# CITY OF ARNOLDS PARK
## INDEPENDENT AUDITORS' REPORTS
## PRIMARY GOVERNMENT
## BASIC FINANCIAL STATEMENTS,
## SUPPLEMENTARY INFORMATION,
## AND SCHEDULE OF FINDINGS
## JUNE 30, 2011

CITY OF ARNOLDS PARK

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CITY OF ARNOLDS PARK

CITY OFFICIALS

| NAME | TITLE | TERM EXPIRES |
|---|---|---|
| Mike Mitchell | Mayor | December 31, 2011 |
| Mike Koppert | Mayor Pro-Tem | December 31, 2013 |
| Mitchell Watters | Council Member | December 31, 2013 |
| Jason Christensen | Council Member | December 31, 2011 |
| James D. Jensen | Council Member | December 31, 2011 |
| John Adams | Council Member | December 31, 2011 |
| Ron Walker | Clerk Administrator | December 31, 2011 |
| Kevin Sander | City Attorney | December 31, 2011 |

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# INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and
Members of the City Council
City of Arnolds Park
Arnolds Park, IA 51331

We have audited the accompanying financial statements of the governmental activities, the business type activities and each major fund of the primary government of the City of Arnolds Park, Iowa, as of and for the year ended June 30, 2011, which collectively comprise the basic financial statements of the City's primary government as 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 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 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.

The financial statements do not include financial data for the City's legally separate component units. Accounting principles generally accepted in the United States of America require the financial data for the component units to be reported with the financial data of the City's primary government unless the City also issues financial statements for the financial reporting entity that include the financial data for its component units. The City has not issued such reporting entity financial statements. Because of this departure from accounting principles generally accepted in the United States of America, the assets, liabilities, net assets, revenues, and expenses of the component units required to be discretely presented totaling $5,620,187, $855,238, $4,764,949, $379,865, and $412,229, respectively, have not been reported.

In our opinion, because of the omission of the discretely presented component units, as discussed above, the financial statements referred to above do not present fairly, in conformity



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with accounting principles generally accepted in the United States of America, the financial position of the discretely presented component units of the City of Arnolds Park, Iowa, as of June 30, 2011, or the changes in financial position thereof for the year then ended.

Further, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business-type activities, and each major fund of the primary government of the City of Arnolds Park at 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 December 14, 2011 on our consideration of the City of Arnolds Park'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 on 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.

Budgetary comparison information on pages 17 through 19 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We 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 which introduces the basic financial statements by presenting certain financial information as well as management's analytical insight on that information that the Government Accounting Standards Board has determined is necessary to supplement, although not required to be a 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 of Arnolds Park's basic financial statements. The financial statements for the three years ended June 30, 2005 (not presented herein) were previously audited, in accordance with the standards referred to in the second paragraph of this report, by other auditors who expressed unqualified opinions on those financial statements which were prepared in conformity with an other comprehensive basis of accounting. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the primary government financial statements for the five years ended June 30, 2010 (which are not presented herein) and expressed unqualified opinions on those financial statements which were prepared in conformity with an other comprehensive basis of accounting. Other supplementary information included in Schedules 1 through 4 is presented for the purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Winther, Starr & Co., LLP

December 14, 2011

# BASIC FINANCIAL STATEMENTS

CITY OF ARNOLDS PARK
STATEMENT OF ACTIVITIES AND NET ASSETS-CASH BASIS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2011

| | | Program Receipts | | |
|---|---|---|---|---|
| | Disbursements | Charges for Service | Operating Grants, Contributions, and Restricted Interest | Capital Grants, Contributions, and Restricted Interest |
| FUNCTIONS/PROGRAMS: | | | | |
| Governmental activities: | | | | |
| Public safety | $ 659,414 | $ 72,250 | $ - | $ - |
| Public works | 423,369 | 172,342 | 110,967 | - |
| Culture and recreation | 144,968 | 49,304 | 23,844 | - |
| Community and economic development. | 148,160 | - | - | - |
| General government | 480,113 | - | - | - |
| Debt service | 2,837,589 | - | - | - |
| Capital projects | 708,999 | - | - | 912,396 |
| Total governmental activities | 5,402,612 | 293,896 | 134,811 | 912,396 |
| Business-type activities: | | | | |
| Water | 270,389 | 447,314 | - | - |
| Sewer | 208,104 | 208,568 | - | - |
| Total business-type activities | 478,493 | 655,882 | - | - |
| TOTAL | $ 5,881,105 | $ 949,778 | $ 134,811 | $ 912,396 |
| General Receipts: | | | | |
| Property tax levied for: | | | | |
| General purposes | | | | |
| Tax increment financing collections | | | | |
| Local option sales tax | | | | |
| Hotel/motel tax | | | | |
| Other city tax | | | | |
| Unrestricted interest on investments | | | | |
| Bond proceeds | | | | |
| Miscellaneous | | | | |
| Transfers | | | | |
| Total general receipts and transfers | | | | |
| Change in cash basis net assets | | | | |
| Cash basis net assets - beginning of year | | | | |
| Cash basis net assets - end of year | | | | |
| Cash basis net assets | | | | |
| Restricted, expendable: | | | | |
| Streets | | | | |
| Urban renewal purposes | | | | |
| Debt service | | | | |
| Capital projects | | | | |
| Unrestricted | | | | |
| Total cash basis net assets | | | | |

