

CITY OF BRITT

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

JUNE 30, 2008

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CITY OF BRITT

OFFICIALS

(Before January 2008)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
James Nelson	Mayor	Jan 2008
Patricia Byers	Mayor Pro tem	Jan 2008
Gary Gelner	Council Member	Jan 2008
Dwight Leerar	Council Member	Jan 2008
Nathan Lemmon	Council Member	Jan 2010
Douglas Weiland	Council Member	Jan 2010
Jean Purvis	City Clerk	Jan 2008
Darcy Eisenman	Deputy City Clerk	Jan 2008
Jane Swenson	Treasurer	Jan 2008
Earl Hill	Attorney	Jan 2008

(After January 2008)

James Nelson	Mayor	Jan 2010
Douglas Weiland	Mayor Pro tem	Jan 2010
Nathan Lemmon	Council Member	Jan 2010
Gary Gelner	Council Member	Jan 2012
Curt Gast	Council Member	Jan 2012
Bryan Aitchison	Council Member	Jan 2012
Jean Purvis	City Clerk	Jan 2009
Darcy Eisenman	Deputy City Clerk	Jan 2009
Jane Swenson	Treasurer	Jan 2009
Earl Hill	Attorney	Jan 2009

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Britt, Iowa, as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of City of Britt's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Britt as of June 30, 2008, 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 October 5, 2008 on our consideration of the City of Britt's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 6 through 15 and 28 through 29 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Britt's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the four years ended June 30, 2007 (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 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.

October 5, 2008

Renner & Birchem, P.C.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Britt provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2008. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2008 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities increased 11.1% approximately \$144,452, from fiscal 2007 to fiscal 2008. Property tax increased approximately \$31,443.
- Disbursements decreased 23.9% or approximately \$355,286 in fiscal 2008 from fiscal 2007. General government disbursements increased approximately \$18,989. Capital projects, public safety and public works disbursements decreased approximately \$151,393, \$17,082 and \$99,000 respectively.
- The City's total cash basis net assets increased 48.9%, or approximately \$469,170 from June 30, 2007 to June 30, 2008. Of this amount, the assets of the governmental activities increased approximately \$326,512 and the assets of the business type activities increased by approximately \$142,658.

USING THIS ANNUAL REPORT

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

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

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

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

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

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

Other Supplementary Information provides detailed information about the nonmajor governmental funds.

Basis of Accounting

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

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

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

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

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

Fund Financial Statements

The City has two kinds of funds:

- 1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Revolving Loan, 3) the Debt Service Fund and 4) the Capital Projects Fund. The governmental fund financial statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

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

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from a year ago, increasing from \$960,316 to \$1,286,828. The analysis that follows focuses on the changes in cash balances for governmental activities.

	Changes in Cash Basis Net Assets of Governmental Activities	
	Year ended June 30,	
	2008	2007
Receipts:		
Program receipts:		
Charges for service	\$ 39,329	46,713
Operating grants, contributions and restricted interest	206,767	193,280
Capital grants, contributions and restricted interest		40,374
General receipts:		
Property tax	705,261	673,818
Local option sales tax	127,991	134,871
Unrestricted investment earnings	37,836	36,402
Other general receipts	327,396	174,670
Total receipts and transfers	1,444,580	1,300,128

Disbursements:		
Public safety	219,589	236,671
Public works	282,552	381,555
Culture and recreation	114,609	162,517
Community and economic development	87,336	95,011
General government	190,036	171,047
Debt service	107,319	158,533
Capital projects	128,333	279,726
Total disbursements	<u>1,129,774</u>	<u>1,485,060</u>
Change in cash basis net assets before other financing sources	314,806	(184,932)
Other financing sources (uses):		
Transfers, net	60,000	95,000
Internal loan repayment	<u>(48,294)</u>	
Total other financing sources (uses)	11,706	95,000
Change in cash basis net assets	<u>326,512</u>	<u>(89,932)</u>
Cash basis net assets beginning of year	<u>960,316</u>	<u>1,050,248</u>
Cash basis net assets end of year	<u>\$ 1,286,828</u>	<u>960,316</u>

The City's total receipts for governmental activities increased by 11.1% or \$144,452. The total cost of all programs and services decreased by \$306,992 or 20.7%, with no new programs added this year.

