

CITY OF POCAHONTAS, IOWA

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

AS OF AND FOR THE YEAR ENDED JUNE 30, 2008

City of Pocahontas, Iowa

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City of Pocahontas, Iowa

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City of Pocahontas, Iowa

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January 2008)		
George Tuttle	Mayor	Jan 2008
Kent Wood	Council Member	Jan 2008
Gus Holzmueler	Council Member	Jan 2008
Rod Stoulil	Council Member	Jan 2010
John Dewall	Council Member	Jan 2010
Brooks Taylor	Council Member	Jan 2010
Greg Futz	City Administrator	Appointed
Joan Dewall	Clerk	Jan 2008
Jeff Johnson	Treasurer	Appointed
James W. Hudson	Attorney	Appointed
Dennis Marten	Airport Commissioner	July 2008
Ray Krips	Airport Commissioner	July 2008
Ken DeYoung	Airport Commissioner	July 2009
Dr. Dennis Dahl	Airport Commissioner	July 2011
Gary McCarten	Airport Commissioner	July 2011
Nancy Kopriva	Library Trustee	July 2008
Donna Dewall	Library Trustee	July 2008
Jada Hallberg	Library Trustee	July 2008
Walter Cooke	Library Trustee	July 2009
Pat Spangler	Library Trustee	July 2010
Martie Nedved	Library Trustee	July 2010
Don Beneke	Library Trustee	July 2011
Dennis Fitzgerald	Library Trustee	July 2011
Chris Radig	Library Trustee	July 2011

City of Pocahontas, Iowa

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(After January 2008)		
Brian Blomker	Mayor	Jan 2010
Brian Stover	Council Member	Jan 2010
Gus Holzmueler	Council Member	Jan 2012
Rod Stoulil	Council Member	Jan 2010
John Dewart	Council Member	Jan 2010
Brooks Taylor	Council Member	Jan 2010
Greg Futz	City Administrator	Resigned
Robert Donahoo	City Administrator	Appointed
Joan Dewart	Clerk	Jan 2008
Jeff Johnson	Treasurer	Appointed
James W. Hudson	Attorney	Appointed
Dennis Marten	Airport Commissioner	July 2008
Ray Krips	Airport Commissioner	July 2008
Ken DeYoung	Airport Commissioner	July 2009
Dr. Dennis Dahl	Airport Commissioner	July 2011
Gary McCarten	Airport Commissioner	July 2011
Nancy Kopriva	Library Trustee	July 2008
Donna Dewart	Library Trustee	July 2008
Jada Hallberg	Library Trustee	July 2008
Walter Cooke	Library Trustee	July 2009
Pat Spangler	Library Trustee	July 2010
Jenny Mullins	Library Trustee	July 2010
Don Beneke	Library Trustee	July 2011
Dennis Fitzgerald	Library Trustee	July 2011
Chris Radig	Library Trustee	July 2011

Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

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

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

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

The financial statements referred to above include only the primary government of the City of Pocahontas, Iowa, which consists of all funds, organizations, institutions, agencies, departments, and offices that comprise the City's legal entity. The financial statements do not include financial data for the City's legally separate component unit, the Pocahontas Community Hospital, which U.S. generally accepted accounting principles require to be reported with the financial data of the City's primary government. As a result, the primary government financial statements do not purport to, and do not present fairly the cash basis financial position of the reporting of the City of Pocahontas, Iowa as of June 30, 2008 and the changes in cash basis financial position for the year then ended in conformity with U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information for the primary government of the City of Pocahontas, Iowa as of June 30, 2008, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated September 26, 2008 on our consideration of the City of Pocahontas' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 5 through 12 and 30 through 32 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Pocahontas' primary government's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the primary government's financial statements for the three years ended June 30, 2007 (none of which are presented herein) and expressed unqualified opinions on those financial statements which were prepared in conformity with an other comprehensive basis of accounting. Other supplementary information included in Schedules 1 through 7, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Cornwell, Frideres, Maher & Associates, P.L.C.
Certified Public Accountants

September 26, 2008

Management's Discussion and Analysis

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

2008 Financial Highlights

- Total receipts increased 15.28%, or approximately \$710,258 from fiscal 2007 to fiscal 2008. Governmental Funds revenues increased \$1,074,087 while Proprietary Funds revenues decreased \$393,829 from the previous year.
- Total disbursements increased 19.78%, or approximately \$905,991, in fiscal 2008 from fiscal 2007. Governmental Fund expenditures increased \$997,122 and Proprietary Funds expenditures decreased \$91,131 from the previous year.
- The City's total cash basis net assets decreased 6.89%, or approximately \$159,049 from June 30, 2007 to June 30, 2008. Of this amount, the assets of the governmental activities increased \$206 and the assets of the business type activities decreased \$159,255.

Using this Annual Report

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

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

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

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

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

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

Other Supplementary Information provides detailed information about the non-major governmental funds. In addition, the Schedule of Expenditures of Federal Awards provides details of various federal programs benefiting the City.

Basis of Accounting

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

Reporting the City's Financial Activities

Government-wide Financial Statement

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

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

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

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

Fund Financial Statements

The City has two kinds of funds:

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

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

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

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

Reconciliations between government-wide statement and the fund financial statements follow the fund financial statements.

Government-wide Financial Analysis

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from a year ago, increasing from \$1.030 million to \$1.031 million. The analysis that follows focuses on the changes in cash basis net assets of governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities

	Year ended June 30	
	2008	2007
Receipts and Transfers		
Program Receipts:		
Charges for service	\$ 299,541	\$ 251,676
Operating Grants, contributions and restricted interest	\$ 1,247,034	\$ 405,239
Capital grants, contributions and restricted interest	\$ 7,000	\$ 25,669
General receipts:		
Property tax	\$ 689,542	\$ 651,655
Local Option Sales Tax	\$ 112,990	\$ 125,926
Unrestricted interest on investments	\$ 56,615	\$ 62,676
Other general receipts	\$ 108,367	\$ 26,561
Transfers, net	\$ 338,000	\$ 235,600
Total receipts and transfers	\$ 2,859,089	\$ 1,785,002
Disbursements:		
Public Safety	\$ 243,031	\$ 236,813
Public Works	\$ 566,239	\$ 471,068
Culture and Recreation	\$ 188,648	\$ 181,058
Community and Economic Development	\$ 1,233,174	\$ 473,909
General Government	\$ 249,901	\$ 226,240
Debt Service	\$ 212,467	\$ 224,068
Capital Projects	\$ 165,423	\$ 48,605
Total Disbursements	\$ 2,858,883	\$ 1,861,761
Increase in cash basis net assets	\$ 206	\$ (76,759)
Cash Basis net assets beginning of year	\$ 1,030,972	\$ 1,107,731
Cash basis net assets end of year	\$ 1,031,178	\$ 1,030,972

The City's total receipts for governmental activities increased 60.17%, or \$1,074,087. The total cost of all programs and services increased \$997,122, or 53.56%, with no new programs added this year. The largest increase was in Operating Grants, Contributions and Restricted Interest, which increased 207.72% or approximately \$841,759.

Property tax collections increased 5.81%, or approximately \$37,887. Tax collections are expected to remain relatively level in the future due to statutory levy limits and the residential rollback.

The cost of all governmental activities this year was \$2.859 million compared to \$1.862 million last year. The largest change was in Community and Economic Development which increased 160.21%, or \$759,265. Other program increases generally reflected increases in the cost of salaries, health insurance and other benefits.

