

CITY OF DAKOTA CITY, IOWA

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

JUNE 30, 2010

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

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CITY OF DAKOTA CITY, IOWA

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
David Lee	Mayor	Dec 2011
Barb Nelson	Council Member	Dec 2011
Bruce Richard	Council Member	Dec 2013
Roger Lindeman	Council Member	Dec 2011
Billy Fort	Council Member	Dec 2011
Don Faltinson	Council Member	Dec 2011



T.P. ANDERSON & COMPANY, P.C.
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Dakota City, Iowa, as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Dakota City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U. S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U. S. generally accepted accounting principles. Also, as permitted by the Code of Iowa, the accounting records of the City have not been audited for all prior years. Accordingly, we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at June 30, 2010.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2009 as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Dakota City as of June 30, 2010, 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 December 30, 2010, on our consideration of the City of Dakota City's internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 9 and 19 through 20 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Dakota City's basic financial statements. Other supplementary information include in Schedules 1 through 3 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 applies in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

December 30, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Dakota City, Iowa provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2010. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

Because the City does not have and is not required to have and audit on an annual basis and therefore, much of the information is not easily comparable to prior years. Should the city choose to have audits in consecutive years comparisons would be more meaningful and go farther to explain the City's financial position and results of operations.

2010 FINANCIAL HIGHLIGHTS

- Revenues of the City's governmental activities were approximately \$351,000. Property tax receipts were approximately \$150,000 and intergovernmental receipts were approximately \$93,000.
- Governmental activity disbursements were approximately \$428,000 in fiscal 2010. 62% of total disbursements were incurred for the public works, culture and recreation, and general government functions.
- The City's total cash basis net assets increased 2%, or approximately \$17,000 from June 30, 2009 to June 30, 2010. Of this amount, the assets of the governmental activities increased approximately \$28,000 and the assets of the business type activities decreased by approximately \$11,000.

USING THIS ANNUAL REPORT

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

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

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

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

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

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

Other Supplementary Information provides detailed information about the City's indebtedness and receipts and disbursements for the year.

Basis of Accounting

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

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

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

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

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

- Governmental Activities include public safety, public works, culture and recreation, community and economic development, and general government services. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the water and sewer system, and the recycling system. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

1) Governmental funds account for most of the City's basic service. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) and the Special Revenue Funds, such as Road Use Tax and Local Option Sales Tax, 3) and the Capital Projects Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

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

2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains three Enterprise Funds to provide separate information for the water, sewer, and solid waste funds.

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

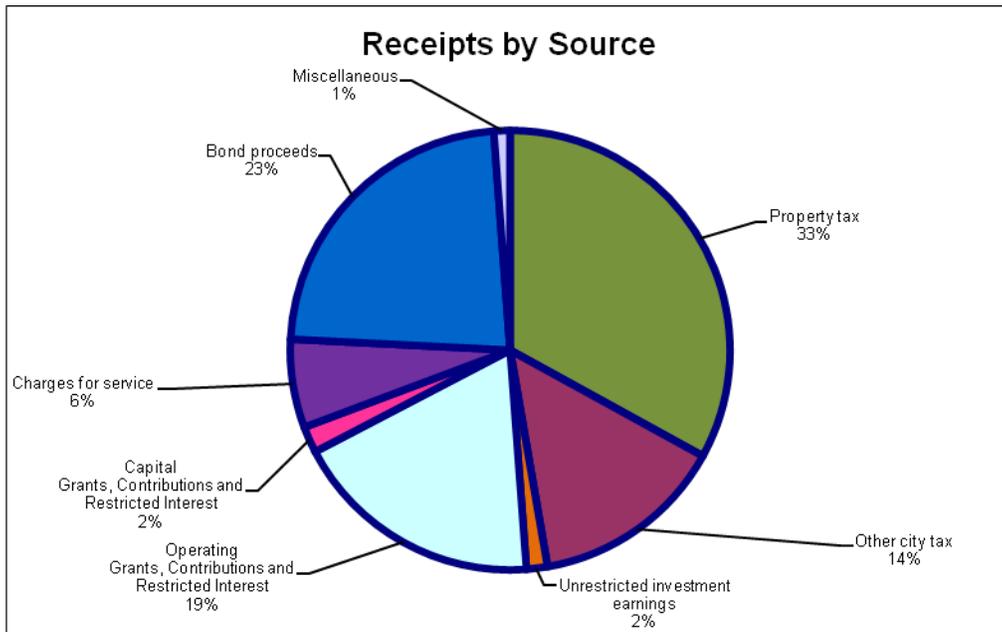
Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from a year ago, increasing from \$575,000 to \$603,000. The analysis that follows focuses on the changes in cash balances for governmental activities.