The City's property tax receipts for 2008 increased by approximately \$31,443.

The cost of all governmental activities this year was \$1.13 million compared to \$1.485 million last year. However, as shown in the Statement of Activities and Net Assets on page 17, the amount taxpayers ultimately financed for these activities was only \$883,678 because some of the cost was paid by those directly benefited from the programs (\$39,329) or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest (\$206,767). Overall, the City's governmental activities receipts, including intergovernmental aid and fees for service totaled approximately \$1,504,580. The City paid for the remaining "public benefit" portion of governmental activities with approximately \$883,678 in tax (some of which could only be used for certain programs) and with other receipts, such as interest and general entitlements.

Changes in Cash Basis Net Assets of Business Type Activities

	Year ended June 30,	
	2008	2007
Receipts:		
Program receipts:		
Charges for service:		
Water	\$ 159,886	151,354
Sewer	161,453	150,476
General receipts:		
Unrestricted interest on investments	10,542	18,213
Total receipts	<u>331,881</u>	<u>320,043</u>
Disbursements:		
Water	50,610	83,484
Sewer	126,907	152,216
Total Disbursements	<u>177,517</u>	<u>235,700</u>
Change in cash basis net assets before other financing sources	154,364	84,343
Other financing sources (uses):		
Transfers, net	(60,000)	(95,000)
Loan repayment	48,294	
Total other financing sources (uses)	<u>(11,706)</u>	<u>(95,000)</u>
Change in cash basis net assets	142,658	(10,657)
Cash basis net assets beginning of year	<u>365,226</u>	<u>375,883</u>
Cash basis net assets end of year	<u>\$ 507,884</u>	<u>365,226</u>

Total business type activities receipts for the fiscal year were \$331,881 compared to \$320,043 last year. Total disbursements for the fiscal year decreased by 24.7% to a total of \$177,517. The cash balance increased by \$142,658 during the fiscal year compared to a decrease of \$10,657 last year.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Britt completed the year, its governmental funds reported a combined fund balance of \$1,286,828, an increase of \$326,512 above last year's total of \$960,316. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance increased \$42,244 from the prior year to \$224,890, including a transfer of \$60,000 from the Water Fund.
- The Road Use Tax Fund cash balance decreased by \$11,504 to \$85,997 during the fiscal year, due to the increasing costs of road maintenance and repair.

- The Employee Benefit Fund cash balance increased by \$9,271 to \$37,329 during the fiscal year.
- The Local Option Tax Fund cash balance increased by \$184,353 to \$467,411 during the fiscal year, due mainly to the repayment of the internal loan the Tax Increment Fund.
- The Capital Projects Fund cash balance increased by \$203,132 to \$271,066 during the fiscal year, reflecting donations to the Aquatic Center.
- The Debt Service Fund cash balance increased by \$111,410 to \$114,982 during the fiscal year, due to increase in debt levy for the March 2007 bond issue.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance increased by \$102,982 to \$290,409 during the fiscal year and will be used to maintain service and repair the water system.
- The Sewer Fund cash balance increased by \$39,676 to \$125,252 during the fiscal year.

BUDGETARY HIGHLIGHTS

The City amended its budget on June 2, 2008. The amendment resulted in an increase in miscellaneous receipts of \$70,000 and an increase in disbursements of \$91,000.

DEBT ADMINISTRATION

At June 30, 2008, the City had \$925,000 in general obligation and revenue bonds, compared to \$1,055,000 at the end of the prior year, as shown below.

	Outstanding Debt at Year-End	
	June 30,	
	2008	2007
General obligation bonds and short-term borrowing	\$ 780,000	845,000
Revenue notes	145,000	210,000
Total	<u>\$ 925,000</u>	<u>1,055,000</u>

The constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$780,000 is significantly below its constitutional debt limit of approximately \$3,638,714.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City of Britt's elected and appointed officials and citizens considered many factors when setting the fiscal year 2009 budget, tax rates, and fees that will be charged for various City activities.

