

CITY OF SERGEANT BLUFF, IOWA

Sergeant Bluff, Iowa

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INDEPENDENT AUDITORS' REPORTS  
BASIC FINANCIAL STATEMENTS,  
SUPPLEMENTARY INFORMATION AND  
SCHEDULE OF FINDINGS AND RESPONSES

For the Year Ended  
June 30, 2008

CITY OF SERGEANT BLUFF, IOWA

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## INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and  
Members of the City Council  
City of Sergeant Bluff  
Sergeant Bluff, Iowa

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Sergeant Bluff, 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 the City of Sergeant Bluff's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Sergeant Bluff, Iowa, as of June 30, 2008, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 13 to the financial statements, the City restated beginning electric fund balance as a result of the correction of the overstatement of the cost of electricity.



KING, REINSCH, PROSSER & CO., L.L.P.  
Certified Public Accountants

In accordance with *Government Auditing Standards*, we have also issued our report dated March 30, 2009 on our consideration of the City of Sergeant Bluff's internal control over financial reporting and on 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 the 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 important for assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 3 through 10 and pages 36 through 38 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, 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 Sergeant Bluff's basic financial statements. Supplementary information included on pages 39 through 41 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information has been subjected to the auditing procedures applied in the 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.

*King Reinsch Prosser & Co LLP*

Sioux City, Iowa  
March 30, 2009

## Management's Discussion and Analysis

The discussion and analysis of the City of Sergeant Bluff's financial performance for the year ended June 30, 2008 provides a narrative overview of its financial activities. Readers are encouraged to consider the information presented here in conjunction with the City's financial statements, which follow.

### Financial Highlights

- The City's assets of approximately \$27.2 million are divided between Governmental Activities (\$13.6 million) and Business-Type Activities (\$13.6 million). Combined assets exceeded liabilities by approximately \$19.9 million. Of this amount, approximately \$5.8 million is unrestricted and may be used to meet the City's ongoing obligations to citizens and creditors.
- At June 30, 2008, the City of Sergeant Bluff's governmental funds reported combined ending fund balances of approximately \$2,028,000.
- The unreserved fund balance for the general fund at the end of the current fiscal year was approximately \$617,000. This represents 31 percent of total general fund expenditures.

### Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City of Sergeant Bluff's basic financial statements. The City's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains supplementary information in addition to the basic financial statements.

Government-Wide Financial Statements. The government-wide financial statements are designed to provide readers with a broad overview of the City of Sergeant Bluff's finances, in a manner similar to a private-sector business. The Statement of Net Assets is essentially a balance sheet that combines all funds on a government-wide basis. Changes in net assets over time may be an indicator of whether the City's financial position is improving or worsening.

The Statement of Activities presents information showing how the City's net assets changed during the most recent fiscal year. All changes in the net assets are reported as soon as the underlying event occurs, giving rise to the change regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in the statement for some items that will only result in cash flows in future fiscal periods (e.g. uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City of Sergeant Bluff that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the

City of Sergeant Bluff include general government, public safety, public works, community and economic development, culture and recreation and debt service. The Business-Type Activities of the City include an electric, water, sewer, solid waste and storm water utility.

The government-wide financial statements can be found on pages 11-12 of this report.

Fund Financial Statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Sergeant Bluff, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of the governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City of Sergeant Bluff maintains 8 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, local option sales tax fund, debt service fund, and capital projects fund, which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements as supplementary information.

The basic governmental fund financial statements can be found on pages 13-16 of this report.

Proprietary Funds. The City of Sergeant Bluff maintains one type of proprietary fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its Electric, Water, Sewer, Solid Waste and Storm Water Utilities.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Electric, Water, Sewer, Solid Waste and Storm Water Utilities as all are considered, or have been designated to be major funds of the City.

The basic proprietary fund financial statements can be found on pages 17-19 of this report.

Fiduciary Funds. Fiduciary funds are used to account for resources held for the benefit of parties external to the City. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the City of Sergeant Bluff's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The basic fiduciary funds financial statements are reported in a separate statement of fiduciary net assets.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 21-35 of this report.

### Government-Wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The largest part of the City's net assets reflects its investment in capital assets (land, buildings and improvements, and equipment) less any related debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The following comparative chart shows the changes in net assets for the years ended June 30, 2008 and 2007:

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total City</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Current and other assets	\$ 3,833,394	\$ 2,777,899	\$ 5,117,688	\$ 4,745,441	\$ 8,951,082	\$ 7,523,340
Capital assets	<u>9,780,487</u>	<u>9,775,066</u>	<u>8,498,526</u>	<u>8,043,323</u>	<u>18,279,013</u>	<u>17,818,389</u>
Total assets	\$ 13,613,881	\$ 12,552,965	\$ 13,616,214	\$ 12,788,764	\$ 27,230,095	\$ 25,341,729
Long-term debt outstanding	\$ 3,945,000	\$ 4,071,355	\$ 1,224,775	\$ 1,307,792	\$ 5,169,775	\$ 5,379,147
Other liabilities	<u>1,784,534</u>	<u>1,482,811</u>	<u>398,918</u>	<u>420,511</u>	<u>2,183,452</u>	<u>1,903,322</u>
Total liabilities	\$ 5,729,534	\$ 5,554,166	\$ 1,623,693	\$ 1,728,303	\$ 7,353,227	\$ 7,282,469
Net assets:						
Invested in capital assets, net of related debt	\$ 5,835,487	\$ 5,781,523	\$ 7,273,751	\$ 6,780,542	\$ 13,109,238	\$ 12,562,065
Restricted	925,549	857,183	-	-	925,549	857,183
Unrestricted	<u>1,123,311</u>	<u>360,093</u>	<u>4,718,770</u>	<u>4,279,919</u>	<u>5,842,081</u>	<u>4,640,012</u>
Total net assets	\$ <u>7,884,347</u>	\$ <u>6,998,799</u>	\$ <u>11,992,521</u>	\$ <u>11,060,461</u>	\$ <u>19,876,868</u>	\$ <u>18,059,260</u>

This summary reflects a 13 percent increase in governmental activities net assets and an increase of 8 percent in the business-type activities net assets.

Total revenue reported in Fiscal Year 2008 was \$7,869,512. The following table breaks down revenues collected for governmental activities and business-type activities for fiscal year 2008 and 2007.

Revenue Source	Governmental Activities		Business-Type Activities		Total	
	2008	2007	2008	2007	2008	2007
<b>Program revenues:</b>						
Charges for services	\$ 286,213	\$ 300,360	\$ 4,362,251	\$ 4,217,851	\$ 4,648,464	\$ 4,518,211
Operating grants and contributions	410,769	354,098	-	-	410,769	354,098
Capital grants and contributions	94,899	-	-	-	94,899	-
<b>Total program revenues</b>	<b>\$ 791,881</b>	<b>\$ 654,458</b>	<b>\$ 4,362,251</b>	<b>\$ 4,217,851</b>	<b>\$ 5,154,132</b>	<b>\$ 4,872,309</b>
<b>General revenues and transfers:</b>						
Property taxes	\$ 1,430,288	\$ 1,300,523	\$ -	\$ -	\$ 1,430,288	\$ 1,300,523
Local option sales tax	354,479	362,474	-	-	354,479	362,474
Hotel/motel tax	26,160	17,678	-	-	26,160	17,678
Interest	69,877	48,395	8,627	9,243	78,504	57,638
Insurance recoveries	-	39,946	-	-	-	39,946
Claim settlement	761,142	-	-	-	761,142	-
Use of property	-	6,000	15,354	8,570	15,354	14,570
Gain on sale of assets	3,216	37,495	-	-	3,216	37,495
Miscellaneous	29,707	24,055	16,530	51,348	46,237	75,403
Transfers	244,485	373,298	(244,485)	(373,298)	-	-
<b>Total general revenues and transfers</b>	<b>\$ 2,919,354</b>	<b>\$ 2,209,864</b>	<b>\$ (203,974)</b>	<b>\$ (304,137)</b>	<b>\$ 2,715,380</b>	<b>\$ 1,905,727</b>
	<b>\$ 3,711,235</b>	<b>\$ 2,864,322</b>	<b>\$ 4,158,277</b>	<b>\$ 3,913,714</b>	<b>\$ 7,869,512</b>	<b>\$ 6,778,036</b>

Program revenues totaled \$5,154,132 for fiscal year 2008. Governmental activities provided \$791,881 and business-type activities provided \$4,362,251. Revenue collected for charges for services during the year was \$4,648,464, accounting for 90 percent of total program revenues.

General revenues and transfers for fiscal year 2008 totaled \$2,715,380, with governmental activities providing \$2,919,354, and business-type activities using \$203,974. Property tax revenues for fiscal year 2008 totaled \$1,430,288, accounting for 53 percent of general revenues.

Expenses for fiscal year 2008 totaled \$6,051,904. Expenses for governmental activities totaled \$2,825,687, accounting for 47 percent of total expenses. Business-type activity expenses totaled \$3,226,217, for 53 percent of the total. The following table shows total expenses by Function/Program:

Program Level	Governmental Activities		Business-Type Activities		Total	
	2008	2007	2008	2007	2008	2007
Public safety	\$ 1,025,637	\$ 975,313	\$ -	\$ -	\$ 1,025,637	\$ 975,313
Public works	757,446	827,094	-	-	757,446	827,094
Culture and recreation	344,438	271,297	-	-	344,438	271,297
Community and economic development	43,700	160,778	-	-	43,700	160,778
General government	455,852	329,372	-	-	455,852	329,372
Interest and related costs on long-term debt	198,614	197,361	-	-	198,614	197,361
Electric utility	-	-	1,949,987	2,004,481	1,949,987	2,004,481
Water utility	-	-	452,574	414,362	452,574	414,362
Sewer utility	-	-	533,462	490,398	533,462	490,398
Solid waste utility	-	-	248,811	246,814	248,811	246,814
Storm water utility	-	-	41,383	32,768	41,383	32,768
<b>Total expenses</b>	<b>\$ 2,825,687</b>	<b>\$ 2,761,215</b>	<b>\$ 3,226,217</b>	<b>\$ 3,188,823</b>	<b>\$ 6,051,904</b>	<b>\$ 5,950,038</b>

The following table shows the activities included within each program level:

Public Safety	Individual & Community Protection, Physical Health
Public Works	Roadway Construction, Airport Operations, General Streets, Transportation Services
Culture and Recreation	Education & Culture, Leisure Time Opportunities
Community and Economic Development	Economic Development and Community Beautification
General Government	Administration, Accounting, Support Services
Debt Service	Payment of Interest
Capital Projects	Construction of Capital Facilities
Electric Utility	Operation of Electric Distribution System
Water Utility	Operation of Water Supply Distribution System
Sewer Utility	Operation of Waste Water Treatment Plant/Collection System
Solid Waste Utility	Operation of Garbage and Recycling Collection and Disposal System
Storm Water Utility	Operation of Storm Water Drainage System