Changes in Cash Basis Net Assets of Business Type Activities

	Year ended June 30,	
	2008	2007
Receipts and Transfers		
Program Receipts:		
Charges for service:		
Electric	\$ 1,707,270	\$ 1,637,416
Water	\$ 359,213	\$ 357,234
Sewer	\$ 321,667	\$ 266,528
Telecommunications (Internet)	\$ 11,759	\$ 49,042
Capital grants, contributions and restricted interest	\$ 121	\$ 44,499
Miscellaneous	\$ 67,523	\$ 58,994
Bond proceeds	\$ 0	\$ 447,669
Total receipts and transfers	\$ 2,467,553	\$ 2,861,382
Disbursements:		
Electric	\$ 1,617,991	\$ 1,497,426
Water	\$ 358,663	\$ 546,204
Sewer	\$ 275,843	\$ 374,064
Telecommunications (Internet)	\$ 17,807	\$ 53,613
Miscellaneous	\$ 18,504	\$ 11,032
Transfers	\$ 338,000	\$ 235,600
Total Disbursements	\$ 2,626,808	\$ 2,717,939
	\$ (159,255)	
Increase in cash basis net assets		\$ 143,443
Cash Basis net assets beginning of year	\$ 1,277,581	\$ 1,134,138
Cash Basis net assets end of year	\$ 1,118,326	\$ 1,277,581

Total business type activities receipts for the fiscal year were \$2.468 million compared to \$2.861 million last year. The decrease was due primarily to the reduced receipts from bond proceeds. The cash balance decreased by approximately \$159,255 from the prior year. Total disbursements for the fiscal year decreased to \$2.627 million compared to \$2.718 million last year. The Water and Electric Funds saw substantial decreases in disbursements following the completion of major repair and upgrade projects.

Individual Major Governmental Fund Analysis

As the City of Pocahontas completed the year, its governmental funds reported a combined fund balance of \$1,031,178, an increase of \$206 above last year's total of \$1,030,972. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance increased \$18,042 from the prior year to \$303,446. The majority of this increase was due to additional receipts from use of money and property, intergovernmental, and charges for service.
- The Revolving Loan Funds cash balance decreased \$124,117 and ended with a balance of \$36,618. The majority of the decrease was due to loans to existing and new industrial businesses in the community.

Individual Major Business Type Fund Analysis

- The Water Fund cash balance decreased \$28,350 to \$287,433, due primarily to an increase in debt service payments over the prior year and increased costs of production.
- The Electric Fund cash balance decreased \$85,054 to \$766,155 due primarily to increased wholesale electric rates.
- The Sewer Fund cash balance decreased \$32,638 to \$38,317, due primarily to an increase in general expenses.

Budgetary Highlights

Over the course of the year, the City amended its budget one time. The amendment increased revenues by \$57,750 and increased expenditures by \$823,100. The City had sufficient cash balances to absorb the additional costs estimated under the budget amendment.

The City's receipts were \$930,723 over budgeted expectations. This was primarily due to the City receiving more in charges for use of money and property and more intergovernmental revenue than anticipated. Actual interest income, intergovernmental, and miscellaneous revenue greatly exceeded estimated amount.

Total expenditures were \$247,183 under budget. All individual programs were under budget with the exception of Capital Improvement Projects and Community and Economic Development.

Debt Administration

At June 30, 2008, the City had \$4,209,277 in bonds and other long-term debt outstanding, compared to \$4,266,469 last year, as shown below.

	Outstanding Debt At Year-End	
	June 30	
	2008	2007
General obligation bonds	\$ 745,000	\$ 920,000
Revenue Bonds	\$ 2,184,801	\$ 2,387,801
Promissory Notes	\$ 1,279,476	\$ 958,668
Total	\$ 4,209,277	\$ 4,266,469

Annual payments on the general obligation and revenue bonds decreased the outstanding amounts. The amount borrowed under promissory notes increased because of an additional \$402,939 Promissory Note from the USDA. The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$745,000 is significantly below its constitutional debt limit of \$2.74 million.

Economic Factors and Next Year's Budget and Rates

The elected and appointed officials and citizens of Pocahontas considered many factors when setting the fiscal year 2009 budget, tax rates, and fees charged for various City activities. One of those factors is the economy. The unemployment in the county now stands at 3.2%. This compares with the State's unemployment rate of 4.3% and the national rate of 5.5%. Inflation was at 4.03% from June 2007 to June 2008.

Economic conditions in Pocahontas and the surrounding area look positive. The strong farm economy, boosted by high commodity prices, benefits the local economy. Construction has begun on a large wind farm in the southern part of the county which has attracted a large number of workers and has expanded the county tax base. Three ethanol plants and the construction of a large corn processing plant just outside of the county continue to provide new employment opportunities for the residents of Pocahontas. The addition of a new residential subdivision will attract people to the community and have a positive economic impact on the surrounding area.

These indicators were taken into account when adopting the budget for fiscal year 2009. Total revenues of \$4.109 million will decrease \$351,000 from the previous year primarily due to increased costs in business type enterprises. Property tax revenue will increase \$2,179. Total expenditures of \$4.360 million, excluding transfers, will decrease approximately

\$787,691 from the previous year. Community and Economic Development and Business Type Activities will see the largest increases in expenditures. The City has added no major new programs or initiatives to the 2009 budget.

If these estimates are realized, the City's budgeted cash balance is expected to decrease approximately \$251,605 by the close of 2009.

Contacting the City's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Robert Donahoo, City Administrator or Joan DeWall, City Clerk, 23 West Elm Avenue, Pocahontas, IA 50574.

Basic Financial Statements

City of Pocahontas, Iowa

Statement of Activities and Net Assets - Cash Basis

As of and for the year ended June 30, 2008

	<u>Disbursements</u>	<u>Charges for Service</u>	<u>Program Receipts</u>	
			<u>Operating Grants, Contributions, and Restricted Interest</u>	<u>Capital Grants, Contributions, and Restricted Interest</u>
Functions/Programs:				
Governmental activities:				
Public safety	\$ 243,031	2,078	881	
Public works	566,239	257,771	213,941	-
Culture and recreation	188,648	27,319	24,584	7,000
Community and economic development	1,233,174	3,539	961,521	
General government	249,901	8,834	4,880	
Debt service	212,467	-	41,227	
Capital projects	<u>165,423</u>	<u>-</u>	<u>-</u>	<u>68,505</u>
Total governmental activities	<u>2,858,883</u>	<u>299,541</u>	<u>1,247,034</u>	<u>75,505</u>
Business type activities:				
Water	358,663	362,813	-	-
Electric	1,617,991	1,707,270	-	-
Sewer	275,843	321,667	-	121
Other non-major	<u>36,311</u>	<u>26,098</u>	<u>-</u>	<u>-</u>
Total business type activities	<u>2,288,808</u>	<u>2,417,848</u>	<u>-</u>	<u>121</u>
Total	<u>\$ 5,147,691</u>	<u>2,717,389</u>	<u>1,247,034</u>	<u>75,626</u>