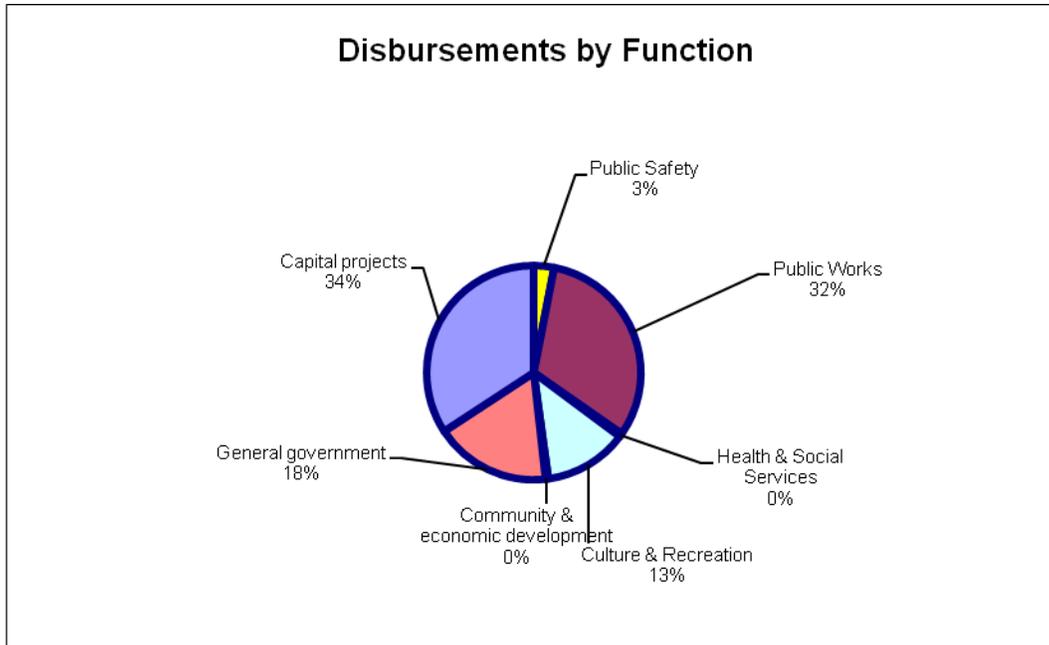
Changes in Cash Basis Net Assets of Governmental Activities (Expressed in Thousands)

	<u>Year Ended</u> <u>June 30, 2010</u>
Receipts and transfers:	
Program receipts:	
Charges for service	\$ 30
Operating grants, contributions and restricted interest	84
Capital grants, contributions and restricted interest	9
General receipts:	
Property tax	150
Local option sales tax	65
Unrestricted investment earnings	7
Bond proceeds	105
Other general receipts	5
Total receipts and transfers	<u>455</u>

Disbursements:

Public safety	13
Public works	135
Health & social services	2
Culture and recreation	54
Community and economic development	2
General government	75
Capital projects	<u>146</u>
Total disbursements	427
 Increase in cash basis net assets	 28
Cash basis net assets beginning of year	<u>575</u>
Cash basis net assets end of year	<u><u>\$ 603</u></u>





The cost of all governmental activities this year was \$427,000. However, as shown in the Statement of Activities and Net Assets on pages 10, the amount taxpayers ultimately financed for these activities was only \$304,000 because some of the cost was paid by those directly benefited from the programs or by other governments and organizations that subsidized certain programs with grants, contributions, and restricted interest (\$123,000). The City paid for the remaining “public benefit” portion of governmental activities with approximately \$150,000 in tax (some of which could only be used for certain programs), and with other receipts, such as interest and general entitlements.