### **Governmental Activities**

To aid in the understanding of the Statement of Activities, some additional clarification is given. Of particular interest is the format that is significantly different than a typical Statement of Revenues, Expenses and Changes in Fund Balance. Please note that the expenses are listed in the first column, with revenues from that particular program reported to the right. The result is a Net (Expense) Revenue calculation. This format highlights the respective financial burden that each of the functions place on the taxpayers. For example, the City spent \$1,025,637 for Public Safety and received \$251,453 in revenue, leaving a cost to taxpayers of \$774,184 to be funded by various methods. The new format also identifies how much each function draws from general revenues or is self-financing through fees or grants. Some of the individual line item revenues reported for each function are:

Public Safety	Fines, Fees
Public Works	Road Use Tax, Rent
Culture and Recreation	Fees, State Aid
General Government	Licenses, Permits
Capital Projects	Donations, State Grants, Federal Grants

The total cost of governmental activities this year was \$2,825,687. Of these costs, \$286,213 was paid by those who directly benefited from the programs. Costs paid by other governments and organizations that subsidized certain programs with grants and contributions were \$505,668, leaving a Net Expense of \$2,033,806 for Governmental Activities. These expenses were covered with tax revenues, interest, and other general revenues. The Statement of Activities in the financial statements provides further detail. The Net (Expense) Revenue by Governmental Activity is shown in the following table:

<u>Functions/Programs</u>	<u>Net (Expense) Revenue</u>	
	<u>2008</u>	<u>2007</u>
Governmental activities:		
Public safety	\$ (774,184)	\$ (788,179)
Public works	(426,841)	(541,987)
Culture and recreation	(289,510)	(214,099)
Community and economic development	22,101	(67,913)
General government	(366,758)	(297,218)
Interest and related costs on long-term debt	<u>(198,614)</u>	<u>(197,361)</u>
Total net (expense) governmental activities	<u>\$(2,033,806)</u>	<u>\$(2,106,757)</u>
General revenues and interfund transfers	<u>2,919,354</u>	<u>2,209,864</u>
Change in net assets	<u>\$ 885,548</u>	<u>\$ 103,107</u>

Total resources available during the year to finance governmental operations were \$10,710,034, consisting of net assets at July 1, 2007 of \$6,998,799, program revenues of \$791,881 and general revenues of \$2,919,354. Total governmental activities during the year expended \$2,825,687; thus, net assets were increased by \$885,548 to \$7,884,347.

### **Business-Type Activities**

Business-type activities increased the City's net assets by \$932,060, accounting for 51 percent of the growth in the City's net assets.

The cost of all proprietary activities this year was \$3,226,217. As shown in the Statement of Activities, program revenue was \$4,362,251, resulting in a total Net Revenue of \$1,136,034.

<u>Business-Type Activities</u>	<u>Net (Expense) Revenue</u>	
	<u>2008</u>	<u>2007</u>
Electric utility	\$ 661,458	\$ 580,891
Water utility	290,284	351,153
Sewer utility	112,249	47,487
Solid waste utility	28,365	592
Storm water utility	<u>43,678</u>	<u>48,905</u>
Total net revenue business-type activities	<u>\$ 1,136,034</u>	<u>\$ 1,029,028</u>
General revenues and transfers	<u>(203,974)</u>	<u>(304,137)</u>
Change in net assets	<u>\$ 932,060</u>	<u>\$ 724,891</u>

Total resources available during the year to finance proprietary fund activities were \$15,218,738, consisting of net assets at July 1, 2007, of \$11,060,461, program revenues of \$4,362,251, and general revenues net of transfers of (\$203,974). Total proprietary fund activities during the year expended \$3,226,217; thus, net assets were increased by \$932,060 to \$11,992,521.

### **Financial Analysis of The City's Funds**

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance related legal requirements. The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing financing requirements. Unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of a fiscal year. The City's Governmental Funds reported combined ending fund balances \$2,028,024. The combined Governmental Funds balance increased \$1,648,296 from the prior year.

The General Fund is the main operating fund of the City. During the year, revenues and transfers exceeded expenditures in the General Fund by \$156,705. Capital Projects revenues and other financing sources exceeded expenditures by \$1,380,382. This change is the result of issuing long term bonded debt shown at the fund level.

The local option sales tax fund is used to account for the collection of a one cent local option sales and service tax to be expended for property tax relief and various infrastructure projects. The fund balance increased approximately \$48,000 during the year resulting from increased tax collections.

The debt service fund is used to account for the collection of general property taxes to be used to retire general obligation debt of the City. The fund balance remained essentially the same during fiscal year 2008.

### Budgetary Highlights

Comparing the fiscal year 2008 original (adopted) citywide amount of \$6,911,596 to the final budget amount of \$9,060,596 shows a net increase of \$2,149,000.

<u>Original Budget</u>	<u>Supplemental Changes</u>	<u>Amended Budget</u>
\$ 6,911,596	\$ 2,149,000	\$ 9,060,596

The following table shows the budget variances by program structure:

<u>Program</u>	<u>Final Budget</u>	<u>Actual (Cash Basis)</u>	<u>Variance Favorable (Unfavorable)</u>
Public Safety	\$ 884,847	\$ 930,375	\$ (45,528)
Public Works	430,954	329,245	101,709
Culture and Recreation	324,980	293,371	31,609
Community and Economic Development	45,415	28,485	16,930
General Government	453,996	443,694	10,302
Capital Projects	733,000	727,509	5,491
Debt Service	1,613,109	1,469,934	143,175
Business-Type/Enterprise	<u>4,574,295</u>	<u>3,794,099</u>	<u>780,196</u>
	<u>\$ 9,060,596</u>	<u>\$ 8,016,712</u>	<u>\$ 1,043,884</u>

See pages 36-38 for more detail information regarding the City's budget.

### Capital Assets

The City's investment in capital assets, including land, buildings and improvements, equipment, streets, electric systems, sewer systems, water systems, and other infrastructure represents the value of the resources utilized to provide services to our citizens. The investment in capital assets as of June 30, 2008, was \$18,279,013, (net of accumulated depreciation). This is an increase of \$460,624 from fiscal year 2007. The gross additions to capital assets for fiscal years 2008 and 2007 are as follows:

	Governmental Activities		Business-Type Activities		Total	
	2008	2007	2008	2007	2008	2007
Infrastructure	\$ 92,067	\$ -	\$ -	\$ -	\$ 92,067	\$ -
Buildings	15,500	32,788	-	6,744	15,500	39,532
Land improvements	-	1,135,181	-	-	-	1,135,181
Distribution system	-	-	4,848	1,369,728	4,848	1,369,728
Equipment	141,202	171,437	83,948	62,743	225,150	234,180
Construction in progress	581,955	480,102	602,013	199,193	1,183,968	679,295
Total gross additions	<u>\$ 830,724</u>	<u>\$ 1,819,508</u>	<u>\$ 690,809</u>	<u>\$ 1,638,408</u>	<u>\$ 1,521,533</u>	<u>\$ 3,457,916</u>

Construction in progress consisted of costs associated with road construction projects, the water treatment plant, wastewater treatment plant, #5 lift station, and storm water drainage.

See Note 5 to the financial statements for more information on the City's capital assets.

### Debt Administration

On June 30, 2008 the City had \$5,169,775 of debt outstanding. This is a decrease of \$155,225 from the prior year. \$1,170,000 of new debt was issued and \$1,380,000 of existing debt was retired. In addition, the City drew down \$54,775 of state revolving loan funds for engineering and legal costs related to a new wastewater treatment plant.

See Note 6 to the financial statements for more information on the City's long-term debt.

### Economic Factors

The City of Sergeant Bluff continues to report slowing yet steady residential and commercial growth. Property tax continues to be a major source of revenue and both assessed and taxable valuations have continued to consistently grow.

This steady growth has allowed the City to maintain its high level of service at a reasonable property tax rate. The sales tax portion of the City's revenue base has also continued to remain steady during a time when other communities have struggles. The City has budgeted for use of General Fund balance during the past years, but has projected a balanced budget for the next three years. The General Fund balance continues to remain at a solid 31 percent of expenditures. Efforts will have to be maintained to ensure that the cash balance percentage does not dip during future budget development negotiations.

### Requests for Information

This financial report is designed to provide a general overview of the City of Sergeant Bluff's financial position for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City of Sergeant Bluff, Administration Office, Sergeant Bluff, Iowa.

# FINANCIAL STATEMENTS

CITY OF SERGEANT BLUFF, IOWA

STATEMENT OF NET ASSETS

JUNE 30, 2008

	<u>Primary Government</u>		<u>Total</u>
	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	
<b><u>ASSETS</u></b>			
Current assets:			
Cash	\$ 1,793,707	\$ 2,787,092	\$ 4,580,799
Investments	1,785,380	31,376	1,816,756
Receivables (net, where applicable, of allowance for uncollectibles):			
Taxes	5,863	-	5,863
Subsequent year taxes	1,503,575	-	1,503,575
Accounts	5,748	503,606	509,354
Estimated unbilled usage	-	129,413	129,413
Due from other governmental agencies	76,559	-	76,559
Internal balances	(1,425,941)	1,425,941	-
Inventories	6,650	145,765	152,415
Prepaid assets	24,168	36,252	60,420
Total current assets	<u>\$ 3,775,709</u>	<u>\$ 5,059,445</u>	<u>\$ 8,835,154</u>
Non-current assets:			
Restricted assets - cash	\$ -	\$ 38,419	\$ 38,419
Unamortized bond issue costs	57,685	19,824	77,509
Land	393,609	202,934	596,543
Construction in progress	754,858	639,502	1,394,360
Infrastructure, property and equipment, net of accumulated depreciation (Note 5)	8,632,020	7,656,090	16,288,110
Total non-current assets	<u>\$ 9,838,172</u>	<u>\$ 8,556,769</u>	<u>\$ 18,394,941</u>
Total assets	<u>\$ 13,613,881</u>	<u>\$ 13,616,214</u>	<u>\$ 27,230,095</u>
<b><u>LIABILITIES</u></b>			
Current liabilities:			
Accounts payable	\$ 161,360	\$ 323,502	\$ 484,862
Accrued wages and related taxes	58,248	16,822	75,070
Accrued interest payable	21,849	3,591	25,440
Deferred revenue - subsequent year taxes	1,503,575	-	1,503,575
Bonds and notes payable due within one year	375,000	115,000	490,000
Total current liabilities	<u>\$ 2,120,032</u>	<u>\$ 458,915</u>	<u>\$ 2,578,947</u>
Liabilities payable from restricted assets:			
Customer deposits	\$ -	\$ 38,419	\$ 38,419
Total liabilities payable from restricted assets	<u>\$ -</u>	<u>\$ 38,419</u>	<u>\$ 38,419</u>
Non-current liabilities:			
Bonds and notes payable due in more than one year	\$ 3,570,000	\$ 1,109,775	\$ 4,679,775
Compensated absences due in more than one year	39,502	16,584	56,086
Total non-current liabilities	<u>\$ 3,609,502</u>	<u>\$ 1,126,359</u>	<u>\$ 4,735,861</u>
Total liabilities	<u>\$ 5,729,534</u>	<u>\$ 1,623,693</u>	<u>\$ 7,353,227</u>
<b><u>NET ASSETS</u></b>			
Invested in capital assets, net of related debt	\$ 5,835,487	\$ 7,273,751	\$ 13,109,238
Restricted:			
Debt service	82,644	-	82,644
Local option sales tax purposes	399,296	-	399,296
Road purposes	443,609	-	443,609
Unrestricted	1,123,311	4,718,770	5,842,081
Total net assets	<u>\$ 7,884,347</u>	<u>\$ 11,992,521</u>	<u>\$ 19,876,868</u>