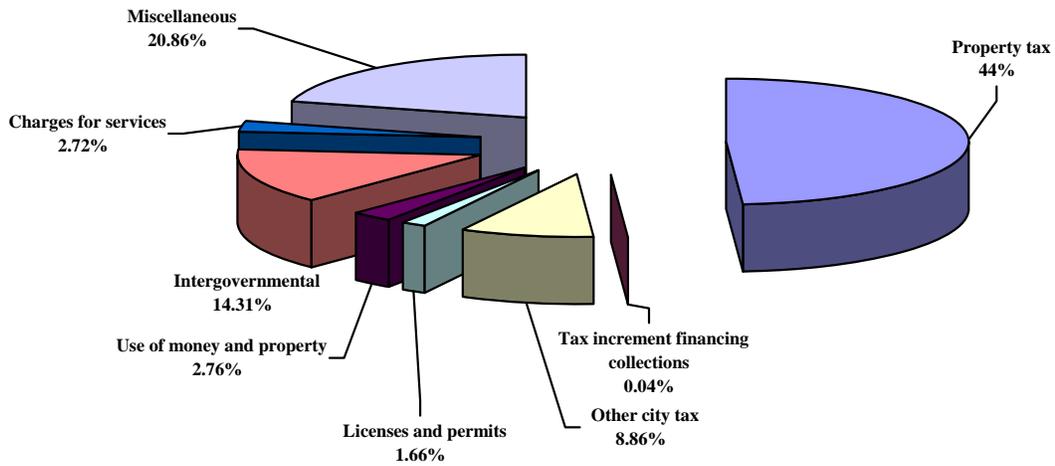
These among other economic factors were taken into account when adopting the budget for fiscal year 2009. Amounts available for appropriation in the operating budget are \$3.7 million, an increase of 58% from the final 2008 budget. Proposed bonding for the aquatic center and anticipated associated grants and awards are expected to lead this increase. These increases will be used to defray construction costs of the new aquatic center. Budgeted disbursements are expected to increase by approximately \$2,485,000 over 2008 actual.

If these estimates are realized, the City's budgeted cash balance is expected to decrease approximately \$192,000 by the close of 2009. Actual amounts can and usually do differ from budgeted amounts.

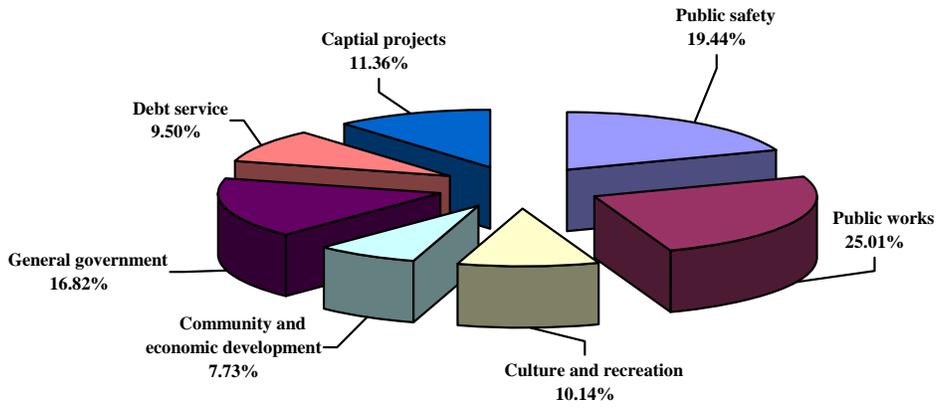
CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Jeanie Purvis, City Clerk, 170 Main Avenue South, Britt, Iowa.

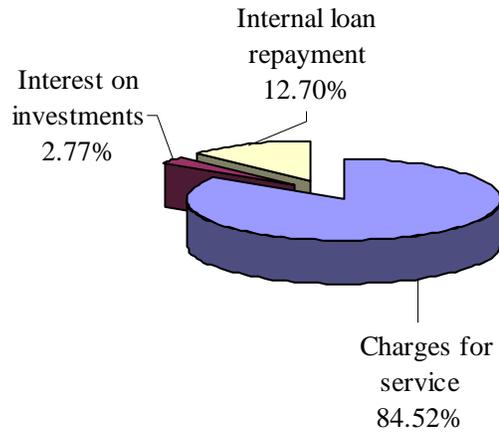
Governmental Activity Receipts by Source For the Year Ending June 30, 2008