See Notes to Financial Statements

CITY OF ARNOLDS PARK
STATEMENT OF ACTIVITIES AND NET ASSETS-CASH BASIS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2011

Exhibit A

| Net (Disbursements) Receipts and Changes in Cash Basis Net Assets | | |
|---|---|---|
| Governmental Activities | Business-type Activities | Total |
| $ (587,164) | $ - | $ (587,164) |
| (140,060) | - | (140,060) |
| (71,820) | - | (71,820) |
| (148,160) | - | (148,160) |
| (480,113) | - | (480,113) |
| (2,837,589) | - | (2,837,589) |
| 203,397 | - | 203,397 |
| (4,061,508) | - | (4,061,508) |
| - | 176,925 | 176,925 |
| - | 464 | 464 |
| - | 177,389 | 177,389 |
| (4,061,508) | 177,389 | (3,884,119) |
| 862,379 | - | 862,379 |
| 919,553 | - | 919,553 |
| 222,201 | - | 222,201 |
| 279,866 | - | 279,866 |
| 24,828 | - | 24,828 |
| 18,843 | - | 18,843 |
| 2,181,537 | - | 2,181,537 |
| 126,041 | - | 126,041 |
| 130,000 | (130,000) | - |
| 4,765,248 | (130,000) | 4,635,248 |
| 703,740 | 47,389 | 751,128 |
| 1,610,669 | 50,200 | 1,660,869 |
| $ 2,314,409 | $ 97,589 | $ 2,411,998 |
| $ 48,298 | $ - | $ 48,298 |
| 38,163 | - | 38,163 |
| 118,370 | - | 118,370 |
| 1,525,113 | - | 1,525,113 |
| 584,465 | 97,589 | 682,054 |
| $ 2,314,409 | $ 97,589 | $ 2,411,998 |

See Notes to Financial Statements

CITY OF ARNOLDS PARK
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND
CHANGES IN CASH BALANCES
GOVERNMENTAL FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30,2011

| | | Special Revenue | |
|---|---|---|---|
| | General | Road Use Tax | Urban Renewal Tax Increment |
| RECEIPTS: | | | |
| Property tax | $ 862,379 | $ - | $ - |
| Tax increment financing collections | - | - | 919,553 |
| Other city tax | 526,895 | - | - |
| Licenses and permits | 21,598 | - | - |
| Use of money and property | - | - | - |
| Intergovernmental | 23,844 | 110,967 | - |
| Charges for service | 293,896 | - | - |
| Miscellaneous | 104,443 | - | - |
| TOTAL RECEIPTS | 1,833,056 | 110,967 | 919,553 |
| DISBURSEMENTS: | | | |
| Operating: | | | |
| Public safety | 659,414 | - | - |
| Public works | 313,549 | 109,820 | - |
| Culture and recreation | 144,968 | - | - |
| Community and economic development | 148,160 | - | - |
| General government | 480,113 | - | - |
| Debt service | - | - | - |
| Capital projects | - | - | - |
| TOTAL DISBURSEMENTS | 1,746,204 | 109,820 | - |
| EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS | 86,852 | 1,147 | 919,553 |
| OTHER FINANCING SOURCES (USES): | | | |
| Bond proceeds | - | - | - |
| Operating transfers in (out) | (125,000) | - | (835,227) |
| TOTAL OTHER FINANCING SOURCES (USES) | (125,000) | - | (835,227) |
| NET CHANGES IN CASH BALANCES | (38,148) | 1,147 | 84,326 |
| CASH BALANCES - BEGINNING OF YEAR, AS RESTATED | 622,613 | 47,151 | (46,163) |
| CASH BALANCES - END OF YEAR | $ 584,465 | $ 48,298 | $ 38,163 |
| CASH BASIS FUND BALANCES: | | | |
| Restricted for: | | | |
| Debt service | $ - | $ - | $ - |
| Streets | - | 48,298 | - |
| Urban renewal purposes | - | - | 38,163 |
| Capital projects funds | - | - | - |
| Unassigned | 584,465 | | |
| TOTAL CASH BASIS FUND BALANCES | $ 584,465 | $ 48,298 | $ 38,163 |