Changes in Cash Basis Net Assets of Business Type Activities (Expressed in Thousands)	
	Year Ended June 30, 2010
Receipts:	
Program receipts:	
Charges for service:	
Waterworks	\$ 146
Sewer	111
Other	10
General receipts:	
Other general receipts	3
Total receipts	270

Disbursements and transfers:	
Waterworks	162
Sewer	93
Other	27
Total disbursements and transfers	<u>282</u>
 (Decrease) in cash balance	 (12)
 Cash basis net assets beginning of year	 <u>132</u>
 Cash basis net assets end of year	 <u><u>\$ 120</u></u>

Total business type activities receipts for the fiscal year were \$270,000. The cash balance decreased by approximately \$12,000 from the prior year.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As The City of Dakota City completed the year, its governmental funds reported a combined fund balance of \$603,000, an increase of \$28,000 above last year's total of \$575,000. 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 \$59,000 from the prior year to \$398,000. The increase was due in large part to a transfer of \$73,000 from the LOST fund during the year.
- The Road Use Tax Fund cash balance increased by \$13,000 during the fiscal year which is in accordance with the budgeted results for the year.
- The Local Option Sales Tax Fund balance decreased by \$8,000 due to a transfer to the General Fund.
- The Capital Projects Fund decreased \$41,000 during the fiscal year resulting from a delay in receiving proceeds of a loan to cover sewer plant remodeling plans.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Waterworks Fund cash balance decreased by \$15,000 to \$(14,000) at June 30, 2010 due to paying of some of the revenue bonds during the year.
- The Sewer Fund cash balance increased by approximately \$20,000 due primarily to planned operations of the fund.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City did amend its budget one time. The amendment was approved on May 27, 2010 and resulted in a increase in revenues due to a loan received and increases disbursements due to an increase in capital projects. The City did over-expend its budget in the culture and recreation function.

DEBT ADMINISTRATION

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 has no outstanding general obligation debt and a constitutional debt limit of \$1,306,104.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's council considered many factors when establishing the 2011 FY budget. A conservative approach was used and a balanced budget is anticipated.

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 Dakota City's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional financial information contact Angelique Berry, City Clerk, 26 5th Street S, Dakota City, Iowa 50529.

Basic Financial Statements

CITY OF DAKOTA CITY, IOWA

Exhibit A

STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS

AS OF AND FOR THE YEAR ENDED JUNE 30, 2010

Functions/Programs	Program Receipts				Net(Disbursements)Receipts and Changes in Cash Basis Net Assets		
	Disbursements	Charges for Service	Operating Grants	Capital Grants	Governmental Activities	Business type Activities	Total
			Contributions and Restricted Interest	Contributions and Restricted Interest			
Governmental activities:							
Public safety	\$ 13,067	-	-	2,743	(10,324)	-	\$ (10,324)
Public works	135,173	-	84,505	-	(50,668)	-	(50,668)
Health & Social Services	2,150	-	-	-	(2,150)	-	(2,150)
Culture and recreation	54,040	29,665	-	6,100	(18,275)	-	(18,275)
Community and economic development	1,839	-	-	-	(1,839)	-	(1,839)
General government	74,908	-	-	-	(74,908)	-	(74,908)
Capital projects	146,291	-	-	-	(146,291)	-	(146,291)
Total governmental activities	427,468	29,665	84,505	8,843	(304,455)	-	(304,455)
Business type activities							
Waterworks	162,286	146,589	-	-	-	(15,697)	(15,697)
Sewer	92,856	110,807	-	-	-	17,951	17,951
Other	26,733	9,743	-	-	-	(16,990)	(16,990)
Total business type activities	281,875	267,139	-	-	-	(14,736)	(14,736)
Total	\$ 709,343	296,804	84,505	8,843	(304,455)	(14,736)	(319,191)
General Receipts:							
Property tax levied for:							
General purposes					\$ 150,439	-	150,439
Local option sales tax					65,047	-	65,047
Unrestricted interest on investments					7,025	3,041	10,066
Loan proceeds					104,891	-	104,891
Miscellaneous					5,431	-	5,431
Total general receipts and transfers					332,833	3,041	335,874
Change in cash basis net assets					28,378	(11,695)	16,683
Cash beginning of year					574,711	131,975	706,686
Cash end of year					603,089	120,280	723,369
Cash Basis Net Assets:							
Restricted							
Expendable							
Road use tax					162,187	-	162,187
Local option sales tax					60,347	-	60,347
Emergency					7,392	-	7,392
Employee benefits					16,905	-	16,905
Unrestricted					356,258	120,280	476,538
					\$ 603,089	120,280	723,369