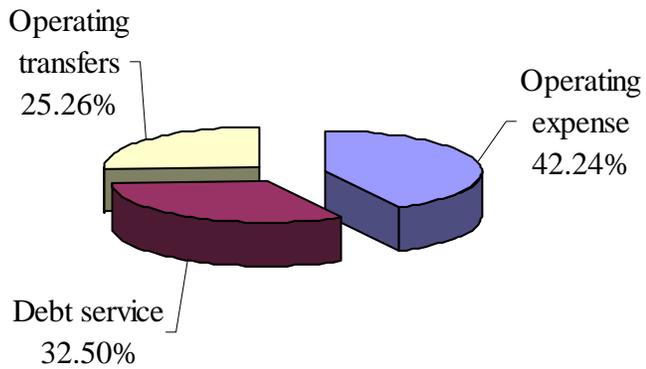
Governmental Activities Disbursements by Function For the Year Ending June 30, 2008



**Business Type Activity Receipts by Source
For Fiscal Year Ending June 30, 2008**



**Business Type Funds Disbursements
For Fiscal Year Ending June 30, 2008**



BASIC FINANCIAL STATEMENTS

Statement of Activities and Net Assets - Cash Basis

As of and for the year ended June 30, 2008

	Program Receipts			Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
	Disbursements	Operating Grants, Charges for Service	Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	Total
		Contributions and Restricted Interest	Contributions and Restricted Interest			
Functions / Programs:						
Governmental activities:						
Public safety	\$ 219,589		9,112	(210,477)		(210,477)
Public works	282,552	27,437	175,800	(79,315)		(79,315)
Culture and recreation	114,609	4,506	21,855	(88,248)		(88,248)
Community and economic development	87,336	7,386		(79,950)		(79,950)
General government	190,036			(190,036)		(190,036)
Debt service	107,319			(107,319)		(107,319)
Capital projects	128,333			(128,333)		(128,333)
Total governmental activities	1,129,774	39,329	206,767	(883,678)		(883,678)
Business type activities:						
Water	50,610	159,886			109,276	109,276
Sewer	126,907	161,453			34,546	34,546
Total business type activities	177,517	321,339			143,822	143,822
Total	\$ 1,307,291	360,668	206,767	(883,678)	143,822	(739,856)
General Receipts:						
Property tax levied for:						
General purposes				\$ 388,314		388,314
Tax increment financing				525		525
Employee benefits and insurance				97,975		97,975
Debt service				218,447		218,447
Local option sales tax				127,991		127,991
Unrestricted interest on investments				37,836	10,542	48,378
Miscellaneous				327,396		327,396
Internal loan repayment				(48,294)	48,294	
Transfers				60,000	(60,000)	
Total general receipts				1,210,190	(1,164)	1,209,026
Change in cash basis net assets				326,512	142,658	469,170
Cash basis net assets beginning of year				960,316	365,226	1,325,542
Cash basis net assets end of year				\$ 1,286,828	507,884	1,794,712
Cash Basis Net Assets						
Restricted:						
Streets				\$ 85,997		85,997
Debt service				114,982	92,223	207,205
Other purposes				834,055		834,055
Unrestricted				251,794	415,661	667,455
Total cash basis net assets				\$ 1,286,828	507,884	1,794,712

See notes to financial statements.