See Notes to Financial Statements

Exhibit B

CITY OF ARNOLDS PARK
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND
CHANGES IN CASH BALANCES
GOVERNMENTAL FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30,2011

| Debt Service | Capital Projects | Total |
|---|---|---|
| $ - | $ - | $ 862,379 |
| - | - | 919,553 |
| - | - | 526,895 |
| - | - | 21,598 |
| - | 18,843 | 18,843 |
| - | 473,300 | 608,111 |
| - | - | 293,896 |
| - | 439,096 | 543,539 |
| - | 931,239 | 3,794,814 |
| - | - | 659,414 |
| - | - | 423,369 |
| - | - | 144,968 |
| - | - | 148,160 |
| - | - | 480,113 |
| 2,837,589 | - | 2,837,589 |
| - | 708,999 | 708,999 |
| 2,837,589 | 708,999 | 5,402,612 |
| (2,837,589) | 222,240 | (1,607,797) |
| 1,925,000 | 256,537 | 2,181,537 |
| 880,227 | 210,000 | 130,000 |
| 2,805,227 | 466,537 | 2,311,537 |
| (32,362) | 688,777 | 703,740 |
| 150,732 | 836,336 | 1,610,669 |
| $ 118,370 | $ 1,525,113 | $ 2,314,409 |
| $ 118,370 | $ - | $ 118,370 |
| - | - | 48,298 |
| - | - | 38,163 |
| - | 1,525,113 | 1,525,113 |
| | | 584,465 |
| $ 118,370 | $ 1,525,113 | $ 2,314,409 |

See Notes to Financial Statements

Exhibit C

CITY OF ARNOLDS PARK
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND
CHANGES IN CASH BALANCES
PROPRIETARY FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2011

| | Water | Sewer | Total |
|---|---|---|---|
| OPERATING RECEIPTS: | | | |
| Charges for service | $ 447,314 | $ 208,568 | $ 655,882 |
| TOTAL OPERATING RECEIPTS | 447,314 | 208,568 | 655,882 |
| DISBURSEMENTS: | | | |
| Business-type activities | 270,389 | 208,104 | 478,493 |
| TOTAL OPERATING DISBURSEMENTS | 270,389 | 208,104 | 478,493 |
| EXCESS OF OPERATING RECEIPTS OVER OPERATING DISBURSEMENTS | 176,925 | 464 | 177,389 |
| OPERATING TRANSFERS OUT | (120,000) | (10,000) | (130,000) |
| NET CHANGES IN CASH BALANCES | 56,925 | (9,536) | 47,389 |
| CASH BALANCE - BEGINNING OF YEAR | 15,400 | 34,800 | 50,200 |
| CASH BALANCE - END OF YEAR | $ 72,325 | $ 25,264 | $ 97,589 |
| CASH BASIS FUND BALANCE: | | | |
| Unresricted | $ 72,325 | $ 25,264 | $ 97,589 |

See Notes to Financial Statements

# NOTES TO FINANCIAL STATEMENTS

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Arnolds Park is a political subdivision of the State of Iowa located in Dickinson County. It was first incorporated in 1897 and operates under the Home Rule provisions of the Constitution of Iowa and under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, culture and recreation, community and economic development, public improvements, and general government services. The City also provides water and sewer utilities for its citizens.

### A. Reporting Entity

For financial reporting purposes, the City is considered a primary government and has excluded the financial data of its component units, Central Water System and Arnolds Park/Okoboji Fire Rescue Association. A primary government is a legal entity or body politic and includes all funds, organizations, institutions, agencies, departments, and offices that are not legally separate. A component unit is a legally separate entity for which the City is financially accountable. 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. Since these financial statements do not include the City's component units, they do not purport to be prepared in conformity with U.S. generally accepted accounting principles as they relate to the exclusion of the component units described below:

The City participates with the City of Okoboji in the operation of Central Water System, which is organized under Chapter 28E of the Code of Iowa and provides water system services to the two municipalities and an unrelated regional water system. The System is operated by the parties through a joint Board of Directors consisting of one member from each city council, or such other individual as that council shall designate, and a third member appointed and approved by a majority vote of the city councils of the municipalities. Water services purchased by the City from the System during the year ended June 30, 2011 totaled $149,806, approximately 49% of total System revenues. The financial statements of this component unit are separately audited and are presented on the accrual basis of accounting. Complete financial statements of Central Water System can be obtained from their administrative offices.

The City participates with the City of Okoboji in the operation of fire and rescue services. Arnolds Park/Okoboji Fire Rescue Association is a 501(c)3 organization, which was formed to receive donations for the benefit of the fire and rescue services operated by the City. Complete financial statements of the Association are not prepared.

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: Upper Des Moines Opportunity Board, Dickinson County Emergency Management Commission, Dickinson County Sanitary Landfill Commission, Dickinson County Water Quality Commission, Dickinson County Assessor's Conference Board, and Dickinson County Joint E911 Service Board.

**B. Basis of Presentation**

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

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

*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.

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 the road use tax allocation from the State of Iowa to be used for road construction and maintenance.