CITY OF SERGEANT BLUFF, IOWA

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2008

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Primary government:				
Governmental activities:				
Public safety	\$ 1,025,637	\$ 135,591	\$ 115,862	\$ -
Public works	757,446	6,600	294,907	29,098
Culture and recreation	344,438	54,928	-	-
Community and economic development	43,700	-	-	65,801
General government	455,852	89,094	-	-
Interest and related costs on long-term debt	198,614	-	-	-
Total governmental activities	<u>\$ 2,825,687</u>	<u>\$ 286,213</u>	<u>\$ 410,769</u>	<u>\$ 94,899</u>
Business-type activities:				
Electric utility	\$ 1,949,987	\$ 2,611,445	\$ -	\$ -
Water utility	452,574	742,858	-	-
Sewer utility	533,462	645,711	-	-
Solid waste utility	248,811	277,176	-	-
Storm water utility	41,383	85,061	-	-
Total business-type activities	<u>\$ 3,226,217</u>	<u>\$ 4,362,251</u>	<u>\$ -</u>	<u>\$ -</u>
Total primary government	<u>\$ 6,051,904</u>	<u>\$ 4,648,464</u>	<u>\$ 410,769</u>	<u>\$ 94,899</u>
General revenues:				
Property taxes, levied for general purposes				
Property taxes, levied for employee benefits				
Property taxes, levied for debt service				
Local option sales tax				
Hotel/motel taxes				
Interest				
Claim settlement				
Use of property				
Gain on sale of assets				
Miscellaneous				
Transfers				
Total general revenues and transfers				
Change in net assets				
Net assets - beginning (as previously reported)				
Prior period adjustment (Note 13)				
Net assets - beginning (as restated)				
Net assets - ending				

See accompanying notes to financial statements.

Net (Expense) Revenue and  
Changes in Net Assets

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<u>Governmental</u> <u>Activities</u>	<u>Business-Type</u> <u>Activities</u>	<u>Total</u>
\$ (774,184)	\$ -	\$ (774,184)
(426,841)	-	(426,841)
(289,510)	-	(289,510)
22,101	-	22,101
(366,758)	-	(366,758)
<u>(198,614)</u>	<u>-</u>	<u>(198,614)</u>
<u>\$ (2,033,806)</u>	<u>\$ -</u>	<u>\$ (2,033,806)</u>
\$ -	\$ 661,458	\$ 661,458
-	290,284	290,284
-	112,249	112,249
-	28,365	28,365
-	<u>43,678</u>	<u>43,678</u>
<u>\$ -</u>	<u>\$ 1,136,034</u>	<u>\$ 1,136,034</u>
<u>\$ (2,033,806)</u>	<u>\$ 1,136,034</u>	<u>\$ (897,772)</u>
\$ 900,040	\$ -	\$ 900,040
247,823	-	247,823
282,425	-	282,425
354,479	-	354,479
26,160	-	26,160
69,877	8,627	78,504
761,142	-	761,142
-	15,354	15,354
3,216	-	3,216
29,707	16,530	46,237
<u>244,485</u>	<u>(244,485)</u>	<u>-</u>
<u>\$ 2,919,354</u>	<u>\$ (203,974)</u>	<u>\$ 2,715,380</u>
\$ 885,548	\$ 932,060	\$ 1,817,608
<u>6,998,799</u>	<u>10,971,773</u>	<u>17,970,572</u>
<u>\$ -</u>	<u>\$ 88,688</u>	<u>\$ 88,688</u>
<u>\$ 6,998,799</u>	<u>\$ 11,060,461</u>	<u>\$ 18,059,260</u>
<u>\$ 7,884,347</u>	<u>\$ 11,992,521</u>	<u>\$ 19,876,868</u>

CITY OF SERGEANT BLUFF, IOWA

BALANCE SHEET - GOVERNMENTAL FUNDS

JUNE 30, 2008

	<u>General</u>	<u>Special Revenue Local Option Sales Tax</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>ASSETS</u>						
Cash and pooled investments	\$ 765,893	\$ 345,517	\$ 108,332	\$ 8,812	\$ 565,153	\$ 1,793,707
Investments	4,712	-	-	1,625,000	155,668	1,785,380
Receivables (net, where applicable, of allowance for uncollectibles):						
Accounts	5,748	-	-	-	-	5,748
Taxes	3,685	-	1,161	-	1,017	5,863
Subsequent year taxes	965,945	-	267,415	-	270,215	1,503,575
Due from other governmental agencies	-	53,779	-	-	22,780	76,559
Inventories	-	-	-	-	6,650	6,650
 Total assets	 <u>\$ 1,745,983</u>	 <u>\$ 399,296</u>	 <u>\$ 376,908</u>	 <u>\$ 1,633,812</u>	 <u>\$ 1,021,483</u>	 <u>\$ 5,177,482</u>
 <u>LIABILITIES AND FUND BALANCES</u>						
Liabilities:						
Accounts payable	\$ 105,063	\$ -	\$ -	\$ 56,297	\$ -	\$ 161,360
Accrued wages and related taxes	58,248	-	-	-	-	58,248
Unearned revenue	209	-	67	-	58	334
Interfund payable	-	-	5,000	1,420,941	-	1,425,941
Deferred revenue - subsequent year taxes	965,945	-	267,415	-	270,215	1,503,575
Total liabilities	<u>\$ 1,129,465</u>	<u>\$ -</u>	<u>\$ 272,482</u>	<u>\$ 1,477,238</u>	<u>\$ 270,273</u>	<u>\$ 3,149,458</u>
Fund balances:						
Reserved for:						
Inventories	\$ -	\$ -	\$ -	\$ -	\$ 6,650	\$ 6,650
Debt service	-	-	104,426	-	-	104,426
Unreserved, reported in:						
General fund	616,518	-	-	-	-	616,518
Special revenue funds	-	399,296	-	-	744,560	1,143,856
Capital projects fund	-	-	-	156,574	-	156,574
Total fund balances (deficits)	<u>\$ 616,518</u>	<u>\$ 399,296</u>	<u>\$ 104,426</u>	<u>\$ 156,574</u>	<u>\$ 751,210</u>	<u>\$ 2,028,024</u>
 Total liabilities and fund balances (deficits)	 <u>\$ 1,745,983</u>	 <u>\$ 399,296</u>	 <u>\$ 376,908</u>	 <u>\$ 1,633,812</u>	 <u>\$ 1,021,483</u>	 <u>\$ 5,177,482</u>

CITY OF SERGEANT BLUFF, IOWA

RECONCILIATION OF THE BALANCE SHEET -

GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS

JUNE 30, 2008

Total governmental fund balances (page 13)	\$ 2,028,024
 <i>Amounts reported for governmental activities in the statement of net assets are different because:</i>	
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the governmental funds balance sheet.	9,780,487
Unearned revenue that provide current financial resources for governmental activities.	334
Prepaid expenses are reported in the governmental activities but are not reported in the funds as they do not provide current economic resources.	24,168
Accrued interest payable on long-term debt does not require current financial resources; therefore, it is not reported as a liability in the governmental funds balance sheet.	(21,849)
Compensated absences are not due and payable in the current period and therefore, are not reported as liabilities in the funds.	(39,502)
Long-term liabilities are not due and payable in the current period and, therefore, they are not reported in the governmental funds balance sheet.	
Due within one year	\$ 375,000
Due in more than one year	3,570,000
Deferred charges	<u>(57,685)</u>
	<u>(3,887,315)</u>
Total net assets of governmental activities (page 11)	<u>\$ 7,884,347</u>

CITY OF SERGEANT BLUFF, IOWA

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES

IN FUND BALANCES - GOVERNMENTAL FUNDS

FOR THE YEAR ENDED JUNE 30, 2008

	<u>General</u>	<u>Special Revenue Local Option Sales Tax</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenue:</b>						
Property taxes	\$ 899,706	\$ -	\$ 282,425	\$ -	\$ 247,823	\$ 1,429,954
Other city taxes	26,160	354,479	-	-	-	380,639
Special assessment	-	-	-	65,801	-	65,801
Licenses and permits	30,285	-	-	-	-	30,285
Intergovernmental revenue	79,294	-	-	-	284,559	363,853
Charges for services	136,971	-	-	-	83,723	220,694
Fines and forfeits	22,237	-	-	-	-	22,237
Contributions	3,000	-	-	-	9,970	12,970
Rental income	6,600	-	-	-	-	6,600
Interest	62,168	-	-	331	7,378	69,877
Miscellaneous	55,405	-	-	-	43,743	99,148
<b>Total revenue</b>	<b>\$ 1,321,826</b>	<b>\$ 354,479</b>	<b>\$ 282,425</b>	<b>\$ 66,132</b>	<b>\$ 677,196</b>	<b>\$ 2,702,058</b>
<b>Expenditures:</b>						
<b>Operating:</b>						
Public safety	\$ 838,101	\$ -	\$ -	\$ -	\$ 80,422	\$ 918,523
Public works	314,352	-	-	-	-	314,352
Culture and recreation	325,725	-	-	-	-	325,725
Community and economic development	33,609	-	-	-	-	33,609
General government	453,175	-	-	-	-	453,175
Capital projects	-	-	-	645,238	-	645,238
Debt service	-	-	549,556	48,470	-	598,026
<b>Total expenditures</b>	<b>\$ 1,964,962</b>	<b>\$ -</b>	<b>\$ 549,556</b>	<b>\$ 693,708</b>	<b>\$ 80,422</b>	<b>\$ 3,288,648</b>
Excess (deficiency) of revenues over expenditures	\$ (643,136)	\$ 354,479	\$ (267,131)	\$ (627,576)	\$ 596,774	\$ (586,590)
<b>Other financing sources (uses):</b>						
Bonds issued	\$ -	\$ -	\$ -	\$ 1,170,000	\$ -	\$ 1,170,000
Proceeds from the sale of assets	3,216	-	-	-	-	3,216
Settlement proceeds	-	-	-	761,142	-	761,142
Transfers in	803,322	-	265,868	112,710	6,697	1,188,597
Transfers out	(6,697)	(306,076)	-	(35,894)	(539,402)	(888,069)
<b>Total other financing sources (uses)</b>	<b>\$ 799,841</b>	<b>\$ (306,076)</b>	<b>\$ 265,868</b>	<b>\$ 2,007,958</b>	<b>\$ (532,705)</b>	<b>\$ 2,234,886</b>
Net change in fund balance	\$ 156,705	\$ 48,403	\$ (1,263)	\$ 1,380,382	\$ 64,069	\$ 1,648,296
Fund balances (deficits) - beginning of year	459,813	350,893	105,689	(1,223,808)	687,141	379,728
Fund balances - end of year	<u>\$ 616,518</u>	<u>\$ 399,296</u>	<u>\$ 104,426</u>	<u>\$ 156,574</u>	<u>\$ 751,210</u>	<u>\$ 2,028,024</u>

CITY OF SERGEANT BLUFF, IOWA

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES

IN FUND BALANCES - GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2008

Net changes in fund balances - total governmental funds (page 15) \$ 1,648,296

*Amounts reported for governmental activities in the statement of activities are different because:*

Governmental funds report capital outlays, including infrastructure, as expenditures. However, in the government-wide statement of activities and changes in net assets, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. Capital outlays exceeded depreciation in the current year as follows:

Capital asset purchases	\$ 829,490	
Capital assets transferred from governmental funds to proprietary funds	(56,043)	
Depreciation expense	<u>(768,026)</u>	5,421

Revenues reported in the funds that are not available to provide current financial resources. 334

Prepaid insurance is not reported in the governmental funds as it is not available to provide current financial resources. 10,232

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds:

Accrued compensated absences (8,147)

Accrued interest expense on long-term debt is reported in the government-wide statement of activities and changes in net assets, but does not require the use of current financial resources; therefore, accrued interest expense is not reported as expenditures in governmental funds. (6,816)

The issuance of long-term debt (e.g. bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs when debt is first issued, whereas the amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.

