

CITY OF DUNLAP

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

JUNE 30, 2007

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**CITY OF DUNLAP
OFFICIALS**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Curt Kline	Mayor	January 2008
Jay Schaben	Mayor Pro-tem / Council Member	January 2008
Rich Cline	Council Member	January 2010
Terry Donscheski	Council Member	January 2008
Nick Gambs	Council Member	January 2010
Bob Steele	Council Member	January 2010
Nancy Baker	City Clerk	Indefinite
Warren Bush	City Attorney / City Treasurer	Indefinite

MUXFELDT

ASSOCIATES, CPA, P.C.

Certified Public Accountant

December 20, 2007

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 Dunlap, Iowa, as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City'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 opinion.

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.

In my opinion, 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 Dunlap, Iowa as of June 30, 2007, 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.

Continued . . .

Lonnie G. Muxfeldt
Certified Public
Accountant

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Iowa
Missouri

December 20, 2007

To the Honorable Mayor and
Members of the City Council:
Page Two

In accordance with *Government Auditing Standards*, I have also issued my report dated December 20, 2007 on my consideration of the City of Dunlap's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements 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 6 through 9, and 27 through 28 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. I have applied certain 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 Dunlap's basic financial statements. The financial statements for the three years ended June 30, 2006, (which are not presented herein) were not audited. 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.


M. J. H. Associates, CPA, P.C.

CITY OF DUNLAP

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2007

As management of the City of Dunlap, Iowa we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the year ended June 30, 2007.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's statements include three components: 1) a cash basis government-wide financial statement, 2) cash basis fund financial statements, and 3) notes to the financial statements.

Government-wide financial statement: This statement consists of a Statement of Activities and Net Assets and provides information about the activities of the City as a whole and presents an overall view of the City's finances.

Fund financial statements: The financial statement for governmental funds is the statement of cash receipts, disbursements and changes in cash balances. It is organized by funds. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities. The City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. 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, Local Option Tax, and Urban Renewal Tax Increment Financing, 3) Debt Service Fund, and 4) the Capital Projects Funds. 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.
- 2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains three Enterprise Funds to provide separate information for the water, sewer and sanitation funds.

Notes to the financial statements: The notes provide additional information that is essential to a full understanding of the data provided in the financial statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Analysis of significant changes in financial position and fund balances: The cash balances of the City's governmental activities increased 54.8% from June 30, 2006, increasing from \$202,945 to \$314,168 for a net change of \$111,223 during the year ended June 30, 2007.

The following are the changes in the cash balances of the City's governmental activities:

Changes in Cash Basis Net Assets of Governmental Activities	
	Year Ended June 30, 2007
Receipts:	
Program receipts:	
Charges for services	\$ 38,499
Operating grants, contributions and restricted interest	139,009
Capital grants, contributions and restricted interest	488,952
General receipts:	
Property tax	379,177
Local option sales tax	58,315
Unrestricted investment earnings	8,495
Miscellaneous	6,597
Loan proceeds	54,300
Transfers	7,500
Total receipts	<u>1,180,844</u>
Disbursements:	
Public safety	132,103
Public works	98,862
Culture and recreation	95,302
Community and economic development	2,000
General government	109,738
Debt service	144,585
Capital projects	487,031
Total disbursements	<u>1,069,621</u>
Change in cash basis net assets before transfers	
Transfers, net	<u>111,223</u>
Change in cash basis net assets	
Cash basis net assets, beginning of year	<u>202,945</u>
Cash basis net assets, end of year	<u>\$ 314,168</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

The cash basis of the net assets of the City's business type activities decreased \$73,819 during the year ended June 30, 2007. This 55 % decrease is primarily due to sewer lagoon improvements.

The following are the changes in the cash basis of the net assets of the City's business type activities:

Changes in Cash Basis Net Assets of Business Type Activities	
	Year Ended June 30, 2007
Receipts:	
Program receipts:	
Charges for services and sales:	
Water	\$ 137,937
Sewer	57,409
Sanitation	56,574
Total receipts	<u>251,920</u>
Disbursements:	
Water	231,352
Sewer	109,166
Sanitation	60,177
Total disbursements	<u>400,695</u>
Change in cash basis net assets before transfers	(148,775)
Loan proceeds	82,456
Transfers, net	(7,500)
Change in cash basis net assets	<u>(73,819)</u>
Cash basis net assets, beginning of year	<u>135,281</u>
Cash basis net assets, end of year	<u>\$ 61,462</u>

Analysis between actual and budget amounts: The City amended its budget on December 13, 2006 and May 29, 2007.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Debt Administration: At June 30, 2007, the City had \$706,249 in notes and other long-term debt compared to \$701,609 as of June 30, 2006, as shown below.

Outstanding Debt			
	Year Ended June 30, 2007		Year Ended June 30, 2006
General obligation notes	\$ 408,044	\$	394,934
Urban renewal TIF notes	198,565		138,217
Revenue notes	95,000		173,098
Total	\$ 701,609	\$	706,249

Scheduled principal payments for the year ended June 30, 2007 were \$132,117. The street truck note was paid off.

Future financial statement impact: Budgeted receipts for FY 2008 are \$1,027,890. Budgeted disbursements are \$1,044,194. The budgeted net decrease to cash balances is \$16,304.