<hr/> Net (Disbursements) Receipts and Changes in Cash Basis Net Assets <hr/>		
Governmental Activities	Business Type Activities	Total
(240,072)	-	(240,072)
(94,527)	-	(94,527)
(129,745)	-	(129,745)
(268,114)	-	(268,114)
(236,187)	-	(236,187)
(171,240)	-	(171,240)
<u>(96,918)</u>	<u>-</u>	<u>(96,918)</u>
<u>(1,236,803)</u>	<u>-</u>	<u>(1,236,803)</u>
-	4,150	4,150
-	89,279	89,279
-	45,945	45,945
<u>-</u>	<u>(10,213)</u>	<u>(10,213)</u>
<u>-</u>	<u>129,161</u>	<u>129,161</u>
<u>(1,236,803)</u>	<u>129,161</u>	<u>(1,107,642)</u>

(continued)

Statement of Activities and Net Assets - Cash Basis

As of and for the year ended June 30, 2008

	Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
	Governmental	Business Type	Total
	Activities	Activities	
General Receipts:			
Property tax levied for:			
General purposes	\$ 457,597	-	457,597
Tax increment financing	98,695	-	98,695
Debt service	133,250	-	133,250
Local options sales tax	112,990	-	112,990
Unrestricted interest on investments	56,615	49,584	106,199
Miscellaneous	39,862		39,862
Transfers	338,000	(338,000)	-
Total general receipts and transfers	<u>1,237,009</u>	<u>(288,416)</u>	<u>948,593</u>
Change in cash basis net assets	206	(159,255)	(159,049)
Cash basis net assets beginning of year	<u>1,030,972</u>	<u>1,277,581</u>	<u>2,308,553</u>
Cash basis net assets end of year	<u><u>1,031,178</u></u>	<u><u>1,118,326</u></u>	<u><u>2,149,504</u></u>
Cash Basis Net Assets			
Restricted:			
Employee benefits	56,072	-	56,072
Culture and recreation	157,530	-	157,530
Debt service	(21,201)	115,670	94,469
Other	426,079	-	426,079
Unrestricted	<u>412,698</u>	<u>1,002,656</u>	<u>1,415,354</u>
Total cash basis net assets	<u><u>\$ 1,031,178</u></u>	<u><u>1,118,326</u></u>	<u><u>2,149,504</u></u>

See notes to financial statements.

City of Pocahontas, Iowa
Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Governmental Funds
As of and for the year ended June 30, 2008

Exhibit B

	<u>General</u>	<u>Special Revenue</u>		<u>Other Nonmajor Governmental Funds</u>	<u>Total</u>
		<u>Intermediary Relending Loan Fund</u>	<u>REDG Revolving Loan Fund</u>		
Receipts:					
Property tax	\$ 305,069	-	-	273,727	578,796
Tax increment financing	-	-	-	98,695	98,695
Other city tax	11,591	-	-	118,344	129,935
Licenses and permits	1,425	-	-	-	1,425
Use of money and property	101,212	14,071	633	191,033	306,949
Intergovernmental	15,265	394,400	300,000	327,495	1,037,160
Charges for service	261,607	-	-	-	261,607
Special assessments	-	-	-	12,616	12,616
Miscellaneous	29,916	-	-	63,990	93,906
Total receipts	<u>726,085</u>	<u>408,471</u>	<u>300,633</u>	<u>1,085,900</u>	<u>2,521,089</u>
Disbursements:					
Operating:					
Public safety	198,304	-	-	44,727	243,031
Public works	249,995	-	-	316,244	566,239
Culture and recreation	160,530	-	-	28,118	188,648
Community and economic development	72,123	473,224	359,997	327,830	1,233,174
General government	198,014	-	-	51,887	249,901
Debt service	-	-	-	212,467	212,467
Capital projects	-	-	-	165,423	165,423
Total disbursements	<u>878,966</u>	<u>473,224</u>	<u>359,997</u>	<u>1,146,696</u>	<u>2,858,883</u>
Deficiency of receipts under disbursements	<u>(152,881)</u>	<u>(64,753)</u>	<u>(59,364)</u>	<u>(60,796)</u>	<u>(337,794)</u>
Other financing sources (uses):					
Operating transfers in	210,000	100,735	60,000	137,077	507,812
Operating transfers out	(39,077)	-	-	(130,735)	(169,812)
Total other financing sources	<u>170,923</u>	<u>100,735</u>	<u>60,000</u>	<u>6,342</u>	<u>338,000</u>
Net change in cash balances	18,042	35,982	636	(54,454)	206
Cash balances beginning of year	285,404	-	-	745,568	1,030,972
Cash balances end of year	<u>\$ 303,446</u>	<u>35,982</u>	<u>636</u>	<u>691,114</u>	<u>1,031,178</u>
Cash Basis Fund Balances					
Reserved:					
Debt service	\$ -	-	-	(21,201)	(21,201)
Unreserved:					
General fund	303,446	-	-	-	303,446
Special revenue funds	-	35,982	636	271,898	308,516
Capital projects funds	-	-	-	290,417	290,417
Permanent funds	-	-	-	150,000	150,000
Total cash basis fund balances	<u>\$ 303,446</u>	<u>35,982</u>	<u>636</u>	<u>691,114</u>	<u>1,031,178</u>

See notes to financial statements.

City of Pocahontas, Iowa

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

As of and for the year ended June 30, 2008

	Enterprise Funds		
	<u>Water</u>	<u>Electric</u>	<u>Sewer</u>
Operating receipts:			
Use of money and property	\$ 3,600	-	-
Charges for service	336,668	1,631,613	316,167
Miscellaneous	22,545	75,657	5,500
Total operating receipts	<u>362,813</u>	<u>1,707,270</u>	<u>321,667</u>
Operating disbursements:			
Business type activities	<u>246,197</u>	<u>1,378,774</u>	<u>213,769</u>
Total operating disbursements	<u>246,197</u>	<u>1,378,774</u>	<u>213,769</u>
Excess (deficiency) of operating receipts over (under) operating disbursements	<u>116,616</u>	<u>328,496</u>	<u>107,898</u>
Non-operating receipts (disbursements):			
Interest on investments	14,500	25,167	9,917
Intergovernmental	-	-	121
Debt service	<u>(112,466)</u>	<u>(239,217)</u>	<u>(62,074)</u>
Total non-operating receipts (disbursements)	<u>(97,966)</u>	<u>(214,050)</u>	<u>(52,036)</u>
Excesss (deficiency) of receipts over (under) disbursements	18,650	114,446	55,862
Operating transfers out	<u>(47,000)</u>	<u>(199,500)</u>	<u>(88,500)</u>
Net change in cash balances	(28,350)	(85,054)	(32,638)
Cash balances beginning of year	<u>315,783</u>	<u>851,209</u>	<u>70,955</u>
Cash balances end of year	<u>\$ 287,433</u>	<u>766,155</u>	<u>38,317</u>
Cash Basis Fund Balances			
Reserved for debt service	\$ -	115,670	-
Reserved for capital improvements	146,805	150,000	66,330
Reserved for capital equipment	26,669	59,301	58,960
Unreserved	<u>113,959</u>	<u>441,184</u>	<u>(86,973)</u>
Total cash basis fund balances	<u>\$ 287,433</u>	<u>766,155</u>	<u>38,317</u>

See notes to financial statements.