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

As of and for the year ended June 30, 2008

	Special Revenue						Total
	General	Road Use Tax	Employee Benefits	Local Option	Debt Service	Capital Projects	
Receipts:							
Property tax	\$ 388,314		97,975		218,447		704,736
Tax increment financing						525	525
Other city tax				127,991			127,991
Licenses and permits	23,992						23,992
Use of money and property	27,104		564	7,104	282	4,792	39,846
Intergovernmental	30,967	175,800					206,767
Charges for services	39,329						39,329
Miscellaneous	61,262	2,715				201,380	301,394
Total receipts	570,968	178,515	98,539	135,095	218,729	201,380	1,444,580
Disbursements:							
Operating:							
Public safety	185,987		33,602				219,589
Public works	32,627	190,019	27,965	31,941			282,552
Culture and recreation	107,652		6,957				114,609
Community and economic development	49,152		819	12,365		25,000	87,336
General government	170,111		19,925				190,036
Debt service					107,319		107,319
Capital projects						128,333	128,333
Total disbursements	545,529	190,019	89,268	44,306	107,319	128,333	1,129,774
Excess (deficiency) of receipts over (under) disbursements	25,439	(11,504)	9,271	90,789	111,410	73,047	314,806
Other financing sources (uses):							
Internal loan issue				(86,890)		86,890	
Internal loan repayment				178,500		(226,794)	(48,294)
Operating transfers in	60,000			1,954		43,195	105,149
Operating transfers out	(43,195)					(1,954)	(45,149)
Total other financing sources (uses)	16,805			93,564		130,085	(228,748)
Net change in cash balances	42,244	(11,504)	9,271	184,353	111,410	203,132	326,512
Cash balances beginning of year	182,646	97,501	28,058	283,058	3,572	67,934	960,316
Cash balances end of year	\$ 224,890	85,997	37,329	467,411	114,982	271,066	1,286,828
Cash Basis Fund Balances							
Reserved:							
Debt service					114,982		114,982
Unreserved:							
General fund	\$ 224,890						224,890
Special revenue funds		85,997	37,329	467,411			675,890
Capital projects						271,066	271,066
Total cash basis fund balances	\$ 224,890	85,997	37,329	467,411	114,982	271,066	1,286,828

See notes to financial statements.

City of Britt

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

As of and for the year ended June 30, 2008

	Enterprise Funds				Total
	Water	Sewer	Sewer Utility Sinking	Sewer Reserve	
Operating receipts:					
Charges for service	\$ 159,886	161,453			321,339
Total operating receipts	159,886	161,453			321,339
Operating disbursements:					
Business type activities	50,610	49,722			100,332
Total operating disbursements	50,610	49,722			100,332
Excess of operating receipts over operating disbursements	109,276	111,731			221,007
Non-operating receipts (disbursements):					
Interest on investments	5,412	5,130			10,542
Debt service		(77,185)			(77,185)
Net non-operating receipts (disbursements)	5,412	(72,055)			(66,643)
Excess of receipts over disbursements	114,688	39,676			154,364
Other financing sources (uses):					
Internal loan repayment	48,294				48,294
Operating transfers out	(60,000)				(60,000)
Total other financing sources (uses)	(11,706)				(11,706)
Net change in cash balances	102,982	39,676			142,658
Cash balances beginning of year	187,427	85,576	20,223	72,000	365,226
Cash balances end of year	\$ 290,409	125,252	20,223	72,000	507,884
Cash Basis Fund Balances					
Reserved for debt service			20,223	72,000	92,223
Unreserved	\$ 290,409	125,252			415,661
Total cash basis fund balances	\$ 290,409	125,252	20,223	72,000	507,884

See notes to financial statements.

CITY OF BRITT

Notes to Financial Statements

June 30, 2008

(1) Summary of Significant Accounting Policies

The City of Britt is a political subdivision of the State of Iowa located in Hancock County. It was first incorporated in 1881 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, public improvements and general administrative services. The City of Britt also provides water and sewer utilities for its citizens.

A. Reporting Entity

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

Jointly Governed Organizations

The City also participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Hancock County Assessor's Conference Board and Hancock County Development Commission, Hancock County Disaster/911 and Hancock County Task Force.

B. Basis of Presentation

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

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

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

CITY OF BRITT

Notes to Financial Statements (continued)

June 30, 2008

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

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 Employee Benefits Fund is used to account for employee benefits.

The Local Option Tax Fund is used to account for local option sales tax collected.

The Debt Service Fund is utilized to account 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 waste water treatment and sanitary sewer system.

CITY OF BRITT

Notes to Financial Statements (continued)

June 30, 2008

The Sewer Utility Sinking Fund and Sewer Revenue are to provide for payment of debt service on the sewer revenue bonds.

C. Measurement Focus and Basis of Accounting

The City of Britt maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Budgets and Budgetary Accounting

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

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2008 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 had no investments meeting the disclosure requirements of Governmental Accounting Standards Board No. 3 as amended by Statement No. 40.