The Urban Renewal Tax Increment Fund is used to account for tax increment financing collections and repayment of tax increment financing.

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

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

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 sanitary sewer system.

**C. Measurement Focus and Basis of Accounting**

The City of Arnolds Park 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.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement 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 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.

**D. 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 placed 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 the restricted spendable classification.

**E. Budgets and Budgetary Accounting**

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2011, disbursements exceeded the amounts budgeted in the public safety and community and economic development functions.

**F. Subsequent Events**

Management has evaluated subsequent events through the date of the auditors' report, which is the date the financial statements were available to be issued.

## 2. CASH AND POOLED 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; and certain registered open-end management investment companies.

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) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the City.

## 3. BONDS AND NOTES PAYABLE

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

| Year Ending June 30, | Principal | Interest |
|---|---|---|
| 2012 | $ 636,000 | $ 413,040 |
| 2013 | 734,000 | 395,864 |
| 2014 | 747,000 | 372,978 |
| 2015 | 765,000 | 349,686 |
| 2016 | 704,000 | 325,713 |
| 2017 - 2021 | 3,632,008 | 1,282,704 |
| 2022 - 2026 | 2,495,000 | 741,027 |
| 2027 - 2031 | 1,800,000 | 168,549 |
| Total | $11,513,008 | $ 4,049,561 |

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

## 4. PENSION AND RETIREMENT BENEFITS

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

Most regular plan members are required to contribute 4.50% of their annual covered salary and the City is required to contribute 6.95% 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 year ended June 30, 2011, 2010, and 2009, were $53,499, $50,909, and $45,103, respectively, equal to the required contribution for the year.

## 5. OTHER POSTEMPLOYMENT BENEFITS (OPEB)

Plan Description - The City operates a single-employer retiree health plan which provides medical/prescription drug benefits for employees and retirees. There are no retired members in the plan. Eligible retirees receive health care coverage through the same plans that are available for active employees. Retired participants must be age 55 or older at retirement. Benefits terminate upon attaining Medicare eligibility.

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

Contributions are required for retiree coverage. The retiree contributions are based on and equal to the historical full cost of active members. Retiree expenses are then offset by retiree contributions.

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. Depending on plan level selected, the most recent active member monthly premiums for the City and plan members range from $477 for single coverage to $1,181 for family coverage. The same monthly premiums apply to retirees. For the year ended June 30, 2011, the city made no contributions to the retiree benefit plan.

## 6. 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 compensated absences payable to employees at June 30, 2011 is $15,985, primarily relating to the General Fund. This liability has been computed based on rates of pay as of June 30, 2011.

As sick leave is not payable upon termination, retirement or death, the accumulated sick leave is not presented as part of these financial statements.

## 7. RISK MANAGEMENT

The City is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 645 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses, and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 150 percent of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The City's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The City's annual contributions to the Pool for the year ended June 30, 2011 were $47,143.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to $350,000 per claim. Claims exceeding $350,000 are reinsured in an amount not to exceed $2,650,000 per claim. For members requiring specific coverage from $3,000,000 to $12,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to $150,000 each occurrence, each location, with excess coverage reinsured by The Travelers Insurance Company.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event that a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. As of June 30, 2011, settled claims have not exceeded the risk pool or reinsurance coverage since the pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or

reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their capital contributions. If a member withdraws after the sixth year, the member is refunded 100 percent of its casualty capital contributions. However, the refund is reduced by an amount equal to the annual operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

The City also carries commercial insurance purchased from other insurers for coverage associated with workers compensation. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

## 8. INTERFUND TRANSFERS

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

| Transfers to | Transfer from | Amount |
|---|---|---|
| Capital Projects | General | $ 125,000 |
| | Water | 75,000 |
| | Sewer | 10,000 |
| Total transfers to Capital Projects Fund | | 210,000 |
| Debt Service | TIF | 835,227 |
| | Water | 45,000 |
| Total transfers to Debt Service Fund | | 880,227 |
| Total | | $1,090,227 |

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

## 9. RELATED PARTY TRANSACTIONS

The City had business transactions between the City and City officials totaling $2,329 during the year ended June 30, 2011.

## 10. LITIGATION

The City is party to routine legal proceedings and litigation arising in the normal course of business. In the opinion of management, the outcome of such actions will have no material impact on the City's financial condition.

## 11. COMMITMENTS AND CONTINGENCIES

At June 30, 2011, the City has entered into construction contracts for street projects totaling approximately $233,785, of which approximately $85,520 remained outstanding. The balance on the contracts will be paid as the projects progress.

The City has committed to provide funding along with the City of Okoboji to Central Water Systems for a plant expansion project. The commitment will be paid as the project progresses from the proceeds of an approximately $5,700,000 general obligation capital loan note issued in July 2009 through the State Revolving Loan Fund. At June 30, 2011, $1,567,921 has been paid to Central Water System with advances of $2,193,008 from the State Revolving Loan Fund. In addition, the City has been awarded, but has not yet received, an I-Jobs Grant of $1,450,000 toward the project.

