

City of Danville

**Independent Auditor's Report
Financial Statements and Supplementary Information
Independent Auditor's Report on Internal Control and Compliance
Schedule of Findings and Responses**

June 30, 2011

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City of Danville

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
LeRoy Lippert	Mayor	December, 2011
Duane Worthy	Council Member	December, 2011
Shaun Langan	Council Member	December, 2011
Clem Steinhoff	Council Member	December, 2011
Doug Fraise	Council Member	December, 2013
Bob Hesler	Council Member	December, 2013
Susan Rogers	City Clerk	Not Elected
Gerald Goddard	City Attorney	Not Elected
Allen Schillie	Public Works Superintendent	Not Elected



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Independent Auditor's Report

Honorable Mayor and Members of the City Council
City of Danville, 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 Danville, Iowa (City), as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 accounting principles generally accepted in the United States of America. 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 July 1, 2010.

The financial statements referred to above include only the primary government of the City, which consists of all funds, organizations, institutions, agencies, departments and offices that comprise the City's legal entity. The financial statements do not include financial data for the City's legally separate component units, which accounting principles generally accepted in the United States of America require to be reported with the financial data of the City's primary government. As a result, the primary government financial statements do not purport to, and do not, present fairly the cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

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, 2010 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 primary government of the City as of June 30, 2011, 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 17, 2011 on our consideration of the City'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.

The budgetary comparison information on pages 14 and 15 is not a required part of the basic financial statements, but is 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.

The City has not presented Management's Discussion and Analysis that accounting principles generally accepted in the United States have determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. Other supplementary information, as listed in the table of contents, 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, 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, 2010, as discussed in the third paragraph, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

CPA Associates PC

November 17, 2011

BASIC FINANCIAL STATEMENTS

City of Danville
Statement of Activities and Net Assets - Cash Basis
As of and for the Year Ended June 30, 2011

	Program Receipts				Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
	Disbursements	Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	Total
Functions / Programs:							
Governmental activities:							
Public safety	\$ 104,310	\$ 499	\$ 9,009	\$ -	\$ (94,802)	\$ -	\$ (94,802)
Public works	112,309	-	88,569	-	(23,740)	-	(23,740)
Culture and recreation	4,443	-	-	-	(4,443)	-	(4,443)
General government	88,201	-	-	-	(88,201)	-	(88,201)
Debt service	60,000	-	-	-	(60,000)	-	(60,000)
Capital projects	43,292	-	-	-	(43,292)	-	(43,292)
Total governmental activities	<u>412,555</u>	<u>499</u>	<u>97,578</u>	<u>-</u>	<u>(314,478)</u>	<u>-</u>	<u>(314,478)</u>
Business type activities:							
Water	138,494	145,720	658	-	-	7,884	7,884
Electric	531,519	706,964	658	-	-	176,103	176,103
Sewer	51,834	56,162	4,321	-	-	8,649	8,649
Sanitation	58,066	59,432	-	-	-	1,366	1,366
Utility deposits	10,605	-	-	-	-	(10,605)	(10,605)
Total business type activities	<u>790,518</u>	<u>968,278</u>	<u>5,637</u>	<u>-</u>	<u>-</u>	<u>183,397</u>	<u>183,397</u>
Total	<u>\$ 1,203,073</u>	<u>\$ 968,777</u>	<u>\$ 103,215</u>	<u>\$ -</u>	<u>(314,478)</u>	<u>183,397</u>	<u>(131,081)</u>
General Receipts:							
Property tax levied for:							
General purposes					192,849	-	192,849
Debt service					32,344	-	32,344
Local option sales tax					125,399	-	125,399
Unrestricted investment earnings					12,530	13,360	25,890
Transfers					20,000	(20,000)	-
Miscellaneous					6,277	13,835	20,112
Total general receipts and transfers					<u>389,399</u>	<u>7,195</u>	<u>396,594</u>
Change in cash basis net assets					74,921	190,592	265,513
Cash basis net assets beginning of year					<u>339,958</u>	<u>804,341</u>	<u>1,144,299</u>
Cash basis net assets end of year					<u>\$ 414,879</u>	<u>\$ 994,933</u>	<u>\$ 1,409,812</u>
Cash Basis Net Assets							
Restricted:							
Expendable:							
Road use purposes					\$ 38,795	\$ -	\$ 38,795
Tax referendum purposes					149,548	-	149,548
Debt service					1,630	-	1,630
Other purposes					25,452	-	25,452
Unrestricted					<u>199,454</u>	<u>994,933</u>	<u>1,194,387</u>
Total cash basis net assets					<u>\$ 414,879</u>	<u>\$ 994,933</u>	<u>\$ 1,409,812</u>

See notes to financial statements.

