

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

June 30, 2007



**Clifton
Gunderson LLP**
Certified Public Accountants & Consultants

TABLE OF CONTENTS

		<u>Page</u>
OFFICIALS		3
INDEPENDENT AUDITOR'S REPORT		5-6
MANAGEMENT'S DISCUSSION AND ANALYSIS		7-14
BASIC FINANCIAL STATEMENTS:	<u>Exhibit</u>	
Government-wide Financial Statement:		
Statement of Activities and Net Assets - Cash Basis	A	16-19
Governmental Fund Financial Statement:		
Statement of Cash Receipts, Disbursements, and Changes in Cash Balances	B	20-23
Proprietary Fund Financial Statements:		
Statement of Cash Receipts, Disbursements, and Changes in Cash Balances	C	24-27
Notes to Financial Statements		28-36
REQUIRED SUPPLEMENTARY INFORMATION:		
Budgetary Comparison Schedule of Receipts, Disbursements, and Changes in Balances - Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Funds		38-41
Notes to Required Supplementary Information - Budgetary Reporting		42
OTHER SUPPLEMENTARY INFORMATION:	<u>Schedule</u>	
Statement of Cash Receipts, Disbursements, and Changes in Cash Balances - Nonmajor Governmental Funds	1	44-47
Statement of Cash Receipts, Disbursements, and Changes in Cash Balances - Nonmajor Special Revenue Funds	2	48-49
Statement of Cash Receipts, Disbursements, and Changes in Cash Balances - Nonmajor Debt Service Funds	3	50-51
Statement of Cash Receipts, Disbursements, and Changes in Cash Balances - Nonmajor Capital Projects Funds	4	52-53
Statement of Cash Receipts, Disbursements, and Changes in Cash Balances - Nonmajor Enterprise Funds	5	54-55
Schedule of Indebtedness	6	56-57
Bond and Note Maturities	7	58
Schedule of Receipts by Source and Disbursements by Function - All Governmental Funds	8	59-60
INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS		61-62
SCHEDULE OF FINDINGS		63-69
AUDIT STAFF		70

CITY OF DYSART

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Dennis Wieben	Mayor	January 2008
Tim Glenn	Council Member	January 2010
Kent King	Council Member	January 2010
Kevin Kugel	Council Member	January 2010
Ora Hennessy	Council Member	January 2008
Don Lyons	Council Member	January 2008
Roxanne Schneider	City Clerk and Treasurer	Indefinite
Wanda Petersen	Deputy Clerk	Indefinite
Nancy Burk	City Attorney	Indefinite

CITY OF DYSART



Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council
Dysart, Iowa

We 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 Dysart, Iowa, as of and for the year ended June 30, 2007, which collectively comprise the City of Dysart's basic financial statements listed in the table of contents. These basic financial statements are the responsibility of the City of Dysart's management. Our responsibility is to express an opinion 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 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.

In our 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 City of Dysart 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 19, 2007 on our consideration of City of Dysart's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 14 and 38 through 41 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise City of Dysart's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the four years ended June 30, 2006 (which are not presented herein) and expressed unqualified opinions on those financial statements which were prepared in conformity with an other comprehensive basis of accounting as described in Note 1. Other supplementary information included in Schedules 1 through 8, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Clifton Henderson LLP

Cedar Rapids, Iowa
November 19, 2007

CITY OF DYSART

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Dysart 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, 2007. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2007 Financial Highlights

- Revenues of the City's governmental activities increased dramatically from fiscal year 2006 to fiscal year 2007, due to the issuance of \$1.2 million in general obligation bonds and a \$.5 million estate bequest. Total general fund revenues increased from \$849,515 to \$2,682,056. Property tax revenues increased approximately \$77,801, while TIF revenues decreased by approximately \$135,547.
- Governmental disbursements increased approximately \$318,733 from fiscal year 2006 to fiscal year 2007. This was primarily due to an increase of \$321,213 in capital project expenses related to the Westview Estates Housing Addition and the Main Street/Water Main Improvement Project. Public Safety disbursements increased approximately \$15,000 and debt service disbursements decreased approximately \$27,000. Culture and Recreation expenses increased approximately \$30,000.
- The City's total cash basis net assets increased approximately \$1,488,885 or about 79.5% from June 30, 2006 to June 30, 2007. Of this amount, the assets of the governmental activities increased approximately \$1,472,596 and the assets of the business type activities increased by approximately \$16,289. Unspent bond proceeds and the estate bequest account for the increased ending balance.

Using This Annual Report

The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

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

The Fund Financial Statements tell how governmental services were financed in the short-term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Using This Annual Report (continued)

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor governmental funds, indebtedness, and five year comparative information for governmental funds.

Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable, and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with accounting principles generally accepted in the United States of America. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

Reporting the City's Financial Activities

Government-wide Financial Statement

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

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

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

- Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government, debt service, and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the Water Fund, Sanitary Sewer Fund, Electric Fund, and Garbage Service Fund. These activities are financed primarily by user charges.

Reporting the City's Financial Activities (continued)

Fund Financial Statements

The City has two kinds of funds:

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

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

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

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

Government-wide Financial Analysis

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from a year ago, increasing from \$680,000 to approximately \$2.15 million. The analysis that follows focuses on the changes in cash balances for governmental activities.

Government-wide Financial Analysis (continued)

Changes in Cash Basis Net Assets of Governmental Activities		
	Years ended June 30,	
	2007	2006
Receipts and transfers:		
Program receipts:		
Charges for service	\$ 153,099	\$ 128,187
Capital grants, contributions, and restricted interest	-	1,608
Operating grants, contributions, and restricted interest	727,808	172,485
General receipts:		
Property tax	367,048	289,247
Local option sales tax	76,008	65,141
TIF revenues	18,162	153,709
Other city tax	3,155	2,973
Unrestricted investment earnings	37,387	4,107
Bond proceeds	1,189,548	-
Other general receipts	18,086	6,146
Net transfers in	91,754	25,912
Total receipts and transfers	<u>2,682,055</u>	<u>849,515</u>
Disbursements:		
Public safety	227,635	211,926
Public works	39,096	137,495
Culture and recreation	194,800	164,702
Community and economic development	111,715	26,337
General government	40,420	48,297
Debt service	230,610	257,999
Capital projects	365,183	43,970
Total disbursements	<u>1,209,459</u>	<u>890,726</u>
Increase (decrease) in cash basis net assets	1,472,596	(41,211)
Cash basis net assets, beginning of year	<u>679,665</u>	<u>720,876</u>
Cash basis net assets, end of year	<u>\$ 2,152,261</u>	<u>\$ 679,665</u>

The City's total receipts for governmental activities increased by approximately \$1.8 million from \$849,515 to \$2,682,055. The large increase in revenues was due to the issuance of \$1.2 million in general obligation bonds and the receipt of an estate bequest of approximately \$535,000. The total cost of all programs and services increased by approximately 35.8% or \$318,733. These expenses were related to capital improvements including the Westview Estates Housing Project and the Main Street/Water Main Improvement Project.

Property tax rates for 2007 remained steady, at \$11.83195/\$1000 valuation in fiscal year 2006, and \$11.82093/\$1000 in fiscal year 2007. Total property tax revenues increased from \$289,247 to \$367,048; however, TIF revenues decreased from \$153,709 to \$18,162 during the fiscal year. Local option sales tax revenues in the amount of \$76,008 were also received in fiscal year 2007, an increase of \$10,867 over fiscal year 2006. TIF revenues are used to service the aquatic center debt.

Government-wide Financial Analysis (continued)

There were slight changes in the remaining governmental program expenses also. Public Safety expenditures increased by \$15,709. Public Works expenditures decreased by \$98,399, and Debt Service payments decreased by approximately \$27,000. Capital Projects, however, increased by \$321,213 to \$365,183.

