

CITY OF DOWS, IOWA

**INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION
SCHEDULE OF FINDINGS**

JUNE 30, 2006

**T. P. ANDERSON & COMPANY, P.C.
Certified Public Accountants**

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CITY OF DOWS, IOWA

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Roseann Beyer	Mayor	Jan 2008
Loren Lienemann	Council Member	Jan 2008
Ray Kracht	Council Member	Jan 2008
Judy Gorder	Council Member	Jan 2010
Don Lane	Council Member	Jan 2010
Larry Klatt	Council Member	Jan 2010
Jeanette Wenzel	City Clerk	Appointed

Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the remaining fund information of the City of Dows, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Dows's management. Our responsibility is to express opinions on these financial statements based on our audit.

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 and provisions 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 that our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U. S. generally accepted accounting principles. Also as permitted by the Code of Iowa, the accounting records of the City have not been audited for all prior years. Accordingly, we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at June 30, 2005.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2005 as discussed in the 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, and each major fund and the remaining fund information of the City of Dows as of June 30, 2006, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated September 8, 2006, on our consideration of the City of Dows’s internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management’s Discussion and Analysis and budgetary comparison information on pages 4 through 9 and 19 through 20 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We applied limited procedures, which consisted principally of inquires 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 performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Dows’s basic financial statements. Other supplementary information included in Schedules 1 through 3, is presented for purposes of additional analysis and is not a required part of the basis 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.

T.P. Anderson & Company, P.C.

September 8, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Dows, Iowa provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2006. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

Because the City is implementing new reporting standards for this fiscal year with significant changes in content and structure, much of the information is not easily comparable to prior years. However, in future years, comparisons will be more meaningful and will go further in explaining the City's financial position and results of operations.

2006 FINANCIAL HIGHLIGHTS

- Revenues of the City's governmental activities totaled \$368,229. The City's total receipts included property tax of \$138,775, charges for service of \$80,405, and intergovernmental receipts of \$83,081.
- Disbursements totaled \$311,779 including public safety disbursements of \$57,410, public works disbursements of \$91,647.
- The City's total cash basis net assets increased 3%, or approximately \$8,000 from June 30, 2005 to June 30, 2006. Of this amount, the assets of the governmental activities increased approximately \$35,000 and the assets of the business type activities decreased by approximately \$27,000.

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 cash basis Statement of Activities and Net Assets. This statement provides information about the cash basis activities of the City as a whole and presents an overview of the City's cash basis finances.

The cash basis 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 indebtedness.

Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, 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, general government, and debt service. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the water 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 service. 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 Employee Benefits, 3) the Debt Service Fund, and 4) 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 cash basis financial statement 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 rental funds.

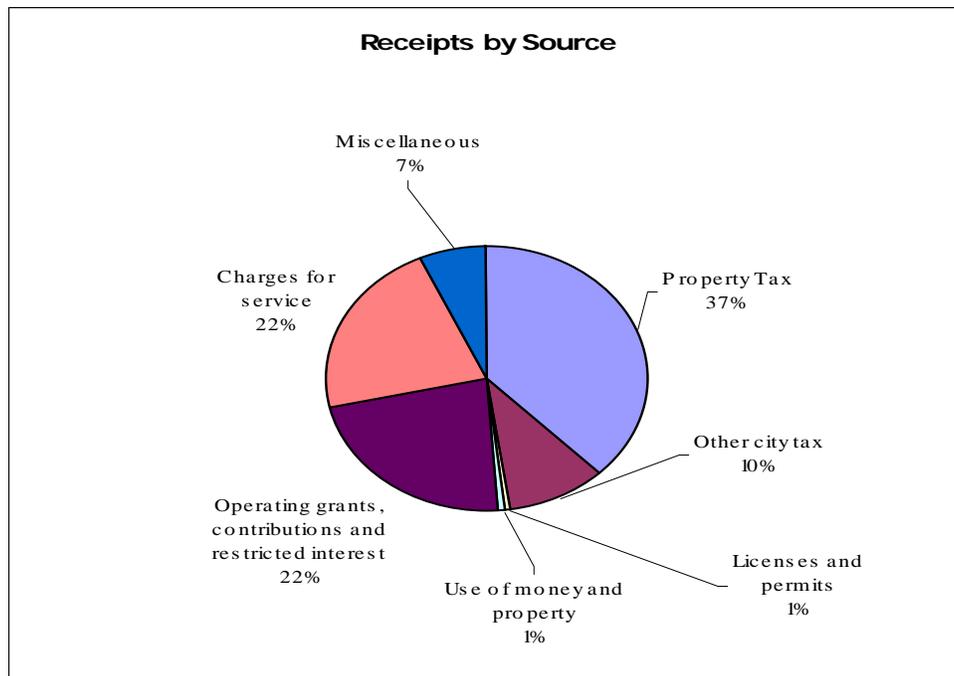
The required cash basis financial statement for proprietary funds include a statement of cash receipts, disbursements and changes in cash balances.