City of Danville
Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Governmental Funds
As of and for the Year Ended June 30, 2011

	<u>Special Revenue</u>				Other Nonmajor Governmental	<u>Total</u>
	<u>General</u>	<u>Road Use</u>	<u>Sales Tax</u>	<u>Debt Service</u>		
Receipts:						
Property tax	\$ 149,061	\$ -	\$ 125,399	\$ 32,344	\$ 43,788	\$ 350,592
Use of money and property	10,212	-	2,212	-	106	12,530
License and permits	330	-	-	-	-	330
Intergovernmental	9,009	88,569	-	-	-	97,578
Miscellaneous	4,469	-	-	-	1,977	6,446
	<u>173,081</u>	<u>88,569</u>	<u>127,611</u>	<u>32,344</u>	<u>45,871</u>	<u>467,476</u>
Total receipts						
Disbursements:						
Operating:						
Public safety	104,310	-	-	-	-	104,310
Public works	14,375	96,737	-	-	1,197	112,309
Culture and recreation	4,443	-	-	-	-	4,443
General government	47,343	-	-	-	40,858	88,201
Debt service	-	-	-	60,000	-	60,000
Capital projects	-	-	43,292	-	-	43,292
Total disbursements	<u>170,471</u>	<u>96,737</u>	<u>43,292</u>	<u>60,000</u>	<u>42,055</u>	<u>412,555</u>
Excess (deficiency) of receipts over disbursements	2,610	(8,168)	84,319	(27,656)	3,816	54,921
Operating transfers in (out)	<u>32,800</u>	<u>-</u>	<u>(34,000)</u>	<u>29,000</u>	<u>(7,800)</u>	<u>20,000</u>
Net change in cash balances	35,410	(8,168)	50,319	1,344	(3,984)	74,921
Cash balances beginning of year	<u>164,044</u>	<u>46,963</u>	<u>99,229</u>	<u>286</u>	<u>29,436</u>	<u>339,958</u>
Cash balances end of year	<u>\$ 199,454</u>	<u>\$ 38,795</u>	<u>\$ 149,548</u>	<u>\$ 1,630</u>	<u>\$ 25,452</u>	<u>\$ 414,879</u>
Cash Basis Fund Balances						
Restricted for:						
Road use purposes	\$ -	\$ 38,795	\$ -	\$ -	\$ -	\$ 38,795
Tax referendum purposes	-	-	149,548	-	-	149,548
Debt service	-	-	-	1,630	-	1,630
Safety program	-	-	-	-	8,208	8,208
Employee benefits	-	-	-	-	17,182	17,182
Other purposes	-	-	-	-	62	62
Unassigned	<u>199,454</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>199,454</u>
Total cash basis fund balances	<u>\$ 199,454</u>	<u>\$ 38,795</u>	<u>\$ 149,548</u>	<u>\$ 1,630</u>	<u>\$ 25,452</u>	<u>\$ 414,879</u>

See notes to financial statements.

City of Danville
Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Proprietary Funds
As of and for the Year Ended June 30, 2011

	Enterprise Funds					Total
	Water	Electric	Sewer	Sanitation	Utility Deposits	
Operating Receipts:						
Charges for services	\$ <u>145,720</u>	\$ <u>706,964</u>	\$ <u>56,162</u>	\$ <u>59,432</u>	\$ <u>-</u>	\$ <u>968,278</u>
Total operating receipts	<u>145,720</u>	<u>706,964</u>	<u>56,162</u>	<u>59,432</u>	<u>-</u>	<u>968,278</u>
Operating Disbursements:						
Business type activities	<u>138,494</u>	<u>531,519</u>	<u>51,834</u>	<u>58,066</u>	<u>10,605</u>	<u>790,518</u>
Total operating disbursements	<u>138,494</u>	<u>531,519</u>	<u>51,834</u>	<u>58,066</u>	<u>10,605</u>	<u>790,518</u>
Excess (deficiency) of operating receipts over (under) operating disbursements	<u>7,226</u>	<u>175,445</u>	<u>4,328</u>	<u>1,366</u>	<u>(10,605)</u>	<u>177,760</u>
Non-operating receipts (disbursements):						
Interest on investments	2,557	9,918	423	164	298	13,360
Miscellaneous	845	1,229	1,023	127	10,611	13,835
Intergovernmental	<u>658</u>	<u>658</u>	<u>4,321</u>	<u>-</u>	<u>-</u>	<u>5,637</u>
Net non-operating receipts (disbursements)	<u>4,060</u>	<u>11,805</u>	<u>5,767</u>	<u>291</u>	<u>10,909</u>	<u>32,832</u>
Excess of receipts over disbursements	11,286	187,250	10,095	1,657	304	210,592
Operating transfers in (out)	<u>-</u>	<u>(20,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(20,000)</u>
Net change in cash balances	11,286	167,250	10,095	1,657	304	190,592
Cash balances beginning of year	<u>160,522</u>	<u>591,833</u>	<u>23,347</u>	<u>9,150</u>	<u>19,489</u>	<u>804,341</u>
Cash balances end of year	\$ <u><u>171,808</u></u>	\$ <u><u>759,083</u></u>	\$ <u><u>33,442</u></u>	\$ <u><u>10,807</u></u>	\$ <u><u>19,793</u></u>	\$ <u><u>994,933</u></u>
Cash Basis Fund Balances						
Unrestricted	<u>171,808</u>	<u>759,083</u>	<u>33,442</u>	<u>10,807</u>	<u>19,793</u>	<u>994,933</u>
Total cash basis fund balances	\$ <u><u>171,808</u></u>	\$ <u><u>759,083</u></u>	\$ <u><u>33,442</u></u>	\$ <u><u>10,807</u></u>	\$ <u><u>19,793</u></u>	\$ <u><u>994,933</u></u>

See notes to financial statements.

City of Danville
Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies

The City of Danville (City) is a political subdivision of the State of Iowa located in Des Moines County. It was first incorporated in 1902 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 electric, water, refuse collection and sewer utilities for its citizens.

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 (GASB) 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 GASB criteria.

Excluded Component Unit

The Danville Fire Department (Fire Department) is a component unit of the City of Danville. The Fire Department exist for the purpose of providing fire protection services to the City of Danville and the surrounding area. The Fire Department meets the definition of a component units since the City of Danville appoints a voting majority to the Fire Department's governing body. The financial statements of Danville Fire Department have not been audited and, accordingly, this component unit has not been presented in the accompanying primary government audited financial statements.

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

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

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

City of Danville
Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (continued)

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

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

The City reports the following major governmental funds:

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

Special Revenue:

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

The Local Option Sales Tax Fund is used to account for the revenues from the tax authorized by referendum to be used for capital improvements, equipment and community programs and services.

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

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 the operation and maintenance of the City owned electric utility system.

The Sanitation Fund accounts for the operation and maintenance of the City's solid waste collection system.

Utility Deposits Fund accounts for deposits that are required when new customers begin using the City's utility services.

City of Danville
Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (continued)

Measurement Focus and 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.

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.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restrictive classifications - committed, assigned and then unassigned fund balances.

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.

Governmental Cash Basis Fund Balances

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Restricted - Amounts restricted to specific purposes when constraints place on the use of the resources are either externally imposed by creditors, grantors, or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Unassigned - All amounts not included in other spendable classifications.

Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

Subsequent Events

The City performed an evaluation of subsequent events through November 17, 2011, which is the date the financial statements were issued. There were no subsequent events that required disclosure or recognition in the financial statements as of June 30, 2011.

City of Danville
Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (continued)

Recently Adopted Accounting Pronouncements

In February 2009, the Governmental Accounting Standards Board (GASB) issued Statement Number 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which provides clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. The statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The City adopted this statement on July 1, 2010.

Note 2. Cash and Investments

The City's deposits in banks at June 30, 2011 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

The City's investments are categorized to give an indication of the level of risk assumed by the City at year end. The City's investments are all Level 1 which means that the investments are insured or registered or the securities are held by the City or its agent in the City's name.

The City's investments at June 30, 2011 were entirely in certificates of deposit.