Changes in Cash Basis Net Assets of Business Type Activities		
	Years ended June 30,	
	2007	2006
Receipts and transfers:		
Program receipts:		
Charges for service:		
Water	\$ 299,661	\$ 289,115
Sewer	88,110	88,719
Electric	919,304	910,445
Garbage	261,043	260,491
General receipts:		
Unrestricted investment earnings	20,641	7,635
Transfers in	87,279	87,980
Total receipts and transfers	<u>1,676,038</u>	<u>1,644,385</u>
Disbursements and transfers:		
Water	250,783	228,077
Sewer	66,393	51,252
Electric	865,612	744,121
Garbage	227,963	214,287
Debt service	69,965	71,215
Transfers out	179,033	113,892
Total disbursements and transfers	<u>1,659,749</u>	<u>1,422,844</u>
Increase in cash basis net assets	16,289	221,541
Cash basis net assets, beginning of year	<u>1,188,185</u>	<u>966,644</u>
Cash basis net assets, end of year	<u>\$ 1,204,474</u>	<u>\$ 1,188,185</u>

Total business type activities receipts and transfers in for the fiscal year increased slightly from the previous year, coming in at \$1.67 million compared to \$1.64 million last year. Total disbursements and transfers out for the fiscal year also increased from \$1,422,844 in fiscal year 2006 to \$1,659,749 in fiscal year 2007.

Individual Major Governmental Fund Analysis

As the City of Dysart completed the year, its governmental funds reported a combined fund balance of \$2,152,261, an increase of approximately \$1,472,000 above last year's total of \$679,665. 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 \$400,054 from the prior year to \$903,169. This significant increase was due to the receipt of a donation of approximately \$535,000 from an estate. The majority of the increased cash reserves are earmarked for future capital purchases and improvements.
- The Road Use Tax Fund cash balance increased by \$69,748 to \$128,870 during the fiscal year. These funds will be used for street improvements completed during the summer of 2007.
- The Local Option Sales Tax Fund increased from \$18,087 to \$37,199 during fiscal year 2007. Option tax revenues are greater than anticipated and the increased funds will be used to reduce the aquatic center debt service property tax levy in future years.
- A Low-to-Moderate Income (LMI) Housing Fund was established in fiscal year 2006 to meet the LMI requirements of a housing development rebate agreement. Monies in this fund are allocated for future use benefiting low-to-moderate income residents. The cash balance of this fund at the end of the fiscal year was \$40,009.
- The Infrastructure/Street Project Fund was established during the fiscal year to cover the expenses related to the Main Street Improvement Project and other water and street improvements. Bond proceeds were deposited to this fund and water, sewer, and electric funds will also be transferred in to cover project costs. The balance on hand as of June 30, 2007 was \$840,106.

Individual Major Business Type Fund Analysis

- The Water Fund cash balance increased by \$11,685 to \$308,442. Expenses increased by approximately \$22,000 over the previous year due to costs related to infrastructure improvements and increased bulk water costs. Revenues showed an increase of approximately \$10,000 due to an increase in water rates the previous year.
- The Sewer Fund cash balance increased by \$6,117 to \$186,082. Revenues remained constant from the previous year, but expenses increased by about \$15,000.
- The Electric Fund cash balance decreased \$20,574 to \$569,710. Use of cash reserves for costs associated with the infrastructure improvements and capital purchases account for the fund balance decrease.
- The Garbage Fund cash balance increased by \$16,583 to \$69,896, due to the lack of capital purchases during the fiscal year.

Budgetary Highlights

The City amended its budget on May 9, 2007, showing an increase in expenditures and transfers out of \$1,211,917. The City had increased debt service expenses of \$77,000 due to the issuance of \$1.2 million in general obligation bonds in August of 2006. The City also began work on the Street and Water Improvement Project and anticipated disbursing approximately \$850,000 prior to July 1. The balance of the increase was for increased general operating costs. The City had sufficient cash on hand to finance the increased operating costs.

Debt Administration

On June 30, 2007, the City had \$2,790,000 in bonds and other long-term debt, compared to \$1,802,853 last year, as shown below.

Outstanding Debt at Year-End		
	Years ended June 30,	
	2007	2006
General obligation bonds and notes	\$ 2,400,000	\$ 1,350,000
Revenues bonds	390,000	445,000
Capital lease	-	7,853
Total	<u>\$ 2,790,000</u>	<u>\$ 1,802,853</u>

General obligation debt of \$1.2 million was issued in August of 2006 to finance Street and Water Infrastructure improvements.

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 constitutional debt limit is \$2,964,771. With outstanding general obligation debt of \$2,400,000, the City was using approximately 81% of its constitutional debt limit at fiscal year end.

Economic Factors and Next Year's Budgets and Rates

Dysart's elected and appointed officials and citizens considered many factors when setting the fiscal year 2008 budget, tax rates, and fees that will be charged for various City activities.

Budgets for various departments have remained fairly consistent with past years. The property tax rate for fiscal year 2008 will increase to \$12.74532/\$1000 in valuation, compared to \$11.82039/\$1000 for fiscal year 2007. This is primarily due to an increase in the debt service levy to pay for the street and water infrastructure improvements.

The City will complete the Westview Estate Housing Area Phase 4, Main Street improvements, and other infrastructure improvements in the City during fiscal year 2008. The City will use a combination of tax levy, TIF revenues, and cash reserves to repay the debt on these capital projects.

The City has added no other major programs or initiatives to the 2008 budget.

Contacting the City's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Roxanne L. Schneider, City Clerk, 601 Wilson Street, PO Box 686, Dysart, Iowa.

BASIC FINANCIAL STATEMENTS

CITY OF DYSART

Statement of Activities and Net Assets - Cash Basis

As of and for the Year Ended June 30, 2007

	<u>Disburse- ments</u>	<u>Charges for Services</u>
FUNCTIONS/PROGRAMS:		
Governmental activities:		
Public safety	\$ 227,635	\$ 106,235
Public works	39,096	-
Culture and recreation	194,800	33,169
Community and economic development	111,715	1,013
General government	40,420	12,682
Debt service	230,610	-
Capital projects	365,183	-
	<u>1,209,459</u>	<u>153,099</u>
Business type activities:		
Water	250,783	299,661
Sewer	66,393	88,110
Electric	935,577	919,304
Garbage	227,963	261,043
	<u>1,480,716</u>	<u>1,568,118</u>
Total	<u>\$ 2,690,175</u>	<u>\$ 1,721,217</u>
GENERAL RECEIPTS:		
Property taxes levied for:		
General purposes		
Employee benefits		
Tax increment financing		
Debt service		
Other city tax		
Local option sales tax		

Exhibit A

<u>Program Receipts</u>		<u>Net (Disbursements) Receipts and Changes in Cash Basis Net Assets</u>		
<u>Operating Grants, Contributions and Restricted Interest</u>	<u>Capital Grants, Contributions and Restricted Interest</u>	<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
\$ 24,116	\$ -	\$ (97,284)	\$ -	\$ (97,284)
108,598	-	69,502	-	69,502
8,806	-	(152,825)	-	(152,825)
-	-	(110,702)	-	(110,702)
586,288	-	558,550	-	558,550
-	-	(230,610)	-	(230,610)
-	-	(365,183)	-	(365,183)
<u>727,808</u>	<u>-</u>	<u>(328,552)</u>	<u>-</u>	<u>(328,552)</u>
-	-	-	48,878	48,878
-	-	-	21,717	21,717
-	-	-	(16,273)	(16,273)
-	-	-	33,080	33,080
-	-	-	87,402	87,402
<u>\$ 727,808</u>	<u>\$ -</u>	<u>(328,552)</u>	<u>87,402</u>	<u>(241,150)</u>
		284,064	-	284,064
		52,015	-	52,015
		18,162	-	18,162
		30,969	-	30,969
		3,155	-	3,155
		76,008	-	76,008

(continued)