Requests for information: Requests for additional information can be made to the Dunlap City Clerk, Nancy Baker at 716 Iowa Avenue, Dunlap, Iowa 51529.

BASIC FINANCIAL STATEMENTS

CITY OF DUNLAP

STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS

AS OF AND FOR THE YEAR ENDED JUNE 30, 2007

	Program Receipts			
Disbursements	Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	
Functions / Programs:				
Governmental activities:				
Public safety	\$ 132,103	\$ 4,505	\$ 19,833	\$ -0-
Public works	98,862	-0-	97,992	-0-
Cultures and recreation	95,302	27,150	6,804	-0-
Community and economic development	2,000	-0-	300	-0-
General government	109,738	6,844	-0-	-0-
Debt service	144,585	-0-	14,080	-0-
Capital projects	487,031	-0-	-0-	488,952
Total governmental activities	1,069,621	38,499	139,009	488,952
Business type activities:				
Water	231,352	137,937	-0-	-0-
Sewer	109,166	57,409	0-	0-
Sanitation	60,177	56,574	-0-	-0-
Total business type activities	400,695	251,920	-0-	-0-
Total	\$ 1,470,316	\$ 290,419	\$ 139,009	\$ 488,952

General receipts:

Property taxes levied for:

- General purposes
- Debt service
- Tax increment financing

Local option sales tax
 Unrestricted investment earnings
 Miscellaneous
 Loan proceeds
 Transfers
 Total general receipts

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
- Debt service
- Library

Unrestricted
Total cash basis net assets

See notes to financial statements.

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

Governmental Activities	Business Type Activities	Total
\$ (107,765)	\$ -0-	\$ (107,765)
(870)	-0-	(870)
(61,348)	-0-	(61,348)
(1,700)	-0-	(1,700)
(102,894)	-0-	(102,894)
(130,505)	-0-	(130,505)
1,921	-0-	1,921
<u>(403,161)</u>	<u>-0-</u>	<u>(403,161)</u>
-0-	(93,415)	(93,415)
-0-	(51,757)	(51,757)
-0-	(3,603)	(3,603)
<u>-0-</u>	<u>(148,775)</u>	<u>(148,775)</u>
270,832	-0-	270,832
46,300	-0-	46,300
62,045	-0-	62,045
58,315	-0-	58,315
8,495	-0-	8,495
6,597	-0-	6,597
54,300	82,456	136,756
7,500	(7,500)	-0-
<u>514,384</u>	<u>74,956</u>	<u>589,340</u>
111,223	(73,819)	37,404
<u>202,945</u>	<u>135,281</u>	<u>338,226</u>
\$ <u>314,168</u>	\$ <u>61,462</u>	\$ <u>375,630</u>
\$ 108,033	\$ -0-	\$ 108,033
61,373	-0-	61,373
45,087	-0-	45,087
19,477	-0-	19,477
80,198	61,462	141,660
\$ <u>314,168</u>	\$ <u>61,462</u>	\$ <u>375,630</u>

CITY OF DUNLAP

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
GOVERNMENTAL FUNDS**

AS OF AND FOR THE YEAR ENDED JUNE 30, 2007

	Special Revenue			
	General	Road Use Tax	Local Option	TIF
Receipts:				
Property tax	\$ 193,336	\$ -0-	\$ -0-	\$ -0-
Tax increment financing	-0-	-0-	-0-	62,045
Other city taxes	-0-	-0-	58,315	-0-
Licenses and permits	5,435	-0-	-0-	-0-
Use of money and property	10,044	-0-	-0-	-0-
Intergovernmental	25,584	94,930	-0-	-0-
Charges for service	14,989	-0-	-0-	-0-
Miscellaneous	20,476	-0-	-0-	-0-
Total receipts	<u>269,864</u>	<u>94,930</u>	<u>58,315</u>	<u>62,045</u>
Disbursements:				
Public safety	109,241	-0-	-0-	-0-
Public works	19,120	61,678	-0-	-0-
Culture and recreation	89,695	-0-	-0-	-0-
Community and economic development	2,000	-0-	-0-	-0-
General government	89,682	-0-	-0-	-0-
Debt service	-0-	-0-	-0-	-0-
Capital projects	-0-	-0-	-0-	-0-
Total disbursements	<u>309,738</u>	<u>61,678</u>	<u>-0-</u>	<u>-0-</u>
Excess (deficiency) of receipts over (under) disbursements	(39,874)	33,252	58,315	62,045
Other financing sources (uses):				
Note Proceeds	-0-	-0-	-0-	-0-
Operating transfer in	10,562	-0-	-0-	-0-
Operating transfers out	-0-	(5,088)	(24,269)	(55,920)
Total other financing sources (uses)	<u>10,562</u>	<u>(5,088)</u>	<u>(24,269)</u>	<u>(55,920)</u>
Net change in cash balances	(29,312)	28,164	34,046	6,125
Cash balances, beginning of year	<u>(20,639)</u>	<u>79,869</u>	<u>101,697</u>	<u>55,248</u>
Cash balances, end of year	\$ <u>(49,951)</u>	\$ <u>108,033</u>	\$ <u>135,743</u>	\$ <u>61,373</u>

See notes to financial statements.

