

CITY OF KEOSAUQUA, IOWA
INDEPENDENT AUDITOR'S REPORTS
FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2008

CITY OF KEOSAUQUA, IOWA

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CITY OF KEOSAUQUA, IOWA

OFFICIALS

| <u>Name</u> | <u>Title</u> | <u>Term Expires</u> |
|----------------|----------------|---------------------|
| Kevin Hranicka | Mayor | 2010 |
| Mike Rippy | Council Member | 2012 |
| Vicki Shephard | Council Member | 2010 |
| Karen Stinson | Council Member | 2010 |
| Matt Manning | Council Member | 2012 |
| Twyla Peacock | Council Member | 2012 |
| John Morrissey | Attorney | Appointed |
| Linda Mott | Clerk | Appointed |

INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Members
of the City Council
City of Keosauqua, Iowa

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

Except as discussed in the following paragraph, 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 and provisions 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. Also, as permitted by the Code of Iowa, the accounting records of the City have not been audited for all prior years. Accordingly, we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2007.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2007, as discussed in the preceding paragraph, the financial statements present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Keosauqua, Iowa as of June 30, 2008, and the respective changes in a 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 March 20, 2009 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 8 and 19 through 21 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 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 Keosauqua, Iowa's basic financial statements. Other supplementary information included in Schedules 1 through 4 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

ANDERSON, LARKIN & CO. P.C.

Ottumwa, Iowa
March 20, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS

City of Keosauqua, Iowa, 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

- Revenues of the City's governmental activities decreased 1.5%, or \$8,473, from fiscal 2007 to fiscal 2008. Property tax increased \$7,518 and local option taxes decreased \$15,330.
- Disbursements increased 29.6%, or \$131,754, in fiscal 2008 from fiscal 2007. Capital projects disbursements increased \$148,402.
- The City's total cash basis net assets decreased 1.2%, or \$10,251 from June 30, 2007 to June 30, 2008.

USING THIS ANNUAL REPORT

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

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

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

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

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

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

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

Basis of Accounting

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

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information 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 and the sanitary sewer system. These activities are financed primarily by user charges

Fund Financial Statements

The City has two kinds of funds:

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

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

2) **Proprietary funds** account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains two Enterprise Funds to provide separate information for the water and sewer funds, considered to be major funds of the City. The City also maintains six smaller ancillary funds that are related to the operations of the water and sewer funds.

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased from a year ago, decreasing from \$827,403 to \$817,152. The analysis that follows focuses on the changes in cash balances for governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities

| | <u>Year ended June 30,</u> | |
|---|----------------------------|-------------------|
| | <u>2008</u> | <u>2007</u> |
| Receipts and transfers | | |
| Program receipts: | | |
| Charges for service | \$ 147,137 | \$ 144,075 |
| Operating grants, contributions and restricted interest | 122,228 | 155,905 |
| General receipts: | | |
| Property tax | 159,010 | 151,492 |
| Local option sales tax | 45,959 | 61,289 |
| Unrestricted investment earnings | 30,174 | 24,431 |
| Other general receipts | 47,883 | 38,419 |
| Transfers, net | <u>14,747</u> | <u>-</u> |
| Total receipts and transfers | <u>567,138</u> | <u>575,611</u> |
| Disbursements: | | |
| Public safety | 44,483 | 48,970 |
| Public works | 183,860 | 185,718 |
| Culture and recreation | 87,480 | 78,287 |
| Community and economic development | 36,090 | 48,142 |
| General government | 62,198 | 65,904 |
| Debt service | 14,876 | 18,614 |
| Capital projects | <u>148,402</u> | <u>-</u> |
| Total disbursements | <u>577,389</u> | <u>445,635</u> |
| Change in cash basis net assets | (10,251) | 129,976 |
| Cash basis net assets beginning of year | <u>827,403</u> | <u>697,427</u> |
| Cash basis net assets end of year | <u>\$ 817,152</u> | <u>\$ 827,403</u> |

The City's total receipts for governmental activities decreased by 1.5%, or \$8,473. The total cost of all programs and services increased by \$131,754, or 29.6%, with no new programs added this year. The increase in disbursements was primarily the result of increases in capital projects expenditures.

The City's property tax receipts increased by \$7,518 in 2008. Based on the total assessed valuation, property tax receipts are budgeted to decrease by \$4,199 next year.