CITY OF DYSART

Statement of Activities and Net Assets - Cash Basis

As of and for the Year Ended June 30, 2007

	<u>Disburse- ments</u>	<u>Charges for Services</u>
Bond proceeds		
Unrestricted interest on investments		
Transfers		
Miscellaneous		
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		
Debt service		
Other purposes		
Unrestricted		
TOTAL CASH BASIS NET ASSETS		

<u>Program Receipts</u>		<u>Net (Disbursements) Receipts and Changes in Cash Basis Net Assets</u>		
<u>Operating Grants, Contri- butions, and Restricted Interest</u>	<u>Capital Grants, Contri- butions, and Restricted Interest</u>	<u>Govern- mental Activities</u>	<u>Business- type Activities</u>	<u>Total</u>
		1,189,548	-	1,189,548
		37,387	20,641	58,028
		91,754	(91,754)	-
		18,086	-	18,086
		<u>1,801,148</u>	<u>(71,113)</u>	<u>1,730,035</u>
		1,472,596	16,289	1,488,885
		<u>679,665</u>	<u>1,188,185</u>	<u>1,867,850</u>
		<u>\$ 2,152,261</u>	<u>\$ 1,204,474</u>	<u>\$ 3,356,735</u>
		\$ 883,196	\$ -	\$ 883,196
		404	6,603	7,007
		365,492	-	365,492
		<u>903,169</u>	<u>1,197,871</u>	<u>2,101,040</u>
		<u>\$ 2,152,261</u>	<u>\$ 1,204,474</u>	<u>\$ 3,356,735</u>

The accompanying notes are an integral part of the financial statements.

CITY OF DYSART

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

As of and for the Year Ended June 30, 2007

	<u>General</u>	<u>Capital</u> <u>Westview</u> <u>Project</u>
RECEIPTS:		
Property tax	\$ 284,064	\$ -
Tax increment financing collections	-	-
Other city tax	2,442	-
Licenses and permits	4,381	-
Use of money and property	24,302	840
Intergovernmental	17,610	-
Charges for services	138,279	-
Miscellaneous	596,537	13,200
	<u>1,067,615</u>	<u>14,040</u>
Total receipts		
DISBURSEMENTS:		
Operating:		
Public safety	227,635	-
Public works	246	-
Culture and recreation	194,800	-
Community and economic development	111,715	-
General government	40,420	-
Debt service	-	-
Capital projects	-	307,750
	<u>574,816</u>	<u>307,750</u>
Total disbursements		
Excess (deficiency) of receipts over (under) disbursements	<u>492,799</u>	<u>(293,710)</u>
OTHER FINANCING SOURCES (USES):		
Bond proceeds	-	350,000
Operating transfers in	52,524	-
Operating transfers out	(145,269)	(13,200)
	<u>(92,745)</u>	<u>336,800</u>
Net other financing sources (uses)		

Exhibit B

<u>Projects</u>	<u>Other Nonmajor Govern- mental Funds</u>	<u>Totals</u>
<u>Infrastructure Project</u>		
\$ -	\$ 82,984	\$ 367,048
-	18,162	18,162
-	76,721	79,163
-	-	4,381
29,543	3,094	57,779
-	108,598	126,208
-	-	138,279
-	-	609,737
<u>29,543</u>	<u>289,559</u>	<u>1,400,757</u>
-	-	227,635
-	38,850	39,096
-	-	194,800
-	-	111,715
-	-	40,420
-	230,610	230,610
<u>28,985</u>	<u>28,448</u>	<u>365,183</u>
<u>28,985</u>	<u>297,908</u>	<u>1,209,459</u>
<u>558</u>	<u>(8,349)</u>	<u>191,298</u>
839,548	-	1,189,548
-	355,826	408,350
-	(158,131)	(316,600)
<u>839,548</u>	<u>197,695</u>	<u>1,281,298</u>

(continued)

CITY OF DYSART

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

As of and for the Year Ended June 30, 2007

	<u>General</u>	<u>Capital Westview Project</u>
NET CHANGE IN CASH BALANCE	400,054	43,090
CASH BALANCE, BEGINNING OF YEAR	<u>503,115</u>	<u>-</u>
CASH BALANCE, END OF YEAR	<u>\$ 903,169</u>	<u>\$ 43,090</u>
 CASH BASIS FUND BALANCE:		
Reserved		
Debt service	\$ -	\$ -
Unreserved:		
General	903,169	-
Special revenue funds	-	-
Capital project funds	<u>-</u>	<u>43,090</u>
 Total cash basis fund balance	 <u>\$ 903,169</u>	 <u>\$ 43,090</u>

Exhibit B

<u>Projects</u>	<u>Other Nonmajor Govern- mental Funds</u>	<u>Totals</u>
<u>Infrastructure Project</u>		
840,106	189,346	1,472,596
-	176,550	679,665
<u>\$ 840,106</u>	<u>\$ 365,896</u>	<u>\$ 2,152,261</u>
\$ -	\$ 404	\$ 404
-	-	903,169
-	217,076	217,076
<u>840,106</u>	<u>148,416</u>	<u>1,031,612</u>
<u>\$ 840,106</u>	<u>\$ 365,896</u>	<u>\$ 2,152,261</u>

The accompanying notes are an integral part of the financial statements.

CITY OF DYSART

**Statement of Cash Receipts, Disbursements,
and Changes in Cash Balances - Proprietary Funds**

As of and for the Year Ended June 30, 2007

	Water	Sewer
OPERATING RECEIPTS:		
Charges for services	\$ 278,994	\$ 87,328
Miscellaneous	20,667	782
Total operating receipts	299,661	88,110
OPERATING DISBURSEMENTS:		
Business type activities:		
Water	250,783	-
Sewer	945	65,448
Electric	-	-
Garbage	-	-
Total operating disbursements	251,728	65,448
Excess of operating receipts over operating disbursements	47,933	22,662
NONOPERATING RECEIPTS (DISBURSEMENTS):		
Interest on investments	5,752	3,209
Debt service	-	-
Net nonoperating receipts (disbursements)	5,752	3,209
Excess (deficiency) of receipts over (under) disbursements	53,685	25,871
OTHER FINANCING SOURCES (USES):		
Operating transfers in	-	-
Operating transfers out	(42,000)	(19,754)
Net other financing sources (uses)	(42,000)	(19,754)

Exhibit C

<u>Electric</u>	<u>Garbage</u>	<u>Nonmajor Enterprise Funds</u>	<u>Totals</u>
\$ 886,634	\$ 255,879	\$ -	\$ 1,508,835
<u>32,670</u>	<u>5,164</u>	<u>-</u>	<u>59,283</u>
919,304	261,043	-	1,568,118
-	-	-	250,783
-	-	-	66,393
865,612	-	-	865,612
<u>-</u>	<u>227,963</u>	<u>-</u>	<u>227,963</u>
865,612	227,963	-	1,410,751
<u>53,692</u>	<u>33,080</u>	<u>-</u>	<u>157,367</u>
8,999	510	2,171	20,641
<u>-</u>	<u>-</u>	<u>(69,965)</u>	<u>(69,965)</u>
8,999	510	(67,794)	(49,324)
62,691	33,590	(67,794)	108,043
17,007	-	70,272	87,279
<u>(100,272)</u>	<u>(17,007)</u>	<u>-</u>	<u>(179,033)</u>
<u>(83,265)</u>	<u>(17,007)</u>	<u>70,272</u>	<u>(91,754)</u>

(continued)

CITY OF DYSART

Statement of Cash Receipts, Disbursements,
and Changes in Cash Balances - Proprietary Funds

As of and for the Year Ended June 30, 2007

	<u>Water</u>	<u>Sewer</u>
NET CHANGE IN CASH BALANCE	11,685	6,117
CASH BALANCE, BEGINNING OF YEAR	<u>296,757</u>	<u>179,965</u>
CASH BALANCE, END OF YEAR	<u>\$ 308,442</u>	<u>\$ 186,082</u>
CASH BASIS FUND BALANCE:		
Reserved:		
Debt service	\$ -	\$ -
Unreserved	<u>308,442</u>	<u>186,082</u>
Total cash basis fund balance	<u>\$ 308,442</u>	<u>\$ 186,082</u>

Exhibit C

<u>Electric</u>	<u>Garbage</u>	<u>Nonmajor Enterprise Funds</u>	<u>Totals</u>
(20,574)	16,583	2,478	16,289
<u>590,284</u>	<u>53,313</u>	<u>67,866</u>	<u>1,188,185</u>
<u>\$ 569,710</u>	<u>\$ 69,896</u>	<u>\$ 70,344</u>	<u>\$ 1,204,474</u>
\$ -	\$ -	\$ 6,603	\$ 6,603
<u>569,710</u>	<u>69,896</u>	<u>63,741</u>	<u>1,197,871</u>
<u>\$ 569,710</u>	<u>\$ 69,896</u>	<u>\$ 70,344</u>	<u>\$ 1,204,474</u>

The accompanying notes are an integral part of the financial statements.