Exhibit C

<u>Other</u> <u>Nonmajor</u>	<u>Total</u>
7,550	11,150
18,548	2,302,996
<u>-</u>	<u>103,702</u>
<u>26,098</u>	<u>2,417,848</u>
<u>36,311</u>	<u>1,875,051</u>
<u>36,311</u>	<u>1,875,051</u>
<u>(10,213)</u>	<u>542,797</u>
-	49,584
-	121
<u>-</u>	<u>(413,757)</u>
<u>-</u>	<u>(364,052)</u>
(10,213)	178,745
<u>(3,000)</u>	<u>(338,000)</u>
(13,213)	(159,255)
<u>39,634</u>	<u>1,277,581</u>
<u>26,421</u>	<u>1,118,326</u>
-	115,670
-	363,135
-	144,930
<u>26,421</u>	<u>494,591</u>
<u>26,421</u>	<u>1,118,326</u>

City of Pocahontas, Iowa

Notes to Financial Statements

June 30, 2008

(1) Summary of Significant Accounting Policies

The City of Pocahontas is a political subdivision of the State of Iowa located in Pocahontas County. It was first incorporated in 1870 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, health and social services, culture and recreation, community and economic development and general government services. The City also provides water, sewer and electric utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Pocahontas has included only the primary government of the City of Pocahontas, which consists of all funds, organizations, institutions, agencies, departments, and offices that comprise the City's legal entity. The financial statements do not include financial data for the City's legally separate component unit, which U.S. generally accepted accounting principles require to be reported with the financial data of the City's primary government.

Jointly Governed Organizations

The City also participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Pocahontas County Emergency Management Commission and Pocahontas County Joint E911 Service Board.

City of Pocahontas, Iowa

Notes to Financial Statements

June 30, 2008

B. Basis of Presentation

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

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

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

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

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

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

City of Pocahontas, Iowa

Notes to Financial Statements

June 30, 2008

The City reports the following major governmental funds:

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

Special Revenue:

The Intermediary Re-lending Loan Fund is used to loan funds to businesses for economic development. When the loans are repaid, they can be loaned out again to other businesses.

The REDG Revolving Loan Fund is a federal grant that will be used to loan money to the Pocahontas Community Hospital to purchase equipment.

The City reports the following major proprietary funds:

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

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

The Electric Fund accounts for the operation and maintenance of the City's electric system.

C. Measurement Focus and Basis of Accounting

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

City of Pocahontas, Iowa

Notes to Financial Statements

June 30, 2008

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

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

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2008, disbursements exceeded the amounts budgeted in the community and economic development and capital projects functions.

(2) Cash

The City's deposits in banks at June 30, 2008 were entirely covered by federal

depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

The City has no investments at June 30, 2008. During the year, the City deposited excess funds in certificates of deposit.

City of Pocahontas, Iowa

Notes to Financial Statements

June 30, 2008

(3) Bonds Payable

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

Year Ending June 30,	General		Revenue Bonds		Total	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2009	165,000	30,605	212,000	71,792	377,000	102,397
2010	175,000	24,005	220,000	64,149	395,000	88,154
2011	180,000	16,917	229,000	56,049	409,000	72,966
2012	125,000	9,538	232,000	47,499	357,000	57,037
2013	50,000	4,350	131,000	38,754	181,000	43,104
2014-2018	50,000	2,200	573,801	135,282	623,801	137,482
2019-2023	---	---	482,000	59,940	482,000	59,940
2024	---	---	<u>105,000</u>	<u>3,150</u>	<u>105,000</u>	<u>3,150</u>
Total	\$ 745,000	87,615	2,184,801	476,615	2,929,801	564,230
	=====	=====	=====	=====	=====	=====

The resolutions providing for the issuance of the revenue notes include the following provisions.

- (a) The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the funds.
- (b) Sufficient monthly transfers shall be made to a separate electric revenue note sinking account within the enterprise funds for the purpose of making the note principal and interest payments when due.
- (c) There shall be an electric reserve fund with a minimum balance of \$90,000 set up upon issuance of the notes. If the balance is reduced below those amounts, funds shall be deposited to bring it back to the minimum required level.

City of Pocahontas, Iowa

Notes to Financial Statements

June 30, 2008

- (d) There shall be an electric improvement fund with a minimum balance of \$50,000 set up upon issuance of the notes. If the balance is reduced below those amounts, funds shall be deposited to bring it back to the minimum required level.
- (e) The Electric Revenue Fund must produce and maintain net revenues at a level not less than 125% of the amount of principal and interest on the revenue bond due in any one year.
- (f) The Water Revenue Fund must produce and maintain net revenues at a level not less than 110% of the amount of principal and interest on the revenue bond due in any one year.
- (g) The Sewer Revenue Fund must produce and maintain net revenues at a level not less than 110% of the amount of principal and interest on the revenue bond due in any one year.

(4) Promissory Notes

The City entered into a loan agreement dated February 8, 2006 for \$1,000,000 secured by the electric utility revenue and receivables. This agreement has an interest rate of 4.75% for five years with a variable rate thereafter, but not to exceed 7.75%. The loan matures February 8, 2016 at which time all principal and interest are due. Semi-annual payments of \$63,392.25 are due on this note beginning June 1, 2008.

Future payments are due as follows based on 4.75% interest:

<u>Year ending</u> <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>
2009	86,079	40,706
2010	90,216	36,569
2011	94,552	32,232
2012	99,097	27,688
2013	103,860	22,925
2014-2016	<u>402,733</u>	<u>40,322</u>
	876,537	200,442
	=====	=====

City of Pocahontas, Iowa

Notes to Financial Statements

June 30, 2008

The City also entered into a loan agreement for \$401,939 with the United States Department of Agriculture secured by the portfolio of investments derived from the proceeds of this loan award. This agreement carries an interest rate of 1%, with interest only paid for the first three years. This loan has a due date of 2-1-2038.

Future payments are due as follows:

<u>Year Ending</u> <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>
2009	\$ ---	4,029
2010	---	4,029
2011	4,341	4,023
2012	13,109	3,926
2013	13,240	3,794
2014-2018	68,226	16,949
2019-2023	71,723	13,452
2024-2028	75,398	9,777
2029-2033	79,263	5,910
2033-2038	<u>77,639</u>	<u>1,858</u>
Total	\$ 402,939	67,747
	=====	=====

(5) Pension and Retirement Benefits

The City contributes to the Iowa Public Employees Retirement System (IPERS),

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

City of Pocahontas, Iowa

Notes to Financial Statements

June 30, 2008

Most regular plan members are required to contribute 3.91% of their annual covered salary and the City is required to contribute 6.05% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2008, 2007 and 2006 were \$45,473, \$40,317 and \$39,264, respectively, equal to the required contributions for each year.

(6) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation and comp time hours for subsequent use or for payment upon termination, retirement or death. Sick leave hours accumulate and are paid only when used. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned compensated absences payable to employees at June 30, 2008, primarily relating to the General Fund, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation and comp time	\$ 34,000 =====

This liability has been computed based on rates of pay in effect at June 30, 2008.

City of Pocahontas, Iowa

Notes to Financial Statements

June 30, 2008

(7) Interfund Transfers

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

<u>Transfer To</u>	<u>Transfer From</u>	<u>Amount</u>
General	Enterprise:	
	Water	\$ 45,000
	Sewer	45,000
	Electric	117,000
	Internet	<u>3,000</u>
		<u>210,000</u>
Capital Projects:		
Capital Improvements	General	<u>5,000</u>
Capital Equipment	General	34,077
	Enterprise:	
	Water	1,000
	Sewer	500
	Electric	2,500
	Special Revenue:	
	Road Use	<u>30,000</u>
		<u>68,077</u>
Special Revenue:		
Industrial Development	Enterprise:	
	Water	1,000
	Electric	<u>20,000</u>
		<u>21,000</u>
Intermediary Relending Loan Fund	Enterprise: Industrial Development	<u>100,735</u>
REDG Revolving Loan Fund	Enterprise: Electric	<u>60,000</u>
Debt Service	Enterprise: Sewer	<u>43,000</u>
Total		\$ 507,812
		=====

City of Pocahontas, Iowa

Notes to Financial Statements

June 30, 2008

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

(8) Related Party Transactions

The City had business transactions between the City and City officials totaling \$125,807 during the year ended June 30, 2008.