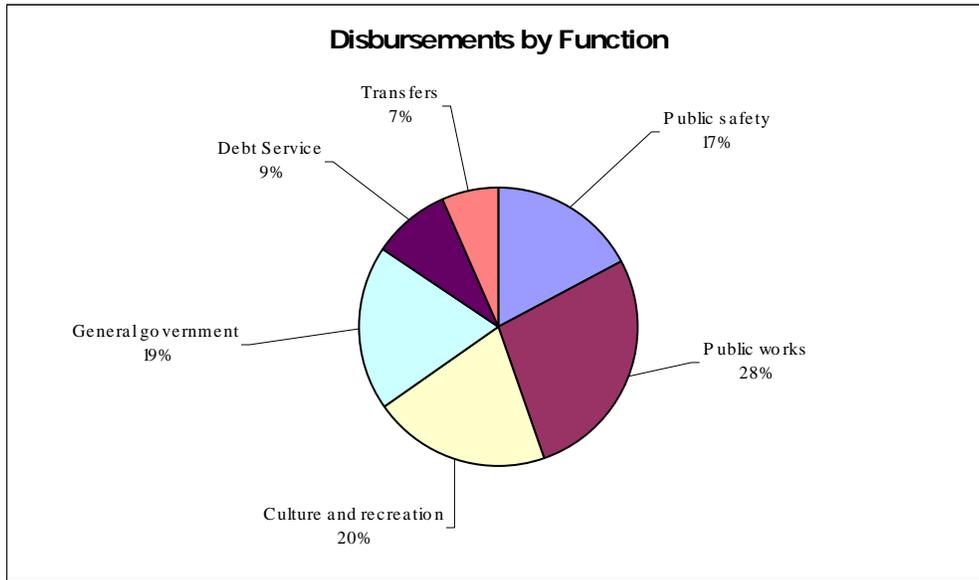
GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from a year ago, increasing from \$184,000 to \$219,000. 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)

	Year ended June 30, 2006
Receipts and transfers:	
Program receipts:	
Charges for service	\$ 80
Operating grants, contributions and restricted interest	83
General receipts:	
Property tax	139
Local option sales tax	36
Unrestricted investment earnings	4
Other general receipts	26
Total receipts and transfers	368
Disbursements:	
Public safety	57
Public works	92
Culture and recreation	68
General government	64
Debt service	30
Transfers, net	22
Total disbursements	333
Increase in cash basis net assets	35
Cash basis net assets beginning of year	184
Cash basis net assets end of year	\$ 219





The City's total receipts for governmental activities were \$368,000. The total cost of all programs and services was \$333,000, with no new programs added during the year.

The cost of all governmental activities this year was \$333,000. However, as shown in the Statement of Activities and Net Assets on pages 12, the amount taxpayers ultimately financed for these activities was only \$148,293 because some of the cost was paid by those directly benefited from the programs (\$80,000) or by other governments and organizations that subsidized certain programs with grants, contributions, and restricted interest (\$83,000). The City paid for the remaining "public benefit" portion of governmental activities with approximately \$139,000 in tax (some of which could only be used for certain programs), \$35,000 in local option sales tax, 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, 2006
Receipts:	
Program receipts:	
Charges for service:	
Water	\$ 53
Sewer rental	37
Other	1
General receipts:	
Miscellaneous	1
Transfers, net	22
Total receipts	114
Disbursements and transfers:	
Water	75
Sewer rental	65
Other	1
Total disbursements and transfers	141
(Decrease) in cash balance	(27)

(Decrease) in cash balance (from previous page)	(27)
Cash basis net assets beginning of year	<u>76</u>
Cash basis net assets end of year	<u>\$ 49</u>