CITY OF DYSART

Notes to Financial Statements

June 30, 2007

(1) Summary of Significant Accounting Policies

The City of Dysart, a political subdivision of the State of Iowa, is located in Tama County. It was first incorporated in 1873 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, health and social services, culture and recreation, community and economic development, and general government services. The City also provides water, sewer, electric, and garbage utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City 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 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: Tama County Solid Waste Disposal Commission, Tama County Economic Development Commission, and Tama County E911 Board.

B. Basis of Presentation

Government-wide Financial Statement - The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

CITY OF DYSART

Notes to Financial Statements

June 30, 2007

(1) Summary of Significant Accounting Policies (continued)

B. Basis of Presentation (continued)

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

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

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

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 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.

CITY OF DYSART

Notes to Financial Statements

June 30, 2007

(1) Summary of Significant Accounting Policies (continued)

B. Basis of Presentation (continued)

Capital Project:

The Westview Project Fund is used to account for the development of residential properties.

The Infrastructure/Street Project Fund is used to account for the construction of City streets, water main, curb, and gutter.

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.

The Electric Fund accounts for operation of the City's electric utility.

The Garbage Fund accounts for the operation and maintenance of the City's garbage collection services.

C. Measurement Focus and Basis of Accounting

The City of Dysart 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.

CITY OF DYSART

Notes to Financial Statements

June 30, 2007

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

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 community and economic development function.

(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.

The City maintains funds in an automated cash management trust and investment account with a financial institution. This is a yield maintenance repurchase agreement. The financial institution purchases securities for the City and agrees to repurchase those securities with settlement daily at yield specified by the agreement. This investment is collateralized with securities held by the pledging financial institution, or by its trust department or agent, but not in the City's name. The cost of this investment as of June 30, 2007 was \$1,571,226, which approximates fair market value.

Interest rate risk - The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days, but the maturities shall be consistent with the needs and use of the City.

CITY OF DYSART

Notes to Financial Statements

June 30, 2007

(3) Bonds and Notes Payable

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

	General Obligation Notes and Bonds		Revenue Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2008	\$ 150,000	\$ 40,169	\$ 60,000	\$ 13,645	\$ 210,000	\$ 53,814
2009	150,000	38,489	60,000	11,935	210,000	50,424
2010	155,000	36,569	65,000	10,075	220,000	46,644
2011	130,000	34,274	65,000	7,865	195,000	42,139
2012	130,000	32,624	70,000	5,460	200,000	38,084
2013	120,000	30,864	70,000	2,800	190,000	33,664
2014	120,000	28,854	-	-	120,000	28,854
2015	130,000	26,754	-	-	130,000	26,754
2016	130,000	24,414	-	-	130,000	24,414
2017	140,000	22,009	-	-	140,000	22,009
2018	140,000	19,349	-	-	140,000	19,349
2019	150,000	16,619	-	-	150,000	16,619
2020	155,000	13,618	-	-	155,000	13,618
2021	160,000	10,419	-	-	160,000	10,419
2022	170,000	7,219	-	-	170,000	7,219
2023	180,000	3,713	-	-	180,000	3,713
2024	90,000	3,713	-	-	90,000	3,713
Total	<u>\$2,400,000</u>	<u>\$ 389,670</u>	<u>\$ 390,000</u>	<u>\$ 51,780</u>	<u>\$2,790,000</u>	<u>\$ 441,450</u>

CITY OF DYSART

Notes to Financial Statements

June 30, 2007

(3) Bonds and Notes Payable (continued)

A general obligation note was issued for the purpose of defraying a portion of the costs of constructing a library. Proceeds from this note were received April 29, 2003, and is payable to the Farmers Cooperative Telephone Company, Dysart, Iowa, due in annual installments of \$20,000 with 0.0% interest. The balance of this note at June 30, 2007 was \$100,000.

A general obligation note was issued for the purpose of constructing a new pool. This note is dated July 1, 2003 with interest rates ranging between 2.10% and 4.125%. The note is due in annual installments ranging between \$60,000 and \$90,000. The balance of this note due at June 30, 2007 was \$1,155,000.

A general obligation bond was issued for the purpose of constructing City streets, water mains, curb and gutter. This note is dated August 23, 2007 with interest rates ranging between 4.00% and 4.50%. The note is due in annual installments ranging between \$50,000 and \$90,000. The balance of this note due at June 30, 2007 was \$1,145,000.

Electric revenue bonds were issued March 1, 2003 with interest rates ranging between 1.50% and 4.00%. These bonds are due in annual installments of \$50,000 to \$70,000, plus interest. Bonds outstanding at June 30, 2007 amount to \$390,000.

The electric revenue bond resolution includes a provision that requires the revenue bond principal and interest must be paid solely out of the net revenues of the electric utility. The resolution also requires an amount equal to one-twelfth of the bond principal coming due on the succeeding June 1 plus an amount equal to one-sixth of the interest coming due on the succeeding interest payment date be deposited in an electric revenue sinking fund in monthly installments. In addition, the resolution requires a balance be maintained in an electric revenue reserve fund at least equal to the lesser of 1) the maximum amount of principal and interest coming due on the notes in any succeeding year, 2) 125% of the average amount of principal and interest coming due on the notes and any parity obligations in any succeeding year, or 3) 10% of the stated principal amount of the notes and any parity obligations outstanding. As of June 30, 2007 the City was in compliance with these requirements.

(4) Leases

During the year ended June 30, 2000, the City, in cooperation with the Dysart Rural Fire Department, entered into a lease for a fire truck that expired during the fiscal year June 30, 2007, with an interest rate of 5.89%.

CITY OF DYSART

Notes to Financial Statements

June 30, 2007

(5) 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.

Plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of annual covered payroll, except for police employees, in which case the percentages are 6.08% and 9.12%, respectively. For the year ended June 30, 2006, the contribution rates for police employees and the City were 6.16% and 9.23%, respectively, and for the year ended June 30, 2005, the contribution rates for police employees and the City were 6.16% and 9.23%, respectively. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2007, 2006, and 2005 were \$18,941, \$19,275, and \$20,127, respectively, equal to the required contributions for each year.

(6) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation and sick leave hours based on the length of employment. Sick leave is not a vested benefit. It is payable when used and may be accumulated to a maximum of 120 days. Vacation is payable when used and is cumulative only in isolated cases specifically approved by the City Council. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation termination payments payable to employees at June 30, 2007 was \$10,601. This liability has been computed based on rates of pay in effect at June 30, 2007.