(9) Risk Management

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

(10) Commitments

As of June 30, 2008, the City had the following commitments with respect to unfinished capital projects:

<u>Capital Project</u>	<u>Remaining Commitment</u>
Pool Filters	\$ 22,500
2008 Street Project	43,000
Airport	80,000
Prairie View Estates	<u>557,000</u>
	702,500
	=====

The City will pay for these projects from grant awards, sale of real estate, local option monies and cash on hand.

City of Pocahontas, Iowa

Notes to Financial Statements

June 30, 2008

(11) Deficit Balances

The Special Revenue, Industrial Development Revenue Fund had a deficit balance of \$181,165 at June 30, 2008. This deficit will be eliminated upon repayment of loans and transfer of funds.

The Debt Service Fund had a deficit balance of \$21,201 at June 30, 2008. This deficit will be eliminated upon transfer of funds.

The Enterprise Fund, Sewer Operating Account had a deficit balance of \$86,973 at June 30, 2008. This deficit should be eliminated with the increase of sewer rates.

The Special Revenue, Tax Increment Fund had a deficit balance of \$50,922 at June 30, 2008. This deficit will be eliminated upon receipt of taxes.

(12) Economic Development Loans Receivable

The City has various long-term loans receivable totaling \$1,235,794 as of June 30, 2008 due from various business in Pocahontas. The loans were financed with the proceeds from various grant agreements, matching contribution from the City and repayments from the businesses. Interest rates on these loans vary from 0% - 4.5% with monthly payments varying from \$221 to \$1,307.

Required Supplementary Information

City of Pocahontas, Iowa
 Budgetary Comparison Schedule
 of Receipts, Disbursements, and Changes in Balances -
 Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Funds

Required Supplementary Information

Year ended June 30, 2008

	Governmental Funds <u>Actual</u>	Proprietary Funds <u>Actual</u>
Receipts:		
Property tax	\$ 578,796	-
Tax increment financing collections	98,695	-
Other city tax	129,935	-
Licenses and permits	1,425	-
Use of money and property	306,949	60,734
Intergovernmental	1,037,160	121
Charges for service	261,607	2,302,996
Special assessments	12,616	-
Miscellaneous	93,906	103,702
Total receipts	<u>2,521,089</u>	<u>2,467,553</u>
Disbursements:		
Public safety	243,031	-
Public works	566,239	-
Culture and recreation	188,648	-
Community and economic development	1,233,174	-
General government	249,901	-
Debt service	212,467	-
Capital projects	165,423	-
Business type activities	-	2,288,808
Total disbursements	<u>2,858,883</u>	<u>2,288,808</u>
Excess (deficiency) of receipts over (under) disbursements	(337,794)	178,745
Other financing sources (uses), net	<u>338,000</u>	<u>(338,000)</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	206	(159,255)
Balances beginning of year	<u>1,030,972</u>	<u>1,277,581</u>
Balances end of year	<u>\$ 1,031,178</u>	<u>1,118,326</u>
See accompanying independent auditor's report.		

<u>Total</u>	<u>Budgeted Amounts</u>		<u>Final to Total Variance</u>
	<u>Original</u>	<u>Final</u>	
578,796	577,497	577,497	1,299
98,695	92,500	92,500	6,195
129,935	99,864	114,864	15,071
1,425	2,200	2,200	(775)
367,683	96,875	104,875	262,808
1,037,281	427,503	427,503	609,778
2,564,603	2,644,140	2,662,140	(97,537)
12,616	-	-	12,616
197,608	59,590	76,340	121,268
<u>4,988,642</u>	<u>4,000,169</u>	<u>4,057,919</u>	<u>930,723</u>
243,031	242,685	300,435	57,404
566,239	464,000	790,350	224,111
188,648	192,271	256,271	67,623
1,233,174	349,975	695,475	(537,699)
249,901	259,665	287,665	37,764
212,467	212,468	212,468	1
165,423	636,500	119,500	(45,923)
2,288,808	2,214,210	2,732,710	443,902
<u>5,147,691</u>	<u>4,571,774</u>	<u>5,394,874</u>	<u>247,183</u>
(159,049)	(571,605)	(1,336,955)	1,177,906
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
(159,049)	(571,605)	(1,336,955)	1,177,906
<u>2,308,553</u>	<u>2,503,535</u>	<u>2,503,535</u>	<u>(194,982)</u>
<u>2,149,504</u>	<u>1,931,930</u>	<u>1,166,580</u>	<u>982,924</u>

City of Pocahontas, Iowa

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2008

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

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

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Fund, the Permanent Fund and the Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$823,100 and increased budgeted revenues by \$57,750. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2008, disbursements exceeded the amounts budgeted in the community and economic development, and capital projects functions.

Other Supplementary Information

City of Pocahontas, Iowa

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

As of and for the year ended June 30, 2008

	Special Revenue				
	Road <u>Use</u>	Employee <u>Benefits</u>	Local Option Sales <u>Tax</u>	Tax Increment <u>Fund (TIF)</u>	Revolving <u>Loan Fund</u>
Receipts:					
Property tax	\$ -	142,911	-	-	-
Tax increment financing	-	-	-	98,695	-
Other city tax	-	2,920	112,990	-	-
Use of money and property	-	-	-	-	46,932
Intergovernmental	169,660	-	-	-	-
Special assessments	-	-	-	-	-
Miscellaneous	-	7,279	-	-	-
Total receipts	<u>169,660</u>	<u>153,110</u>	<u>112,990</u>	<u>98,695</u>	<u>46,932</u>
Disbursements:					
Operating:					
Public safety	-	44,727	-	-	-
Public works	143,049	37,279	109,775	26,141	-
Culture and recreation	-	18,322	-	-	-
Community and economic development	-	25,780	-	90,162	13,000
General government	-	51,887	-	-	-
Debt Service	-	-	-	-	-
Capital projects	-	-	-	-	-
Total disbursements	<u>143,049</u>	<u>177,995</u>	<u>109,775</u>	<u>116,303</u>	<u>13,000</u>
Excess (deficiency) of receipts over (under) disbursements	<u>26,611</u>	<u>(24,885)</u>	<u>3,215</u>	<u>(17,608)</u>	<u>33,932</u>