## 12. SUBSEQUENT EVENTS

The City, subsequent to June 30, 2011, entered into several construction contracts for improvements to parks and streets totaling approximately $471,000.

## 13. ACCOUNTING CHANGE/RESTATEMENT

Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, was implemented during the year ended June 30, 2011. The effect of fund type reclassifications is as follows:

| | General | Special Revenue Local Option Sales Tax |
|---|---|---|
| Balances - June 30, 2010, as previously reported. ... | $615,515 | $ 7,098 |
| Change in fund type classification per implementation of GASB Statement No. 54. ..... | 7,098 | (7,098) |
| Balances - July 1, 2010, as restated | $622,613 | $ |

# REQUIRED SUPPLEMENTARY INFORMATION

CITY OF ARNOLDS PARK
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 Funds Actual |
|---|---|---|
| RECEIPTS: | | |
| Property tax | $ 862,379 | $ - |
| Tax increment financing collections | 919,553 | - |
| Other city tax | 526,895 | - |
| Licenses and permits | 21,598 | - |
| Use of money and property | 18,843 | - |
| Intergovernmental | 608,111 | - |
| Charges for service | 293,896 | 655,882 |
| Special assessments | - | - |
| Miscellaneous | 543,539 | - |
| TOTAL RECEIPTS | 3,794,814 | 655,882 |
| DISBURSEMENTS: | | |
| Public safety | 659,414 | - |
| Public works | 423,369 | - |
| Culture and recreation | 144,968 | - |
| Community and economic development | 148,160 | - |
| General government | 480,113 | - |
| Debt service | 2,837,589 | - |
| Capital projects | 708,999 | - |
| Business-type activities | - | 478,493 |
| TOTAL DISBURSEMENTS | 5,402,612 | 478,493 |
| EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS | (1,607,797) | 177,389 |
| OTHER FINANCING SOURCES - NET | 2,311,537 | (130,000) |
| EXCESS (DEFICIENCY) OF RECEIPTS AND OTHER FINANCING SOURCES OVER (UNDER) DISBURSEMENTS AND OTHER FINANCING USES | 703,740 | 47,389 |
| CASH BALANCES - BEGINNING OF YEAR | 1,610,669 | 50,200 |
| CASH BALANCES - END OF YEAR | $ 2,314,408 | $ 97,589 |

See Accompanying Independent Auditors' Report

| Total | Budgeted Amounts Original | Budgeted Amounts Final | Final to Total Variance |
|---|---|---|---|
| $ 862,379 | $ 858,640 | $ 858,640 | $ 3,739 |
| 919,553 | 908,381 | 908,381 | 11,172 |
| 526,895 | 502,281 | 537,281 | (10,386) |
| 21,598 | 5,950 | 5,950 | 15,648 |
| 18,843 | 10,500 | 10,500 | 8,343 |
| 608,111 | 289,187 | 301,687 | 306,424 |
| 949,778 | 872,120 | 892,120 | 57,658 |
| - | 45,000 | 45,000 | (45,000) |
| 543,539 | 83,326 | 83,326 | 460,213 |
| 4,450,696 | 3,575,385 | 3,642,885 | 807,811 |
| 659,414 | 637,101 | 637,101 | (22,313) |
| 423,369 | 449,785 | 459,785 | 36,416 |
| 144,968 | 191,690 | 211,690 | 66,722 |
| 148,160 | 120,000 | 137,500 | (10,660) |
| 480,113 | 500,296 | 500,296 | 20,183 |
| 2,837,589 | 984,402 | 2,984,402 | 146,813 |
| 708,999 | 5,014,000 | 5,014,000 | 4,305,001 |
| 478,493 | 516,300 | 536,300 | 57,807 |
| 5,881,105 | 8,413,574 | 10,481,074 | 4,599,969 |
| (1,430,409) | (4,838,189) | (6,838,189) | 5,407,780 |
| 2,181,537 | 4,274,000 | 6,274,000 | (4,092,463) |
| 751,128 | (564,189) | (564,189) | $ 1,315,317 |
| 1,660,869 | 2,152,022 | 2,152,022 | |
| $ 2,411,997 | $ 1,587,833 | $ 1,587,833 | |

CITY OF ARNOLDS PARK
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
JUNE 30, 2011

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. 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. 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, two budget amendments increased budgeted disbursements by $2,067,500. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2011, disbursements exceeded the amounts budgeted in the public safety and community and economic development functions.