CITY OF BRITT

Notes to Financial Statements (continued)

June 30, 2008

(3) Bonds Payable

Annual debt service requirements to maturity for general obligation and revenue bonded indebtedness are as follows:

Year Ending June 30,	General Obligation Bonds		Revenue Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2009	\$ 75,000	32,078	70,000	8,447	145,000	40,525
2010	75,000	29,152	75,000	4,388	150,000	33,540
2011	80,000	26,190			80,000	26,190
2012	85,000	22,990			85,000	22,990
2013	85,000	19,548			85,000	19,548
2014-2017	<u>380,000</u>	<u>41,027</u>			<u>380,000</u>	<u>41,027</u>
Total	<u>\$780,000</u>	<u>170,985</u>	<u>145,000</u>	<u>12,835</u>	<u>925,000</u>	<u>183,820</u>

The resolutions providing for the issuance of the revenue bonds include the following provision:

- (a) The bonds will only be redeemed from the future earnings of the enterprise activity and the bond holders hold a lien on the future earnings of the funds.
- (b) Sufficient monthly transfers shall be made to the sewer revenue bond sinking fund for the purpose of making the bond principal and interest payments when due.
- (c) \$720,000 of sewer revenue capital loan notes were issued April 1, 1997, payable until April 2010. A reserve fund of \$72,000 has been established to be used solely for the purpose of paying principal at maturity of or interest on the notes and parity obligations for the payment of which insufficient money shall be available in the sinking fund.

The City Council directed that \$226,794 be advanced to the Urban Renewal Tax Increment Fund from the Water Utility Fund and Local Option Fund in order to pay the costs of streets and utilities improvements within the Britt Urban Renewal Area. This advance shall be treated as a loan (the "Loan") to the Urban Renewal Tax Increment Fund and shall be repaid to the Water Utility Fund and Local Option Fund out of incremental tax revenues received with respect to the Urban Renewal Area. The loan was repaid during the year ended June 30, 2008.

During 2008, the City Council directed that \$86,890 be advanced to the Pool Fund from the Local Option Fund in order to pay Burbach Aquatic. This advance shall be treated as a loan to the Pool Fund and shall be repaid to the Local Option Fund when funds are available.

CITY OF BRITT

Notes to Financial Statements (continued)

June 30, 2008

(4) Pension and Retirement Benefits

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

Most regular plan members are required to contribute 3.90% of their annual covered salary and the City is required to contribute 6.05% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contribution to IPERS for the years ended June 30, 2008, 2007 and 2006 were \$22,946, \$23,469, and \$22,189 respectively, equal to the required contribution for each year.

(5) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation and comp time hours for subsequent use or for payment upon termination, retirement or death. Sick leave hours are accumulated for subsequent use but are not paid 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 and comp time termination payments payable to employees at June 30, 2008, primarily relating to the General Fund, is as follows:

<u>Type of Benefit</u>	<u>Amount June 30, 2008</u>
Vacation and Comp Time	\$ <u>10,359</u>

This liability has been computed based on rates of pay as of June 30, 2008.

(6) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2008 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General Fund	Enterprise:	
	Water	\$60,000
Local Option	Urban Renewal Tax	
	Increment	<u>1,954</u>
Total		<u>\$61,954</u>

CITY OF BRITT

Notes to Financial Statements (continued)

June 30, 2008

(7) Related Party Transactions

No transactions between the City and City officials occurred during the year ended June 30, 2008.

(8) 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 563 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 200 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, 2008 were \$34,405.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000 per claim and \$10,000,000 in aggregate per year. For members requiring specific coverage from \$3,000,000 to \$10,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$100,000 each occurrence, each location, with excess coverage reinsured on an individual-member basis.

CITY OF BRITT

Notes to Financial Statements (continued)

June 30, 2008

(8) Risk Management (con't)

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, 2008, settled claims have not exceeded the risk pool or reinsurance company coverage since the pool's inception.

Members agree to continue membership in the Pool for the period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their capital contributions. If a member withdraws after the sixth year, the member is refunded 100 percent of its capital contributions. However, the refund is reduced by an amount equal to the annual operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

The City also carries commercial insurance purchased from other insurers for coverage associated with fidelity bonding. 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.

(9) Subsequent Events

General Obligation Loan Notes, Series 2008, in the amount of \$1,550,000 were issued in August 2008 for Construction of the Aquatic Center.