Total business type activities receipts for the fiscal year were \$114,000. The cash balance decreased by approximately \$27,000 from the prior year.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As The City of Dows completed the year, its governmental funds reported a combined fund balance of \$219,473, an increase of \$35,005 above last year’s total of \$184,468. 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 \$27,701 from the prior year to \$25,239. The increase was planned through regular budgeting and achieved through focusing on minimizing expenses.
- The Road Use Tax Fund cash balance decreased by \$6,526 to (\$2,149) during the fiscal year. The decrease was due to necessary road work and higher than anticipated rock expenses.
- The Employee Benefits Fund increased \$11,500 during the year. The increase was due to more of the employee benefits being paid for through the City’s proprietary funds.
- The Library Trust fund increased \$1,475 to \$81,952 at June 30, 2006. The increase is the investment earnings earned and reinvested in the fund.
- The Debt Service Fund increased \$1,120 to \$20,705. The increase was due to the regular operations of the fund.
- The Fairview Cemetery had no change during the year and has a fund balance of \$20,770 at June 30, 2006.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance decreased by \$20,813 to \$25,211 due primarily to extensive water well repair.
- The Sewer Fund cash balance decreased by \$6,015 to \$11,129 at June 30, 2006. The deficit was due primarily to continuing high expenses associated with complying with wastewater regulations.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget two times. The amendments were approved on May 22, 2006 and June 5, 2006 and resulted in an increase in budgeted operating disbursements of \$55,000. The increased expenditures were expected to be used largely for business type enterprises (\$35,000), public works (\$10,000) and culture and recreation (\$10,000).

DEBT ADMINISTRATION

At June 30, 2006, the City had approximately \$195,000 in bonds and other long-term debt, compared to approximately \$235,000 last year, as shown below.

Outstanding Debt at Year-End (Expressed in Thousands)		
	Year ended June 30,	
	2006	2005
General obligation bonds	\$ 70	\$ 95
Revenue notes	125	140
Total	\$ 195	\$ 235

Debt decreased as a result of paying the obligations according to the amortization schedules.

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 \$70,000 is significantly below its constitutional debt limit of \$401,000.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's management (with input from local elected officials and citizens) considered various factors when setting the fiscal year 2007 budget and fees that will be charged for city activities. General fund operations are expected to remain consistent with the previous year with improved results in the water and sewer funds. Road Use fund operations are expected to result in a surplus which is planned to eliminate the deficit fund balance.

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 Dows's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional financial information contact Jeanette Wenzel, City Clerk, PO Box 395, Dows, IA 50071-0395.

Basic Financial Statements

CITY OF DOWS, IOWA

Exhibit A

STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS

AS OF AND FOR THE YEAR ENDED JUNE 30, 2006

Functions/Programs	Program Receipts				Net(Disbursements)Receipts and Changes in Cash Basis Net Assets		
	Disbursements	Charges for Service	Operating Grants	Capital Grants	Governmental Activities	Business type Activities	Total
			Contributions and Restricted Interest	Contributions and Restricted Interest			
Governmental activities:							
Public safety	\$ 57,410	9,702	-		(47,708)		(47,708)
Public works	91,647	29,279	61,008		(1,360)		(1,360)
Culture and recreation	68,225	18,826	22,073		(27,326)		(27,326)
Debt Service	30,317	22,598	-		(7,719)		(7,719)
General government	64,180	-	-		(64,180)		(64,180)
Total governmental activities	311,779	80,405	83,081	-	(148,293)	-	(148,293)
Business type activities							
Meter deposits	603	400			-	(203)	(203)
Water	75,017	53,093			-	(21,924)	(21,924)
Wastewater	64,833	37,303			-	(27,530)	(27,530)
Total business type activities	140,453	90,796	-	-	-	(49,657)	(49,657)
Total	452,232	171,201	83,081	-	(148,293)	(49,657)	(197,950)
General Receipts:							
Property tax levied for:							
General purposes					\$ 108,421	-	108,421
Debt Service					30,354	-	30,354
Local option sales tax					35,617	-	35,617
Unrestricted interest on investments					4,637	-	4,637
Miscellaneous					25,784	1,111	26,895
Transfers					(21,515)	21,515	-
Total general receipts and transfers					183,298	22,626	205,924
Change in cash basis net assets					35,005	(27,031)	7,974
Cash basis net assets beginning of year					184,468	76,091	260,559
Cash basis net assets end of year					219,473	49,060	268,533
Cash Basis Net Assets:							
Restricted							
Streets					(2,149)	-	(2,149)
Employee benefits					66,167	-	66,167
Debt Service					20,705	-	20,705
Library					81,952	-	81,952
Other Purposes					27,559	-	27,559
Unrestricted					25,239	49,060	74,299
					\$ 219,473	49,060	268,533