See Notes to Financial Statements

CITY OF DAKOTA CITY, IOWA

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
GOVERNMENTAL FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2010**

	SPECIAL REVENUE		
	General	Road Use Tax	Local Option Sales Tax
Receipts:			
Property tax	\$ 129,537	-	-
Other city tax	-	-	65,047
Licenses and permits	1,590	-	-
Use of money and property	6,240	785	-
Intergovernmental	8,843	84,505	-
Charges for service	29,665	-	-
Special assessments	1,662	-	-
Miscellaneous	2,179	-	-
Total receipts	179,716	85,290	65,047
Disbursements:			
Operating:			
Public Safety	13,067	-	-
Public Works	55,656	71,825	-
Health & Social Services	2,150	-	-
Culture & Recreation	50,284	-	-
Community & economic development	1,839	-	-
General government	71,009	-	-
Capital Projects	-	-	-
Total Disbursements	194,005	71,825	-
Excess of receipts over disbursements	(14,289)	13,465	65,047
Other financing sources (uses):			
Transfers In	72,867	-	-
Transfers Out	-	-	(72,867)
Loan proceeds	-	-	-
Total other financing sources (uses)	72,867	-	(72,867)
Net change in cash balances	58,578	13,465	(7,820)
Cash balances beginning of year	339,080	148,722	68,167
Cash balances end of year	\$ 397,658	162,187	60,347
Cash Basis Fund Balances			
Unreserved:			
General fund	397,658	-	-
Special revenue funds	-	162,187	60,347
Total cash basis fund balances	\$ 397,658	162,187	60,347

See Notes of Financial Statements

Exhibit B

Capital Projects	Emergency	Employee Benefits	Total
-	3,778	17,124	150,439
-	-	-	65,047
-	-	-	1,590
-	-	-	7,025
-	-	-	93,348
-	-	-	29,665
-	-	-	1,662
-	-	-	2,179
-	3,778	17,124	350,955
-	-	-	13,067
-	-	7,692	135,173
-	-	-	2,150
-	-	3,756	54,040
-	-	-	1,839
-	-	3,899	74,908
146,291	-	-	146,291
146,291	-	15,347	427,468
(146,291)	3,778	1,777	(76,513)
-	-	-	72,867
-	-	-	(72,867)
104,891	-	-	104,891
104,891	-	-	104,891
(41,400)	3,778	1,777	28,378
-	3,614	15,128	574,711
(41,400)	7,392	16,905	603,089
-	-	-	397,658
(41,400)	7,392	16,905	205,431
(41,400)	7,392	16,905	603,089

CITY OF DAKOTA CITY, IOWA

Exhibit C

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES
PROPRIETARY FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2010**