EXHIBIT A

Debt Service	Capital Projects			Non-major	Total
	Wellness Center	Sports Complex			
\$ 46,300	\$ -0-	\$ -0-	\$ 77,496	\$ 317,132	
-0-	-0-	-0-	-0-	62,045	
-0-	-0-	-0-	-0-	58,315	
-0-	-0-	-0-	-0-	5,435	
-0-	-0-	-0-	-0-	10,044	
14,080	-0-	220,000	3,062	357,656	
-0-	4,000	-0-	-0-	18,989	
-0-	225,952	43,000	-0-	289,428	
<u>60,380</u>	<u>229,952</u>	<u>263,000</u>	<u>80,558</u>	<u>1,119,044</u>	
-0-	-0-	-0-	22,862	132,103	
-0-	-0-	-0-	18,064	98,862	
-0-	-0-	-0-	5,607	95,302	
-0-	-0-	-0-	-0-	2,000	
-0-	-0-	-0-	20,056	109,738	
144,585	-0-	-0-	-0-	144,585	
-0-	148,889	338,142	-0-	487,031	
<u>144,585</u>	<u>148,889</u>	<u>338,142</u>	<u>66,589</u>	<u>1,069,621</u>	
(84,205)	81,063	(75,142)	13,969	49,423	
-0-	-0-	54,300	-0-	54,300	
85,277	-0-	-0-	-0-	95,839	
-0-	-0-	-0-	(3,062)	(88,339)	
<u>85,277</u>	<u>-0-</u>	<u>54,300</u>	<u>(3,062)</u>	<u>61,800</u>	
1,072	81,063	(20,842)	10,907	111,223	
44,015	(69,267)	10,818	1,204	202,945	
<u>\$ 45,087</u>	<u>\$ 11,796</u>	<u>\$ (10,024)</u>	<u>\$ 12,111</u>	<u>\$ 314,168</u>	

CITY OF DUNLAP

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
PROPRIETARY FUNDS**

AS OF AND FOR THE YEAR ENDED JUNE 30, 2007

	Enterprise			
	Water	Sewer	Landfill	Total
Operating receipts:				
Charges for services	\$ 135,651	\$ 50,969	\$ 56,574	\$ 243,194
Total operating receipts				
Operating disbursements:				
Business type activities	231,352	109,166	60,177	400,695
Total operating disbursements				
Excess (deficiency) of operating receipts over (under) operating disbursements	(95,701)	(58,197)	(3,603)	(157,501)
Non-operating receipts (disbursements)				
Customer deposits	945	-0-	-0-	945
Miscellaneous	1,341	6,440	-0-	7,781
Loan proceeds	82,456	-0-	-0-	82,456
Net non-operating disbursements	84,742	6,440	-0-	91,182
Excess (deficiency) of receipts over (under) disbursements	(10,959)	(51,757)	(3,603)	(66,319)
Operating transfers out	(7,500)	-0-	-0-	(7,500)
Net change in cash balances	(18,459)	(51,757)	(3,603)	(73,819)
Cash balances, beginning of year	77,164	44,800	13,317	135,281
Cash balances, end of year	\$ 58,705	\$ (6,957)	\$ 9,714	\$ 61,462

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

CITY OF DUNLAP
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Dunlap is a political subdivision of the State of Iowa located in Harrison County. It was first incorporated in 1871 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 and recreation, community and economic development, and general government services. The City also provides water, sewer and sanitation utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Dunlap 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 units which meet the Government Accounting Standards Board criteria.

B. Basis of Presentation

Government-wide Financial Statement - The Statement of Activities and Net Assets reports information on all of the non-fiduciary activities of the City. For the most part, the effect of inter-fund 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 relay to a significant extent on fees and charges for services.

The Statement of Activities and Net Assets presents the City's non-fiduciary net assets. Net assets are reported in two categories:

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

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

CITY OF DUNLAP
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd.)

B. Basis of Presentation (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 non-major 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 capital improvement costs not paid from other funds.

Special Revenue:

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

The Local Option Sales Tax Fund is used to account for special purposes such as the library improvements.

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

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

CITY OF DUNLAP
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Basis of Presentation (continued)

The Capital Projects Funds are utilized to account for capital projects such as the Wellness Center and the Youth Sports Complex.

The City reports the following major proprietary funds:

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

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

C. Measurement Focus and Basis of Accounting

The City of Dunlap 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. During the year ended June 30, 2007, disbursements exceeded the amounts budgeted in the debt service function.

CITY OF DUNLAP
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 2 CASH AND POOLED INVESTMENTS

The City's deposits in banks at June 30, 2007, 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.