# OTHER SUPPLEMENTARY INFORMATION

CITY OF ARNOLDS PARK
SCHEDULE OF INDEBTEDNESS
YEAR ENDED JUNE 30, 2011

| Obligation | Date of Issue | Interest Rates | Amount Originally Issued |
|---|---|---|---|
| General Obligation Capital Notes: | | | |
| Essential corporate purpose | June 17, 2009 | 3.00% | $5,774,000 |
| General Obligation Bonds: | | | |
| Urban renewal | May 1, 2003 | 1.25 - 4.30% | 2,300,000 |
| Essential corporate purpose | October 1, 2005 | 3.75 - 4.375% | 1,585,000 |
| Essential corporate purpose | November 1, 2007 | 3.50 - 4.20% | 2,000,000 |
| Essential corporate purpose | January 1, 2010 | 4.50 - 5.25% | 2,200,000 |
| General Obligation Refunding Capital Notes: | | | |
| Essential corporate purpose | March 1, 2003 | 2.50 - 3.45% | 850,000 |
| General Obligation Refunding Bonds: | | | |
| Essential corporate purpose | October 1, 2005 | 3.30 - 4.05% | 2,930,000 |
| Essential corporate purpose | December 1, 2010 | .60 - 3.00% | 1,925,000 |
| TOTAL | | | |

Schedule 1

| Balance Beginning of Year | Issued During Year | Redeemed During Year | Balance End of Year | Interest Paid | Interest Due and Unpaid |
|---|---|---|---|---|---|
| $ 1,936,471 | $ 256,537 | | $ 2,193,008 | $ 76,970 | |
| 1,720,000 | | $1,720,000 | | 33,801 | |
| 1,585,000 | | | 1,585,000 | 65,949 | |
| 1,855,000 | | 75,000 | 1,780,000 | 72,377 | |
| 2,200,000 | | | 2,200,000 | 103,812 | |
| 160,000 | | 160,000 | | 2,630 | |
| 2,235,000 | | 165,000 | 2,070,000 | 85,122 | |
| | 1,925,000 | 240,000 | 1,685,000 | 18,824 | |
| $11,691,471 | $2,181,537 | $2,360,000 | $11,513,008 | $459,485 | |

CITY OF ARNOLDS PARK
BOND AND NOTE MATURITIES
JUNE 30, 2011

| | General Obligation Bonds and Notes | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Essential Corporate Purpose | | | | | | | |
| | Issued 10-1-2005 | | Issued 10-1-2005 | | Issued 11-1-2007 | | Issued 6-17-2009 | |
| Year Ending June 30, | Interest Rate | Amount | Interest Rate | Amount | Interest Rate | Amount | Interest Rate | Amount |
| 2012 | | | 3.60% | $ 165,000 | 3.60% | $ 80,000 | 3.00% | $ 241,000 |
| 2013 | 3.75% | $ 100,000 | 3.65 | 210,000 | 3.65 | 85,000 | 3.00 | 249,000 |
| 2014 | 3.80 | 95,000 | 3.70 | 210,000 | 3.65 | 85,000 | 3.00 | 257,000 |
| 2015 | 3.90 | 90,000 | 3.75 | 205,000 | 3.70 | 90,000 | 3.00 | 265,000 |
| 2016 | 4.00 | 5,000 | 3.80 | 255,000 | 3.70 | 95,000 | 3.00 | 274,000 |
| 2017 | 4.00 | 10,000 | 3.85 | 250,000 | 3.75 | 100,000 | 3.00 | 283,000 |
| 2018 | 4.10 | 15,000 | 3.90 | 245,000 | 3.80 | 105,000 | 3.00 | 292,000 |
| 2019 | 4.125 | 10,000 | 4.00 | 265,000 | 3.85 | 105,000 | 3.00 | 302,000 |
| 2020 | 4.125 | 25,000 | 4.05 | 265,000 | 3.95 | 110,000 | 3.00 | 30,008 |
| 2021 | 4.15 | 250,000 | | | 4.00 | 115,000 | | |
| 2022 | 4.20 | 235,000 | | | 4.00 | 120,000 | | |
| 2023 | 4.25 | 300,000 | | | 4.00 | 125,000 | | |
| 2024 | 4.30 | 350,000 | | | 4.00 | 130,000 | | |
| 2025 | 4.375 | 100,000 | | | 4.10 | 140,000 | | |
| 2026 | | | | | 4.15 | 145,000 | | |
| 2027 | | | | | 4.20 | 150,000 | | |
| 2028 | | | | | | | | |
| 2029 | | | | | | | | |
| TOTALS | | $1,585,000 | | $2,070,000 | | $1,780,000 | | $2,193,018 |