See Notes to Financial Statements

CITY OF DOWS, IOWA

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES
 GOVERNMENTAL FUNDS
 AS OF AND FOR THE YEAR ENDED JUNE 30, 2006

	SPECIAL			
	General	Road Use Tax	Employee Benefits	Library Trust
Receipts:				
Property tax	\$ 82,983	-	23,358	-
Other city tax	35,617	-	-	-
Licenses and permits	1,984	-	-	-
Use of money and property	1,770	-	-	1,475
Intergovernmental	22,073	61,008	-	-
Charges for service	57,807	-	-	-
Miscellaneous	20,175	5,017	-	-
Total receipts	<u>222,409</u>	<u>66,025</u>	<u>23,358</u>	<u>1,475</u>
Disbursements:				
Operating:				
Public Safety	55,039	-	-	-
Public Works	13,826	72,551	5,270	-
Culture & Recreation	65,873	-	2,352	-
General government	59,970	-	4,210	-
Debt Service	-	-	-	-
Total Disbursements	<u>194,708</u>	<u>72,551</u>	<u>11,832</u>	<u>-</u>
Excess (deficiency) of receipts over (under) disbursements	27,701	(6,526)	11,526	1,475
Other financing sources (uses)				
Transfers in	-	-	-	-
Transfers out	-	-	-	-
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	27,701	(6,526)	11,526	1,475
Cash balances beginning of year	(2,462)	4,377	54,641	80,477
Cash balances end of year	<u>\$ 25,239</u>	<u>(2,149)</u>	<u>66,167</u>	<u>81,952</u>
Cash Basis Fund Balances				
Reserved for debt service	-	-	-	-
Unreserved:				
General fund	25,239	-	-	-
Special revenue funds	-	(2,149)	66,167	81,952
Permanent fund	-	-	-	-
Total cash basis fund balances	<u>\$ 25,239</u>	<u>(2,149)</u>	<u>66,167</u>	<u>81,952</u>

See Notes of Financial Statements

<u>REVENUE</u>				
Emergency	Debt Service	Permanent Fairview Cemetery		Total
2,080	30,354	-		138,775
-	-	-		35,617
-	-	-		1,984
-	-	-		3,245
-	-	-		83,081
-	22,598	-		80,405
-	-	-		25,192
<u>2,080</u>	<u>52,952</u>	<u>-</u>		<u>368,299</u>
2,371	-	-		57,410
-	-	-		91,647
-	-	-		68,225
-	-	-		64,180
-	30,317	-		30,317
<u>2,371</u>	<u>30,317</u>	<u>-</u>		<u>311,779</u>
(291)	22,635	-		56,520
-	-	-		-
-	(21,515)	-		(21,515)
-	(21,515)	-		(21,515)
(291)	1,120	-		35,005
<u>7,080</u>	<u>19,585</u>	<u>20,770</u>		<u>184,468</u>
<u>6,789</u>	<u>20,705</u>	<u>20,770</u>		<u>219,473</u>
-	20,705	-		20,705
-	-	-		25,239
6,789	-	-		152,759
-	-	20,770		20,770
<u>6,789</u>	<u>-</u>	<u>20,770</u>		<u>219,473</u>

CITY OF DOWS, IOWA

Exhibit C

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES
 PROPRIETARY FUNDS
 AS OF AND FOR THE YEAR ENDED JUNE 30, 2006

	Water	Wastewater	Meter Deposits	Total
Operating receipts:				
Charges for service	\$ 53,093	\$ 37,303	400	90,796
Miscellaneous	1,111	-	-	1,111
Total operating receipts	<u>54,204</u>	<u>37,303</u>	<u>400</u>	<u>91,907</u>
Operating disbursements:				
Business type activities	75,017	64,833	603	140,453
Total operating disbursements	<u>75,017</u>	<u>64,833</u>	<u>603</u>	<u>140,453</u>
(Deficiency) of operating receipts (under) operating disbursements	(20,813)	(27,530)	(203)	(48,546)
Other financing sources				
Transfers in	-	21,515	-	21,515
	<u>-</u>	<u>21,515</u>	<u>-</u>	<u>21,515</u>
(Deficiency) of operating receipts and other financing sources (under) disbursements	(20,813)	(6,015)	(203)	(27,031)
Cash balances beginning of year	46,024	17,144	12,923	76,091
Cash balances end of year	<u>\$ 25,211</u>	<u>11,129</u>	<u>12,720</u>	<u>\$ 49,060</u>
Cash Basis Fund Balances				
Reserved for debt service	-	-	-	-
Unreserved	25,211	11,129	12,720	49,060
Total cash basis fund balances	<u>\$ 25,211</u>	<u>\$ 11,129</u>	<u>12,720</u>	<u>49,060</u>