Note 3. Bonds and Notes Payable

Annual debt service requirements to maturity for general obligation bonds, urban renewal tax increment financing revenue bonds and water revenue note are as follows:

Year Ending June 30.	<u>General Obligation Bonds</u>	
	<u>Principal</u>	<u>Interest</u>
2012	\$ 30,000	\$ 16,500
2013	33,000	15,000
2014	33,000	13,350
2015	33,000	11,700
2016	<u>21,000</u>	<u>10,050</u>
	<u>\$ 150,000</u>	<u>\$ 66,600</u>

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

City of Danville
Notes to Financial Statements

Note 4. Compensated Absences

City employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation payments payable to employees at June 30, 2011, primarily relating to the General Fund, is \$6,817 based on rates of pay in effect at June 30, 2011.

Note 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 4.50% of their annual covered salary and the City is required to contribute 6.95% of annual covered payroll. Contribution requirements are established by state statute. The City's contribution to IPERS for the year ended June 30, 2011 was \$9,517, equal to the required contribution for each year.

Note 6. Other Postemployment Benefits (OPEB)

Plan Description - The City operates a single-employer retiree benefit plan which provides medical/prescription drug benefits for retirees and their spouses. There are 3 active members and 1 retired member in the plan. Participants must be age 55 or older at retirement.

The medical/prescription drug coverage is provided through a fully-insured plan with City/County Healthcare. Retirees under age 65 pay the same premium for the medical/prescription drug benefit as active employees, which results in an implicit subsidy and an OPEB liability.

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 \$536 for single coverage and \$1,001 for family coverage. The same monthly premiums apply to retirees. For the year ended June 30, 2011, the City contributed \$36,258 to the plan.

Note 7. Risk Management

The 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. 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.

City of Danville
Notes to Financial Statements

Note 8. Commitments

In the normal course of business, the City has various outstanding commitments that are not reflected in the accompanying financial statements. The City has committed to purchasing a truck with a snow plow for \$30,382.

The City has contracted with the Des Moines County Sheriff's office for law enforcement services for fiscal year 2012 totaling \$63,617.

Note 9. Related Party Transactions

No material transactions between the City and City officials were noted during the course of the audit.

Note 10. Major Supplier

The Utilities' power is currently purchased through the Resale Power Group of Iowa. The total amount purchased was \$409,038 which represents 100% of the total kilowatt hours generated and purchased.

Note 11. Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2011 is as follows:

Transfer to:	
General fund	\$ 32,800
Debt service	<u>29,000</u>
	<u>\$ 61,800</u>
Transfer from:	
Sales tax	\$ 34,000
Nonmajor governmental	7,800
Electric	<u>20,000</u>
	<u>\$ 61,800</u>

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

City of Danville
Notes to Financial Statements

Note 12. Jointly Governed Organization

The City is a participant in the Des Moines County Regional Solid Waste Commission, a political subdivision pursuant to the Code of Iowa Chapter 28E. The purpose of the agreement is to provide area governments with solid waste disposal sources. The City currently provides one member of the eleven member board. The City paid \$14,722 in recycling fees and landfill fees in fiscal year 2011. Des Moines County Regional Solid Waste Commission audited financial statements are available at City Hall.

REQUIRED SUPPLEMENTARY INFORMATION

City of Danville
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, 2011

	Governmental Funds Actual	Proprietary Fund Type Actual	Less Funds not Required to be Budgeted	Net	Budgeted Amounts		Final to Net Variance
					Original	Final	
Receipts:							
Property tax	\$ 350,592	\$ -	\$ -	\$ 350,592	\$ 216,587	\$ 216,587	\$ 134,005
Other city taxes	-	-	-	-	116,186	116,186	(116,186)
Use of money and property	12,530	13,360	-	25,890	24,880	24,880	1,010
Licenses and permits	330	-	-	330	5,100	5,100	(4,770)
Intergovernmental	97,578	5,637	-	103,215	91,624	91,624	11,591
Charges for service	-	968,278	-	968,278	853,940	853,940	114,338
Miscellaneous	6,446	13,835	-	20,281	12,650	12,650	7,631
Total receipts	<u>467,476</u>	<u>1,001,110</u>	<u>-</u>	<u>1,468,586</u>	<u>1,320,967</u>	<u>1,320,967</u>	<u>147,619</u>
Disbursements:							
Public safety	104,310	-	-	104,310	109,953	109,953	5,643
Public works	112,309	-	-	112,309	151,481	151,481	39,172
Culture and recreation	4,443	-	-	4,443	5,234	7,000	2,557
General government	88,201	-	-	88,201	87,270	100,000	11,799
Debt service	60,000	-	-	60,000	61,000	60,000	-
Capital projects	43,292	-	-	43,292	75,000	85,000	41,708
Business type activities	-	790,518	-	790,518	1,014,957	1,014,957	224,439
Total disbursements	<u>412,555</u>	<u>790,518</u>	<u>-</u>	<u>1,203,073</u>	<u>1,504,895</u>	<u>1,528,391</u>	<u>325,318</u>
Excess (deficiency) of receipts over disbursements	54,921	210,592	-	265,513	(183,928)	(207,424)	472,937
Other financing sources (uses)	<u>20,000</u>	<u>(20,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in cash balances	74,921	190,592	-	265,513	(183,928)	(207,424)	472,937
Cash balances beginning of year	<u>339,958</u>	<u>804,341</u>	<u>-</u>	<u>1,144,299</u>	<u>944,199</u>	<u>944,199</u>	<u>200,100</u>
Cash balances end of year	<u>\$ 414,879</u>	<u>\$ 994,933</u>	<u>\$ -</u>	<u>\$ 1,409,812</u>	<u>\$ 760,271</u>	<u>\$ 736,775</u>	<u>\$ 673,037</u>