Bond issuance costs	\$ 23,400	
Proceeds from bond issuance	(1,170,000)	
Bond principal retirement	395,000	
Amortization of deferred charges	<u>(12,172)</u>	<u>(763,772)</u>

Change in net assets of governmental activities (page 12) \$ 885,548



Enterprise Funds

Sewer Utility	Solid Waste Utility	Storm Water Utility	Total
\$ -	\$ 60,678	\$ 170,794	\$ 2,787,092
10,653	-	-	31,376
89,183	40,471	10,564	503,606
17,517	6,515	2,173	129,413
-	-	-	1,553,029
-	-	-	145,765
12,084	-	-	36,252
<u>\$ 129,437</u>	<u>\$ 107,664</u>	<u>\$ 183,531</u>	<u>\$ 5,186,533</u>
\$ -	\$ -	\$ -	\$ 38,419
17,501	-	-	19,824
51,590	-	-	202,934
578,982	-	6,831	639,502
3,333,823	-	96,837	7,656,090
<u>\$ 3,981,896</u>	<u>\$ -</u>	<u>\$ 103,668</u>	<u>\$ 8,556,769</u>
<u>\$ 4,111,333</u>	<u>\$ 107,664</u>	<u>\$ 287,199</u>	<u>\$ 13,743,302</u>
\$ 67,196	\$ 16,650	\$ 23,577	\$ 323,502
4,900	-	-	16,822
3,135	-	-	3,591
127,088	-	-	127,088
95,000	-	-	115,000
<u>\$ 297,319</u>	<u>\$ 16,650</u>	<u>\$ 23,577</u>	<u>\$ 586,003</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 38,419</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 38,419</u>
\$ 54,775	\$ -	\$ -	\$ 54,775
915,000	-	-	1,055,000
3,251	-	-	16,584
<u>\$ 973,026</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,126,359</u>
<u>\$ 1,270,345</u>	<u>\$ 16,650</u>	<u>\$ 23,577</u>	<u>\$ 1,750,781</u>
\$ 2,899,620	\$ -	\$ 103,668	\$ 7,273,751
(58,632)	91,014	159,954	4,718,770
<u>\$ 2,840,988</u>	<u>\$ 91,014</u>	<u>\$ 263,622</u>	<u>\$ 11,992,521</u>

CITY OF SERGEANT BLUFF, IOWA

STATEMENT OF REVENUES, EXPENSES, AND

CHANGES IN NET ASSETS - PROPRIETARY FUNDS

FOR THE YEAR ENDED JUNE 30, 2008

	<u>Enterprise Funds</u>	
	<u>Electric Utility</u>	<u>Water Utility</u>
Operating revenues:		
Charges for services	\$ 2,611,445	\$ 742,858
Operating expenses:		
Cost of service	\$ 1,889,142	\$ 366,315
Depreciation	<u>60,845</u>	<u>79,231</u>
Total operating expenses	<u>\$ 1,949,987</u>	<u>\$ 445,546</u>
Operating income (loss)	\$ 661,458	\$ 297,312
Non-operating income (expense):		
Interest income	\$ 7,150	\$ 1,005
Revenue from use of property	-	15,354
Other non-operating revenues	11,972	2,752
Interest expense	<u>-</u>	<u>(7,028)</u>
Total non-operating income (expenses)	<u>\$ 19,122</u>	<u>\$ 12,083</u>
Income (loss) before contributions and transfers	\$ 680,580	\$ 309,395
Capital contributions	\$ -	\$ -
Transfers out	<u>(105,000)</u>	<u>(142,773)</u>
Change in net assets	\$ 575,580	\$ 166,622
Net assets - beginning (as previously reported)	<u>4,112,684</u>	<u>3,853,323</u>
Prior period adjustment (Note 13)	<u>\$ 88,688</u>	<u>\$ -</u>
Net assets - beginning (as restated)	<u>\$ 4,201,372</u>	<u>\$ 3,853,323</u>
Net assets - ending	<u>\$ 4,776,952</u>	<u>\$ 4,019,945</u>

See accompanying notes to financial statements.

Enterprise Funds

Sewer Utility	Solid Waste Utility	Storm Water Utility	Total
\$ 645,711	\$ 277,176	\$ 85,061	\$ 4,362,251
\$ 403,940	\$ 248,811	\$ 37,403	\$ 2,945,611
<u>86,702</u>	<u>-</u>	<u>3,980</u>	<u>230,758</u>
<u>\$ 490,642</u>	<u>\$ 248,811</u>	<u>\$ 41,383</u>	<u>\$ 3,176,369</u>
\$ 155,069	\$ 28,365	\$ 43,678	\$ 1,185,882
\$ 472	\$ -	\$ -	\$ 8,627
-	-	-	15,354
1,806	-	-	16,530
<u>(42,820)</u>	<u>-</u>	<u>-</u>	<u>(49,848)</u>
<u>\$ (40,542)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (9,337)</u>
\$ 114,527	\$ 28,365	\$ 43,678	\$ 1,176,545
\$ 56,043	\$ -	\$ -	\$ 56,043
<u>(52,755)</u>	<u>-</u>	<u>-</u>	<u>(300,528)</u>
\$ 117,815	\$ 28,365	\$ 43,678	\$ 932,060
<u>2,723,173</u>	<u>62,649</u>	<u>219,944</u>	<u>10,971,773</u>
\$ -	\$ -	\$ -	\$ 88,688
<u>\$ 2,723,173</u>	<u>\$ 62,649</u>	<u>\$ 219,944</u>	<u>\$ 11,060,461</u>
<u>\$ 2,840,988</u>	<u>\$ 91,014</u>	<u>\$ 263,622</u>	<u>\$ 11,992,521</u>

CITY OF SERGEANT BLUFF, IOWA

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS

FOR THE YEAR ENDED JUNE 30, 2008

	<u>Enterprise Funds</u>	
	<u>Electric Utility</u>	<u>Water Utility</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Cash received from customers	\$ 2,573,002	\$ 807,137
Cash paid to suppliers for goods and services	(1,691,877)	(251,431)
Cash paid to employees for services and employee benefits	(256,688)	(106,398)
Other receipts	<u>11,972</u>	<u>18,106</u>
Net cash provided by (used in) operating activities	<u>\$ 636,409</u>	<u>\$ 467,414</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Purchases of capital assets	\$ (25,394)	\$ (65,557)
Proceeds from note payable	-	-
Principal paid on capital debt	-	(20,000)
Interest and bond costs paid	-	<u>(6,741)</u>
Net cash provided by (used in) capital and related financing activities	<u>\$ (25,394)</u>	<u>\$ (92,298)</u>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:</b>		
Operating transfers to other funds	\$ (105,000)	\$ (142,773)
Advances from (to) other funds, net of repayments	<u>290,401</u>	<u>(5,000)</u>
Net cash provided by (used in) non-capital financing activities	<u>\$ 185,401</u>	<u>\$ (147,773)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Proceeds from sale of investments	\$ -	\$ (1,005)
Interest earned on investments	<u>7,150</u>	<u>1,005</u>
Net cash provided by (used in) investing activities	<u>\$ 7,150</u>	<u>\$ -</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<u>\$ 803,566</u>	<u>\$ 227,343</u>
<b>CASH AT BEGINNING OF YEAR</b>	<u>1,259,684</u>	<u>303,446</u>
<b>CASH AT END OF YEAR</b>	<u>\$ 2,063,250</u>	<u>\$ 530,789</u>
<b>Reconciliation of operating income (loss) to net cash provided by operating activities:</b>		
Operating income (loss)	\$ 661,458	\$ 297,312
Adjustments to reconcile net operating income (loss) to net cash provided by operating activities:		
Depreciation	\$ 60,845	\$ 79,231
Miscellaneous receipts	11,972	18,106
(Increase) decrease in assets:		
Accounts receivable	(31,808)	50,905
Estimated unbilled usage	13,181	13,374
Prepays	1,851	1,852
Inventories	(2,181)	-
Increase (decrease) in liabilities:		
Accounts payable	(61,001)	6,203
Accrued wages and compensated absences	1,908	431
Customer deposits	<u>(19,816)</u>	<u>-</u>
Total adjustments	<u>\$ (25,049)</u>	<u>\$ 170,102</u>
Net cash provided by (used in) operating activities	<u>\$ 636,409</u>	<u>\$ 467,414</u>
<b>CASH RECONCILIATION:</b>		
Cash	\$ 2,024,831	\$ 530,789
Unrestricted cash	<u>38,419</u>	<u>-</u>
Total	<u>\$ 2,063,250</u>	<u>\$ 530,789</u>
<b>SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING, CAPITAL, AND FINANCING TRANSACTIONS:</b>		
Capital contributions from other funds	\$ -	\$ -
Capital assets purchased by short-term debt (accounts payable)	-	-
Total noncash investing, capital, and financing transactions	<u>\$ -</u>	<u>\$ -</u>

See accompanying notes to financial statements.