General Obligation Bonds and Notes

Essential Corporate Purpose

| Issued 1-1-2010 | | Issued 12-1-2010 | | |
|---|---|---|---|---|
| Interest Rate | Amount | Interest Rate | Amount | Total |
| | | .75% | $ 150,000 | $ 636,000 |
| | | 1.00 | 90,000 | 734,000 |
| | | 1.10 | 100,000 | 747,000 |
| | | 1.30 | 115,000 | 765,000 |
| | | 1.75 | 75,000 | 704,000 |
| | | 1.90 | 100,000 | 743,000 |
| | | 2.10 | 115,000 | 772,000 |
| | | 2.35 | 100,000 | 782,000 |
| | | 2.55 | 120,000 | 550,008 |
| | | 2.75 | 420,000 | 785,000 |
| | | 3.00 | 300,000 | 655,000 |
| | | | | 425,000 |
| | | | | 480,000 |
| | | | | 240,000 |
| 4.50% | $ 550,000 | | | 695,000 |
| 4.5 | 550,000 | | | 700,000 |
| 4.625 | 550,000 | | | 550,000 |
| 5.25 | 550,000 | | | 550,000 |
| | $2,200,000 | | $1,685,000 | $11,513,008 |

CITY OF ARNOLDS PARK
SCHEDULE OF RECEIPTS BY SOURCE AND DISBURSEMENTS BY FUNCTION -
ALL GOVERNMENTAL FUNDS
FOR THE LAST NINE YEARS
YEAR ENDED JUNE 30, 2011

| | 2011 | 2010 | 2009 | 2008 |
|---|---|---|---|---|
| RECEIPTS: | | | | |
| Property tax | $ 862,379 | $ 880,285 | $ 832,111 | $ 725,936 |
| Tax increment financing collections | 919,553 | 801,763 | 709,474 | 657,508 |
| Other city tax | 526,895 | 500,287 | 522,608 | 478,176 |
| Licenses and permits | 21,598 | 18,499 | 23,725 | 19,952 |
| Use of money and property | 18,843 | 5,539 | 55,185 | 160,904 |
| Intergovernmental | 608,111 | 579,067 | 230,523 | 305,999 |
| Charges for service | 293,896 | 287,172 | 289,042 | 275,552 |
| Special assessments | - | 273,047 | - | - |
| Miscellaneous | 543,539 | 160,398 | 180,365 | 71,759 |
| TOTAL | $ 3,794,814 | $ 3,506,057 | $ 2,843,033 | $ 2,695,786 |
| DISBURSEMENTS: | | | | |
| Operating: | | | | |
| Public safety | $ 659,414 | $ 593,702 | $ 1,176,609 | $ 572,769 |
| Public works | 423,369 | 478,818 | 424,422 | 376,570 |
| Culture and recreation | 144,968 | 147,110 | 139,377 | 131,915 |
| Community and economic development | 148,160 | 152,229 | 151,110 | 129,663 |
| General government | 480,113 | 454,051 | 379,260 | 412,201 |
| Debt service | 2,837,589 | 882,530 | 792,331 | 680,916 |
| Capital projects | 708,999 | 4,557,052 | 2,033,764 | 1,659,099 |
| TOTAL | $ 5,402,612 | $ 7,265,492 | $ 5,096,873 | $ 3,963,133 |

| 2007 | 2006 | 2005 | 2004 | 2003 |
|---|---|---|---|---|
| $ 690,951 | $ 561,051 | $ 533,685 | $ 515,415 | $ 494,669 |
| 587,696 | 609,254 | 636,830 | 574,591 | 581,769 |
| 395,740 | 328,165 | 355,572 | 327,238 | 325,115 |
| 17,332 | 12,669 | 14,911 | 7,971 | 5,877 |
| 246,899 | 174,565 | 38,828 | 37,587 | 83,072 |
| 790,700 | 1,380,240 | 120,886 | 134,136 | 148,153 |
| 267,713 | 178,327 | 159,328 | 162,807 | 152,629 |
| 59,449 | 56,836 | 59,403 | 62,830 | 71,639 |
| 129,094 | 221,886 | 507,963 | 294,707 | 394,214 |
| $ 3,185,574 | $ 3,522,993 | $ 2,427,406 | $ 2,117,282 | $ 2,257,137 |
| | | | | |
| $ 541,017 | $ 475,152 | $ 592,769 | $ 528,822 | $ 368,883 |
| 409,110 | 356,311 | 346,028 | 334,328 | 368,139 |
| 135,879 | 126,096 | 100,940 | 137,317 | 97,155 |
| 99,155 | 84,353 | 101,098 | 116,042 | 96,455 |
| 367,160 | 357,747 | 337,188 | 309,483 | 318,508 |
| 829,771 | 864,169 | 552,752 | 530,304 | 1,520,028 |
| 1,484,140 | 1,944,811 | 950,488 | 1,139,304 | 2,373,925 |
| $ 3,866,232 | $ 4,208,639 | $ 2,981,263 | $ 3,095,600 | $ 5,143,093 |