	<u>Waterworks</u>	<u>Sewer</u>	<u>Recycling</u>	<u>Total</u>
Operating receipts:				
Charges for service	\$ 146,589	\$ 110,807	\$ 9,743	\$ 267,139
Total operating receipts	<u>146,589</u>	<u>110,807</u>	<u>9,743</u>	<u>267,139</u>
Operating disbursements:				
Business type activities	<u>129,991</u>	<u>92,856</u>	<u>26,733</u>	<u>249,580</u>
Total operating disbursements	<u>129,991</u>	<u>92,856</u>	<u>26,733</u>	<u>249,580</u>
Excess (deficiency) of operating receipts over (under) operating disbursements	16,598	17,951	(16,990)	17,559
Non-operating receipts				
Interest on investments	970	2,071	-	3,041
Debt service	<u>(32,295)</u>	<u>-</u>	<u>-</u>	<u>(32,295)</u>
	(31,325)	2,071	-	(29,254)
Excess (deficiency) of receipts and non-operating receipts over (under) disbursements	(14,727)	20,022	(16,990)	(11,695)
Other financing sources (uses):				
Loan proceeds	-	-	-	-
Operating transfers in (out)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in cash balances	(14,727)	20,022	(16,990)	(11,695)
Cash balances beginning of year	<u>402</u>	<u>131,037</u>	<u>536</u>	<u>131,975</u>
Cash balances end of year	<u>\$ (14,325)</u>	<u>\$ 151,059</u>	<u>\$ (16,454)</u>	<u>\$ 120,280</u>
Cash Basis Fund Balances				
Unreserved	<u>(14,325)</u>	<u>151,059</u>	<u>(16,454)</u>	<u>120,280</u>
Total cash basis fund balances	<u>\$ (14,325)</u>	<u>\$ 151,059</u>	<u>\$ (16,454)</u>	<u>\$ 120,280</u>

See Notes of Financial Statements

CITY OF DAKOTA CITY, IOWA

NOTES TO FINANCIAL STATEMENTS

(1) Summary of Significant Accounting Policies

The City of Dakota City is a political subdivision of the State of Iowa located in Humboldt County. It was first incorporated in 1858 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, culture, recreation, community and economic development and general government services. The City also provides water and sewer utilities and recycling services for its citizens.

A. Reporting Entity

For financial reporting purposes, City of Dakota City has included all funds, organizations, account groups, agencies, boards, commissions and authorities. The City has also considered all other potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the City. The City of has no component units which meet the Government 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: North Central IA Regional Solid Waste Agency and the Humboldt County Joint E911 Service Board.

B. Basis of Presentation

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

CITY OF DAKOTA CITY, IOWA

NOTES TO FINANCIAL STATEMENTS

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

Nonexpendable restricted net assets are subject to externally imposed stipulations which require them to be maintained permanently by the City.

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

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

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements – Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue:

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

The Local Option Sales Tax (LOST) Fund is utilized to account for the local option sales tax receipts and disbursements.

CITY OF DAKOTA CITY, IOWA

NOTES TO FINANCIAL STATEMENTS

Capital Projects:

The Capital Projects Fund is used to account for receipts and disbursements on the remodeling project at the sewer plant.

The City reports the following major proprietary funds:

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

The Sewer Fund accounts for the operation and maintenance of the City's sewer disposal system.

C. Measurement Focus and Basis of Accounting

The City of Dakota 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 the U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

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, 2010, disbursements exceeded the amounts budgeted in the culture and recreation function.

CITY OF DAKOTA CITY, IOWA

NOTES TO FINANCIAL STATEMENTS

(2) Cash and Investments

The City's deposits at June 30, 2010 (which include certificates of deposit totaling \$512,289) were entirely covered by federal depository insurance, or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; and certain joint investment trusts and warrants or improvement certificates of a drainage district.

The City had no investments as of June 30, 2010.

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. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs of the City.

Interest received on cash balances of the City of Dakota City amounted to \$10,066 for the year ended June 30, 2010. These receipts are included under Use of Money and Property for Governmental Funds and Interest on Investments for proprietary activities.