(10) Construction Commitments

Contracts for construction of an Aquatic Center in the amount of approximately \$2,400,000 have been entered into subsequent to June 30, 2008. Construction began in July 2008 with completion expected in May 2009.

REQUIRED SUPPLEMENTARY INFORMATION

City of Britt

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, 2008

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds not Required to be Budgeted	Net	Budgeted Amounts		Final to Net Variance
					Original	Final	
Receipts:							
Property tax	\$ 704,736			704,736	670,508	670,508	34,228
Tax increment financing collections	525			525			525
Other city tax	127,991			127,991	174,745	174,745	(46,754)
Licenses and permits	23,992			23,992	3,760	3,760	20,232
Use of money and property	39,846	10,542		50,388	8,000	8,000	42,388
Intergovernmental	206,767			206,767	1,034,839	1,034,839	(828,072)
Charges for services	39,329	321,339		360,668	355,200	355,200	5,468
Miscellaneous	301,394		36,037	265,357	28,188	98,188	167,169
Total receipts	1,444,580	331,881	36,037	1,740,424	2,275,240	2,345,240	(604,816)
Disbursements:							
Public safety	219,589			219,589	246,595	246,595	27,006
Public works	282,552			282,552	306,279	306,279	23,727
Culture and recreation	114,609			114,609	178,003	188,003	73,394
Community and economic development	87,336		25,000	62,336	230,000	290,000	227,664
General government	190,036			190,036	194,361	215,361	25,325
Debt service	107,319	77,185		184,504	218,601	218,601	34,097
Capital projects	128,333			128,333	1,963,000	1,963,000	1,834,667
Business type activities		100,332		100,332	225,260	225,260	124,928
Total disbursements	1,129,774	177,517	25,000	1,282,291	3,562,099	3,653,099	2,370,808
Excess (deficiency) of receipts over (under) disbursements	314,806	154,364	11,037	458,133	(1,286,859)	(1,307,859)	1,765,992
Other financing (uses) sources, net	11,706	(11,706)					
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	326,512	142,658	11,037	458,133	(1,286,859)	(1,307,859)	1,765,992
Balances beginning of year	960,316	365,226	74,116	1,251,426	1,070,904	1,055,404	196,022
Cash balances end of year	\$ 1,286,828	507,884	85,153	1,709,559	(215,955)	(252,455)	1,962,014

See accompanying independent auditor's report.

City of Britt

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2008

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

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

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, a budget amendment increased budgeted disbursements by \$91,000. The budget amendments are reflected in the final budgeted amounts.

OTHER SUPPLEMENTARY INFORMATION

Schedule of Cash Receipts, Disbursements
and Changes in Cash Balances
Nonmajor Governmental Funds

As of and for the year ended June 30, 2008

	Special Revenue		
	Revolving Loan	Urban Renewal Tax Increment	Total
Receipts:			
Tax increment financing collections		525	525
Use of money and property		4,792	4,792
Miscellaneous	\$ 36,037		36,037
Total receipts	36,037	5,317	41,354
Disbursements:			
Community and economic development	25,000		25,000
Total disbursements	25,000		25,000
Excess of receipts over disbursements	11,037	5,317	16,354
Other financing uses:			
Operating transfers out		(1,954)	(1,954)
Internal loan repayment		(226,794)	(226,794)
Total other financing uses		(228,748)	(228,748)
Net change in cash balances	11,037	(223,431)	(212,394)
Cash balances beginning of year	74,116	223,431	297,547
Cash balances end of year	\$ 85,153		85,153
Cash Basis Fund Balances			
Unreserved:			
Special revenue funds	\$ 85,153		85,153

See accompanying independent auditor's report.

City of Britt

Schedule of Indebtedness

Year ended June 30, 2008

Obligation	Date of Issue	Rate of Interest	Amount Originally Issued	Balance Beginning of Year	Issued During the Year	Redeemed During Year	Balance End of Year	Interest Paid
General Obligation Bonds:								
Capital loan	3-15-07	3.9-4.3%	\$ 845,000	\$ 845,000		65,000	780,000	41,920
Revenue Bond:								
Sewer	4-1-97	4.75-5.85%	720,000	210,000		65,000	145,000	12,185
Internal Loan:								
Pool					86,890		86,890	
Tax increment			226,794	226,794		226,794		
Total				226,794	86,890	226,794	86,890	
Total				\$ 1,281,794	86,890	356,794	1,011,890	54,105

See accompanying independent auditor's report.