Schedule 1

<u>Industrial Development</u>				<u>Capital Projects</u>		
<u>Revenue Fund</u>	<u>Housing Grant</u>	<u>"Irma Elbert Bequest"</u>	<u>"Charlotte Lenore Zech Bequest"</u>	<u>Debt Service</u>	<u>Capital Improvement</u>	<u>Capital Equipment</u>
-	-	-	-	130,816	-	-
-	-	-	-	-	-	-
-	-	-	-	2,434	-	-
115,157	-	2,400	-	19,400	4,994	2,150
-	90,328	-	-	-	7,000	60,507
3,539	-	-	-	-	9,077	-
-	-	2,066	-	21,826	6,780	26,039
<u>118,696</u>	<u>90,328</u>	<u>4,466</u>	<u>-</u>	<u>174,476</u>	<u>27,851</u>	<u>88,696</u>
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	9,796	-	-	-	-
114,170	84,718	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	212,467	-	-
-	-	-	-	-	8,859	156,564
<u>114,170</u>	<u>84,718</u>	<u>9,796</u>	<u>-</u>	<u>212,467</u>	<u>8,859</u>	<u>156,564</u>
<u>4,526</u>	<u>5,610</u>	<u>(5,330)</u>	<u>-</u>	<u>(37,991)</u>	<u>18,992</u>	<u>(67,868)</u>

(continued)

City of Pocahonats, Iowa

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

As of and for the year ended June 30, 2007

	Special Revenue				
	Road <u>Use</u>	Employee <u>Benefits</u>	Local Option Sales <u>Tax</u>	Tax Increment <u>Fund (TIF)</u>	Revolving <u>Loan Fund</u>
Other financing sources (uses):					
Operating transfers in	-	-	-	-	-
Operating transfers out	<u>(30,000)</u>	-	-	-	-
Total other financing sources (uses)	<u>(30,000)</u>	-	-	-	-
Net change in cash balances	(3,389)	(24,885)	3,215	(17,608)	33,932
Cash balances beginning of year	<u>217,116</u>	<u>80,957</u>	<u>161,706</u>	<u>(33,314)</u>	<u>3,669</u>
Cash balances end of year	<u>\$ 213,727</u>	<u>56,072</u>	<u>164,921</u>	<u>(50,922)</u>	<u>37,601</u>
Cash Basis Fund Balances					
Reserved:					
Debt service	-	-	-	-	-
Unreserved:					
Special revenue funds	213,727	56,072	164,921	(50,922)	37,601
Capital project funds	-	-	-	-	-
Permanent funds	-	-	-	-	-
Total cash basis fund balances	<u>\$ 213,727</u>	<u>56,072</u>	<u>164,921</u>	<u>(50,922)</u>	<u>37,601</u>

See accompanying independent auditor's report.

Schedule 1

<u>Industrial Development</u>				<u>Capital Projects</u>		
<u>Revenue Fund</u>	<u>Housing Grant</u>	<u>"Irma Elbert Bequest"</u>	<u>"Charlotte Lenore Zech Bequest"</u>	<u>Debt Service</u>	<u>Capital Improvement</u>	<u>Capital Equipment</u>
21,000	-	-	-	43,000	5,000	68,077
(100,735)	-	-	-	-	-	-
<u>(79,735)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>43,000</u>	<u>5,000</u>	<u>68,077</u>
(75,209)	5,610	(5,330)	-	5,009	23,992	209
(105,956)	18,524	8,606	4,254	(26,210)	37,883	228,333
<u>(181,165)</u>	<u>24,134</u>	<u>3,276</u>	<u>4,254</u>	<u>(21,201)</u>	<u>61,875</u>	<u>228,542</u>
-	-	-	-	(21,201)	-	-
(181,165)	24,134	3,276	4,254	-	-	-
-	-	-	-	-	61,875	228,542
-	-	-	-	-	-	-
<u>(181,165)</u>	<u>24,134</u>	<u>3,276</u>	<u>4,254</u>	<u>(21,201)</u>	<u>61,875</u>	<u>228,542</u>

(continued)

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

As of and for the year ended June 30, 2008

	Permanent			Total
	"Jean Wallace Perry <u>Memorial"</u>	"Charlotte Lenore Zech <u>Bequest"</u>	"Irma Elbert <u>Bequest"</u>	
Receipts:				
Property tax	\$ -	-	-	273,727
Tax increment financing collections	-	-	-	98,695
Other city tax	-	-	-	118,344
Use of money and property	-	-	-	191,033
Intergovernmental	-	-	-	327,495
Special assessments	-	-	-	12,616
Miscellaneous	-	-	-	63,990
Total receipts	-	-	-	1,085,900
Disbursements:				
Operating:				
Public safety	-	-	-	44,727
Public works	-	-	-	316,244
Culture and recreation	-	-	-	28,118
Community and economic development	-	-	-	327,830
General government	-	-	-	51,887
Debt Service	-	-	-	212,467
Capital projects	-	-	-	165,423
Total disbursements	-	-	-	1,146,696
Excess (deficiency) of receipts over (under) disbursements	-	-	-	(60,796)

(continued)

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

As of and for the year ended June 30, 2008

	Permanent			
	"Jean Wallace Perry <u>Memorial"</u>	"Charlotte Lenore Zech <u>Bequest"</u>	"Irma Elbert <u>Bequest"</u>	<u>Total</u>
Other financing sources (uses):				
Operating transfers in	-	-	-	137,077
Operating transfers out	-	-	-	<u>(130,735)</u>
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,342</u>
Net change in cash balances	-	-	-	(54,454)
Cash balances beginning of year	<u>\$ 2,500</u>	<u>87,500</u>	<u>60,000</u>	<u>745,568</u>
Cash balances end of year	<u>\$ 2,500</u>	<u>\$ 87,500</u>	<u>\$ 60,000</u>	<u>\$ 691,114</u>
Cash Basis Fund Balances				
Reserved:				
Debt service	-	-	-	(21,201)
Unreserved:				
Special revenue funds	-	-	-	271,898
Capital project funds	-	-	-	290,417
Permanent funds	<u>2,500</u>	<u>87,500</u>	<u>60,000</u>	<u>150,000</u>
Total cash basis fund balances	<u>\$ 2,500</u>	<u>87,500</u>	<u>60,000</u>	<u>691,114</u>

See accompanying independent auditor's report.

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

As of and for the year ended June 30, 2008

	Enterprise Funds			
	Meter Deposits	Clinic	Internet	Total
Operating receipts:				
Use of money and property	\$ -	7,550	-	7,550
Charges for service	<u>6,789</u>	<u>-</u>	<u>11,759</u>	<u>18,548</u>
Total operating receipts	<u>6,789</u>	<u>7,550</u>	<u>11,759</u>	<u>26,098</u>
Operating disbursements:				
Business type activities	<u>4,995</u>	<u>13,509</u>	<u>17,807</u>	<u>36,311</u>
Total operating disbursements	<u>4,995</u>	<u>13,509</u>	<u>17,807</u>	<u>36,311</u>
Excess of operating receipts over operating disbursements	<u>1,794</u>	<u>(5,959)</u>	<u>(6,048)</u>	<u>(10,213)</u>
Operating transfers in (out)	<u>-</u>	<u>-</u>	<u>(3,000)</u>	<u>(3,000)</u>
Net change in cash balances	1,794	(5,959)	(9,048)	(13,213)
Cash balances beginning of year	<u>10,312</u>	<u>12,347</u>	<u>16,975</u>	<u>39,634</u>
Cash balances end of year	<u>\$ 12,106</u>	<u>6,388</u>	<u>7,927</u>	<u>26,421</u>
Cash Basis Fund Balances				
Unreserved				
Total cash basis fund balances	<u>\$ 12,106</u>	<u>\$ 6,388</u>	<u>\$ 7,927</u>	<u>26,421</u>

See notes to financial statements.