(3) 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 4.30% of their annual covered salary and the City is required to contribute 6.65% 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 contribution to IPERS for the years ended June 30, 2010, 2009 and 2008 were \$10,235, \$8,878, and \$8,709 respectively, equal to the required contributions for each year.

CITY OF DAKOTA CITY, IOWA

NOTES TO FINANCIAL STATEMENTS

(4) Compensated Absences

City employees accumulate vacation and sick leave hours for subsequent use at varying rates based on their position with the city. Earned vacation is paid when used or when employment is terminated. These accumulations are not recognized as expenditures by the City until they are paid. The City’s approximate maximum liability for unrecognized accrued employee benefits, primarily relating to the General Fund, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
	<u>06-30-10</u>
Sick pay and personal days	\$ 33,151
Vacation pay	<u>4,815</u>
Total	<u>\$ 37,966</u>

(5) Interfund Transfers

The detail of interfund transfers, for the year ended June 30, 2010 is as follows:

<u>Transfer In</u>	<u>Transfer From</u>	<u>Amount</u>
General Fund	Special Revenue Fund	
General	LOST	<u>\$ 72,867</u>

(6) Risk Management

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

(7) Property Taxes

Property taxes are recognized as income when received in accordance with the cash basis of accounting. The property tax calendar is as follows for the City of Dakota City. Property taxes become liens on property as of July 1, 2009 and are payable in September and March of the fiscal year. The valuation for the taxes were based on January 1, 2008 assessed property valuations, and is based on a certified budget from March of 2009.

(8) Bonds and Notes Payable

Annual debt service requirements to maturity for the City’s revenue notes are as follows:

CITY OF DAKOTA CITY, IOWA

NOTES TO FINANCIAL STATEMENTS

Year Ended	Revenue Note	
<u>June 30:</u>	<u>Principal</u>	<u>Interest</u>
2011	<u>\$ 120,097</u>	<u>\$ 380</u>
	<u>\$ 120,097</u>	<u>\$ 380</u>

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 enterprise activity and the note holders hold a lien on the future earnings so the funds.
- B. The sufficient monthly transfers shall be made to separate water revenue note sinking account for the purpose of making the note principal and interest payments when due.

(9) Deficit Balance

The Capital Projects Fund, Water Fund and Recycling Fund had deficit balances of \$41,400, \$14,325 and \$16,454 at June 30, 2010. The City will explore different alternatives to eliminate the deficit.

(10) Subsequent Events

In preparing the financial statements, the City has evaluated events and transactions for potential recognition or disclosure through December 30, 2010, the date the financial statements were issued.

(11) Other Postemployment Benefits (OPEB)

Plan Description – The City operates a single-employer retiree benefit plan which provides medical benefits for retirees and their spouses. There are 2 active and 0 retired members in the plan. Participants must be age 55 or older at retirement.

The medical benefits are provided through a fully-insured plan with Wellmark. Retirees under age 65 pay the same premium for the medical benefits as active members.

Funding Policy – The contribution requirements of plan members are established and may be amended by the City. The City currently finances the retiree benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the City and plan members are \$890 for family coverage. The same monthly premiums apply to retirees. For the year ended June 30, 2010, the City contributed \$19,981 and plan members eligible for benefits contributed \$0 to the plan.