At June 30, 2007, the City's deposits consisted of cash in bank and certificates of deposit as follows:

Cash in bank	\$	353,478
Certificates of deposit		<u>22,152</u>
Total	\$	<u>375,630</u>

CITY OF DUNLAP
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 3 BONDS AND NOTES PAYABLE

Annual debt service requirements to maturity of general obligation debt, urban renewal tax increment financing revenue notes and sewer revenue notes are as follows:

Year Ending June 30,	General Obligation Notes		Urban Renewal Tax Increment Financing (TIF) Revenue Notes	
	Principal	Interest	Principal	Interest
2008	\$ 69,536	\$ 14,081	\$ 54,339	\$ 1,481
2009	71,815	11,511	25,948	1,122
2010	72,431	8,882	26,326	744
2011	61,244	6,308	19,104	347
2012	41,396	4,022	12,500	-0-
2013	42,298	2,655	-0-	-0-
2014	19,923	1,343	-0-	-0-
2015	5,430	839	-0-	-0-
2016	5,430	559	-0-	-0-
2017	5,430	280	-0-	-0-
2018	-0-	-0-	-0-	-0-
2019	-0-	-0-	-0-	-0-
2020	-0-	-0-	-0-	-0-
2021	-0-	-0-	-0-	-0-
Total	\$ 394,933	\$ 50,480	\$ 138,217	\$ 3,694

Year Ending June 30,	Sewer Revenue Notes		Total	
	Principal	Interest	Principal	Interest
2008	\$ 10,582	\$ 7,142	\$ 134,457	\$ 22,704
2009	10,818	6,726	108,581	19,359
2010	12,066	6,298	110,823	15,924
2011	12,327	5,827	92,676	12,482
2012	12,601	5,342	66,497	9,364
2013	12,890	4,844	55,187	7,499
2014	13,193	4,331	33,116	5,674
2015	14,512	3,802	19,942	4,641
2016	14,847	3,226	20,277	3,785
2017	15,200	2,634	20,630	2,914
2018	15,571	2,023	15,571	2,023
2019	11,417	1,393	11,417	1,393
2020	8,371	879	8,371	879
2021	8,704	448	8,704	448
Total	\$ 173,099	\$ 54,915	\$ 706,249	\$ 109,089

CITY OF DUNLAP
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 3 BONDS AND NOTES PAYABLE (Continued)

The Code of Iowa requires that principal and interest on general obligation notes be paid from the Debt Service Fund.

The urban renewal tax increment financing revenue notes were issued for the purpose of defraying a portion of the costs of carrying out an urban renewal project of the city. The notes are payable solely from the income and proceeds of the Urban Renewal Tax Increment Fund and the taxes to be paid into the fund in accordance with Chapter 403.19 of the Code of Iowa. The proceeds of the urban renewal tax increment financing revenue notes shall be expended only for purposes which are consistent with the plans of the City's urban renewal area. The notes are not a general obligation of the City. However the debt is subject to the constitutional debt limitation of the City.

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

- a) The notes will only be redeemed from the future earnings of the sewer activity and the note holders hold a lien on the future earnings of the funds.
- b) The City reserves the right to prepay principal of the notes in whole or in part in multiples of \$500 prior to maturity on any interest payment date thereafter upon terms of par and accrued interest. All principal so prepaid shall cease to bear interest on the prepayment date.

NOTE 4 PENSION AND RETIREMENT BENEFITS

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

Most regular plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the year ended June 30, 2007 were \$13,523, equal to the required contribution for the year.

CITY OF DUNLAP
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 5 COMPENSATED ABSENCES

City employees accumulate a limited amount of earned but unused vacation and compensatory time hours for subsequent use or for payment upon termination or death. These accumulations are not recognized as disbursements by the City until used or paid. Sick leave hours accumulate but are not payable upon termination. The City's approximate liability for earned vacation and compensatory time payable to employees at June 30, 2007, primarily relating to the General Fund, is as follows:

Vacation	\$	10,409
Compensatory time		<u>2,283</u>
Total	\$	<u>12,692</u>

This liability has been computed based on rates of pay in effect at June 30, 2007.

NOTE 6 RELATED PARTY TRANSACTIONS

The City had business transactions between the City and City officials totaling \$7,336 during the year ended June 30, 2007.

NOTE 7 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 556 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 official's liability, police professional liability, property, 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 members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

CITY OF DUNLAP
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 7 RISK MANAGEMENT (Continued)

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, if 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 contributions to the Pool for the year ended June 30, 2007 were \$32,193.

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 \$350,000 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000 per claim and \$5,000,000 in aggregate per year. For members requiring specific coverage from \$3,000,000 to \$10,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$100,000 each occurrence, each location, with excess coverage reinsured on an individual-member basis.

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 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, 2007, settled claims have not exceeded the risk pool or reinsurance 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 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 member is 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 assumes liability for any deductibles, and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in the past fiscal year ended June 30, 2007.

CITY OF DUNLAP
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 8 BUDGET OVEREXPENDITURE

Per the Code of Iowa, disbursements may not legally exceed budgeted appropriations at the functional level. During the year ended June 30, 2007, disbursements in the debt service function exceeded amounts budgeted.