See Notes of Financial Statements

CITY OF DOWS, IOWA

NOTES TO FINANCIAL STATEMENTS

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

The City of Dows is a political subdivision of the State of Iowa located in Wright and Franklin Counties. It was first incorporated in 1880 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, culture, recreation, and general government services. The City also provides water and wastewater utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, City of Dows has included all funds, organizations, account groups, agencies, boards, commissions and authorities. The City has also considered all other 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 units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations

The City also 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: Wright County Conference Board, Franklin County Conference Board, Wright County Emergency Management Commission, Franklin County E911 Service Board, Wright County E911 Service Board, Wright County Communications, Wright County Landfill, and Dows Rural Fire Association.

B. Basis of Presentation

Government-wide Financial Statements – The Statement of Activities and Net Assets – Cash Basis reports information on all 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.

This Statement of Activities and Net Assets Cash Basis presents the City's nonfiduciary net assets. Net assets are reported in two categories:

CITY OF DOWS, IOWA

NOTES TO FINANCIAL STATEMENTS

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

Restricted net assets result when constraints placed on net assets 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.

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 Employee Benefits fund is used to account for property taxes received and expended for the City's employees' benefits.

The Library Trust fund is used to account for temporarily restricted deposits which are to be used for library building needs and library operations.

Debt Service

The Debt Service fund is used to account for the property tax received to pay for the City's general obligation debt.

CITY OF DOWS, IOWA

NOTES TO FINANCIAL STATEMENTS

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

Permanent Fund:

The Fairview Cemetery fund is used to account for the funds that are set aside permanently to provide interest earnings to assist in caring for the cemetery.

The City reports the following major proprietary funds:

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

The Wastewater Fund accounts for operation and maintenance of the City's wastewater treatment.

C. Measurement Focus and Basis of Accounting

The City of Dows 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 the 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 at June 30, 2006 (which include certificates of deposit totaling \$62,000) 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; and certain joint investment trusts and warrants or improvement certificates of a drainage district.

CITY OF DOWS, IOWA

NOTES TO FINANCIAL STATEMENTS

(2) **Cash and Investments - continued**

At June 30, 2006, the City had the following investments:

TYPE	Carrying Value	Fair Value	Maturity
HSBC Finance Corp.	\$ 17,000	\$ 16,745	March 2007

Interest Rate Risk

The City's investment policy limits investment of operating funds (fund 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.

Interest received on cash balances of the City of Dows amounted to \$4,637 for the year ended June 30, 2006. These receipts are included under Use of Money and Property for Governmental Funds. During the year, the city sold investments recognizing a loss on the sale of \$1,392. The loss offsets the Use of Money and Property receipts on Exhibit B and as Miscellaneous receipts on Exhibit A.

Credit Risk – The City's investment listed above has a credit rating of AA-/Aa3. It also represents 6.3% of the City's total cash and investments.

(3) **Bonds and Notes Payable**

Annual debt service requirements to maturity for general obligation, urban renewal tax increment financing revenue bonds, revenue notes and other long-term debt are as follows:

Year Ending	General Obligation		Revenue Notes		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2007	25,000	3,773	20,000	5,594	45,000	9,367
2008	15,000	2,228	20,000	4,621	35,000	6,849
2009	15,000	1,485	20,000	3,648	35,000	5,133
2010	15,000	743	20,000	2,675	35,000	3,418
2011	-	-	20,000	1,702	20,000	1,702
2012	-	-	25,000	608	25,000	608
	70,000	8,229	125,000	18,848	195,000	27,077

CITY OF DOWS, IOWA

NOTES TO FINANCIAL STATEMENTS

(3) Bonds and Notes Payable - continued

Interest payments of \$11,163 were included as program disbursements in the City's statement of activities and net assets

(4) Pension and Retirement Benefits

The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Most regular plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2006, 2005 and 2004 were \$4,352, \$1,887 and \$3,651, respectively, equal to the required contributions for each year.