See accompanying independent auditor's report.

City of Danville
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 and each major Special Revenue Fund.

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

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund or fund type. These nine 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. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Fund and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, a budget amendment increased budgeted disbursements by \$23,496. The budget amendments are reflected in the final budgeted amounts. During the year ended June 30, 2011, disbursements did not exceed amounts budgeted in any function.

OTHER SUPPLEMENTARY INFORMATION

City of Danville
Schedule of Cash Receipts, Disbursements and Changes in Cash Balances
Nonmajor Governmental Funds
As of and for the Year Ended June 30, 2011

	<u>Employee Benefit</u>	<u>FICA/IPERS Worker's Compensation</u>	<u>Safety Program</u>	<u>Urban Renewal Tax Increment Financing</u>	<u>Total</u>
Receipts:					
Property taxes	\$ 35,926	\$ 7,862	\$ -	\$ -	\$ 43,788
Use of money and property	-	-	106	-	106
Miscellaneous	-	-	1,977	-	1,977
Total receipts	<u>35,926</u>	<u>7,862</u>	<u>2,083</u>	<u>-</u>	<u>45,871</u>
Disbursements:					
Public works	-	-	1,197	-	1,197
General government	36,258	-	-	4,600	40,858
Total disbursements	<u>36,258</u>	<u>-</u>	<u>1,197</u>	<u>4,600</u>	<u>42,055</u>
Excess (deficiency) of receipts over disbursements	(332)	7,862	886	(4,600)	3,816
Operating transfers in (out)	-	(7,800)	-	-	(7,800)
Net change in cash balances	(332)	62	886	(4,600)	(3,984)
Cash balances beginning of year	<u>17,514</u>	<u>-</u>	<u>7,322</u>	<u>4,600</u>	<u>29,436</u>
Cash balances end of year	<u>\$ 17,182</u>	<u>\$ 62</u>	<u>\$ 8,208</u>	<u>\$ -</u>	<u>\$ 25,452</u>
Cash Basis Fund Balances					
Restricted	<u>\$ 17,182</u>	<u>\$ 62</u>	<u>\$ 8,208</u>	<u>\$ -</u>	<u>\$ 25,452</u>
Total cash basis fund balances	<u>\$ 17,182</u>	<u>\$ 62</u>	<u>\$ 8,208</u>	<u>\$ -</u>	<u>\$ 25,452</u>

See accompanying independent auditor's report.

**City of Danville
Statement of Indebtedness
Year Ended June 30, 2011**

<u>Obligation</u>	<u>Date of Issuance</u>	<u>Interest Rates</u>	<u>Amount Originally Issued</u>	<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>
General obligation bonds:									
Capital loan note	11/01/01	5.00%	\$ 600,000	<u>\$ 200,000</u>	<u>\$ -</u>	<u>\$ 50,000</u>	<u>\$ 150,000</u>	<u>\$ 10,000</u>	<u>\$ -</u>

See accompanying independent auditor's report.

City of Danville
Bond and Note Maturities
June 30, 2011

	General Obligation	
	<u>Bonds</u>	
	<u>Capital Loan Note</u>	
	<u>Issued November 1, 2001</u>	
<u>Year</u> <u>Ending</u> <u>June 30,</u>	<u>Interest</u> <u>Rate</u>	<u>Amount</u>
2012	5.00%	\$ 30,000
2013	5.00%	33,000
2014	5.00%	33,000
2015	5.00%	33,000
2016	5.00%	<u>21,000</u>
		<u>\$ 150,000</u>

See accompanying independent auditor's report.