City of Pocahontas, Iowa

Schedule of Indebtedness

Year ended June 30, 2008

<u>Obligation</u>	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount Originally Issued</u>
General obligation bonds: G.O. refunding bonds Series 2001	Nov 1, 2001	3.00-4.40%	\$ 1,715,000
Revenue bonds:			
Electric	Apr 15, 2002	2.75-4.10%	\$ 900,000
Water	Apr 6, 2004	3.00%	1,418,582
Sewer	Jul 7, 2004	3.00%	12,000
Promissory note:			
Electric	Feb 8, 2006	4.75%	\$ 1,000,000
United States Department of Agriculture	Feb 1, 2008	1.00%	402,939

See accompanying independent auditor's report.

Schedule 3

<u>Balance Beginning of Year</u>	<u>Issued During Year</u>	<u>Redeemed During Year</u>	<u>Balance End of Year</u>	<u>Interest Paid</u>	<u>Interest Due and Unpaid</u>
\$ 920,000	-	175,000	745,000	37,168	-
495,000	-	90,000	405,000	22,133	-
1,429,000	-	66,000	1,363,000	42,894	-
463,801	-	47,000	416,801	13,914	-
<u>\$ 2,387,801</u>	<u>-</u>	<u>203,000</u>	<u>2,184,801</u>	<u>78,941</u>	<u>-</u>
958,668	-	82,131	876,537	44,653	-
-	402,939	-	402,939	-	-
<u>958,668</u>	<u>402,939</u>	<u>82,131</u>	<u>1,279,476</u>	<u>44,653</u>	<u>-</u>

Bond Maturities- General Obligation Bonds

June 30, 2008

Year Ending <u>June 30,</u>	General Obligation	
	Refunding Bonds Series 2001	
	Issued November 1, 2001	
	Interest	
	<u>Rates</u>	<u>Amount</u>
2009	4.00	165,000
2010	4.05	175,000
2011	4.10	180,000
2012	4.15	125,000
2013	4.30	50,000
2014	4.40	50,000
Total		<u>\$ 745,000</u>

See accompanying independent auditor's report.

Bond Maturities - Revenue Bonds

June 30, 2008

Year Ending <u>June 30,</u>	Electric Revenue Bonds		Sewer Revenue Bonds	
	Series 2002		Series 2004	
	Issued April 15, 2002		Issued July 7, 2004	
	Interest		Interest	
	<u>Rates</u>	<u>Amount</u>	<u>Rates</u>	<u>Amount</u>
2009	4.35	95,000	3.00	49,000
2010	4.50	100,000	3.00	50,000
2011	4.60	105,000	3.00	52,000
2012	4.70	105,000	3.00	53,000
2013		-	3.00	55,000
2014		-	3.00	57,000
2015		-	3.00	58,000
2016		-	3.00	42,801
Total		<u>\$ 405,000</u>		<u>\$ 416,801</u>

Year Ending <u>June 30,</u>	Water Revenue Bonds		<u>Total</u>
	Series 2004		
	Issued April 23, 2004		
	Interest		
	<u>Rates</u>	<u>Amount</u>	
2009	3.00	68,000	212,000
2010	3.00	70,000	220,000
2011	3.00	72,000	229,000
2012	3.00	74,000	232,000
2013	3.00	76,000	131,000
2014	3.00	78,000	135,000
2015	3.00	81,000	139,000
2016	3.00	83,000	125,801
2017	3.00	86,000	86,000
2018	3.00	88,000	88,000
2019	3.00	91,000	91,000
2020	3.00	94,000	94,000
2021	3.00	96,000	96,000
2022	3.00	99,000	99,000
2023	3.00	102,000	102,000
2024	3.00	105,000	105,000
Total		<u>\$ 1,363,000</u>	<u>2,184,801</u>

See accompanying independent auditor's report.

Schedule of Receipts By Source and Disbursements By Function -
All Governmental Funds

For the Last Four Years

	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
Receipts:				
Property tax	\$ 578,796	\$ 578,775	592,328	569,770
Tax increment financing collections	98,695	60,937	51,243	16,831
Other city tax	129,935	141,821	111,680	173,693
Licenses and permits	1,425	2,717	2,290	2,005
Use of money and property	306,949	132,945	138,368	70,116
Intergovernmental	1,037,160	264,837	413,845	349,556
Charges for service	261,607	223,168	198,951	208,711
Special assessments	12,616	6,489	10,446	13,873
Miscellaneous	<u>93,906</u>	<u>137,713</u>	<u>179,061</u>	<u>80,092</u>
 Total	 <u>\$ 2,521,089</u>	 <u>\$ 1,549,402</u>	 <u>1,698,212</u>	 <u>1,484,647</u>
Disbursements:				
Operating:				
Public safety	\$ 243,031	\$ 236,813	226,559	245,152
Public works	566,239	471,068	452,681	345,215
Culture and recreation	188,648	181,058	174,088	188,266
Community and economic development	1,233,174	473,909	637,418	350,567
General government	249,901	226,240	240,394	236,556
Debt service	212,467	224,068	224,455	219,784
Capital projects	<u>165,423</u>	<u>48,605</u>	<u>45,882</u>	<u>286,398</u>
 Total	 <u>\$ 2,858,883</u>	 <u>\$ 1,861,761</u>	 <u>2,001,477</u>	 <u>1,871,938</u>

See accompanying independent auditor's report.

Schedule of Expenditures of Federal Awards

Year ended June 30, 2008

<u>Grantor/Program</u>	<u>CFDA Number</u>	<u>Agency Pass-Through Number</u>	<u>Program Expenditures</u>
Direct:			
U.S. Department of Agriculture			
Intermediary Relending Program	10.767	---	\$ 394,400
Revolving Loan Fund	10.854	---	<u>300,000</u>
Subtotal			<u>694,400</u>
Indirect:			
U.S. Department of Housing and Urban Development:			
Iowa Department of Economic Development:			
Community Development Block Grants/State's Program	14.228	06-HSG-021	<u>78,856</u>
Total			<u>\$ 773,256</u>

Basis of Presentation - The Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Pocahontas and is presented in conformity with an other comprehensive basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments and Non-Profit Organizations. Therefore some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.

See accompanying independent auditor's report.

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

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Pocahontas, Iowa, as of and for the year ended June 30, 2008, which collectively comprise the primary government's basic financial statements listed in the table of contents, and have issued our report thereon dated September 26, 2008. Our report expressed unqualified opinions on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Pocahontas' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the City of Pocahontas' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Pocahontas' 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 the internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies, including deficiencies we consider to be material weaknesses.

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

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

Compliance and Other Matters

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

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 on the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The City of Pocahontas' responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the City's responses, we did not audit the City of Pocahontas' 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 Pocahontas and other parties to whom the City of Pocahontas may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

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

Cornwell, Frideres, Maher & Associates, P.L.C.
Certified Public Accountants

September 26, 2008

Independent Auditor's Report on Compliance with Requirements
Applicable to Each Major Program and on Internal Control over Compliance
in Accordance with OMB Circular A-133

To the Honorable Mayor and
Members of the City Council:

Compliance

We have audited the compliance of the City of Pocahontas, Iowa, with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal programs for the year ended June 30, 2008. The City of Pocahontas' major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to its major federal program is the responsibility of the City of Pocahontas' management. Our responsibility is to express an opinion on the City of Pocahontas' compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards, and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Pocahontas' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Pocahontas' compliance with those requirements.

In our opinion, the City of Pocahontas complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2008.