NOTE 9 INTERFUND TRANSFERS

The detail of interfund transfers for the year ended June 30, 2007 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Special Revenue - FEMA	\$ 3,062
	Enterprise - Water	7,500
		<u>10,562</u>
Debt Service	Special Revenue - Road Use Tax	5,088
	Special Revenue - Local Option Tax	24,269
	Special Revenue - Urban Renewal TIF	55,920
		<u>85,277</u>
Total		<u>\$ 95,839</u>

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

NOTE 10 DEFICIT BALANCES

The detail of the deficit balances for the year ended June 30, 2007 is as follows:

<u>Fund</u>	<u>Amount</u>
General Fund	\$ 49,520
Capital Projects - Youth Sports Complex	\$ 10,024
Enterprise Fund - Sewer Utility	\$ 6,957

The Capital Projects, Youth Sports Complex Fund, will be eliminated upon completion of the project. The Enterprise Fund, Sewer Utility, will be eliminated through the collection of fees. The General Fund deficit will be eliminated through transfers.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF DUNLAP

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, 2007

	Governmental Funds Actual	Proprietary Funds Actual
Receipts:		
Property tax	\$ 317,132	\$ -0-
Tax increment financing	62,045	-0-
Other city tax	58,315	-0-
Licenses and permits	5,435	-0-
Use of money and permits	10,044	35
Intergovernmental	357,656	-0-
Charges for services	18,989	251,920
Miscellaneous	289,428	-0-
Total receipts	<u>1,119,044</u>	<u>251,920</u>
Disbursements:		
Public safety	132,103	-0-
Public works	98,862	-0-
Culture and recreation	95,302	-0-
Community and economic development	2,000	-0-
General government	109,738	-0-
Debt service	144,585	-0-
Capital projects	487,031	-0-
Business type activities	-0-	400,695
Total disbursements	<u>1,069,621</u>	<u>400,695</u>
Excess (deficiency) of receipts over (under) disbursements	49,423	(148,775)
Other financing sources, net	<u>61,800</u>	<u>74,956</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	111,223	(73,819)
Balances beginning of year	<u>202,945</u>	<u>135,281</u>
Balances end of year	<u>\$ 314,168</u>	<u>\$ 61,462</u>

See Accompanying Independent Auditor's Report.

	Total	Budgeted Amounts		Final to Total Variance
		Original	Final	
\$	317,132	\$ 313,376	\$ 313,376	\$ 3,756
	62,045	61,760	61,760	285
	58,315	63,337	63,337	(5,022)
	5,435	5,020	5,020	415
	10,044	28,456	31,456	(21,412)
	357,656	122,000	117,000	240,656
	270,909	327,250	307,250	(36,341)
	289,428	5,100	5,300	284,128
	<u>1,370,964</u>	<u>926,299</u>	<u>904,499</u>	<u>466,465</u>
	132,103	161,665	171,365	39,262
	98,862	113,600	115,600	16,738
	95,302	90,950	98,450	3,148
	2,000	63,760	63,760	61,760
	109,738	151,950	162,070	52,332
	144,585	42,215	42,215	(102,370)
	487,031	-0-	517,700	30,669
	400,695	253,350	532,450	131,755
	<u>1,470,316</u>	<u>877,490</u>	<u>1,703,610</u>	<u>233,294</u>
	(99,352)	48,809	(799,111)	699,759
	<u>136,756</u>	<u>-0-</u>	<u>584,800</u>	<u>(448,044)</u>
	37,404	48,809	(214,311)	251,715
	<u>338,226</u>	<u>338,226</u>	<u>338,226</u>	<u>-0-</u>
\$	<u>375,630</u>	\$ <u>387,035</u>	\$ <u>123,915</u>	\$ <u>251,715</u>

CITY OF DUNLAP

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION -
BUDGETARY REPORTING**

JUNE 30, 2007

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 for 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 \$826,120. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2007, disbursements exceeded the amounts budgeted in the debt service function.

OTHER SUPPLEMENTARY INFORMATION

CITY OF DUNLAP
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES -
NON-MAJOR GOVERNMENTAL FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2007

	Special Revenue		Capital Projects Fund	Total
	Employee Benefits	FEMA		
Receipts:				
Property taxes	\$ 77,496	\$ -0-	\$ -0-	\$ 77,496
Intergovernmental	-0-	3,062	-0-	3,062
Total receipts	77,496	3,062	-0-	80,558
Disbursements:				
Operations:				
Public safety	22,862	-0-	-0-	22,862
Public works	18,064	-0-	-0-	18,064
Culture and recreation	5,607	-0-	-0-	5,607
General government	20,056	-0-	-0-	20,056
Total disbursements	66,589	-0-	-0-	66,589
Excess (deficiency) of receipts over (under) disbursements	10,907	3,062	-0-	13,969
Other financing sources (uses):				
Operating transfers out	-0-	(3,062)	-0-	(3,062)
Net change in cash balances	10,907	-0-	-0-	10,907
Cash balances beginning of year	(439)	-0-	1,643	1,204
Cash balances end year	\$ 10,468	\$ -0-	\$ 1,643	\$ 12,111

See Accompanying Independent Auditor's Report.