The cost of all governmental activities this year was \$577,389 compared to \$445,635 last year. However, as shown in the Statement of Activities and Net Assets on pages 9 and 10, the amount taxpayers ultimately financed for these activities was only \$308,024 because some of the cost was paid by those directly benefited from the programs \$147,137 or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest \$122,228. Overall, the City's governmental activities receipts, including intergovernmental aid and fees for service, decreased in 2008 from \$575,611 to \$567,138. The City paid for the remaining "public benefit" portion of governmental activities with \$159,010 in property tax (some of which could only be used for certain programs) and with other receipts, such as interest and general entitlements.

Changes in Cash Basis Net Assets of Business Type Activities

| | <u>Year ended June 30,</u> | |
|---|----------------------------|-------------------|
| | <u>2008</u> | <u>2007</u> |
| Receipts: | | |
| Program receipts: | | |
| Charges for service | | |
| Water | \$ 254,895 | \$ 265,572 |
| Sewer | 114,696 | 122,953 |
| Capital grants, contributions and restricted interest | 328,187 | 52,150 |
| General receipts: | | |
| Unrestricted interest on investments | 4,162 | 9,711 |
| Note proceeds | 251,197 | - |
| Other general receipts | 33,591 | 14,501 |
| Transfers, net | <u>(14,747)</u> | <u>-</u> |
| Total receipts | <u>971,981</u> | <u>464,887</u> |
| | | |
| Disbursements: | | |
| Water | 886,373 | 264,488 |
| Sewer | <u>115,540</u> | <u>220,696</u> |
| Total disbursements | <u>1,001,913</u> | <u>485,184</u> |
| | | |
| Decrease in cash balance | (29,932) | (20,297) |
| | | |
| Cash basis net assets beginning of year | <u>427,890</u> | <u>448,187</u> |
| | | |
| Cash basis net assets end of year | \$ <u>397,958</u> | \$ <u>427,890</u> |

Total business type activities receipts for the fiscal year were \$971,981 compared to \$464,887 last year. This significant increase was due primarily to the receipt of \$579,384 in grants and loan proceeds related to the water project. The cash balance decreased by \$29,932 from the prior year because of expenditures related to the water project that had not been reimbursed as of year end. Total disbursements for the fiscal year increased by 107% to a total of \$1,001,913 due to water project expenditures.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Keosauqua, Iowa completed the year, its governmental funds reported a combined fund balance of \$817,152, a decrease of \$10,251 from last year's total of \$827,403. The following are the significant reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance decreased \$60,821 from the prior year to \$494,078. The majority of this decrease was due to decreases in local option sales tax, charges for service and contributions
- The Library Fund cash balance decreased by \$2,983. The decrease is due to expenditures slightly exceeding receipts and transfers in.
- The Urban Renewal Tax Increment Fund cash balance increased by \$37,479 due to tax increment collections in excess of debt service expenditures.
- The Road Use Tax Fund cash balance increased by \$16,074 to \$63,587 during the fiscal year. This increase was attributable to road use taxes received in excess of the amount spent on current year projects. The City intends to use this money to upgrade the condition of City roads.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance decreased by \$18,199 to \$129,963, due primarily to water project expenditures not reimbursed prior to year end.
- The Sewer Fund cash balance increased by \$4,869 to \$211,475, due primarily to completion of the sewer project in the previous year.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget one time. The amendment was approved on April 24, 2008 and resulted in an increase in operating disbursements of \$3,800. The City had sufficient cash balances to absorb these additional costs.

DEBT ADMINISTRATION

At June 30, 2008, the City had approximately \$898,387 in bonds and other long-term debt, compared to approximately \$696,259 last year

Outstanding Debt at Year End

| | <u>June 30,</u> | |
|----------------|-------------------|-------------------|
| | <u>2008</u> | <u>2007</u> |
| Sewer projects | \$ 338,655 | \$ 355,338 |
| Water projects | 427,110 | 198,099 |
| TIF projects | <u>132,622</u> | <u>142,822</u> |
| Total | \$ <u>898,387</u> | \$ <u>696,259</u> |

Debt increased as a result of issuing revenue notes for a water construction project.

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 \$132,622 is significantly below its constitutional debt limit of \$1,040,990.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City of Keosauqua's elected and appointed officials and citizens considered many factors when setting the fiscal year 2009 budget, tax rates, and fees that will be charged for various City activities. One of those factors is the economy. Unemployment in the County now stands at 4.3%, versus 3.6% a year ago. This compares with the State's unemployment rate of 4.4% and the national rate of 6.5%.

Inflation in the State continues to be somewhat lower than the national Consumer Price Index increase. The State's CPI increase was 3.3% for fiscal year 2008 compared with the national rate of 3.7%.