Required Supplementary Information

CITY OF DAKOTA CITY, IOWA

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

REQUIRED SUPPLEMENTARY INFORMATION

Year Ended June 30, 2010

	Governmental Funds Activity	Proprietary Funds Activity	Net	Budgeted Amounts		Final to Net Variance
				Original	Final	
Receipts:						
Property tax	\$ 150,439	-	150,439	145,938	145,938	4,501
Other city tax	65,047	-	65,047	78,113	78,113	(13,066)
Licenses and permits	1,590	-	1,590	1,015	1,015	575
Use of money and property	7,025	3,041	10,066	5,000	5,000	5,066
Intergovernmental	93,348	-	93,348	78,346	78,346	15,002
Charges for service	29,665	267,139	296,804	314,765	314,765	(17,961)
Special assessments	1,662	-	1,662	200	200	1,462
Miscellaneous	2,179	-	2,179	7,300	7,300	(5,121)
Total receipts	350,955	270,180	621,135	630,677	630,677	(9,542)
Disbursements:						
Program						
Public Safety	13,067	-	13,067	14,650	14,650	(1,583)
Public Works	135,173	-	135,173	146,453	146,453	(11,280)
Health and Social Services	2,150	-	2,150	2,500	2,500	(350)
Culture & Recreation	54,040	-	54,040	39,058	39,058	14,982
Community & economic developmer	1,839	-	1,839	6,000	6,000	(4,161)
General government	74,908	-	74,908	90,259	90,259	(15,351)
Capital projects	146,291	-	146,291	30,000	146,391	(100)
Business-type activities	-	281,875	281,875	296,144	296,144	(14,269)
Total Disbursements	427,468	281,875	709,343	625,064	741,455	(32,112)
Excess (deficiency) of receipts over disbursements	(76,513)	(11,695)	(88,208)	5,613	(110,778)	22,570
Other financing sources (uses)	104,891	-	104,891	-	104,891	-
Excess (disbursements) of receipts and other financing sources over (under) disbursements and other financi	28,378	(11,695)	16,683	5,613	(5,887)	22,570
Balance - beginning of year	574,711	131,975	706,686	427,729	427,729	278,957
Balance - end of year	\$ 603,089	120,280	723,369	433,342	421,842	301,527

See Accompanying Independent Auditor's Report

CITY OF DAKOTA CITY, IOWA

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No.41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund, each major Special Revenue Fund and each major Capital Project Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds and Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds 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, one budget amendment increased disbursements by \$116,391. Budgeted funds from other financing sources were increased with the amendment by \$104,891. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2010, disbursements exceeded the amounts budgeted in the Culture and Recreation function.

CITY OF DAKOTA CITY, IOWA

Schedule 1

**SCHEDULE OF INDEBTNESS
Year Ended June 30, 2010**

Obligation	Date Issued	Interest Rate	Amount Original Issue	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
Revenue Bonds									
Sewer Revenue	4/6/2009	0.00%	145,000	\$ -	104,891	-	104,891	-	-
Water Revenue	9/7/2005	4.75%	142,000	45,690	-	30,484	15,206	1,811	-
				<u>\$ 45,690</u>	<u>104,891</u>	<u>30,484</u>	<u>120,097</u>	<u>1,811</u>	<u>-</u>

See accompanying independent auditor's report

CITY OF DAKOTA CITY, IOWA

Schedule 2

**Bond & Note Maturities
June 30, 2010**

Year Ending	Revenue Notes		Revenue Notes	
	Principal	Interest	Principal	Interest
2011	\$ 104,891	-	15,206	380
	<u>\$ 104,891</u>	<u>\$ -</u>	<u>\$ 15,206</u>	<u>\$ 380</u>

See accompanying independent auditor's report.

CITY OF DAKOTA CITY, IOWA

Schedule 3

**Schedule of Recipes By Source and Disbursements by Function-
All Governmental Funds
For the Last Year**

	<u>2010</u>
Receipts:	
Property Tax	\$ 150,439
Other city tax	65,047
Licenses and permits	1,590
Use of money and property	7,025
Intergovernmental	93,348
Charges for service	29,665
Special assessments	1,662
Miscellaneous	2,179
Total	<u>\$ 350,955</u>
Disbursements:	
Operating:	
Public safety	\$ 13,067
Public works	135,173
Health and socail services	2,150
Culture and recreation	54,040
Community and econmic development	1,839
General government	74,908
Capital projects	146,291
Total	<u>\$ 427,468</u>

See accompanying independent auditor's report.