CITY OF DYSART
Notes to Financial Statements
June 30, 2007

(7) 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: Employee benefits	\$ <u>52,524</u>
Debt service: Library debt	General	<u>20,000</u>
Debt service: Pool debt	Special revenue: Local option sales tax TIF revenue Debt service: Debt service	57,500 16,894 <u>10,076</u> <u>84,470</u>
Debt service: Westview debt	Capital projects: Westview project Enterprise: Water Sewer Electric utility	13,200 30,000 19,753 <u>30,000</u> <u>92,953</u>
Enterprise: Electric revenue debt	Enterprise: Electric utility	<u>70,272</u>
Debt service: Water bond	Enterprise: Water Debt service: Debt service	12,000 <u>21,135</u> <u>33,135</u>
Capital projects: Park project	General	<u>125,268</u>
Enterprise: Electric	Enterprise: Garbage	<u>17,007</u>
Total		<u>\$ 495,629</u>

CITY OF DYSART

Notes to Financial Statements

June 30, 2007

(7) Interfund Transfers (continued)

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

(8) Risk Management

The City of Dysart is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(9) Commitments

The City has entered into an agreement for construction of the Park Comfort Station. Estimated cost of the project is \$101,267, of which \$28,448 has been paid as of June 30, 2007. The City has entered into an agreement for road construction. Estimated costs of the project are \$1,191,451, of which \$28,985 has been paid as of June 30, 2007. The City has entered into an agreement for the development of the Westview Estates. Estimated costs of the project are \$323,948, of which \$307,750 has been paid as of June 30, 2007.

The City of Dysart participates in a 28E organization with Tama County and other cities in Tama County. This organization is the Tama County Solid Waste Disposal Commission. The estimated costs of closure and post closure care as of June 30, 1998, the most recent date for which such information is available, is approximately \$1,047,000. The City of Dysart will share in these costs on a per capita basis with the other organizations in the 28E organization. The City's share of these estimated costs is \$74,000.

Under a wholesale power agreement, the City is committed to purchase its electric power and energy requirements from Resale Power Group of Iowa through December 2007. The rates for such purchases are subject to review annually. Although there are other suppliers of electric power, a change in supplier would cause a delay, which could ultimately affect operating results.

Under a water purchase contract, the City is committed to the purchase of bulk water from Poweshiek Water Association through December 2038. The rates for such purchases are subject to review annually.

In March 1994, the City agreed to pay the Medicare supplement for a retired City employee. The estimated liability for these benefits has not been determined. The cost to the City for the year ended June 30, 2007 was \$2,467.

This information is an integral part of the accompanying financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF DYSART

**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

	Govern- mental Funds Actual	Proprietary Funds Actual
RECEIPTS:		
Property tax	\$ 367,048	\$ -
Tax increment financing collections	18,162	-
Other city tax	79,163	-
Licenses and permits	4,381	-
Use of money and property	57,779	20,641
Intergovernmental	126,208	-
Charges for services	138,279	1,508,835
Miscellaneous	<u>609,737</u>	<u>59,283</u>
 Total receipts	 <u>1,400,757</u>	 <u>1,588,759</u>
 DISBURSEMENTS:		
Operating:		
Public safety	227,635	-
Public works	39,096	-
Culture and recreation	194,800	-
Community and economic development	111,715	-
General government	40,420	-
Debt service	230,610	-
Capital projects	365,183	-
Business type activities	<u>-</u>	<u>1,480,716</u>
 Total disbursements	 <u>1,209,459</u>	 <u>1,480,716</u>
 Excess (deficiency) of receipts over (under) disbursements	 191,298	 108,043
 OTHER FINANCING SOURCES, NET	 <u>1,281,298</u>	 <u>(91,754)</u>

Total Actual	Budgeted Amounts		Final Budget to Total Actual Variance
	Original	Final	
\$ 367,048	\$ 363,399	\$ 363,399	\$ 3,649
18,162	16,894	16,894	1,268
79,163	60,654	60,654	18,509
4,381	3,945	3,945	436
78,420	8,500	8,500	69,920
126,208	116,879	116,879	9,329
1,647,114	1,647,650	1,647,650	(536)
669,020	40,970	40,970	628,050
<u>2,989,516</u>	<u>2,258,891</u>	<u>2,258,891</u>	<u>730,625</u>
227,635	199,500	229,500	1,865
39,096	112,190	116,249	77,153
194,800	178,600	222,086	27,286
111,715	9,500	15,973	(95,742)
40,420	51,180	53,103	12,683
230,610	166,149	243,155	12,545
365,183	650,000	1,498,970	1,133,787
1,480,716	1,419,965	1,619,965	139,249
<u>2,690,175</u>	<u>2,787,084</u>	<u>3,999,001</u>	<u>1,308,826</u>
299,341	(528,193)	(1,740,110)	2,039,451
<u>1,189,544</u>	<u>-</u>	<u>1,735,000</u>	<u>(545,456)</u>

(continued)

CITY OF DYSART

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

	<u>Govern- mental Funds Actual</u>	<u>Proprietary Funds Actual</u>
Excess (deficiency) of receipts and other financing sources over dis- bursements and other financing uses	1,472,596	16,289
BALANCE, BEGINNING OF YEAR	<u>679,665</u>	<u>1,188,185</u>
BALANCE, END OF YEAR	<u>\$ 2,152,261</u>	<u>\$ 1,204,474</u>

<u>Total Actual</u>	<u>Budgeted Amounts</u>		<u>Final Budget to Total Actual Variance</u>
	<u>Original</u>	<u>Final</u>	
1,488,885	(528,193)	(5,110)	1,493,995
<u>1,867,850</u>	<u>1,436,923</u>	<u>1,687,518</u>	<u>180,332</u>
<u>\$ 3,356,735</u>	<u>\$ 908,730</u>	<u>\$ 1,682,408</u>	<u>\$ 1,674,327</u>

See accompanying independent auditor's report.

CITY OF DYSART

**Notes to Required Supplementary Information -
Budgetary Reporting**

Year Ended 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 Internal Service Funds. The annual budget may be amended during the year utilizing similarly statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund. 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, and business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Funds, the Capital Projects Funds, the Permanent Fund, and the 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, a budget amendment increased budgeted disbursements by \$1,211,917. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2007, disbursements exceeded the amounts budgeted in the community and economic development function.

OTHER SUPPLEMENTARY INFORMATION

CITY OF DYSART

**Statement of Cash Receipts, Disbursements,
and Changes in Cash Balances**

Nonmajor Governmental Funds

As of and for the Year Ended June 30, 2007

	<u>Special Revenue</u>	<u>Debt Service</u>
RECEIPTS:		
Property tax	\$ 52,015	\$ 30,969
Tax increment financing collections	18,162	-
Other city tax	76,456	265
Use of money and property	952	124
Intergovernmental	108,598	-
Miscellaneous	-	-
	<hr/>	<hr/>
Total receipts	256,183	31,358
	<hr/>	<hr/>
DISBURSEMENTS:		
Operating:		
Public works	38,850	-
Debt service	-	230,610
Capital Projects	-	-
	<hr/>	<hr/>
Total disbursements	38,850	230,610
	<hr/>	<hr/>
Excess (deficiency) of receipts over (under) disbursements	217,333	(199,252)
	<hr/>	<hr/>
OTHER FINANCING SOURCES (USES):		
Operating transfers in	-	230,558
Operating transfers out	(126,919)	(31,212)
	<hr/>	<hr/>
Net other financing sources (uses)	(126,919)	199,346
	<hr/>	<hr/>
NET CHANGE IN CASH BALANCE	90,414	94
	<hr/>	<hr/>
CASH BALANCE, BEGINNING OF YEAR	126,662	310
	<hr/>	<hr/>
CASH BALANCE, END OF YEAR	\$ 217,076	\$ 404
	<hr/>	<hr/>

Schedule 1

<u>Capital Projects</u>	<u>Totals</u>
\$ -	\$ 82,984
-	18,162
-	76,721
2,018	3,094
-	108,598
-	-
2,018	289,559
-	38,850
-	230,610
28,448	28,448
28,448	297,908
(26,430)	(8,349)
125,268	355,826
-	(158,131)
125,268	197,695
98,838	189,346
49,578	176,550
\$ 148,416	\$ 365,896

(continued)