**CITY OF DUNLAP
STATEMENT OF INDEBTEDNESS
YEAR ENDED JUNE 30, 2007**

	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount Originally Issued</u>
<u>Obligation</u>			
General Obligation: Notes:			
Truck note	Jan 28, 2002	3.50%	\$ 25,000
City Hall Roof note	Sep 1, 1999	5.25%	60,000
Sewer Lagoon note	Aug 5, 2002	4.25%	130,000
Utility relocation note	Jun 16, 2003	3.00%	150,000
Remsen street note	Dec 1, 2003	3.00%	50,000
Library improvement note	Dec 9, 2003	3.00%	175,000
Youth sports complex note	Aug 23, 2006	5.15%	54,300
Urban Renewal Tax Increment			
Financing (TIF) revenue notes:			
Water & sewer Pleasant View note	Sep 1, 1999	5.25%	65,000
Revenue Loan Guarantee	Jun 1, 2002	4.00%	200,000
Revenue Loan Guarantee	Apr 13, 2005	0.00%	30,200
Revenue Notes:			
Sewer revenue note	May 24, 2006	5.15%	95,000
State revolving loan	Mar 15, 2007	3.00%	160,000

SCHEDULE 2

<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>
\$ 5,000	\$ -0-	\$ 5,000	\$ -0-	\$ 88	\$ -0-
32,044	-0-	5,998	26,046	1,682	112
84,703	-0-	16,400	68,303	3,600	2,625
109,510	-0-	14,315	95,195	3,285	110
33,760	-0-	8,487	25,273	885	62
143,028	-0-	17,211	125,817	4,040	311
-0-	54,300	-0-	54,300	1,927	230
34,715	-0-	6,498	28,217	1,823	122
143,750	-0-	43,750	100,000	-0-	-0-
20,100	-0-	10,100	10,000	-0-	-0-
95,000	-0-	4,358	90,642	4,893	486
-0-	82,456	-0-	82,456	-0-	158
<u>\$ 701,610</u>	<u>\$ 136,756</u>	<u>\$ 132,117</u>	<u>\$ 706,249</u>	<u>\$ 22,223</u>	<u>\$ 4,216</u>

See notes to financial statements.

CITY OF DUNLAP
BOND AND NOTE MATURITIES
JUNE 30, 2007

General Obligation Notes				
Year Ended June 30,	Youth Sports Complex Note Issued Aug 3 23, 2006		Library Improvement Note Issued Dec. 9, 2003	
	Interest Rate	Amount	Interest Rate	Amount
2008	5.15%	\$ 5,430	3.00%	\$ 17,210
2009	5.15%	5,430	3.00%	17,727
2010	5.15%	5,430	3.00%	18,259
2011	5.15%	5,430	3.00%	18,806
2012	5.15%	5,430	3.00%	19,371
2013	5.15%	5,430	3.00%	19,952
2014	5.15%	5,430	3.00%	14,492
2015	5.15%	5,430	--	-0-
2016	5.15%	5,430	--	-0-
2017	5.15%	5,430	--	-0-
Total		\$ <u>54,300</u>		\$ <u>125,817</u>

Year Ended June 30,	Water & Sewer Relocation Note Jun. 16, 2003		Sewer Lagoon Note Issued Aug. 5, 2002	
	Interest Rate	Amount	Interest Rate	Amount
2008	3.00%	\$ 14,744	4.25%	\$ 17,097
2009	3.00%	15,186	4.25%	17,824
2010	3.00%	15,642	4.25%	18,581
2011	3.00%	16,111	4.25%	14,801
2012	3.00%	16,595	--	-0-
2013	3.00%	16,917	--	-0-
Total		\$ <u>95,195</u>		\$ <u>68,303</u>

SCHEDULE 3

General Obligation Notes (Continued)				
Year Ended June 30,	City Hall Roof Note Issued Sep. 1, 1999		Remsen Street Note Issued Dec. 1, 2003	
	Interest Rate	Amount	Interest Rate	Amount
2008	5.25%	\$ 6,313	3.00%	\$ 8,742
2009	5.25%	6,644	3.00%	9,004
2010	5.25%	6,993	3.00%	7,527
2011	5.25%	6,096	--	-0-
Total		\$ 26,046		\$ 25,273

Year Ended June 30,	Total General Obligation Notes	
	Amount	
2008	\$	69,536
2009		71,815
2010		72,431
2011		61,244
2012		41,396
2013		42,298
2014		19,923
2015		5,430
2016		5,430
2017		5,430
Total	\$	394,933

**CITY OF DUNLAP
BOND AND NOTE MATURITIES
JUNE 30, 2007**

Urban Renewal Tax Increment Financing (TIF) Notes					
Year Ended June 30,	Tax Increment Financing Loan Guarantee Issued Jun. 3 1, 2002			Water & Sewer Pleasant View Note Issued Sep. 1, 1999	
	Interest Rate	Amount		Interest Rate	Amount
	2008	4.00%	\$	37,500	5.25%
2009	4.00%		18,750	5.25%	7,198
2010	4.00%		18,750	5.25%	7,576
2011	4.00%		12,500	5.25%	6,604
2012	4.00%		12,500	--	-0-
Total		\$	<u>100,000</u>	\$	<u>28,217</u>

Year Ended June 30,	Tax Increment Financing Loan Guarantee Issued Apr. 13, 2005			Total	
	Interest Rate	Amount			
	2008	4.00%	\$	10,000	\$
2009	--		-0-		25,948
2010	--		-0-		26,326
2011	--		-0-		19,104
2012	--		-0-		12,500
Total		\$	<u>10,000</u>	\$	<u>138,217</u>

SCHEDULE 3
(Continued)