(5) Compensated Absences

City employees accumulate vacation and sick leave hours for subsequent use. Earned vacation is paid when used or when employment is terminated. Personal hours are not paid upon termination of employment. Sick leave is paid when used.

These accumulations are not recognized as expenditures by the City until they are paid. The City's approximate maximum liability for unrecognized accrued employee benefits, primarily relating to the General Fund, is as follows:

<u>Type of Benefit</u>	<u>Amount</u> <u>6-30-06</u>
Sick pay & personal days	\$ 2,902
Vacation pay	<u>1,927</u>
TOTAL	<u>\$ 4,829</u>

CITY OF DOWS, IOWA

NOTES TO FINANCIAL STATEMENTS

(6) Interfund Transfers

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

Transfer In	Transfer From	Amount
Enterprise Funds Wastewater	Debt Service	\$ 21,151

All transfers were made with prior approval of the City Council and generally move resources from the fund statutorily required to collect the resource to the fund statutorily required to disburse the resources.

(7) Risk Management

The City of Dows 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. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(8) Property Taxes

Property taxes are recognized as income when received in accordance with the cash basis of accounting. The property tax calendar is as follows for the City of Dows. Property taxes become liens on property as of July 1, 2005 and are payable in September and March of the fiscal year. The valuation for the taxes was based on January 1, 2005 assessed property valuations, and are based on a certified budget from March of 2005.

(9) Deficit Fund Balance

At June 30, 2006 the Road Use Fund had a deficit fund balance of \$2,049. The City is considering alternatives including transfers and future expense reductions to eliminate this deficit.

(10) Accounting Change

Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*; Statement No. 37, *Basic Financial Statements – and Management’s Discussion and Anaysis – for State and Local Governments: Omnibus*; Statement No. 38, *Certain Financial Statement Note Disclosures*; and Statement No. 41, *Budgetary Comparison Schedule – Perspective Differences*, were implemented

CITY OF DOWS, IOWA

NOTES TO FINANCIAL STATEMENTS

(11) Accounting Change - continued

for the year ended June 30, 2006. The statements create new basic financial statements for reporting the City's financial activities. The financial statements now include a government wide financial statement and fund financial statements which present information for individual major funds rather than by fund type.

The government-wide financial statement reports the City's governmental and business type activities.

Required Supplementary Information

CITY OF DOWS, IOWA

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

REQUIRED SUPPLEMENTARY INFORMATION
Year Ended June 30, 2006

	Governmental Funds Activity	Proprietary Funds Activity	Less Funds not Required to be Budgeted	Net
Receipts:				
Property tax	\$ 138,775	-	-	138,775
Other city tax	35,617	-	-	35,617
Licenses and permits	1,984	-	-	1,984
Use of money and property	3,245	-	-	3,245
Intergovernmental	83,081	-	-	83,081
Charges for service	80,405	90,796	-	171,201
Miscellaneous	25,192	1,111	-	26,303
Total receipts	368,299	91,907	-	460,206
Disbursements:				
Program				
Public Safety	57,410	-	-	57,410
Public Works	91,647	-	-	91,647
Culture & Recreation	68,225	-	-	68,225
General government	64,180	-	-	64,180
Debt Service	30,317	-	-	30,317
Business type activities	-	140,453	-	140,453
Total Disbursements	311,779	140,453	-	452,232
Excess (deficiency) of receipts over disbursements	56,520	(48,546)	-	7,974
Other financing sources (uses)	(21,515)	21,515	-	-
Excess (disbursements) of receipts and other financing sources over (under) disbursements and other financing uses	35,005	(27,031)	-	7,974
Balance - beginning of year	184,468	76,091	-	260,559
Balance - end of year	\$ 219,473	49,060	-	268,533

See Accompanying Independent Auditor's Report

Budgeted Amounts

Original	Final	Final to Net Variance
129,523	129,523	9,252
46,747	46,747	(11,130)
2,050	2,050	(66)
1,076	1,076	2,169
79,926	79,926	3,155
142,400	142,400	28,801
47,584	47,584	(21,281)
449,306	449,306	10,900
67,366	67,366	9,956
89,840	99,840	8,193
68,146	78,146	9,921
75,600	75,600	11,420
30,318	30,318	1
116,030	151,030	10,577
447,300	502,300	50,068
2,006	(52,994)	(39,168)
-	-	-
2,006	(52,994)	(39,168)
85,575	85,575	174,984
87,581	32,581	135,816

CITY OF DOWS, IOWA

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING

June 30, 2006

The budgetary comparison is presented as Required Supplementary Information in accordance With Governmental Accounting Standards Board Statement No.41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund, each major Special Revenue Fund and each major Debt Service 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 non-program. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds 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, two budget amendments increased budgeted disbursements by \$55,000. The budget amendments are reflected in the final budgeted amounts.