Enterprise Funds

Sewer Utility	Solid Waste Utility	Storm Water Utility	Total
\$ 624,568	\$ 263,498	\$ 82,856	\$ 4,351,061
(258,322)	(247,025)	(14,563)	(2,463,218)
(161,204)	-	-	(524,290)
1,806	-	-	31,884
<u>\$ 206,848</u>	<u>\$ 16,473</u>	<u>\$ 68,293</u>	<u>\$ 1,395,437</u>
\$ (508,558)	\$ -	\$ (9,360)	\$ (608,869)
54,775	-	-	54,775
(95,000)	-	-	(115,000)
(41,060)	-	-	(47,801)
<u>\$ (589,843)</u>	<u>\$ -</u>	<u>\$ (9,360)</u>	<u>\$ (716,895)</u>
\$ (52,755)	\$ -	\$ -	\$ (300,528)
127,088	-	-	412,489
<u>\$ 74,333</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 111,961</u>
\$ (471)	\$ -	\$ -	\$ (1,476)
504	-	-	8,659
<u>\$ 33</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,183</u>
\$ (308,629)	\$ 16,473	\$ 58,933	\$ 797,686
308,629	44,205	111,861	2,027,825
<u>\$ -</u>	<u>\$ 60,678</u>	<u>\$ 170,794</u>	<u>\$ 2,825,511</u>
\$ 155,069	\$ 28,365	\$ 43,678	\$ 1,185,882
\$ 86,702	\$ -	\$ 3,980	\$ 230,758
1,806	-	-	31,884
(22,617)	(13,638)	(2,187)	(19,345)
1,474	(40)	(18)	27,971
1,852	-	-	5,555
-	-	-	(2,181)
(18,214)	1,786	22,840	(48,386)
776	-	-	3,115
-	-	-	(19,816)
<u>\$ 51,779</u>	<u>\$ (11,892)</u>	<u>\$ 24,615</u>	<u>\$ 209,555</u>
<u>\$ 206,848</u>	<u>\$ 16,473</u>	<u>\$ 68,293</u>	<u>\$ 1,395,437</u>
\$ -	\$ 60,678	\$ 170,794	\$ 2,787,092
-	-	-	38,419
<u>\$ -</u>	<u>\$ 60,678</u>	<u>\$ 170,794</u>	<u>\$ 2,825,511</u>
\$ 56,043	\$ -	\$ -	\$ 56,043
21,050	-	-	21,050
<u>\$ 77,093</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 77,093</u>

CITY OF SERGEANT BLUFF, IOWA

STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2008

	<u>Agency Fund</u>
ASSETS:	
Cash	\$ <u>5,933</u>
LIABILITIES:	
Accounts payable	\$ <u>5,933</u>
NET ASSETS:	
Unrestricted	<u>\$ -</u>

CITY OF SERGEANT BLUFF, IOWA

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The City of Sergeant Bluff, Iowa, is a political subdivision of the State of Iowa located in Woodbury County, and was incorporated in 1854, under the laws of the State of Iowa, later amended in 1974 under the Home Rule City Act. The City operates under a Mayor-Council form of government, with an appointed administrator, elected on a nonpartisan basis and administers the following programs as authorized by its charter: public safety, public works, culture and recreation, community and economic development, general government, capital projects and debt service. The City also has municipal electric, water, sewer, solid waste and storm water utility systems which are governed by the City Council.

The City's financial statements are prepared in accordance with U.S. generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow certain other pronouncements issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. The City elects not to apply the applicable FASB statements and interpretations issued after November 30, 1989 in accounting and reporting its proprietary operations. The more significant accounting policies established in GAAP and used by the City are discussed below.

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

CITY OF SERGEANT BLUFF, IOWA

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

Jointly Governed Organizations - The City also participates in several jointly governed organizations for which the City is not financially accountable or that the nature and significance of the relationship with the City are such that exclusion does not cause the City's financial statements to be misleading or incomplete. City officials are members of the following Boards or Commissions: Woodbury County Solid Waste Agency Board, Woodbury County Joint E-911 Services Board and Woodbury County Conference Board.

- B. Basis of Presentation - The City's basic financial statements include both government-wide (reporting the City as a whole) and fund financial statements (reporting the City's major funds). Both the government-wide and fund financial statements categorize primary activities as either governmental or business-type. The City's general, special revenue, debt service, and capital projects funds are classified as governmental activities.

Government-Wide Statements - In the government-wide statement of net assets, both the governmental and business-type activities columns (a) are presented on a consolidated basis by column, and (b) are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The City's net assets are reported in three parts-invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. The City first uses restricted resources to finance qualifying activities.

The government-wide statement of activities reports both the gross and net cost of each of the City's governmental functions (public safety, public works, culture and recreation, community and economic development, general government, etc.) and business-type activities. The functions are also supported by related program revenue, operating grants, and capital grants. Program revenue must be directly associated with the function or a business-type activity. Operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants.

Direct expenses are reported for each City function. The City does not allocate indirect expenses to each function.

This government-wide focus is more on the sustainability of the City as an entity and the change in the City's net assets resulting from the current year activities.

CITY OF SERGEANT BLUFF, IOWA

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

Fund Accounting - The accounts of the City are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for by a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Government resources are allocated to, and accounted for, in individual funds based on the purpose for which they are to be spent and the means by which spending activities are controlled.

The emphasis in fund financial statements is on the major funds in both the governmental category and enterprise type. GASB No. 34 sets forth minimum criteria for the determination of major funds. The City electively added funds, as major funds, which had a specific community focus. The nonmajor funds are combined into a single column in the governmental fund financial statements.

Governmental Fund Types - The governmental fund financial statements are reported using the current financial resources measurement focus. This means that the focus of the governmental funds' measurement is upon the determination of financial position and changes in financial position (sources, uses and balances of financial resources) rather than upon net income. The following is a description of the major governmental funds of the City:

- 1) General Fund - The General Fund is the main operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund. The sources of revenue include property taxes, charges for services, fines and fees, licenses and permits, as well as state and federal grants. The expenditures of the General Fund relate to general administration, police and fire protection, economic development, and culture and recreation.
- 2) Special Revenue Fund - The Local Option Sales Tax Fund is used to account for receipt of the City's share of the one percent local option sales.
- 3) Debt Service Fund - Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt, principal, interest, and related costs.
- 4) Capital Projects Fund - The Capital Projects Fund is used to account for the construction of major capital improvements and infrastructure financed by transfer from other funds and bond issues.

CITY OF SERGEANT BLUFF, IOWA

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

Proprietary Fund - The focus of proprietary fund measurement is upon determination of operating income, changes in net assets, financial position, and cash flows. Operating revenues and expenses are distinguished from non-operating revenues and expenses. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal operating revenues of enterprise funds are charges to customers for services. Operating expenses consist of cost of sales and services, administrative expenses and depreciation on capital assets.

Enterprise Funds - Enterprise Funds are used to account for business-like activities provided to the general public. These activities are financed primarily by user charges and the measurement of financial activity focuses on net income measurement similar to the private sector. The major enterprise funds are listed as follows:

The Water and Sewer Funds are used to account for the provision of water and sewer services to the residents of the City. Activities of the fund include administration, operation and maintenance of the water system and billing and collection activities. The fund also accounts for the accumulation of resources for, and the payment of, long-term debt principal and interest for water and sewer debt. All costs are financed through charges to utility customers with rates reviewed regularly and adjusted if necessary to ensure integrity of the funds.

The Solid Waste Fund is used to account for billing, collection and payment for solid waste collection and disposal services. All costs are financed through charges to sanitation customers.

The Electric Fund is used to account for the operations of the City's electric distribution system, including the administration, operation and maintenance. All costs are financed through charges to utility customers with rates adjusted monthly to ensure integrity of the fund.

The Storm Water Utility Fund is used to account for the operations of the City's storm water utility system, including the administration, operation and maintenance. All costs are financed through charges to utility customers.

CITY OF SERGEANT BLUFF, IOWA

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

Fiduciary Fund - Fiduciary fund accounts for assets held by the City in a purely custodial capacity. Since an agency fund is custodial in nature, they do not involve the measurement of results of operations and are not incorporated into the government-wide financial statements. The City's Agency Fund is used to account for a medical flexible spending account for employees.

- C. Measurement Focus and Basis of Accounting - Basis of accounting refers to the point at which revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made, regardless of the measurement focus applied.

Accrual Basis of Accounting - Accrual basis of accounting is used for all activities in the government-wide financial statements and for the proprietary and fiduciary activities in the fund financial statements. Revenues are recognized when earned and expenses are recognized when incurred.

Modified Accrual Basis of Accounting - Modified accrual basis of accounting is used by all governmental funds in the fund financial statements. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The City considers property taxes as available if they are collected within 60 days after year-end. A one-year availability period is used for revenue recognition for all other governmental fund revenues.

Expenditures are recorded when the related fund liability is incurred. An exception to this general rule is that principal and interest on general obligation debt, if any, is recognized when due.

Those revenues susceptible to accrual are property taxes, assessments, and intergovernmental revenues. Licenses, fines and permits are not susceptible to accrual because generally they are not measurable until received in cash.

- D. Budget - The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2008, disbursements exceeded the amount budgeted in the public safety function.

CITY OF SERGEANT BLUFF, IOWA  
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

- E. Pooled Cash And Investments - The cash balances of most City funds are pooled and invested.
- 1) Cash and Cash Equivalents - Includes investments with original maturities of three months or less.
  - 2) Investments - Investments consist of certificates of deposit with original maturities of more than three months and perfected repurchase agreement. The City reports certificates of deposit and perfected repurchase agreement at cost.
- F. Property Tax Receivable - Property tax in governmental funds is accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the City Council to the County Board of Supervisors. Current year delinquent property taxes receivable represents unpaid taxes from the current year. The succeeding year property tax receivable represents taxes certified by the City Council to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the City Council is required to certify its budget to the County Auditor by March 15 of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds becomes due and collectible in September and March of the fiscal year with a 1-1/2 percent per month penalty for delinquent payments; is based on January 1, 2006 assessed property valuations; is for the tax accrual period July 1, 2007 through June 30, 2008 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April 2007. Any county collections on the 2007-2008 tax levy remitted to the City within 60 days subsequent to June 30, 2008, are recorded as property tax revenue.

CITY OF SERGEANT BLUFF, IOWA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

- G. Short-Term Interfund Receivables/Payables - During the course of its operations, the City has numerous transactions between funds to finance operations, provide services, construct assets, and service debt. To the extent that certain transactions between funds have not been paid or received as of June 30, 2008, balances of interfund amounts payable or receivable have been recorded. Any residual balances outstanding between governmental activities and business-type activities are reported in the government-wide financial statements as interfund balances and eliminated upon consolidation.
- H. Restricted Assets - Customer deposits held as a security deposit for utility customers are records as restricted assets to indicate that their use is limited to payment of delinquent utility bills or refunds to customers.
- I. Inventories - Inventories of the proprietary fund types are valued at cost, which approximates market, using the first-in/first-out (FIFO) method. The costs of governmental fund-type inventories are recorded as expenditures when purchase rather than when consumed.
- J. Prepaid Items - Payments made to vendors for services that will benefit periods beyond June 30, 2008 are recorded as prepaid items.
- K. Bond Issue Costs - Bond issuance costs are deferred and amortized over the term of the bonds.
- L. Property and Equipment - Capital assets with an initial individual cost of \$1,000 or more are capitalized. Property and equipment are valued at historical cost or estimated historical cost if actual historical cost is not available. Contributed assets are reported at their fair value as of the date received. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Infrastructure has been capitalized using historical or estimated historical cost beginning in 1980 as required by GASB 34. Depreciation on all assets is provided on the straight-line basis over the following estimated lives:

Buildings	20 - 50 Years
Utility Plant	30 - 33 Years
Land Improvements	20 - 50 Years
Machinery & Equipment	5 - 20 Years
Infrastructure	20 - 100 Years

CITY OF SERGEANT BLUFF, IOWA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

- M. Compensated Absences - The City accrues accumulated unpaid vacation costs and related employee benefits when earned (or estimated to be earned) by the employee. The amount estimated to be used in subsequent fiscal years for governmental funds is reported only as a general liability in the government-wide statement of net assets and represents a reconciling item between the fund and government-wide presentations.
- N. Long-Term Obligations - Long-term debt is recognized as a liability of a governmental fund when due, or when resources have been accumulated in the debt service fund for payment early in the following year. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund. The remaining portion of such obligations is reported in the government-wide financial statements. Long-term liabilities expected to be financed from proprietary fund operations are accounted for in those funds.
- O. Fund Equity - Reserves represent those portions of fund equity legally segregated for a specific future use.
- P. Interfund Activity - Interfund activity is reported as services provided, reimbursements or transfers. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements are when a fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund cash transactions are treated as transfers. Transfers between governmental or between proprietary funds are netted as part of the reconciliation to the government-wide financial statements.