CITY OF DYSART

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

Nonmajor Governmental Funds

As of and for the Year Ended June 30, 2007

	<u>Special Revenue</u>	<u>Debt Service</u>
CASH BASIS FUND BALANCE:		
Reserved:		
Debt service	\$ -	\$ 404
Unreserved:		
Special revenue funds	217,076	-
Capital project funds	-	-
	<hr/>	<hr/>
Total cash basis fund balance	<u>\$ 217,076</u>	<u>\$ 404</u>

Schedule 1

<u>Capital Projects</u>	<u>Totals</u>
\$ -	\$ 404
-	217,076
<u>148,416</u>	<u>148,416</u>
<u>\$ 148,416</u>	<u>\$ 365,896</u>

CITY OF DYSART

**Statement of Cash Receipts, Disbursements,
and Changes in Cash Balances**

Nonmajor Special Revenue Funds

As of and for the Year Ended June 30, 2007

	<u>Road Use Tax</u>	<u>Employee Benefits</u>
RECEIPTS:		
Property tax	\$ -	\$ 52,015
Tax increment financing collections	-	-
Other city tax	-	448
Use of money and property	-	61
Intergovernmental	108,598	-
Miscellaneous	-	-
	<hr/>	<hr/>
Total receipts	<u>108,598</u>	<u>52,524</u>
DISBURSEMENTS:		
Operating:		
Public works	<u>38,850</u>	<u>-</u>
	<hr/>	<hr/>
Total disbursements	<u>38,850</u>	<u>-</u>
	<hr/>	<hr/>
Excess of receipts over disbursements	<u>69,748</u>	<u>52,524</u>
OTHER FINANCING USES:		
Operating transfers out	<u>-</u>	<u>(52,524)</u>
	<hr/>	<hr/>
Net other financing uses	<u>-</u>	<u>(52,524)</u>
NET CHANGE IN CASH BALANCE	69,748	-
CASH BALANCE, BEGINNING OF YEAR	<u>59,122</u>	<u>-</u>
CASH BALANCE, END OF YEAR	<u>\$ 128,870</u>	<u>\$ -</u>
CASH BASIS FUND BALANCE:		
Unreserved:		
Special revenue funds	<u>\$ 128,870</u>	<u>\$ -</u>

Schedule 2

<u>Local Option Sales Tax</u>	<u>TIF Revenue</u>	<u>LMI Housing</u>	<u>Project Share</u>	<u>Totals</u>
\$ -	\$ -	\$ -	\$ -	\$ 52,015
-	18,162	-	-	18,162
76,008	-	-	-	76,456
604	84	202	1	952
-	-	-	-	108,598
-	-	-	-	-
<u>76,612</u>	<u>18,246</u>	<u>202</u>	<u>1</u>	<u>256,183</u>
-	-	-	-	38,850
-	-	-	-	38,850
<u>76,612</u>	<u>18,246</u>	<u>202</u>	<u>1</u>	<u>217,333</u>
<u>(57,500)</u>	<u>(16,895)</u>	<u>-</u>	<u>-</u>	<u>(126,919)</u>
<u>(57,500)</u>	<u>(16,895)</u>	<u>-</u>	<u>-</u>	<u>(126,919)</u>
19,112	1,351	202	1	90,414
<u>18,087</u>	<u>9,556</u>	<u>39,807</u>	<u>90</u>	<u>126,662</u>
<u>\$ 37,199</u>	<u>\$ 10,907</u>	<u>\$ 40,009</u>	<u>\$ 91</u>	<u>\$ 217,076</u>
<u>\$ 37,199</u>	<u>\$ 10,907</u>	<u>\$ 40,009</u>	<u>\$ 91</u>	<u>\$ 217,076</u>

CITY OF DYSART

**Statement of Cash Receipts, Disbursements,
and Changes in Cash Balances**

Nonmajor Debt Service Funds

As of and for the Year Ended June 30, 2007

	<u>Debt Service</u>	<u>Water Bond</u>
RECEIPTS:		
Property tax	\$ 30,969	\$ -
Other city tax	265	-
Use of money and property	<u>72</u>	<u>-</u>
Total receipts	<u>31,306</u>	<u>-</u>
DISBURSEMENTS:		
Debt service	<u>-</u>	<u>33,135</u>
Total disbursements	<u>-</u>	<u>33,135</u>
Excess (deficiency) of receipts over (under) disbursements	<u>31,306</u>	<u>(33,135)</u>
OTHER FINANCING SOURCES (USES):		
Operating transfers in	-	33,135
Operating transfers out	<u>(31,212)</u>	<u>-</u>
Net other financing sources (uses)	<u>(31,212)</u>	<u>33,135</u>
NET CHANGE IN CASH BALANCE	94	-
CASH BALANCE, BEGINNING OF YEAR	<u>-</u>	<u>-</u>
CASH BALANCE, END OF YEAR	<u>\$ 94</u>	<u>\$ -</u>
CASH BASIS FUND BALANCE:		
Reserved:		
Debt Service	<u>\$ 94</u>	<u>\$ -</u>

Schedule 3

<u>Library Debt</u>	<u>Pool Debt</u>	<u>Westview Debt</u>	<u>Totals</u>
\$ -	\$ -	\$ -	\$ 30,969
-	-	-	265
-	-	52	124
-	-	52	31,358
20,000	84,470	93,005	230,610
20,000	84,470	93,005	230,610
(20,000)	(84,470)	(92,953)	(199,252)
20,000	84,470	92,953	230,558
-	-	-	(31,212)
20,000	84,470	92,953	199,346
-	-	-	94
10	300	-	310
<u>\$ 10</u>	<u>\$ 300</u>	<u>\$ -</u>	<u>\$ 404</u>
<u>\$ 10</u>	<u>\$ 300</u>	<u>\$ -</u>	<u>\$ 404</u>

CITY OF DYSART

**Statement of Cash Receipts, Disbursements,
and Changes in Cash Balances**

Nonmajor Capital Projects Funds

As of and for the Year Ended June 30, 2007

	<u>Library Project</u>	<u>Park Project</u>
RECEIPTS:		
Use of money and property	\$ 1,952	\$ 54
Miscellaneous	-	-
Total receipts	1,952	54
DISBURSEMENTS:		
Capital projects	-	28,448
Total disbursements	-	28,448
Excess (deficiency) of receipts over (under) disbursements	1,952	(28,394)
OTHER FINANCING SOURCES:		
Operating transfers in	-	125,268
Net other financing sources	-	125,268
NET CHANGE IN CASH BALANCE	1,952	96,874
CASH BALANCE, BEGINNING OF YEAR	48,667	-
CASH BALANCE, END OF YEAR	\$ 50,619	\$ 96,874
CASH BASIS FUND BALANCE:		
Unreserved:		
Capital project funds	\$ 50,619	\$ 96,874

Schedule 4

<u>TIF</u>	<u>Totals</u>
\$ 12	\$ 2,018
<u>-</u>	<u>-</u>
<u>12</u>	<u>2,018</u>
<u>-</u>	<u>28,448</u>
<u>-</u>	<u>28,448</u>
12	(26,430)
<u>-</u>	<u>125,268</u>
<u>-</u>	<u>125,268</u>
12	98,838
<u>911</u>	<u>49,578</u>
<u>\$ 923</u>	<u>\$ 148,416</u>
<u>\$ 923</u>	<u>\$ 148,416</u>