T.P. ANDERSON & COMPANY, P.C.
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

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:

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 Dakota City, Iowa as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements listed in the table of contents and have issued our report thereon dated December 30, 2010. Our report expressed a qualified opinion on the financial statements which were prepared in conformity with another 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 Dakota City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the effectiveness of the City of Dakota City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Dakota City'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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City of Dakota City financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in Part II of the accompanying Schedule of Findings and Questioned Costs to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Dakota City's financial statements are free of material misstatement, we 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 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 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, 2010 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.

The City of Dakota City's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the City's responses we did not audit the 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 the City of Dakota City and other parties to whom the City of Dakota City 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.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Dakota City 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.

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

December 30, 2010

CITY OF DAKOTA CITY, IOWA

SCHEDULE OF FINDINGS

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

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

CITY OF DAKOTA CITY, IOWA

SCHEDULE OF FINDINGS

Part II: Findings Related to the Financial Statements

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

II-A-10 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the cash receipt function and the recording of the cash receipts is on occasion handled by the same person.

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

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

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

II-B-10 Reconciliation of utility Billings and Collections – Utility billings and collections were not reconciled monthly throughout the whole year.

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

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

Conclusion – Response accepted.

II-C-10 Credit Cards – The City has three credit cards available for use by city employees while on City business. The City has not adopted a formal written policy to regulate the use of credit cards and to establish procedures for the proper accounting of credit card charges.

CITY OF DAKOTA CITY, IOWA

SCHEDULE OF FINDINGS

Recommendation – The City should adopt a formal written policy regulating the use of credit cards. The policy at a minimum should address who controls credit cards, who is authorized to use credit cards and for what purpose, as well as the types of supporting documentation required to substantiate charges.

Response – We have established a written credit card policy.

Conclusion – Response accepted.

Part III: Other Findings Related to Statutory Reporting:

III-A-10 Certified Budget – Disbursements during the year ended June 30, 2010 exceeded the amounts budgeted in the Culture and Recreation function. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under and annual or continuing appropriation.

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

Response – The budget will be amended in accordance with the Code of Iowa in the future, if applicable.

Conclusion – Response accepted.

III-B-10 Questionable Disbursement - We noted no questionable disbursements in regard to the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

III-C-10 Travel Expense - No disbursements of City money for travel expense of spouses of City officials or employees were noted.

III-D-10 Business Transactions - No business transactions between the City and its officials or employees were noted.

III-E-10 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.

CITY OF DAKOTA CITY, IOWA

SCHEDULE OF FINDINGS

III-F-10 Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not.

The City in one instance did not publish their minutes of council proceedings.

The City did not publish annual gross salaries in accordance with an Attorney General's opinion dated April 12, 1978.

The City did not publish a summary of receipts for each month with their minutes of council proceedings.

Recommendation – The City should comply with Chapter 21 of the Code of Iowa and should publish the minutes to each council proceeding and include on a monthly basis a summary of receipts. Also, the City should publish annual individual salaries as required.

Response – We will comply with the Code requirements for publishing of council proceedings, the summary of receipts and annual individual salaries as required.

Conclusion – Response accepted.

III-G-10 Deposits and Investments – The City of Dakota City has not adopted a written investment policy.

Recommendation - Chapter 12B.10B of the Code of Iowa states “Political subdivisions shall approve written investment policies which incorporate the guidelines specified in section 12B.10, sections 12B.10A through 12B.10C, and any other provisions deemed necessary to adequately safeguard invested public funds.” The city should adopt a written investment policy to comply with the Code of Iowa and to implement added controls over city funds.

Response – We will adopt a written investment policy.

Conclusion – Response accepted.

III-H-10 Revenue Bonds and Notes – The City has complied with all revenue bond and note resolutions.

CITY OF DAKOTA CITY, IOWA

SCHEDULE OF FINDINGS

III-I-10 Financial Position – The Capital Projects Fund, Waterworks Fund and Recycling Fund, had deficit fund balances of \$41,400, \$14,325 and \$16,454 respectively at June 30, 2010.

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

Response – The deficits were due to project cost and debt obligation being paid prior to the collection of the related reimbursements. The deficits will be eliminated.

Conclusion – Response accepted.