NOTE 2 - CASH AND CASH EQUIVALENTS AND INVESTMENTS:

The City's deposits 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 obligation of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; and certain joint investment trusts.

CITY OF SERGEANT BLUFF, IOWA  
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

NOTE 2 - CASH AND CASH EQUIVALENTS AND INVESTMENTS (CONTINUED):

At June 30, 2008, the City had investments as follows:

Certificates of deposits	\$ 191,756
Perfected repurchase agreement	<u>1,625,000</u>
	<u>\$ 1,816,756</u>

The City's \$1,625,000 investment in repurchase agreements is held in the name of the City and underlying securities (totaling \$1,750,000) are held by an authorized custodian of the City.

NOTE 3 - DUE FROM OTHER GOVERNMENTS:

At June 30, 2008, amounts due from other governments were as follows:

Due from the Iowa Department of Transportation for road use tax collections	\$ 22,780
Due from the State of Iowa for local option sales taxes	<u>53,779</u>
Total due from other governments	<u>\$ 76,559</u>

NOTE 4 - INTERFUND RECEIVABLES AND PAYABLES:

As of June 30, 2008, short-term interfund borrowings were as follows:

<u>Interfund Receivables</u>	<u>Interfund Payables</u>	<u>Amount</u>
Proprietary - electric	Capital projects	\$ 1,420,941
Proprietary - electric	Proprietary - Sewer	127,088
Proprietary - water	Debt Service	<u>5,000</u>
		<u>\$ 1,553,029</u>

Electric Utility advanced Capital Projects Northside TIF fund for projects to be financed with current resources and additional debt issuance. Electric utility advanced the sewer utility to cover a pooled cash deficit.

CITY OF SERGEANT BLUFF, IOWA

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

NOTE 5 - CAPITAL ASSETS:

A summary of changes in capital assets is as follows:

<u>Governmental activities</u>	Balance July 1, <u>2007</u>	<u>Additions</u>	<u>Transfers</u>	Balance June 30, <u>2008</u>
Capital assets not being depreciated:				
Land	\$ 393,609	\$ -	\$ -	\$ 393,609
Construction in progress	<u>230,180</u>	<u>581,955</u>	<u>57,277</u>	<u>754,858</u>
Total capital assets not being depreciated	<u>\$ 623,789</u>	<u>\$ 581,955</u>	<u>\$ 57,277</u>	<u>\$ 1,148,467</u>
Capital assets being depreciated:				
Buildings	\$ 1,999,927	\$ 15,500	\$ -	\$ 2,015,427
Equipment	2,510,546	141,202	-	2,651,748
Land improvements	1,637,467	-	-	1,637,467
Infrastructure	<u>10,518,799</u>	<u>92,067</u>	<u>-</u>	<u>10,610,866</u>
Total capital assets being depreciated:	<u>\$16,666,739</u>	<u>\$ 248,769</u>	<u>\$ -</u>	<u>\$16,915,508</u>
Less: accumulated depreciation for:				
Buildings	\$ 295,671	\$ 50,428	\$ -	\$ 346,099
Equipment	1,464,903	214,173	-	1,679,076
Land improvements	32,439	43,301	-	75,740
Infrastructure	<u>5,722,449</u>	<u>460,124</u>	<u>-</u>	<u>6,182,573</u>
Total accumulated depreciation	<u>\$ 7,515,462</u>	<u>\$ 768,026</u>	<u>\$ -</u>	<u>\$ 8,283,488</u>
Total capital assets being depreciated, net	<u>\$ 9,151,277</u>	<u>\$ (519,257)</u>	<u>\$ -</u>	<u>\$ 8,632,020</u>
Governmental activities capital assets, net	<u>\$ 9,775,066</u>	<u>\$ 62,698</u>	<u>\$ 57,277</u>	<u>\$ 9,780,487</u>

CITY OF SERGEANT BLUFF, IOWA

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

NOTE 5 - CAPITAL ASSETS (CONTINUED):

<u>Business-Type Activities</u>	Balance July 1, <u>2007</u>	<u>Additions</u>	<u>Transfers</u>	Balance June 30, <u>2008</u>
Capital assets not being depreciated:				
Land	\$ 202,934	\$ -	\$ -	\$ 202,934
Construction in progress	<u>42,337</u>	<u>602,013</u>	<u>4,848</u>	<u>639,502</u>
Total capital assets not being depreciated	<u>\$ 245,271</u>	<u>\$ 602,013</u>	<u>\$ 4,848</u>	<u>\$ 842,436</u>
Capital assets being depreciated:				
Buildings and improvements	\$ 862,544	\$ -	\$ -	\$ 862,544
Equipment	541,799	83,948	-	625,747
Distribution system	<u>8,142,385</u>	<u>4,848</u>	<u>-</u>	<u>8,147,233</u>
Total capital assets being depreciated	<u>\$ 9,546,728</u>	<u>\$ 88,796</u>	<u>\$ -</u>	<u>\$ 9,635,524</u>
Less: accumulated depreciation	<u>1,748,676</u>	<u>230,758</u>	<u>-</u>	<u>1,979,434</u>
Total capital assets being depreciated, net	<u>\$ 7,798,052</u>	<u>\$ (141,962)</u>	<u>\$ -</u>	<u>\$ 7,656,090</u>
Business-type activities capital assets, net	<u>\$ 8,043,323</u>	<u>\$ 460,051</u>	<u>\$ 4,848</u>	<u>\$ 8,498,526</u>

Construction in progress at June 30, 2008 consists of costs associated with West Ridge Road, First Street and South Lewis Boulevard, the water treatment plant, wastewater treatment plant, storm water drainage and an upgrade to #5 lift station.

Depreciation expense was charged to functions/programs of the City as follows:

Governmental activities:	
Public safety	\$ 175,939
Public works	515,230
Culture and recreation	59,156
Community and economic development	10,091
General government	<u>7,610</u>
Total depreciation expense - governmental activities	<u>\$ 768,026</u>
Business-type activities:	
Water	\$ 79,231
Sewer	86,702
Electric	60,845
Storm water	<u>3,980</u>
Total depreciation expense - business-type activities	<u>\$ 230,758</u>

CITY OF SERGEANT BLUFF, IOWA

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

NOTE 5 - CAPITAL ASSETS (CONTINUED):

	<u>Governmental Business-Type</u>	
	<u>Activities</u>	<u>Activities</u>
Land	\$ 393,609	\$ 202,934
Construction in progress	754,858	639,502
Capital assets (net of accumulated depreciation)	8,632,020	7,656,090
Less: general obligation bonds and notes payable	<u>(3,945,000)</u>	<u>(1,224,775)</u>
Investment in capital assets, net of related debt	<u>\$ 5,835,487</u>	<u>\$ 7,273,751</u>

NOTE 6 - LONG-TERM DEBT:

The City's computed legal debt limit as of June 30, 2008, is \$9,438,383 of which \$5,115,000 is committed for outstanding general obligation debt.

The following is a summary of changes in Noncurrent Liabilities of the City for the year ended June 30, 2008:

	<u>Balance</u>			<u>Balance</u>	<u>Due Within</u>
	<u>July 1, 2007</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30, 2008</u>	<u>One Year</u>
<b>Governmental Activities:</b>					
Bonds and notes payable	\$ 4,040,000	\$ 1,170,000	\$ 1,265,000	\$ 3,945,000	\$ 375,000
Compensated absences	<u>31,355</u>	<u>39,502</u>	<u>31,355</u>	<u>39,502</u>	<u>-</u>
	<u>\$ 4,071,355</u>	<u>\$ 1,209,502</u>	<u>\$ 1,296,355</u>	<u>\$ 3,984,502</u>	<u>\$ 375,000</u>
<b>Business Type Activities:</b>					
Bonds and notes payable	\$ 1,285,000	\$ 54,775	\$ 115,000	\$ 1,224,775	\$ 115,000
Compensated absences	<u>22,792</u>	<u>16,584</u>	<u>22,792</u>	<u>16,584</u>	<u>-</u>
	<u>\$ 1,307,792</u>	<u>\$ 71,359</u>	<u>\$ 137,792</u>	<u>\$ 1,241,359</u>	<u>\$ 115,000</u>

<u>General Obligation</u>	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Final Due Date</u>	<u>Annual Payments</u>	<u>Amount Originally Issued</u>	<u>Outstanding June 30, 2008</u>
Corporate purpose	1999	4.30-5.50%	2015	\$75,000 - \$120,000	\$ 1,330,000	\$ 730,000
Swimming pool	2001	4.75-5.40%	2017	\$65,000 - \$120,000	1,300,000	905,000
Corporate purpose	2001	3.50-5.20%	2015	\$65,000 - \$100,000	960,000	615,000
Corporate purpose	2004	2.00-4.80%	2016	\$35,000 - \$ 50,000	500,000	355,000
Refunding + Water	2005	2.75-4.10%	2015	\$25,000 - \$135,000	720,000	330,000
Interstate Lift Station	2006	2.85-4.10%	2017	\$90,000 - \$130,000	1,285,000	1,010,000
Corporate Purpose	2008	2.6%-4.45%	2027	\$30,000 - \$185,000	<u>1,170,000</u>	<u>1,170,000</u>
Total general obligation debt					<u>\$ 7,265,000</u>	<u>\$ 5,115,000</u>
Notes payable - State revolving loan fund	2008	0%	2011	N/A	<u>\$ 54,775</u>	<u>\$ 54,775</u>
Total general obligation debt and notes payable					<u>\$ 7,319,775</u>	<u>\$ 5,169,775</u>

CITY OF SERGEANT BLUFF, IOWA

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

NOTE 6 - LONG-TERM DEBT (CONTINUED):

The following is a schedule of debt service requirements to maturity:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 490,000	\$ 234,510	\$ 724,510
2010	535,000	204,580	739,580
2011	519,775	182,228	702,003
2012	505,000	162,092	667,092
2013	515,000	139,625	654,625
2014-2018	1,885,000	357,402	2,242,402
2019-2023	500,000	94,152	594,152
2024-2027	<u>220,000</u>	<u>24,875</u>	<u>244,875</u>
	<u>\$ 5,169,775</u>	<u>\$ 1,399,464</u>	<u>\$ 6,569,239</u>

In March 2008 the City issued \$1,170,000 of general obligation bonds to retire two bond anticipation notes and complete the financing of the West Ridge Road Project.