City of Britt

Bond and Note Maturities

June 30, 2008

Year Ending June 30,	General Obligation Bond	
	Capital Loan	
	Issued March 15, 2007	
	Interest Rates	Amount
2009	3.90%	\$ 75,000
2010	3.95	75,000
2011	4.00	80,000
2012	4.05	85,000
2013	4.10	85,000
2014	4.15	90,000
2015	4.20	95,000
2016	4.25	95,000
2017	4.30	100,000
Total		\$ 780,000

Year Ending June 30,	Revenue Notes	
	Sewer	
	Issued April 1, 1997	
	Interest Rates	Amount
2009	5.80%	\$ 70,000
2010	5.85	75,000
Total		\$ 145,000

See accompanying independent auditor's report.

City of Britt

Schedule of Receipts by Source and Disbursements by Function –
All Governmental Funds

For the Last Five Years

	2008	2007	2006	2005	2004
Receipts:					
Property tax	\$ 704,736	587,176	527,179	452,456	424,817
Tax increment financing	525	86,642	57,755	46,303	19,110
Other city tax	127,991	134,871	142,126	122,940	126,438
Licenses and permits	23,992	22,291	2,651	1,981	3,969
Use of money and property	39,846	39,016	7,787	22,930	25,352
Intergovernmental	206,767	233,654	292,596	262,084	321,789
Charges for service	39,329	46,713	38,844	43,713	36,732
Miscellaneous	301,394	149,765	147,244	92,955	116,808
Total	\$ 1,444,580	1,300,128	1,216,182	1,045,362	1,075,015
Disbursements:					
Operating:					
Public safety	\$ 219,589	236,671	246,957	215,160	210,273
Public works	282,552	319,535	285,894	381,731	180,968
Culture and recreation	114,609	162,517	164,626	153,489	117,531
Community and economic development	87,336	95,011	156,537	117,946	165,503
General government	190,036	233,067	223,085	164,539	78,845
Debt service	107,319	158,533	183,818	159,815	54,692
Capital project	128,333	279,726	694,880	91,982	126,410
Total	\$ 1,129,774	1,485,060	1,955,797	1,284,662	934,222

See accompanying independent auditor's report.

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

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Britt, Iowa, as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements listed in the table of contents and have issued our report thereon dated October 5, 2008. Our report expressed unqualified opinions 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 Britt'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 our opinion on the effectiveness of the City of Britt's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Britt's internal control over financial reporting.

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

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

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe items I-A-08 is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Britt'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 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, 2008 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The City of Britt'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 of Britt's responses and, accordingly, we express no opinion of 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 Britt and other parties to whom the City of Britt may report including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

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

October 5, 2008

Renner & Birchem, P.C.

City of Britt
Schedule of Findings
Year ended June 30, 2008

Part I: Findings Related to the Financial Statements:

Significant Deficiencies:

I-A-08 Segregation of Duties - One important aspect of internal accounting control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The areas of cash receipts, cash disbursements, investments, and payroll under ideal conditions would be segregated.

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

Response - We will investigate this.

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

I-B-08 Separately Maintained Records – During the audit, it was noted that aquatic center funds were not run through the City Clerk’s office. A certificate of deposit and two money market accounts totaling \$121,211 were not reflected on the City’s financial statements.

Recommendation – All funds must be fully documented and accounted for on the City’s financial records.

Response – The City has subsequently recorded the aquatic center funds on the City’s financial records.

Conclusion - Response accepted.

Instances of Non-compliance:

No matters were noted.

City of Britt

Schedule of Findings

Year ended June 30, 2008

Part II: Other Findings Related to Statutory Reporting:

- II-A-08 Certified Budget – Disbursements during the year ended June 30, 2008 did not exceed amounts budgeted which is in compliance with Chapter 384.20 of the Code of Iowa.
- II-B-08 Questionable Disbursements - We noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- II-C-08 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- II-D-08 Business Transactions - No transactions between the City and City officials were noted.
- II-E-08 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-F-08 Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not.
- II-G-08 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.
- II-H-08 Revenue Bonds - The City has complied with the revenue bond resolutions.