Sewer Revenue Notes					
Year Ended June 30,	Sewer Revenue Note Issued May 24, 2006			State Revolving Funds Issued Mar. 15, 2007	
	Interest Rate		Amount	Interest Rate	Amount
2008	5.15%	\$	4,582	3.00%	\$ 6,000
2009	5.15%		4,818	3.00%	6,000
2010	5.15%		5,066	3.00%	7,000
2011	5.15%		5,327	3.00%	7,000
2012	5.15%		5,601	3.00%	7,000
2013	5.15%		5,890	3.00%	7,000
2014	5.15%		6,193	3.00%	7,000
2015	5.15%		6,512	3.00%	8,000
2016	5.15%		6,847	3.00%	8,000
2017	5.15%		7,200	3.00%	8,000
2018	5.15%		7,571	3.00%	8,000
2019	5.15%		7,961	3.00%	3,456
2020	5.15%		8,371	--	-0-
2021	5.15%		8,704	--	-0-
Total		\$	<u>90,643</u>		\$ <u>82,456</u>

Year Ended June 30,	Total
2008	\$ 10,582
2009	10,818
2010	12,066
2011	12,327
2012	12,601
2013	12,890
2014	13,193
2015	14,512
2016	14,847
2017	15,200
2018	15,571
2019	11,417
2020	8,371
2021	8,704
Total	\$ <u>173,099</u>

See Accompanying Independent Auditors' Report.

CITY OF DUNLAP

**SCHEDULE OF RECEIPTS BY SOURCE AND DISBURSEMENTS BY FUNCTION-
ALL GOVERNMENTAL FUNDS**

FOR THE YEAR ENDED JUNE 30, 2007

	<u>2007</u>
Receipts:	
Property tax	\$ 317,132
Tax Increment Financing	62,045
Other city taxes	58,315
Licenses and permits	5,435
Use of money and property	10,044
Intergovernmental	357,656
Charges for services	18,989
Miscellaneous	<u>289,428</u>
 Total	 \$ <u>1,119,044</u>
 Disbursements:	
Public safety	\$ 132,103
Public works	98,862
Culture and recreation	95,302
Economic development	2,000
General government	109,738
Debt service	144,585
Capital projects	<u>487,031</u>
	 \$ <u>1,069,621</u>

See accompanying independent auditor's report.

INDEPENDENT AUDITORS' 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

MUXFELDT ASSOCIATES, CPA, P.C.

December 20, 2007

Certified Public Accountant

INDEPENDENT AUDITORS' 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

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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 Dunlap, Iowa, as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued my report thereon dated December 20, 2007. My report expressed unqualified opinions on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. 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 Dunlap's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing my opinion of the effectiveness of the City of Dunlap's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the City of Dunlap's internal control over financial reporting.

My consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, I identified certain deficiencies in internal control over financial reporting that I consider to be significant deficiencies and other deficiencies I consider to be material weaknesses.

Continued . . .

December 20, 2007

To the Honorable Mayor and
Members of the City Council:

Page Two

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Dunlap's ability to initiate, authorize, record, process, or report financial data reliably in accordance with an other comprehensive basis of accounting such that there is more than a remote likelihood a misstatement of the City of Dunlap's financial statements that is more than inconsequential will not be prevented or detected by the City of Dunlap's internal control. I consider the deficiencies in internal control described in Part II of the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by the City of Dunlap's internal control.

My consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, I believe items II-A-07, II-B-07, and II-D-07 are material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Dunlap's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion of 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 that are described in the accompanying Schedule of Findings and Questioned Costs.

Continued . . .

December 20, 2007

To the Honorable Mayor and
Members of the City Council:
Page Three

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2007 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 interpretation of those statutes.

The City of Dunlap's responses to findings identified in my audit are described in the accompanying Schedule Findings and Questioned Costs. While I have expressed my conclusions on the City's responses, I did not audit the City of Dunlap's responses and, accordingly, I express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Dunlap and other parties to whom the City of Dunlap may report, including federal awarding agencies and pass-through entities. 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 me by personnel of the City of Dunlap 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.

Murphy Associates, CPA, P.C.

**CITY OF DUNLAP
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2007**

PART I: SUMMARY OF THE INDEPENDENT AUDITORS' RESULTS

- a. Unqualified opinions were issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
- b. Significant deficiencies in internal control over financial reporting were disclosed by the audit of the financial statements, including material weaknesses.
- b. The audit did not disclose any non-compliance which is material to the financial statements.

PART II: FINDINGS RELATED TO THE FINANCIAL STATEMENTS

SIGNIFICANT DEFICIENCIES:

II-A-07 Segregation of Duties

Comment - One important aspect of internal accounting control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal are all done 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 control procedures to obtain the maximum internal control possible under the circumstances.

Response - We will consider this.

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

**CITY OF DUNLAP
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2007**

PART II: FINDINGS RELATED TO THE FINANCIAL STATEMENTS (Continued)

II-B-07 Library Records

Comment - The Library maintains the accounting records pertaining to the operations of the library. These transactions and the resulting balances are not incorporated into the Clerk's records. Chapter 384.20 of the Code of Iowa states in part that "a city shall keep accounts which show an accurate and detailed statement of all public funds collected, received, or expended for any city purpose."