On April 18, 2008 the City drew down \$54,775 of their available \$90,000 planning and design loan established through the State's revolving loan fund to finance the water treatment projects. The note bears no interest with a term of up to 3 years or until permanent financing is obtained.

NOTE 7 - TRANSFERS:

The following is a summary of transfers between funds:

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Nonmajor Governmental</u>	<u>Total Transfers Out</u>
General	\$ -	\$ -	\$ -	\$ 6,697	\$ 6,697
Capital projects	-	35,894	\$ -	-	35,894
Local option sales tax	193,366	-	112,710	-	306,076
Nonmajor governmental	504,956	34,446	-	-	539,402
Water	-	142,773	-	-	142,773
Sewer	-	52,755	-	-	52,755
Electric	<u>105,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>105,000</u>
Total transfers in	<u>\$ 803,322</u>	<u>\$ 265,868</u>	<u>\$ 112,710</u>	<u>\$ 6,697</u>	<u>\$ 1,188,597</u>

CITY OF SERGEANT BLUFF, IOWA

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

NOTE 7 - TRANSFERS (CONTINUED):

Transfers are used to:

1. Move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them.
2. To move revenues restricted to debt service from the fund collecting the revenues to the debt service fund as debt service payments become due.

NOTE 8 - PENSION AND RETIREMENT:

Iowa Public Employees Retirement System - 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 percent of their annual covered salary and the City is required to contribute 6.05 percent of annual 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 contributions to IPERS for the years ended June 30, 2008, 2007, and 2006 were \$70,800, \$72,742, and \$69,610, respectively, equal to the required contributions for each year.

NOTE 9 - RISK MANAGEMENT:

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

NOTE 10 - COMMITMENTS:

At June 30, 2008, the City had entered into several construction contracts totaling \$1,163,984 of which \$587,398 has been expended to date. The remaining balance will be paid as work progresses.

CITY OF SERGEANT BLUFF, IOWA

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

NOTE 11 - INDUSTRIAL DEVELOPMENT REVENUE BONDS:

The City has issued a total of \$9,100,000 of industrial development revenue bonds under the provisions of Chapter 419 of the Code of Iowa. The bonds and related interest are payable solely from the rents payable by tenants of the properties constructed, and the bond principal and interest do not constitute liabilities of the City.

NOTE 12 - COMMUNITY ECONOMIC BETTERMENT (CEBA) LOAN:

On December 15, 1998, the City received \$175,000 from the Iowa Department of Economic Development under a CEBA loan agreement. The City subsequently loaned \$175,000 to a private business. No interest or principal payments are required during the first and second years. At the project completion date, \$1,250 will be forgiven for each new job created and the balance remaining will be amortized over the remaining three years in equal annual payments with 6 percent per annum interest. The City's liability for repayment of this loan is limited to those amounts the City collects through its good faith enforcement of security interest with the business; therefore, the liability for this loan is not included in the Government-Wide Financial Statements.

NOTE 13 - PRIOR PERIOD ADJUSTMENT:

During the year ended June 30, 2007, the Electric Fund overstated the cost of electricity purchased by \$88,688, thereby understating ending net assets at June 30, 2007 by \$88,688.

## REQUIRED SUPPLEMENTARY INFORMATION

CITY OF SERGEANT BLUFF, IOWA

BUDGETARY COMPARISON SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND

CHANGES IN BALANCES - BUDGET AND ACTUAL (CASH BASIS) -

GOVERNMENTAL AND PROPRIETARY FUNDS

REQUIRED SUPPLEMENTARY INFORMATION

FOR THE YEAR ENDED JUNE 30, 2008

	<u>Actual Amounts</u>			<u>Budgeted Amounts</u>		<u>Final to Actual Variances</u>
	<u>Governmental</u>	<u>Proprietary</u>	<u>Total</u>	<u>Original</u>	<u>Final</u>	
	<u>Funds</u>	<u>Funds</u>				
Receipts:						
Property taxes	\$ 1,424,366	\$ -	\$ 1,424,366	\$ 1,413,597	\$ 1,413,597	\$ 10,769
Tax increment financing	-	-	-	62,000	62,000	(62,000)
Other city tax	385,799	-	385,799	353,233	353,233	32,566
Special assessment	65,801	-	65,801	47,950	47,950	17,851
Licenses and permits	30,285	-	30,285	18,400	18,400	11,885
Intergovernmental revenue	363,813	-	363,813	424,300	424,300	(60,487)
Charges for services	225,346	4,472,674	4,698,020	4,653,325	4,653,325	44,695
Use of money and property	73,055	8,627	81,682	5,447	5,447	76,235
Miscellaneous	141,096	-	141,096	10,715	10,715	130,381
Total receipts	<u>\$ 2,709,561</u>	<u>\$ 4,481,301</u>	<u>\$ 7,190,862</u>	<u>\$ 6,988,967</u>	<u>\$ 6,988,967</u>	<u>\$ 201,895</u>
Disbursements:						
Public safety	\$ 930,375	\$ -	\$ 930,375	\$ 884,847	\$ 884,847	\$ (45,528)
Public works	329,245	-	329,245	430,954	430,954	101,709
Culture and recreation	293,371	-	293,371	324,980	324,980	31,609
Community and economic development	28,485	-	28,485	45,415	45,415	16,930
General government	443,694	-	443,694	328,996	453,996	10,302
Capital projects	727,509	-	727,509	208,000	733,000	5,491
Debt service	1,469,934	-	1,469,934	714,109	1,613,109	143,175
Business type activities	-	3,794,099	3,794,099	3,974,295	4,574,295	780,196
Total disbursements	<u>\$ 4,222,613</u>	<u>\$ 3,794,099</u>	<u>\$ 8,016,712</u>	<u>\$ 6,911,596</u>	<u>\$ 9,060,596</u>	<u>\$ 1,043,884</u>
Deficiency of receipts under disbursements	\$ (1,513,052)	\$ 687,202	\$ (825,850)	\$ 77,371	\$ (2,071,629)	\$ 1,245,779
Other financing sources (uses), net	<u>2,231,670</u>	<u>(300,528)</u>	<u>1,931,142</u>	<u>200,000</u>	<u>1,970,000</u>	<u>(38,858)</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	\$ 718,618	\$ 386,674	\$ 1,105,292	<u>\$ 277,371</u>	<u>\$ (101,629)</u>	<u>\$ 1,206,921</u>
Fund balances - beginning of year	<u>1,434,528</u>	<u>3,896,154</u>	<u>5,330,682</u>			
Fund balances - end of year	<u>\$ 2,153,146</u>	<u>\$ 4,282,828</u>	<u>\$ 6,435,974</u>			

CITY OF SERGEANT BLUFF, IOWA

BUDGET TO GAAP RECONCILIATION

REQUIRED SUPPLEMENTARY INFORMATION

FOR THE YEAR ENDED JUNE 30, 2008

	<u>Governmental Funds</u>			<u>Proprietary Funds</u>		
				<u>Enterprise</u>		
	<u>Cash Basis</u>	<u>Accrual Adjustments</u>	<u>Modified Accrual Basis</u>	<u>Cash Basis</u>	<u>Accrual Adjustments</u>	<u>Accrual Basis</u>
Revenues	\$ 2,709,561	\$ (7,503)	\$ 2,702,058	\$ 4,481,301	\$ (22,496)	\$ 4,458,805
Expenditures/expenses	<u>4,222,613</u>	<u>(933,965)</u>	<u>3,288,648</u>	<u>3,794,099</u>	<u>(567,882)</u>	<u>3,226,217</u>
Net	\$ (1,513,052)	\$ 926,462	\$ (586,590)	\$ 687,202	\$ 545,386	\$ 1,232,588
Other financing sources, net	2,231,670	3,216	2,234,886	(300,528)	-	(300,528)
Beginning fund balances/net assets	<u>1,434,528</u>	<u>(1,054,800)</u>	<u>379,728</u>	<u>3,896,154</u>	<u>7,164,307</u>	<u>11,060,461</u>
Ending fund balances/net assets	<u>\$ 2,153,146</u>	<u>\$ (125,122)</u>	<u>\$ 2,028,024</u>	<u>\$ 4,282,828</u>	<u>\$ 7,709,693</u>	<u>\$ 11,992,521</u>

CITY OF SERGEANT BLUFF, IOWA

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING

JUNE 30, 2008

The budgetary comparison is presented as Required Supplementary Information in accordance with Government 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 the Agency Fund, and appropriates the amount deemed necessary for each of the different City offices and departments. The budgets may be amended during the year utilizing similar statutorily prescribed procedures. Encumbrances are not recognized on the cash basis budget and appropriations lapse at year end.

Formal and legal budgetary control is based upon 9 major classes of expenditures known as functions, not by fund. These 9 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 Enterprise 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 fiscal year 2008, the City had one budget amendment. The amendment was as follows:

<u>Program</u>	<u>Original Budget</u>	<u>May 22, 2008 Amendment</u>	<u>Final Budget</u>
Public Safety	\$ 884,847	\$ -	\$ 884,847
Public Works	430,954	-	430,954
Culture and Recreation	324,980	-	324,980
Community and Economic Development	45,415	-	45,415
General Government	328,996	125,000	453,996
Capital Projects	208,000	525,000	733,000
Debt Service	714,109	899,000	1,613,109
Business-Type/Enterprise	<u>3,974,295</u>	<u>600,000</u>	<u>4,574,295</u>
	<u>\$ 6,911,596</u>	<u>\$ 2,149,000</u>	<u>\$ 9,060,596</u>

During the year ended June 30, 2008, disbursements in the public safety function exceeded the amount budgeted.