Internal Control Over Compliance

The management of the City of Pocahontas is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered the City of Pocahontas' internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Pocahontas' internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the City's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified a deficiency in internal control over compliance that we consider to be a material weakness.

A control deficiency in the City's internal control over compliance 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 non-compliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to administer a federal program such that there is more than a remote likelihood non-compliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the City's internal control. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item III-A-08 to be a significant deficiency.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood material non-compliance with a type of compliance requirement of a federal program will not be prevented or detected by the City's internal control. We consider the significant deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item III-A-08 to be a material weakness.

The City of Pocahontas' responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the City's responses, we did not audit the City of Pocahontas' 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 Pocahontas and other parties to whom the City of Pocahontas may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

Cornwell, Frideres, Maher & Associates, P.L.C.
Certified Public Accountants

September 26, 2008

City of Pocahontas, Iowa

Schedule of Findings and Questioned Costs

Year ended June 30, 2008

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

- (a) Unqualified opinions were issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
- (b) Significant deficiencies in internal control over financial reporting were disclosed by the audit of the financial statements, including material weaknesses.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) A significant deficiency in internal control over the major program was disclosed by the audit of the financial statements, which is considered to be a material weakness.
- (e) An unqualified opinion was issued on compliance with requirements applicable to the major program.
- (f) The audit disclosed audit findings which are required to be reported in accordance with Office of management and Budget Circular A-133, Section .510(a).
- (g) The major programs were CFDA Number 10.767 – Intermediary Relending Program and CFDA Number 10.854 – Revolving Loan Fund.
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) The City of Pocahontas did not qualify as a low-risk auditee.

City of Pocahontas, Iowa

Schedule of Findings and Questioned Costs

Year ended June 30, 2008

Part II: Findings Related to the Financial Statements:

SIGNIFICANT DEFICIENCIES:

II-A-08 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the cash receipts listing, posting of cash receipts to the cash receipts journal, and the preparation of deposit slips for utility billing are all done by the same person.

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

Response - Based upon the size of our office staff, duties are segregated to the greatest extent possible.

Conclusion - The City should utilize administrative personnel to provide additional control through a review of financial transactions and reports.

II-B-08 Segregation of Duties - Community Center - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the same person writes checks, signs checks, posts receipts and disbursements and reconciles the bank account. Also prenumbered receipts are not utilized.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, we recommend that the Community Center Board review its control procedures to obtain the maximum internal control possible under the circumstances. Prenumbered receipts should be utilized to help insure proper control over cash receipts.

City of Pocahontas, Iowa

Schedule of Findings and Questioned Costs

Year ended June 30, 2008

Response - We will investigate possible alternatives.

Conclusion - Response accepted.

II-C-08 Reconciliation of Loans Receivable – The City did not maintain a subsidiary ledger of loans receivable.

Recommendation – The City has several programs where recipients have been loaned money by the City. The City should set up a subsidiary ledger so they can monitor the repayments by the recipients. This would help the City to monitor delinquencies and balances.

Response – We have contacted our software vendor and are working on this.

Conclusion – Response accepted.

II-D-08 Preparation of Financial Statements, Including Disclosures to Financial Statements - As is common with an entity of this size, the City has engaged the auditing firm to prepare the financial statements, including disclosures. The Auditing Standards Board requires us to notify you this is considered a significant deficiency.

Recommendation – The City’s personnel should continue to review the preliminary draft of the audit report before issuance.

Response – We will continue to do this.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

Part III: Findings and Questioned Costs for Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

City of Pocahontas, Iowa

Schedule of Findings and Questioned Costs

Year ended June 30, 2008

SIGNIFICANT DEFICIENCIES:

CFDA Number 10.767: Intermediary Relending Program

CFDA Number 10.854: Revolving Loan Fund

Federal Award Year: 2008

U.S. Department of Agriculture

III-A-08 Approval of Claims – The City had set up separate bank accounts for their federal programs as required by the grant agreement. However, with this policy, payments from these checking accounts were not included on the claims approved by the council at their semi-monthly meetings.

Recommendation – The City should make sure bills from the separate bank accounts be approved by the council.

Response – We will set up these accounts on our general ledger program so they won't be overlooked.

Conclusion – Response accepted.

Part IV: Other Findings Related to Statutory Reporting:

IV-A-08 Certified Budget – Disbursements during the year ended June 30, 2008 exceeded the amounts budgeted in the community and economic development, and capital projects functions. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

Recommendation – The budget should be amended in sufficient amounts before the disbursements exceed the budget.

Response – The budget will be amended in sufficient amounts in the future, if applicable.

Conclusion – Response accepted.

City of Pocahontas, Iowa

Schedule of Findings and Questioned Costs

Year ended June 30, 2008

IV-B-08 Questionable Disbursements – No disbursements were noted that may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979.

IV-C-08 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

IV-D-08 Business Transactions - Business transactions between the City and City officials or employees are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Brooks Taylor – Council Member		
Editor of Record Democrat	Newspaper printings	\$ 4,044
	Economic Development Loan	75,000
Gus Holzmueller – Council Member		
Owner of Pocahontas Ford	Auto Repairs and Used Car	14,624
Kent Wood – Council Member		
14% Owner of Wood’s Supermarket		635
Brian Stover – Council Member		
Owner of Stover Construction	Repairs	2,422
Greg White – Economic Development		
Director, Part Owner of Chris Cakes	Supplies	300
Joan Dewall – City Clerk,		
50% Owner of Fun Girls Ink	Supplies	782
	Economic Development Loan	<u>28,000</u>
		125,807
		=====

City of Pocahontas, Iowa

Schedule of Findings and Questioned Costs

Year ended June 30, 2008

In accordance with Chapter 362.5(10) of the Code of Iowa, the transactions with Wood's Supermarket, Wood's Stover Construction, Chris Cakes, and Fun Girls Ink, do not appear to represent conflicts of interest since the total transactions with each were less than \$2,500 during the fiscal year. The transaction with the Pocahontas Ford does not appear to represent a conflict of interest since it was entered into with competitive bidding procedures. The transaction with the newspaper does not appear to represent a conflict of interest since a resolution was passed naming The Record Democrat as the official newspaper. Taylor didn't vote on this resolution. The economic development loans do not appear to represent a conflict of interest as they were approved by the USDA.

IV-E-08 Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage is reviewed annually to insure that coverage is adequate for current operations.

IV-F-08 Council Minutes - We noted that disbursements from the separate economic development checking accounts were not included on the list of bills approved by the council or published in the paper.

Recommendation – The City should make sure all claims are listed for council approval and are published in the paper.

Response – This was overlooked this year. We will do this in the future.

Conclusion – Response accepted.

IV-G-08 Deposits and Investments - No instances of non-compliance with the deposit and investments provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.

IV-H-08 Revenue Bonds and Notes – No instances of non-compliance with the revenue bond and note resolutions were noted.

City of Pocahontas, Iowa

Schedule of Findings and Questioned Costs

Year ended June 30, 2008

IV-I-08 Telecommunications Services – No instances of non-compliance with Chapter 388.10 of the Code of Iowa were noted.

IV-J-08 Deficit Balances – There were several deficit balances noted as of June 30, 2008.

Recommendation – City officials should review these deficits in order to return these funds to a sound financial position.

Response – See footnote #11 in notes to financial statements for our plans to eliminate these deficits.

Conclusion – Response accepted.