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

Honorable Mayor and
Members of the City Council
City of Danville, 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 Danville, Iowa (City) as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated November 17, 2011. The report was qualified because we were unable to verify the distribution by fund at July 1, 2010. Except as discussed in the preceding sentence, we conducted our audit in accordance with auditing standards generally accepted in the United States of America 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'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 an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the 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 that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Responses, 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 a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings and Responses to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 or other matters which are described in Part II of the accompanying Schedule of Findings and Responses.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2011 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's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Responses. While we have expressed our conclusions on the City's responses, we did not audit the City'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 the City and other parties to whom the 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 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.

CPA Associates PC

November 17, 2011

City of Danville
Schedule of Findings and Responses
Year Ended June 30, 2011

Part I: Findings Related to the Financial Statements

MATERIAL WEAKNESSES

I-A-11 Preparation of Financial Statements - The City does not have an internal control system designed to provide for the preparation of the financial statements 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. Therefore, as auditors, we were requested to draft the financial statements and accompanying notes to the financial statements. This circumstance is not unusual for a governmental entity similar in population to the City of Danville. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Recommendation - We realize that obtaining the expertise necessary to prepare the financial statements, including all necessary disclosures, can be considered costly and ineffective. However, the City's management and those charged with governance should decide whether to accept the degree of risk associated with this condition.

Response - The City will continue to review and monitor procedures currently in place and evaluate the risks to be accepted in the preparation of the financial statements.

Conclusion - Response accepted.

I-B-11 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent one individual employee from handling a transaction from its inception to its completion. Management has not separated incompatible activities of personnel, thereby creating risks related to the safeguarding of cash and the accuracy of the financial statements.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, the City Council should continue to provide oversight and direction based upon their direct knowledge of the City's operations and day-to-day contact with employees to control and safeguard assets.

Response - The City will continue to review operating procedures and segregate employee duties to the extent financially feasible to maximize internal control.

Conclusion - Response accepted.

I-C-11 Financial Reporting - The City wrote and held two checks at year end.

Recommendation - The City should establish procedures to ensure checks are not written and held.

Response - Checks will not be held, procedures will be put in place to make sure checks are not being held.

Conclusion - Response accepted.

City of Danville
Schedule of Findings and Responses
Year Ended June 30, 2011

Part I: Findings Related to the Financial Statements (continued)

SIGNIFICANT DEFICIENCY

I-D-11 Credit Cards - The City has credit cards for use by various employees while on City business. The City has not adopted a formal policy to regulate the use of credit cards and to establish procedures for the proper accounting of credit card charges.

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

Response - The City will review procedures and guidelines and establish a written policy.

Conclusion - Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

Part II: Other Findings Related to Required Statutory Reporting

II-A-11 Official Depositories - A resolution naming official depositories has been approved by the City. The depository resolution did not include the maximum allowable deposit amounts in accordance with Chapter 12C.2 of the Code of Iowa. Deposit amounts exceeded FDIC insurance limits during the year.

Recommendation - A new depository resolution should be adopted that specifies the maximum allowable deposits in amounts sufficient to cover anticipated balances at all approved depositories in accordance with Chapter 12C.2 of the Code of Iowa.

Response - A resolution naming official depositories with sufficient maximum allowable deposit amounts will be adopted by the City.

Conclusion - Response accepted.

II-B-11 Certified Budget - Disbursements during the year ended June 30, 2011 did not exceed the amounts budgeted in any program. 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".

The City published a notice of public hearing on the budget including a summary of the proposed budget as required by Chapter 384.16 of the Code of Iowa.

II-C-11 Questionable Disbursements - We noted no disbursements that did not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

City of Danville
Schedule of Findings and Responses
Year Ended June 30, 2011

Part II: Other Findings Related to Statutory Reporting (continued)

- II-D-11 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- II-E-11 Business Transactions - We noted no evidence of business transactions between the City and City officials or employees that we believed to be in violation of statutory provisions.
- II-F-11 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.
- II-G-11 Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not.
- II-H-11 Bonds and Revenue Notes - No instances of non-compliance with the general obligation bond resolutions were noted.
- II-I-11 Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapter 12B of the Code of Iowa and the City's investment policy were noted.