Recommendation - For better accountability, financial and budgetary control, the financial activity and balances of all library accounts should be incorporated in the Clerks records.

Response - The financial activity and balances of the Library Board will be incorporated into the Clerk's records in the future.

Conclusion - Response accepted.

II-C-07 Missing Reports

Comment - Missing reports such as an outstanding check report, prior year trial balance, and county treasurer's valuation reports were either missing or unavailable for inspection.

Recommendation - The clerk should review procedures to ensure that the records of the City are complete and on file. To the extent possible, the deputy clerk should be familiar with proper procedures.

Response - Procedures will be reviewed and revised as necessary.

Conclusion - Response accepted.

II-D-07 Inconsistent Classification of Functions

Comment - TIF funds transferred to debt service were recorded correctly in the City's general ledger but classified as community and economic development function on the adopted budget and annual report. This inconsistent classification of function resulted in an unnecessary expenditure over budget in the debt service function.

Recommendation - The clerk should classify functions consistently.

Response - Functions will be classified consistently in future.

Conclusion - Response accepted.

CITY OF DUNLAP
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2007

PART II: FINDINGS RELATED TO THE FINANCIAL STATEMENTS (Continued)

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

PART III: OTHER FINDINGS RELATED TO STATUTORY REPORTING

III-A-07 Certified Budget - Disbursements during the year ended June 30, 2007, exceeded the amounts budgeted in the debt service function. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

Recommendation - The TIF transfer to debt service should have been budgeted in the debt service function instead of the community and economic development function. The budget over-expenditure was a misclassification. Total city disbursements did not exceed total budgeted amounts.

Response - Functions will be classified correctly in future.

Conclusion - Response accepted.

III-B-07 Questionable Disbursements - I noted no disbursements for parties, banquets or other entertainment for employees that I believe may constitute an unlawful expenditure from public funds as defined in an Attorney General's opinion dated April 25, 1979.

III-C-07 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

**CITY OF DUNLAP
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2007**

PART III: OTHER FINDINGS RELATED TO STATUTORY REPORTING (Continued)

III-D-07 Business Transactions - Business transactions between the City and City officials' or employees are detailed as follows:

Name, Title, and Business Connection	Transaction Description	Amount
Jay Schaben, Council Member, Owner of Moose's Filling Station	Fuel	\$ 7,336

In accordance with Chapter 362.5(10) of the Code of Iowa, the transactions with the council member that does not appear to represent a conflict of interest since it was entered into through competitive bidding.

III-E-07 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-F-07 Council Minutes - No transactions were found that I believe should have been approved in the Council minutes but were not.

The Council went into closed session on February 14, 2007. However, the minutes record did not document the specific information regarding the closed session as required by Chapter 21 of the Code of Iowa, commonly known as the open meeting law.

Recommendation - The City should comply with Chapter 21 of the Code of Iowa and indicate action taken or no action taken after closed sessions.

Response - We will comply in the future with Chapter 21 of the Code of Iowa and indicate action taken or no action taken after closed sessions.

Conclusion - Response accepted.

**CITY OF DUNLAP
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2007**

PART III: OTHER FINDINGS RELATED TO STATUTORY REPORTING (Continued)

III-G-07 Deposits and Investments - No instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the city's investment policy were noted.

III-H-07 Revenue Bonds and Notes - The City has complied with the revenue bond and note resolutions.

III-I-07 Financial Condition - The General Fund had deficit balance at June 30, 2007 of \$49,951. The Capital Projects Fund Youth Sports Complex had a deficit balance of \$10,024. The Enterprise Fund Sewer Utility had a deficit balance of \$6,957.

Recommendation - The City should investigate alternatives to eliminate these deficits in order to return these funds to a sound financial position.

Response - The Sewer deficit will be eliminated through the collection of fees. The Youth Sports Complex deficit will be eliminated upon completion of the project. And the City will address the general fund deficit in the coming year.

Conclusion - Response accepted.

CITY OF DUNLAP

DUNLAP, IOWA 51529

NEWS RELEASE

Muxfeldt Associates, CPA, P.C., 2309 B Chatburn Avenue, Harlan, Iowa, today released an audit report on the City of Dunlap, Iowa.

The City's receipts totaled \$1,507,720 for the year ended June 30, 2007, a 46 percent increase from 2006. The receipts included \$317,132 in property tax, \$62,045 from tax increment financing, \$290,419 from charges for services, \$139,009 from operating grants, contributions and restricted interest, \$488,952 from capital grants, contributions and restricted interest, \$58,315 for local option sales tax, \$8,495 from unrestricted interest on investments, \$136,756 from note proceeds, and \$6,597 from miscellaneous receipts.

Disbursements for the year totaled \$1,470,316, a 47 per cent increase from the prior year, and included \$487,031 for capital projects, \$231,352 for the sewer utility, and \$144,585 for debt service.

The significant increase in receipts and disbursements is due primarily to the financing and construction of the Wellness Center and the Youth Sports Complex.

A copy of the audit report is available for review in the City Clerk's office, in the Office of Auditor of State and on the Auditor of State's web site at <http://auditor.iowa.gov/reports/reports.htm>.