## SUPPLEMENTARY INFORMATION

CITY OF SERGEANT BLUFF, IOWA

COMBINING BALANCE SHEET - GOVERNMENTAL NONMAJOR FUNDS

JUNE 30, 2008

	Special Revenue Funds				Total Governmental Nonmajor Funds
	Road Use Tax	Employee Benefits	Pioneer Flats Tax Increment Financing	Volunteer Fire Department	
<u>ASSETS</u>					
Cash	\$ 414,179	\$ 1,892	\$ 51,816	\$ 97,266	\$ 565,153
Investments	-	-	-	155,668	155,668
Taxes receivable	-	1,017	-	-	1,017
Subsequent year tax receivable	-	270,215	-	-	270,215
Due from other governmental agencies	22,780	-	-	-	22,780
Inventories	<u>6,650</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,650</u>
 Total assets	 <u>\$ 443,609</u>	 <u>\$ 273,124</u>	 <u>\$ 51,816</u>	 <u>\$ 252,934</u>	 <u>\$ 1,021,483</u>
 <u>LIABILITIES AND FUND BALANCES</u>					
<u>LIABILITIES:</u>					
Unearned revenue	\$ -	\$ 58	\$ -	\$ -	\$ 58
Deferred revenue - subsequent year taxes	<u>-</u>	<u>270,215</u>	<u>-</u>	<u>-</u>	<u>270,215</u>
Total liabilities	<u>\$ -</u>	<u>\$ 270,273</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 270,273</u>
 <u>FUND BALANCES:</u>					
Reserved for:					
Inventories	\$ 6,650	\$ -	\$ -	\$ -	\$ 6,650
Unreserved	<u>436,959</u>	<u>2,851</u>	<u>51,816</u>	<u>252,934</u>	<u>744,560</u>
Total fund balances	<u>\$ 443,609</u>	<u>\$ 2,851</u>	<u>\$ 51,816</u>	<u>\$ 252,934</u>	<u>\$ 751,210</u>
 Total liabilities and fund balances	 <u>\$ 443,609</u>	 <u>\$ 273,124</u>	 <u>\$ 51,816</u>	 <u>\$ 252,934</u>	 <u>\$ 1,021,483</u>

CITY OF SERGEANT BLUFF, IOWA

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES

IN FUND BALANCES - GOVERNMENTAL NONMAJOR FUNDS

FOR THE YEAR ENDED JUNE 30, 2008

	Special Revenue Funds				Total Governmental Nonmajor Funds
	Road Use Tax	Employee Benefits	Pioneer Flats Tax Increment Financing	Volunteer Fire Department	
REVENUE:					
Property taxes	\$ -	\$ 247,823	\$ -	\$ -	\$ 247,823
Intergovernmental revenue	284,559	-	-	-	284,559
Charges for services	-	-	-	83,723	83,723
Contribution	-	-	-	9,970	9,970
Interest	-	-	-	7,378	7,378
Miscellaneous	3,400	-	-	40,343	43,743
Total revenue	\$ 287,959	\$ 247,823	\$ -	\$ 141,414	\$ 677,196
EXPENDITURES:					
Public safety	\$ -	\$ -	\$ -	\$ 80,422	\$ 80,422
Total expenditures	\$ -	\$ -	\$ -	\$ 80,422	\$ 80,422
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	\$ 287,959	\$ 247,823	\$ -	\$ 60,992	\$ 596,774
OTHER FINANCING SOURCES (USES):					
Transfers in	\$ -	\$ -	\$ -	\$ 6,697	\$ 6,697
Transfers out	(259,984)	(244,972)	(34,446)	-	(539,402)
Total other financing sources (uses)	\$ (259,984)	\$ (244,972)	\$ (34,446)	\$ 6,697	\$ (532,705)
NET CHANGE IN FUND BALANCE	\$ 27,975	\$ 2,851	\$ (34,446)	\$ 67,689	\$ 64,069
FUND BALANCES - BEGINNING OF YEAR	415,634	-	86,262	185,245	687,141
FUND BALANCES - END OF YEAR	\$ 443,609	\$ 2,851	\$ 51,816	\$ 252,934	\$ 751,210

CITY OF SERGEANT BLUFF, IOWA

SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION

ALL GOVERNMENTAL FUNDS

FOR THE LAST FIVE YEARS ENDED JUNE 30,

	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
<b>REVENUES:</b>					
Property taxes	\$ 1,429,954	\$ 1,161,191	\$ 1,063,633	\$ 984,838	\$ 1,043,606
Tax increment financing	-	139,332	64,969	-	-
Other city tax	380,639	380,152	340,121	327,599	331,845
Licenses and permits	30,285	36,208	48,673	39,175	44,407
Intergovernmental	363,853	295,843	383,978	316,846	376,970
Charges for services	220,694	197,471	117,432	141,887	148,640
Use of money and property	76,477	54,395	46,288	51,173	47,802
Special assessments	65,801	25,334	6,567	1,094	-
Miscellaneous	<u>134,355</u>	<u>123,657</u>	<u>90,720</u>	<u>374,214</u>	<u>157,001</u>
Total	<u>\$ 2,702,058</u>	<u>\$ 2,413,583</u>	<u>\$ 2,162,381</u>	<u>\$ 2,236,826</u>	<u>\$ 2,150,271</u>
<b>EXPENDITURES:</b>					
Operating:					
Public safety	\$ 918,523	\$ 920,527	\$ 934,948	\$ 1,131,396	\$ 955,098
Public works	314,352	297,768	242,232	225,671	236,940
Culture and recreation	325,725	268,710	136,670	260,106	295,518
Community and economic development	33,609	124,156	62,889	93,899	94,772
General government	453,175	339,113	281,676	266,095	325,995
Capital projects	645,238	503,037	549,773	1,037,788	497,679
Debt service	<u>598,026</u>	<u>559,782</u>	<u>902,415</u>	<u>559,441</u>	<u>618,256</u>
Total	<u>\$ 3,288,648</u>	<u>\$ 3,013,093</u>	<u>\$ 3,110,603</u>	<u>\$ 3,574,396</u>	<u>\$ 3,024,258</u>



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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

To the Honorable Mayor and  
Members of the City Council  
City of Sergeant Bluff  
Sergeant Bluff, Iowa

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Sergeant Bluff, Iowa, as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements and have issued our report thereon dated March 30, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered the City of Sergeant Bluff, Iowa'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 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.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control. We consider the deficiencies described in Part I of the accompanying schedule of findings and responses to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City'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, the significant deficiencies described above, we believe to be material weaknesses.

#### COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the City of Sergeant Bluff, Iowa'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 noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that are described in Part II of the accompanying schedule of findings and responses.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 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's responses to findings identified in our audit are described in the accompany schedule of findings and responses. While we have expressed our conclusions on the City's responses, we did not audit the City's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Sergeant Bluff, Iowa, and other parties to whom the City 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 Sergeant Bluff, Iowa 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.

*King Reinsch Prosser & Co. LLP*

Sioux City, Iowa  
March 30, 2009

CITY OF SERGEANT BLUFF

SCHEDULE OF FINDINGS AND RESPONSES

FOR THE YEAR ENDED JUNE 30, 2008

Part I: Findings Related to the Financial Statements

**MATERIAL WEAKNESSES:**

**I-A-08     Segregation of Duties Over Receipts and Processing Payroll**

Criteria - A fundamental concept in a good system of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Incompatible duties, for accounting control purposes, are those duties that place a person in a position where they could both perpetrate and conceal errors or fraud. To accomplish proper segregation of duties, the system, insofar as possible, should provide for different individuals to perform the functions of (a) authorizing transactions, (b) recording transactions, (c) maintaining custody of the assets that result from transactions, and (d) comparing assets with the related amounts recorded in the accounting records. In performing our audit, it was noted that individuals who post cash receipts also have the ability to open the mail, collect receipts, and prepare the deposits. It was also noted that the individual who prepares the payroll checks has the ability to make changes to the payroll master file.

Condition and Effect - Our inquiry and observation of the City's procedures indicate that there is a lack of control in receiving, depositing, recording, and reconciling receipts. Since receipts are so readily subject to error and mishandling, effective control of checks and currency should begin at the time of receipt and continue through deposit, custody, and disbursement.

At present, there is a lack of segregation of duties within the payroll function. All employees have access to the payroll master file. One employee processes changes in the payroll master file; prepares the payroll; and also distributes signed payroll checks. This lack of segregation of payroll procedures weakens internal control.

Recommendation - We suggest that a system for separation of responsibility and review and monitoring functions of the transactions be instituted.

Response - City Administration and the City Council understand the nature of the weakness and the necessity for the Council to establish more effective controls. Procedures will be reviewed and changes will be implemented as deemed necessary and practical.

Conclusion - Response accepted.

CITY OF SERGEANT BLUFF

SCHEDULE OF FINDINGS AND RESPONSES

FOR THE YEAR ENDED JUNE 30, 2008

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

I-B-08 Financial Accounting and Reporting

Criteria - The City's internal control system should prevent or detect material misstatements to its financial statements prepared in accordance with generally accepted accounting principles.

Condition and Effect - We proposed several adjusting journal entries as a result of our audit which were subsequently made by the City. The errors included unrecorded liabilities including retainage payable, an understatement of the utility accounts receivable balance, coding of transactions in the incorrect funds, and capital assets not being accumulated into the depreciation software to be depreciated. The adjusting journal entries were deemed material to the City's financial statements. This control deficiency is primarily the result of unfamiliarity with generally accepted accounting principles (GAAP) on the part of the City's accounting staff.

Recommendation - We recommend the City continue to engage the services of the outside accounting firm for training and assist in recording the necessary GAAP adjustments into the City's books and records.

Response - The City will consider the continued need for these services.

Conclusion - Response accepted.

I-C-08 Records of Accounts for the Volunteer Fire Department

Criteria - For better accountability and financial and budgetary control, the financial activity and balances of all City accounts should be recorded in the Clerk's records. Chapter 384.20 of the Code of Iowa states in part that "a city shall keep accounts which show an accurate and detailed statement of all public funds collected, received, or expended for any city purpose".

Condition and Effect - The fire department maintains some accounting records and bank balances pertaining to the operations of the fire service. These transactions and the resulting balances are not recorded in the Clerk's records. The City is not in compliance with the Code of Iowa.

Recommendation - All City accounts should be recorded in the Clerk's records.

CITY OF SERGEANT BLUFF  
SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE YEAR ENDED JUNE 30, 2008

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

Response - We will endeavor to obtain at least a quarterly report of receipts and disbursements from the fire department and include such transactions in the City's ledger.

Conclusion - Response accepted.

I-D-08 Bank Reconciliations

Criteria - A cash reconciliation that reconciles from the bank balance to the general ledger balance should be prepared monthly to determine that all cash transactions have been recorded properly.

Condition and Effect - The bank balances were reconciled to the general ledger at year end but not monthly. Bank reconciliations were not performed monthly due to lack of training of accounting staff on how to use the software.

Recommendation - We recommend that the City formalize their policy to perform monthly bank reconciliations. In addition the monthly bank reconciliation should be reviewed by someone other than the preparer.

Response - We will review the current policy and implement changes as deemed necessary.

Conclusion - Response accepted.

CITY OF SERGEANT BLUFF

SCHEDULE OF FINDINGS AND RESPONSES

FOR THE YEAR ENDED JUNE 30, 2008

Part II: Other Findings Related to Required Statutory Reporting

II-A-08 Certified Budget - Disbursements for the year ended June 30, 2008 exceeded the amount budgeted in the public safety function. Chapter 384.20 of the Code of Iowa states, in part, "Public monies may not be expended or encumbered except under an annual or continuing appropriation."

Recommendation - The budget should have been amended in 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-08 Questionable Disbursements - No disbursements were noted that did 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 - There were no business transactions between the City and City officials or employees 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.

Although minutes of Council proceedings were published, they were not published within fifteen days as required by Chapter 372.13(6) of the Code of Iowa. Also, the publication did not include a listing of claims and a summary of all receipts.

Recommendation - The City should comply with Chapter 21 of the Code of Iowa and should publish minutes, receipts and claims as required.

Response - We will comply with the Code requirements.

Conclusion - Response accepted.

CITY OF SERGEANT BLUFF

SCHEDULE OF FINDINGS AND RESPONSES

FOR THE YEAR ENDED JUNE 30, 2008

Part II: Other Findings Related to Required Statutory Reporting (Continued)

II-G-08 Deposits and Investments - We noted no instances of non-compliance 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 Financial Report - The Annual Financial Report was not filed by December 1 as required by Chapter 384.22 of the Code of Iowa.

Recommendation - The City should comply with Chapter 384.22 of the Code of Iowa and file the Annual Financial Report by December 1.

Response - We will comply with the requirements.

Conclusion - Response accepted.