CITY OF DYSART

**Statement of Cash Receipts, Disbursements,
and Changes in Cash Balances**

Nonmajor Enterprise Funds

As of and for the Year Ended June 30, 2007

	Electric Revenue <u>Debt</u>	Electric Revenue <u>Reserve</u>
OPERATING RECEIPTS	\$ -	\$ -
OPERATING DISBURSEMENTS	<u>-</u>	<u>-</u>
Excess of operating receipts over operating disbursements	<u>-</u>	<u>-</u>
NONOPERATING RECEIPTS (DISBURSEMENTS):		
Interest on investments	287	1,884
Debt service	<u>(69,965)</u>	<u>-</u>
Net nonoperating receipts (disbursements)	<u>(69,678)</u>	<u>1,884</u>
Excess (deficiency) of receipts over (under) disbursements	<u>(69,678)</u>	<u>1,884</u>
OTHER FINANCING SOURCES:		
Operating transfers in	<u>70,272</u>	<u>-</u>
Net other financing sources	<u>70,272</u>	<u>-</u>
NET CHANGE IN CASH BALANCE	594	1,884
CASH BALANCE, BEGINNING OF YEAR	<u>6,009</u>	<u>61,857</u>
CASH BALANCE, END OF YEAR	<u>\$ 6,603</u>	<u>\$ 63,741</u>
CASH BASIS FUND BALANCE:		
Reserved:		
Debt service	\$ 6,603	\$ -
Unreserved	<u>-</u>	<u>63,741</u>
Total cash basis fund balance	<u>\$ 6,603</u>	<u>\$ 63,741</u>

Totals

\$ -

-

-

2,171
(69,965)

(67,794)

(67,794)

70,272

70,272

2,478

67,866

\$ 70,344

\$ 6,603
63,741

\$ 70,344

CITY OF DYSART

Schedule of Indebtedness

Year Ended June 30, 2007

<u>Obligation</u>	<u>Date of Issue</u>	<u>Interest Rate</u>	<u>Amount Originally Issued</u>
General obligation notes:			
Aquatic center	July 1, 2003	2.10 - 4.125%	\$ 1,375,000
Library	May 8, 2002	0.00%	200,000
Total			
General obligation bond:			
Infrastructure/Street	August 23, 2006	4.00 - 4.50%	1,200,000
Revenue bonds:			
Electric	March 1, 2003	1.50 - 4.00%	600,000
Capital lease:			
Fire truck	August 31, 1999	5.89%	46,598
Total indebtedness			

Schedule 6

<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>
\$ 1,230,000	\$ -	\$ 75,000	\$ 1,155,000	\$ 42,606	\$ -
<u>120,000</u>	<u>-</u>	<u>20,000</u>	<u>100,000</u>	<u>-</u>	<u>-</u>
<u>1,350,000</u>	<u>-</u>	<u>95,000</u>	<u>1,255,000</u>	<u>42,606</u>	<u>-</u>
<u>-</u>	<u>1,200,000</u>	<u>55,000</u>	<u>1,145,000</u>	<u>38,006</u>	<u>-</u>
<u>445,000</u>	<u>-</u>	<u>55,000</u>	<u>390,000</u>	<u>14,965</u>	<u>-</u>
<u>7,853</u>	<u>-</u>	<u>7,853</u>	<u>-</u>	<u>462</u>	<u>-</u>
<u>\$ 1,802,853</u>	<u>\$ 1,200,000</u>	<u>\$ 212,853</u>	<u>\$ 2,790,000</u>	<u>\$ 96,039</u>	<u>\$ -</u>

CITY OF DYSART

Schedule 7

Bond and Note Maturities

June 30, 2007

Year Ending June 30,	General Obligation Debt						
	Library Note Issued May 8, 2002		Notes Payable General Obligation Issued July 1, 2003		Bond Payable General Obligation Issued August 23, 2006		Total
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	
2008	0.00%	\$ 20,000	2.10%	\$ 80,000	4.00%	\$ 50,000	\$ 150,000
2009	0.00%	20,000	2.40%	80,000	4.00%	50,000	150,000
2010	0.00%	20,000	2.70%	85,000	4.00%	50,000	155,000
2011	0.00%	20,000	3.00%	55,000	4.00%	55,000	130,000
2012	0.00%	20,000	3.20%	55,000	4.00%	55,000	130,000
2013	-	-	3.35%	60,000	4.00%	60,000	120,000
2014	-	-	3.50%	60,000	4.00%	60,000	120,000
2015	-	-	3.60%	65,000	4.05%	65,000	130,000
2016	-	-	3.70%	65,000	4.25%	65,000	130,000
2017	-	-	3.80%	70,000	4.25%	70,000	140,000
2018	-	-	3.90%	70,000	4.25%	70,000	140,000
2019	-	-	4.00%	75,000	4.30%	75,000	150,000
2020	-	-	4.00%	80,000	4.35%	75,000	155,000
2021	-	-	4.00%	80,000	4.45%	80,000	160,000
2022	-	-	4.125%	85,000	4.45%	85,000	170,000
2023	-	-	4.125%	90,000	4.50%	90,000	180,000
2024	-	-	-	-	4.50%	90,000	90,000
Total		\$ 100,000		\$1,155,000		\$1,145,000	\$2,400,000

Year Ending June 30,	Revenue Bonds Electric Bonds Issued March 1, 2003	
	Interest Rates	Amount
	2008	2.85%
2009	3.10%	60,000
2010	3.40%	65,000
2011	3.70%	65,000
2012	3.80%	70,000
2013	4.00%	70,000
Total		\$ 390,000

CITY OF DYSART

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

For the Last Five Years

	<u>2007</u>	<u>2006</u>
RECEIPTS:		
Property tax	\$ 367,048	\$ 289,247
Tax increment financing collections	18,162	153,709
Other city tax	79,163	68,114
Licenses and permits	4,381	4,771
Use of money and property	57,779	20,375
Intergovernmental	126,208	119,517
Charges for services	138,279	113,843
Miscellaneous	<u>609,737</u>	<u>54,027</u>
 Total	 <u>\$ 1,400,757</u>	 <u>\$ 823,603</u>
DISBURSEMENTS:		
Operating:		
Public safety	\$ 227,635	\$ 211,926
Public works	39,096	137,495
Health and social services	-	-
Culture and recreation	194,800	164,702
Community and economic development	111,715	26,337
General government	40,420	48,297
Debt service	230,610	257,999
Capital projects	<u>365,183</u>	<u>43,970</u>
 Total	 <u>\$ 1,209,459</u>	 <u>\$ 890,726</u>

<u>2005</u>	<u>2004</u>	<u>2003</u>
\$ 300,357	\$ 278,626	\$ 272,764
99,898	70,266	51,315
2,762	2,858	3,927
6,375	4,899	3,919
74,707	66,078	16,716
158,351	187,520	133,947
95,328	75,886	61,540
69,622	113,894	628,285
<u>\$ 807,400</u>	<u>\$ 800,027</u>	<u>\$ 1,172,413</u>

\$ 237,893	\$ 181,966	\$ 185,701
75,172	125,372	44,567
-	342	328
184,566	197,107	291,449
22,985	19,033	98,631
41,698	43,353	81,858
207,811	133,639	89,801
155,219	2,363,383	700,663
<u>\$ 925,344</u>	<u>\$ 3,064,195</u>	<u>\$ 1,492,998</u>



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

To the Honorable Mayor and
Members of the City Council
Dysart, Iowa

We 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 Dysart, 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 our report thereon dated November 19, 2007. Our report expressed an unqualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Dysart's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of City of Dysart's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of City of Dysart's internal control over financial reporting.

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

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 City of Dysart'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 City of Dysart's financial statements that is more than inconsequential will not be prevented or detected by City of Dysart's internal control. We consider the deficiencies in internal control described in Part II of the accompanying Schedule of Findings 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 City of Dysart's internal control.

Our 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, we believe items II-A-07 and II-E-07 are material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Dysart's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part III of the accompanying Schedule of Findings.

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 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.

City of Dysart's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the City's responses, we did not audit City of Dysart's responses and, accordingly, we express no opinion on them.

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

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

Clifton Henderson LLP

Cedar Rapids, Iowa
November 19, 2007

CITY OF DYSART

Schedule of Findings

Year Ended June 30, 2007

Part I: SUMMARY OF THE INDEPENDENT AUDITOR'S RESULTS:

- (a) An unqualified opinion was 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 accounting principles generally accepted in the United States of America.
- (b) Significant deficiencies 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.