These indicators were taken into account when adopting the budget for fiscal year 2009. Amounts available for appropriation in the operating budget are \$2,334,605, a decrease of 16.7% from the final 2008 budget. The majority of this decrease is due to a decrease in intergovernmental revenues related to the water project. Budgeted disbursements are expected to decrease by approximately \$546,025. Again, the majority of the decrease relates to the aforementioned water project. 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 by \$36,296 by the close of fiscal year 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 questions about this report or need additional financial information, contact Linda Mott, City Clerk, 804 1st Street, Keosauqua, Iowa.

BASIC FINANCIAL STATEMENTS

CITY OF KEOSAUQUA, IOWA

STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS

AS OF AND FOR THE YEAR ENDED JUNE 30, 2008

| Functions/Programs | Disbursements | Charges for Service | Program Receipts | |
|---------------------------------------|---------------------|------------------------|--|--|
| | | | Operating Grants, Contributions and Restricted Interest | Capital Grants, Contributions and Restricted Interest |
| Governmental activities: | | | | |
| Public safety | \$ 44,483 | \$ 160 | \$ 2,550 | \$ - |
| Public works | 183,860 | 124,664 | 91,327 | - |
| Culture and recreation | 87,480 | 10,214 | 28,351 | - |
| Community and economic development | 36,090 | 900 | - | - |
| General government | 62,198 | 11,199 | - | - |
| Debt service | 14,876 | - | - | - |
| Capital projects | 148,402 | - | - | - |
| Total governmental activities | <u>577,389</u> | <u>147,137</u> | <u>122,228</u> | <u>-</u> |
| Business type activities: | | | | |
| Water | 886,373 | 254,895 | - | 328,187 |
| Sewer | 115,540 | 114,696 | - | - |
| Total business type activities | <u>1,001,913</u> | <u>369,591</u> | <u>-</u> | <u>328,187</u> |
| Component units: | | | | |
| Electric utility | 1,119,223 | 1,120,667 | - | - |
| Total | <u>\$ 2,698,525</u> | <u>\$ 1,637,395</u> | <u>\$ 122,228</u> | <u>\$ 328,187</u> |

General Receipts:

Property tax levied for:

 General purposes

Local option sales tax

Note proceeds

Unrestricted interest on investments

Miscellaneous

Transfers

 Total general receipts and transfers

Change in cash basis net assets

Cash basis net assets beginning of year

Cash basis net assets end of year

Cash Basis Net Assets

Restricted:

 Streets

 Urban renewal purposes

 Other purposes

Unrestricted

 Total cash basis net assets

See Notes to Financial Statements

EXHIBIT A

Net (Disbursements) Receipts and
Changes in Cash Basis Net Assets

| Governmental Activities | Business Type Activities | Component Unit | Total |
|----------------------------|-----------------------------|---------------------|---------------------|
| \$ (41,773) | \$ - | \$ - | \$ (41,773) |
| 32,131 | - | - | 32,131 |
| (48,915) | - | - | (48,915) |
| (35,190) | - | - | (35,190) |
| (50,999) | - | - | (50,999) |
| (14,876) | - | - | (14,876) |
| <u>(148,402)</u> | <u>-</u> | <u>-</u> | <u>(148,402)</u> |
| <u>(308,024)</u> | <u>-</u> | <u>-</u> | <u>(308,024)</u> |
| - | (303,291) | - | (303,291) |
| - | (844) | - | (844) |
| - | <u>(304,135)</u> | - | <u>(304,135)</u> |
| - | - | 1,444 | 1,444 |
| <u>(308,024)</u> | <u>(304,135)</u> | <u>1,444</u> | <u>(610,715)</u> |
| 159,010 | - | - | 159,010 |
| 45,959 | - | - | 45,959 |
| - | 251,197 | - | 251,197 |
| 30,174 | 4,162 | 27,965 | 62,301 |
| 47,883 | 33,591 | - | 81,474 |
| 14,747 | <u>(14,747)</u> | - | - |
| <u>297,773</u> | <u>274,203</u> | <u>27,965</u> | <u>599,941</u> |
| (10,251) | (29,932) | 29,409 | (10,774) |
| <u>827,403</u> | <u>427,890</u> | <u>1,332,959</u> | <u>2,588,252</u> |
| \$ <u>817,152</u> | \$ <u>397,958</u> | \$ <u>1,362,368</u> | \$ <u>2,577,478</u> |
| \$ 63,587 | \$ - | \$ - | \$ 63,587 |
| 134,096 | - | - | 134,096 |
| - | 56,520 | - | 56,520 |
| <u>619,469</u> | <u>341,438</u> | <u>1,362,368</u> | <u>2,323,275</u> |
| \$ <u>817,152</u> | \$ <u>397,958</u> | \$ <u>1,362,368</u> | \$ <u>2,577,478</u> |