Other Supplementary Information

CITY OF DOWS, IOWA

Schedule 1

SCHEDULE OF INDEBTNESS

Year Ended June 30, 2006

Obligation	Date Issued	Interest Rate	Amount Original Issue	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
General Obligation bonds									
Capital Loan Notes, Series 1999	December 1, 1999	4.95%	\$ 115,000	\$ 65,000	-	10,000	55,000	3,218	-
General Obligation Bonds - 1991	June 1, 1991	6.00-8.00%	\$ 150,000	30,000	-	15,000	15,000	2,100	-
				<u>95,000</u>	<u>-</u>	<u>25,000</u>	<u>70,000</u>	<u>5,318</u>	
Revenue bonds/notes:									
1990 Sewer Revenue Loans Series 2001	December 28, 1990	3.00%	\$ 310,000	140,000	-	15,000	125,000	6,445	-
				<u>140,000</u>	<u>-</u>	<u>15,000</u>	<u>125,000</u>	<u>6,445</u>	<u>-</u>

See Accompanying Independent Auditor's Report

CITY OF DOWS, IOWA

Schedule 2

Bond & Note Maturities
June 30, 2006

Year Ending	Capital Loan Notes		General Obligation Bonds		1990 Sewer Revenue Bonds Series 2001**	
	Issued December 1, 1999		Issued June 1, 1991		Issued December 28, 1990	
	Interest Rate	Amount	Interest Rate	Amount	Interest Rate	Amount
2007	4.95%	10,000	7.00%	15,000	3.00%	20,000
2008	4.95%	15,000	-	-	3.00%	20,000
2009	4.95%	15,000	-	-	3.00%	20,000
2010	4.95%	15,000	-	-	3.00%	20,000
2011	-	-	-	-	3.00%	20,000
2012	-	-	-	-	3.00%	25,000
		<u>\$ 55,000</u>		<u>\$ 15,000</u>		<u>\$ 125,000</u>

** Effective May 15, 2006 the interest on the 1990 Sewer Revenue Loan Series 2001 was amended from 4.864% to 3.00%

CITY OF DOWS, IOWA

Schedule 3

Schedule of Receipts by Source and Disbursements by Function
All Governmental Funds

	<u>2006</u>
Receipts:	
Property tax	\$ 138,775
Other city tax	35,617
Licenses and permits	1,984
Use of money and property	3,245
Intergovernmental	83,081
Charges for service	80,405
Miscellaneous	25,192
Total receipts	<u>368,299</u>
Disbursements:	
Operating:	
Public Safety	57,410
Public Works	91,647
Culture & Recreation	68,225
General government	64,180
Debt Service	30,317
Total Disbursements	<u>\$ 311,779</u>

See Accompanying Independent Auditor's Report

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance
and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with Governmental Auditing Standards

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the remaining fund information of the City of Dows, as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements listed in the table of contents and have issued our report thereon dated September 8, 2006. Our report expressed a qualified opinion (due to the inability to verify the distribution of fund balance by fund) on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. Our report also noted the adoption of GASB-34 for the year ended June 30, 2006. 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 Dows internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of Dows ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are 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.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, the reportable conditions described at II-A-06, II-B-06, and II-C-06 are material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Dows' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance 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 noncompliance that are described in Part III of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City of Dows' operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Dows and other parties to whom the City of Dows may report including federal awarding agencies and pass-through entities. This report is not intended for 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 the personnel of the City of Dows during the course of our audit. Should you have any questions concerning any of the above matters, we would be pleased to discuss them with you at your convenience.

T.P. Anderson & Company, P.C.

September 8, 2006

CITY OF DOWS, IOWA

SCHEDULE OF FINDINGS

Year Ended June 30, 2006

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

- (a) A qualified opinion was issued on financial statements because the distribution of fund balance had not been audited for all prior years. The City adopted GASB-34 reporting during the year. 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 principals.
- (b) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, including material weaknesses.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.