CITY OF ARNOLDS PARK
COMBINING SCHEDULE OF CASH TRANSACTIONS
GENERAL FUND
YEAR ENDED JUNE 30, 2011

| | Operating | Special Electric | Equipment Revolving |
|---|---|---|---|
| RECEIPTS: | | | |
| Property tax | $ 862,379 | $ - | $ - |
| Other city tax | 304,694 | - | - |
| Licenses and permits | 21,598 | - | - |
| Intergovernmental | 23,844 | - | - |
| Charges for service | 293,896 | - | - |
| Miscellaneous | 82,382 | 18,283 | 3,778 |
| TOTAL RECEIPTS | 1,588,794 | 18,283 | 3,778 |
| DISBURSEMENTS: | | | |
| Operating: | | | |
| Public safety | 589,804 | - | 69,610 |
| Public works | 313,549 | - | - |
| Culture and recreation | 144,968 | - | - |
| Community and economic development | 148,160 | - | - |
| General government | 480,113 | - | - |
| TOTAL DISBURSEMENTS | 1,676,594 | - | 69,610 |
| EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS | (87,800) | 18,283 | (65,831) |
| OTHER FINANCING SOURCES (USES) | 101,006 | (125,000) | 60,000 |
| NET CHANGES IN CASH BALANCES | 13,206 | (106,717) | (5,831) |
| CASH BALANCES - BEGINNING OF YEAR, AS RESTATED | 502,779 | 149,932 | 6,798 |
| CASH BALANCES - END OF YEAR | $ 515,985 | $ 43,215 | $ 967 |

CITY OF ARNOLDS PARK
COMBINING SCHEDULE OF CASH TRANSACTIONS
GENERAL FUND
YEAR ENDED JUNE 30, 2011

| Local Option Sales Tax | Employee Benefits | Total |
|---|---|---|
| $ - | $ - | $ 862,379 |
| 222,201 | - | 526,895 |
| - | - | 21,598 |
| - | - | 23,844 |
| - | - | 293,896 |
| - | - | 104,443 |
| 222,201 | - | 1,833,056 |
| | | |
| - | - | 659,414 |
| - | - | 313,549 |
| - | - | 144,968 |
| - | - | 148,160 |
| - | - | 480,113 |
| - | - | 1,746,204 |
| | | |
| 222,201 | - | 86,852 |
| (205,000) | 43,994 | (125,000) |
| 17,201 | 43,994 | (38,148) |
| 7,098 | (43,994) | 622,613 |
| $ 24,299 | $ - | $ 584,465 |

**WINTHER, STAVE & CO., LLP**
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# INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

The Honorable Mayor and
Members of the City Council
City of Arnolds Park
Arnolds Park, IA 51331

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 Arnolds Park, Iowa as of and for the year ended June 30, 2011, which collectively comprise the basic financial statements of the City's primary government as listed in the table of contents, and have issued our report thereon dated December 14, 2011. Our report expressed an unqualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

## Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Arnolds Park'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 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 all deficiencies, significant deficiencies or material weaknesses have been identified. However, as describe in the accompanying Schedule of Findings, we identified a certain deficiency in internal control over financial reporting we consider to be a material weakness.



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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 deficiency described in Part I of the accompanying Schedule of Findings as item I-A-11 to be a material weakness.

**Compliance and Other Matters**

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

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. 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 of Arnolds Park, and other parties to whom the City of Arnolds Park may report. This report is not intended to be and should not be used by anyone other than these specified parties.

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

Wintheiser, Stark & Co., LLP

December 14, 2011

CITY OF ARNOLDS PARK
SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2011

## Part I: Findings Related to the Financial Statements

### Internal Control Deficiency:

I-A-11 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. The cash receipts listing, bank deposits, and the posting of the cash receipts to the cash receipts journal are all done by the same person.

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

Response - We will consider this.

Conclusion - Response accepted.

### Instances of Noncompliance:

No matters were reported.

## Part II: Other Findings Related to Statutory Reporting

II-A-11 Certified Budget - Disbursements during the year ended June 30, 2011 exceeded the amounts budgeted in public safety and community and economic development functions. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

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

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

Conclusion - Response accepted.

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

II-C-11 Travel Expense - No expenditures of City money for travel expenses of spouses of City officials or employees were noted.

II-D-11 Business Transactions - Business transactions between the City and City officials or employees are detailed as follows:

| Name, Title, and Business Connection | Description | Amount |
|---|---|---|
| Walker Insurance Agency, owner is spouse of City Administrator | Insurance | $ 708 |
| Lakes News Shopper, Owned by Council Member | Newspaper publication | $ 1,621 |

In accordance with Chapter 362.5(10) of the Code of Iowa, the insurance transaction does not appear to represent a conflict of interest since the transaction was less than $1,500 during the fiscal year. The transactions with the newspaper may represent a conflict of interest although the payments consisted of several small amounts for public announcements during the fiscal year.

II-E-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 ensure that the coverage is adequate for current operations.

**Part II: Other Findings Related to Statutory Reporting** - Continued

II-F-11 Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not.

II-G-11 Revenue Notes - The City had no revenue notes outstanding during the year.

II-H-11 Deposits and Investments - We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy.