Balances:</b>				
Reserved:				
Debt service	\$ -	\$ -	\$ -	\$ -
Unreserved:				
Special revenue funds	<u>8,994</u>	<u>10,000</u>	<u>4,122</u>	<u>34,197</u>
Total cash basis fund balances	<u>\$ 8,994</u>	<u>\$ 10,000</u>	<u>\$ 4,122</u>	<u>\$ 34,197</u>

*See Accompanying Independent Auditor's Report*

<u>Ambulance</u>	<u>Park</u>	<u>Fire</u>	<u>Debt Service</u>	<u>Total</u>
\$ -	\$ -	\$ -	\$ 62,187	\$ 62,187
360	37	-	-	716
-	-	-	-	2,665
<u>\$ 360</u>	<u>\$ 37</u>	<u>\$ -</u>	<u>\$ 62,187</u>	<u>\$ 65,568</u>
-	-	-	57,734	57,734
<u>\$ 360</u>	<u>\$ 37</u>	<u>\$ -</u>	<u>\$ 4,453</u>	<u>\$ 7,834</u>
\$ 5,000	\$ -	\$ -	\$ -	\$ 18,000
-	-	-	-	(8,267)
<u>\$ 5,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,733</u>
\$ 5,360	\$ 37	\$ -	\$ 4,453	\$ 17,567
23,463	4,000	344	(3,654)	73,749
<u><b>\$ 28,823</b></u>	<u><b>\$ 4,037</b></u>	<u><b>\$ 344</b></u>	<u><b>\$ 799</b></u>	<u><b>\$ 91,316</b></u>
\$ -	\$ -	\$ -	\$ 799	\$ 799
28,823	4,037	344	-	90,517
<u>\$ 28,823</u>	<u>\$ 4,037</u>	<u>\$ 344</u>	<u>\$ 799</u>	<u>\$ 91,316</u>

CITY OF DUNKERTON, IOWA  
 STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND  
 CHANGES IN CASH BALANCES  
 NONMAJOR PROPRIETARY FUNDS  
 AS OF AND FOR THE YEAR ENDED JUNE 30, 2005

	<u>Enterprise Funds</u>		
	<u>Solid Waste</u>	<u>Meter Deposit</u>	<u>Total</u>
Operating receipts:			
Charges for service	\$ 26,345	\$ -	\$ 26,345
Miscellaneous	3,092	1,617	4,709
Total operating receipts	\$ 29,437	\$ 1,617	\$ 31,054
Operating disbursements:			
Business type activities	28,072	-	28,072
Excess of operating receipts over operating disbursements	\$ 1,365	\$ 1,617	\$ 2,982
Operating transfers in(out):			
Operating transfers in	\$ 1,669	\$ -	\$ 1,669
Operating transfers out	-	(5,661)	(5,661)
Total operating transfers In (out)	\$ 1,669	\$ (5,661)	\$ (3,992)
Net change in cash balances	\$ 3,034	\$ (4,044)	\$ (1,010)
Cash balances beginning of year	7,974	6,601	14,575
<b>Cash balances end of year</b>	<b><u>\$ 11,008</u></b>	<b><u>\$ 2,557</u></b>	<b><u>\$ 13,565</u></b>
<b>Cash Basis Fund Balances:</b>			
Unreserved	<u>\$ 11,008</u>	<u>\$ 2,557</u>	<u>\$ 13,565</u>

*See Accompanying Independent Auditor's Report.*

CITY OF DUNKERTON, IOWA  
 SCHEDULE OF INDEBTEDNESS  
 YEAR ENDED JUNE 30, 2005

<u>Obligation</u>	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount Originally Issued</u>
<b>General Obligation Notes:</b>			
Fire Station	9-01-00	4.80 - 5.40%	\$400,000
Sewer Utility	5-01-03	3.00 - 3.80	225,000
<b>Contingency Fund Loan:</b>			
City Hall	7-10-00	0.00%	\$112,500
<b>Revenue notes:</b>			
Sewer	7-01-01	4.50 - 5.00%	\$345,000
<b>Total indebtedness</b>			

*See Accompanying Independent Auditor's Report.*

<u>Balance Beginning of Year</u>	<u>Issued During Year</u>	<u>Redeemed During Year</u>	<u>Balance End of Year</u>	<u>Interest Paid</u>	<u>Interest Due and Unpaid</u>
\$ 265,000	\$ -	\$ 40,000	\$225,000	\$ 13,888	\$ -
225,000	-	20,000	205,000	7,390	-
<u>\$ 490,000</u>	<u>\$ -</u>	<u>\$ 60,000</u>	<u>\$430,000</u>	<u>\$ 21,278</u>	<u>\$ -</u>
\$ 82,500	\$ -	\$ 7,500	\$ 75,000	\$ -	\$ -
\$ 295,000	\$ -	\$ 25,000	\$270,000	\$ 13,840	\$ -
<u>\$ 867,500</u>	<u>\$ -</u>	<u>\$ 92,500</u>	<u>\$775,000</u>	<u>\$ 35,118</u>	<u>\$ -</u>