CITY OF DOWS

SCHEDULE OF FINDINGS

Year Ended June 30, 2006

Part II: Findings Related to the Financial Statements

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

II-A-06 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. We noted that substantially all of the accounting functions are handled by the same person.

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

Response - We believe that we are close to the maximum degree of segregation of duties possible with the limited number of office employees. We will investigate additional procedures to cost effectively improve internal control.

Conclusion - 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.

II-B-06 Reconciliation of utility Billings and Collections – Utility billings and collections were not reconciled monthly throughout the whole year.

Recommendation – Procedures should be established to reconcile utility billings and collections for each billing period. The Council or a Council designated independent person should review the accuracy and timeliness of the reconciliation's.

Response – We will implement procedures to reconcile our utility billings and collections in a timely manner.

Conclusion – Response accepted.

CITY OF DOWS, IOWA

SCHEDULE OF FINDINGS

Year Ended June 30, 2006

Part II: Findings Related to the Financial Statements - continued

II-C-06 Decentralized investments and records – We noted during our audit that the library had funds which were invested (under the City’s federal identification number) in various accounts not accounted for or regularly reported on by the city clerk.

Recommendation – In order to improve controls over these funds through added oversight and regular centralized accounting, we recommend these investments be accounted for by the city clerk and reported to the city council and library board on regular monthly clerk’s reports. There are also legal compliance requirements set out in the Code of Iowa that apply to the library’s investments which the clerk is familiar with and can relay to those in charge of investing these funds.

Response – We will work with the library board to encourage centralized accounting and regular reporting of all investments.

Conclusion – Response accepted.

Part III: Other Findings Related to Statutory Reporting:

III-A-06 Official Depositories – A resolution naming official depositories has been approved by the City. We noted certain cash and investments on deposit with an investment company not listed on the City’s depository resolution. The maximum deposit amounts stated in the resolution were exceeded during the year ended June 30, 2006.

Recommendation – Chapter 12C.2 of the Code of Iowa states “the approval of a financial institution as a depository of public funds shall be by written resolution” and “shall distinctly name each depository approved, and specify the maximum amount that may be kept on deposit in each depository.” The city should review all money on deposit and amend the depository resolution to include all financial institutions and increase the maximum limits that may be kept on deposit to comply with the Code of Iowa.

Response – We will amend our depository resolution in order to comply with the Code of Iowa.

Conclusion – Response accepted.

III-B-06 Certified Budget - Disbursements were within budgeted limits for all program service areas for the year ended June 30, 2006.

CITY OF DOWS, IOWA

SCHEDULE OF FINDINGS

Year Ended June 30, 2006

III-C-06 Questionable Disbursement - We noted no questionable disbursements in regard to the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

III-D-06 Travel Expense - No disbursements of City money for travel expense of spouses of City officials or employees were noted.

III-E-06 Business Transactions - No business transactions between the City and its officials or employees were noted.

III-F-06 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.

III-G-06 Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not. We did note one instance where the minutes were not published within 15 days of the meeting.

Recommendation - Chapter 372.13(6) requires that council meetings minutes be published within 15 days of the meeting date. City council minutes should be published in accordance with the Code of Iowa.

Response – We will publish minutes of the City Council meetings in accordance with the Code of Iowa.

Conclusion – Response accepted.

III-H-06 Deposits and Investments – We noted the City had investments in certificates of deposit with two banks not located in Wright or Franklin Counties. We also noted that in March of 2006, City funds were invested in short-term corporate debt that matures 357 days from the date of purchase.

Recommendation – Chapter 12C.4 of the Code of Iowa requires that deposits by a city treasurer or city financial officer be “located in the county in which the city is located or in an adjoining county.” The City should review all invested monies and ensure they are on deposit in accordance with the Code of Iowa.

The City’s investment policy allows investments in “short-term corporate debt that matures within 270 days of purchase.” As soon as is possible without causing a loss of principal, the City should invest all money in accordance with its investment policy.

CITY OF DOWS, IOWA

SCHEDULE OF FINDINGS

Year Ended June 30, 2006

III-H-06 Deposits and Investments –continued

Response – We will review all of the City’s investments and appropriate measures will be taken to bring them all into compliance with the Code of Iowa and the City’s investment policy.

Conclusion – Response accepted.

III-I-05 Revenue Bonds and Notes – The city has complied with all revenue bond and note resolutions.

IV-J-05 Payment of General Obligation Bonds – General Obligation Notes were paid from the Debt Service Fund as required by Chapter 384.4 of the Code of Iowa.