PART II: FINDINGS RELATED TO THE FINANCIAL STATEMENTS:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

SIGNIFICANT DEFICIENCIES:

II-A-07: Segregation of Duties

Criteria:

The City should have adequate segregation of duties to provide for the accuracy and reliability of the financial statements.

Condition:

The City does not have complete segregation of duties over all accounting transactions.

Context:

Internal controls that are in place could be averted, overridden, or not consistently implemented.

Effect:

As a result of this condition, there is a higher risk that errors or irregularities could occur and not be detected within a timely period.

Cause:

The City has a limited number of personnel performing accounting functions.

Recommendation:

When this condition exists, management's close supervision and review of accounting information is the best means of preventing or detecting errors and irregularities. We recommend the City review its operating procedures to obtain the maximum internal control possible under the circumstances.

CITY OF DYSART

Schedule of Findings

Year Ended June 30, 2007

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

SIGNIFICANT DEFICIENCIES: (CONTINUED)

II-A-07: Segregation of Duties (continued)

Management Response:

With a limited number of office employees, segregation of duties is sometimes difficult. Management is aware of the lack of segregation of duties and has considered alternatives to improve the situation. Management is monitoring the situation and is segregating accounting duties where practical.

Conclusion:

Response accepted.

II-B-07: Reconciliation of Utility Billings and Collections

Criteria:

The basic accounting control over utility billings and accounts receivable is to periodically reconcile billing collections and balances outstanding.

Condition:

Utility billings, collections and delinquent accounts were not reconciled throughout the year. Also, utility collections were not reconciled to deposits.

Context:

Utility collections could be misappropriated and the misappropriation not timely detected.

Effect:

There is a higher risk of misappropriation occurring.

Cause:

The City does not have such controls in place at this time.

Recommendation:

Procedures should be established to reconcile utility billings, collections and delinquencies for each billing period and to reconcile collections to deposits. The Council or a Council-designated independent person should review the reconciliations and monitor delinquencies.

Management Response:

The City will try to implement these procedures where practical.

Conclusion:

Response accepted.

CITY OF DYSART

Schedule of Findings

Year Ended June 30, 2007

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

SIGNIFICANT DEFICIENCIES: (CONTINUED)

II-C-07: Code of Conduct

Criteria:

An important aspect of fraud prevention is to establish the importance of ethical behavior through a formal code of conduct.

Condition:

The City presently does not have a formal code of conduct.

Context:

Without a formal code of conduct there is not clear communication of appropriate conduct to City employees.

Effect:

This could result in conduct by City employees that reflects unfavorably on the City.

Cause:

A formal written code of conduct has not been drafted.

Recommendation:

The City should adopt a formal code of conduct that employees are required to read and sign off as having done so on an annual basis.

Management Response:

The City will consider adopting a formal code of conduct.

Conclusion:

Response accepted.

II-D-07: Signature Control

Criteria:

Effective dual signature control on checks assures proper authorization of disbursements.

Condition:

The City Clerk has access to the Mayor's signature stamp.

Context:

The dual signature control can be overridden.

CITY OF DYSART

Schedule of Findings

Year Ended June 30, 2007

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

SIGNIFICANT DEFICIENCIES: (CONTINUED)

II-D-07: Signature Control (continued)

Effect:

There is a higher risk that on unauthorized disbursements could be made.

Cause:

Due to limited number of personnel, the City Clerk has access to the signature stamp.

Recommendation:

We recommend encouraging the Mayor to manually sign all checks and consider putting custody of the signature stamp with another employee other than the City Clerk.

Management Response:

The City will encourage Mayor to manually sign the checks and look into putting custody of the stamp with another employee.

Conclusion:

Response accepted.

II-E-07: Classification of Expenditures/ Audit Adjustment

Criteria:

All disbursements should be made from the proper service area and should be within budgeted amounts.

Condition:

The City Clerk issued a check to an area development foundation in June 2007 which we believe should have been expended out of the Community and Economic Development service area. This disbursement resulted in the actual disbursement exceeding the amount budgeted for the service area. The City attempted to avoid this instance of non-compliance by transferring the amount from the General Fund to the Electric Fund and showing the disbursement out of the Electric Business Type Activity service area. Upon discussion of the alternatives, City Management elected to accept the proposed adjustments to financial statements to show the disbursement out of the Community and Economic Development service area.

Context:

The independent auditor cannot be considered part of the City's internal control system.

CITY OF DYSART

Schedule of Findings

Year Ended June 30, 2007

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

SIGNIFICANT DEFICIENCIES: (CONTINUED)

II-E-07: Classification of Expenditures/ Audit Adjustment (continued)

Effect:

There is a risk of a misstatement that is material to the financial statements could occur.

Cause:

City officials in their effort to make and record this disbursement attempted to manipulate the budgetary process.

Recommendation:

The City should amend its budget when necessary and expend disbursements out of the appropriate service area.

Management Response:

The City will do so in the future.

Conclusion:

Response accepted.

II-F-07: Preparation of Financial Statements

Criteria:

The City Council and management share the ultimate responsibility for the City's financial statements, including disclosures.

Condition:

The City Clerk has the ability to prepare the basic financial statements, but does not have the training and reference materials available to draft the footnotes to the financial statements.

Context:

While it is acceptable to outsource various accounting functions, the responsibility for internal control cannot be outsourced. The independent auditor cannot be considered part of the City's internal control system. The City has implemented procedures to review the financial statements and disclosures but has not utilized review aids, such as a disclosure checklist, and may not have monitored recent accounting developments to the extent necessary to provide a high level of assurance that financial statement omissions or other errors would be identified and corrected.

CITY OF DYSART

Schedule of Findings

Year Ended June 30, 2007

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

SIGNIFICANT DEFICIENCIES: (CONTINUED)

II-F-07: Preparation of Financial Statements (continued)

Effect:

As a result of this condition, there is a higher risk that financial statement omissions or other errors could occur and not be detected.

Cause:

The City has relied on the independent auditor to some degree to provide assurance that the financial statements, including disclosures, are not materially misstated.

Recommendation:

We recommend that sufficient financial statement and disclosure review procedures be performed by an individual possessing a thorough understanding of applicable generally accepted accounting principles and knowledge of the City's activities and operations.

Management Response:

The City does not have the resources to employ staff possessing the detailed understanding of applicable generally accepted accounting principles to the extent required to utilize such a disclosure checklist. We understand the list of GAAP requirements in these disclosure checklists exceeds 50 pages in length. As a result, the City of Dysart has relied on the independent auditor to identify disclosures required in the financial statements.

Conclusion:

Response accepted.

PART III: OTHER FINDINGS RELATED TO REQUIRED STATUTORY REPORTING

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

Recommendation - The budget should have been amended in sufficient amounts in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response - The budget will be amended in the future, if applicable.

Conclusion - Response accepted.

CITY OF DYSART

Schedule of Findings

Year Ended June 30, 2007

PART III: OTHER FINDINGS RELATED TO REQUIRED STATUTORY REPORTING (CONTINUED)

III-B-07 Questionable Disbursements - We noted no disbursements that fail to meet the requirements of public purposes as defined in an Attorney General's opinion dated April 25, 1979.

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

III-D-07 Business Transactions - We noted no business transactions between the City and City officials or employees.

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 - One transaction was found that approved the payment of a capital project pay application and was not included in the Council minutes.

Recommendation - The City should exercise greater care to ensure that all transactions that are approved appear in the council minutes.

Response - We will try to make sure the minutes are complete in the future.

Conclusion - Response accepted.

III-G-07 Revenue Bonds - The City has established the sinking and reserve accounts required by electric revenue bond resolution.

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

CITY OF DYSART

Audit Staff

This audit was performed by:

William E. Murray, CPA, Audit Partner

Megan McDermott, CPA, Senior Associate

Connie Lira, Associate