CITY OF DUNKERTON, IOWA  
BOND AND NOTE MATURITIES  
YEAR ENDED JUNE 30, 2005

Year Ending June 30,	General Obligation Notes				
	Fire Station		Sewer Utility		Total
	Issued September 1, 2000		Issued May 1, 2003		
	Interest	Principal	Interest	Principal	
Rates	Rates				
2006	5.15%	\$ 40,000	3.00%	\$ 25,000	\$ 65,000
2007	5.20	45,000	3.00	25,000	70,000
2008	5.25	45,000	3.00	25,000	70,000
2009	5.30	45,000	3.10	25,000	70,000
2010	5.40	50,000	3.30	25,000	75,000
2011		-	3.50	25,000	25,000
2012		-	3.70	25,000	25,000
2013		-	3.80	30,000	30,000
<b>Total</b>		<b><u>\$ 225,000</u></b>		<b><u>\$ 205,000</u></b>	<b><u>\$430,000</u></b>

Year Ending June 30,	Contingency Loan		Sewer Revenue Notes	
	Issued July 10, 2000		Issued July 1, 2001	
	Interest	Principal	Interest	Principal
	Rates		Rates	
2006	-	\$ 7,500	4.50%	\$ 30,000
2007	-	7,500	4.50	30,000
2008	-	7,500	4.50	30,000
2009	-	7,500	4.60	30,000
2010	-	7,500	4.70	35,000
2011	-	7,500	4.80	35,000
2012	-	7,500	4.90	40,000
2013	-	7,500	5.00	40,000
2014	-	7,500		-
2015	-	7,500		-
<b>Total</b>		<b><u>\$ 75,000</u></b>		<b><u>\$ 270,000</u></b>

*See Accompanying Independent Auditor's Report.*



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**INDEPENDENT AUDITOR'S REPORT**  
**ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE**  
**AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED**  
**IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Honorable Mayor and  
Members of the City Council:

I have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Dunkerton, Iowa, as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements listed in the table of contents and have issued my report thereon dated September 29, 2005. My report on the financial statements, which were prepared in conformity with an other comprehensive basis of accounting, expressed a qualified opinion since I was unable to satisfy myself as to the distribution by fund of the total fund balance at July 1, 2004. I conducted my 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 my audit, I considered the City of Dunkerton's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, I noted one matter involving the internal control over financial reporting and its operation that I consider to be a reportable condition. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in my judgment, could adversely affect the City of Dunkerton's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in Part II of the accompanying Schedule of Findings.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, I believe reportable condition item II-A-05 is a material weakness.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Dunkerton's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations and contracts, 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 my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, I noted certain immaterial instances of non-compliance or other matters that are described in Part IV of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2005 are based exclusively on knowledge obtained from procedures performed during my audit of the financial statements of the City. Since my audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

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

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



September 29, 2005

CITY OF DUNKERTON, IOWA  
Schedule of Findings  
Year Ended June 30, 2005

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

- (a) A qualified opinion was issued on the financial statements, which were prepared in conformity with an other comprehensive basis of accounting, since I was unable to satisfy myself as to the distribution by fund of the total fund balance at July 1, 2004.
- (b) A reportable condition in internal control over financial reporting was disclosed by the audit of the financial statements, which was a material weakness.
- (c) The audit did not disclose any noncompliance which is material to the financial statements.

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

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

**REPORTABLE CONDITION:**

II-A-05      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. I noted that one person has control over most of the accounting and banking functions.

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

Response - We will review procedures and make changes to improve internal control where possible.

Conclusion - Response acknowledged. The City should segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

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

Not applicable

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

IV-A-05      Official Depositories - A resolution naming official depositories has been approved by the City. The maximum deposit amount stated in the resolution was exceeded during the year ended June 30, 2005.

Recommendation - A new resolution should be approved in amounts sufficient to cover anticipated deposits for all depositories

CITY OF DUNKERTON, IOWA  
 Schedule of Findings  
 Year Ended June 30, 2005

**Part IV: Other Findings Related to Statutory Reporting:** - Continued

Response - We will review our current resolution and make changes as necessary.

Conclusion - Response accepted.

IV-B-05 Certified Budget - Disbursements during the year ended June 30, 2005, did not exceed the amounts budgeted.

IV-C-05 Questionable Disbursements - No disbursements were noted that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

IV-D-05 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

IV-E-05 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>
Dan Steffen, Fire Chief/ Owner Steffen Services	Parts/Repair	\$2,045
Tom Bagby, Council Member/ Owner Bagby Repair	Parts/Repair	100

In accordance with chapter 362.5(11) of the Code of Iowa, the transactions do not appear to represent a conflict of interest since total transactions were less than \$2,500 during the fiscal year.

IV-F-05 Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

IV-G-05 Council Minutes - No transactions were found that I believe should have been approved in the Council minutes but were not.

IV-H-05 Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapter 12B.10 and 12C of the Code of Iowa and the City's investment policy were noted.

IV-I-05 Payment of General Obligation Notes - Certain general obligation notes and interest were paid from the General Fund. Chapter 384.4 of the Code of Iowa states in part that "Moneys pledged or available to service general obligations, and received from sources other than property tax, must be deposited in the Debt Service Fund."

Recommendation - The City should transfer from the General Fund to the Debt Service Fund for future funding contributions. Payments of the notes and interest should then be disbursed from the Debt Service Fund.

Response - We will transfer in the future as recommended.

Conclusion - Response accepted.

CITY OF DUNKERTON, IOWA  
Schedule of Findings  
Year Ended June 30, 2005

**Part IV: Other Findings Related to Statutory Reporting:** - Continued

IV-J-05      Revenue Notes - The City has not established the Sewer Revenue Sinking and Reserve Accounts as required by the note resolution.

Recommendation - The City should establish these accounts and make the necessary transfers as required by the resolution.

Response - We will establish these accounts as required.

Conclusion - Response accepted.

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