CITY OF KEOSAUQUA, IOWA

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES -
GOVERNMENTAL FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2008

| | <u>Special Revenue</u> | | | | <u>Total</u> |
|---|------------------------|-------------------|--|-------------------------|-------------------|
| | <u>General</u> | <u>Library</u> | <u>Urban Renewal Tax Increment</u> | <u>Road Use Tax</u> | |
| <u>RECEIPTS:</u> | | | | | |
| Property tax | \$ 159,010 | \$ - | \$ - | \$ - | \$ 159,010 |
| Tax increment financing collections | - | - | 56,553 | - | 56,553 |
| Other City tax | 45,959 | - | - | - | 45,959 |
| Use of money and property | 33,573 | 2,171 | - | - | 35,744 |
| Intergovernmental | 18,185 | - | - | 91,327 | 109,512 |
| Charges for service | 68,843 | 6,815 | - | - | 75,658 |
| Miscellaneous | 56,990 | 12,965 | - | - | 69,955 |
| Total receipts | <u>382,560</u> | <u>21,951</u> | <u>56,553</u> | <u>91,327</u> | <u>552,391</u> |
| <u>DISBURSEMENTS:</u> | | | | | |
| Operating: | | | | | |
| Public safety | 44,483 | - | - | - | 44,483 |
| Public works | 108,607 | - | - | 75,253 | 183,860 |
| Culture and recreation | 30,046 | 57,434 | - | - | 87,480 |
| Community and economic development | 36,090 | - | - | - | 36,090 |
| General government | 62,198 | - | - | - | 62,198 |
| Debt service | - | - | 14,876 | - | 14,876 |
| Capital projects | - | - | 148,402 | - | 148,402 |
| Total disbursements | <u>281,424</u> | <u>57,434</u> | <u>163,278</u> | <u>75,253</u> | <u>577,389</u> |
| Excess (deficiency) of receipts over (under) disbursements | <u>101,136</u> | <u>(35,483)</u> | <u>(106,725)</u> | <u>16,074</u> | <u>(24,998)</u> |
| <u>OTHER FINANCING SOURCES (USES):</u> | | | | | |
| Transfers in | 18,945 | 32,500 | 148,402 | - | 199,847 |
| Transfers out | (180,902) | - | (4,198) | - | (185,100) |
| Total other financing sources (uses) | <u>(161,957)</u> | <u>32,500</u> | <u>144,204</u> | <u>-</u> | <u>14,747</u> |
| Net change in cash balances | (60,821) | (2,983) | 37,479 | 16,074 | (10,251) |
| <u>CASH BALANCES - Beginning of year</u> | <u>554,899</u> | <u>128,374</u> | <u>96,617</u> | <u>47,513</u> | <u>827,403</u> |
| <u>CASH BALANCES - End of year</u> | \$ <u>494,078</u> | \$ <u>125,391</u> | \$ <u>134,096</u> | \$ <u>63,587</u> | \$ <u>817,152</u> |
| <u>CASH BASIS FUND BALANCES</u> | | | | | |
| Unreserved | | | | | |
| General fund | \$ 494,078 | \$ - | \$ - | \$ - | \$ 494,078 |
| Special revenue | - | 125,391 | 134,096 | 63,587 | 323,074 |
| Total cash basis fund balances | \$ <u>494,078</u> | \$ <u>125,391</u> | \$ <u>134,096</u> | \$ <u>63,587</u> | \$ <u>817,152</u> |

CITY OF KEOSAUQUA, 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 | | | |
|---|-------------------|-------------------|------------------|-------------------|
| | Water | Sewer | Non-Major | Total |
| <u>Operating receipts:</u> | | | | |
| Charges for service | \$ 254,895 | \$ 114,696 | \$ - | \$ 369,591 |
| Miscellaneous | <u>31,844</u> | <u>1,379</u> | <u>368</u> | <u>33,591</u> |
| Total operating receipts | 286,739 | 116,075 | 368 | 403,182 |
| <u>Operating disbursements:</u> | | | | |
| Business-type activities | <u>845,164</u> | <u>81,225</u> | <u>-</u> | <u>926,389</u> |
| Excess (deficiency) of operating receipts over (under) operating disbursements | <u>(558,425)</u> | <u>34,850</u> | <u>368</u> | <u>(523,207)</u> |
| <u>Non-operating receipts (disbursements):</u> | | | | |
| Intergovernmental | 328,187 | - | - | 328,187 |
| Interest on investments | 2,051 | 2,111 | - | 4,162 |
| Proceeds from long-term debt | 251,197 | - | - | 251,197 |
| Debt service | <u>(41,209)</u> | <u>(34,315)</u> | <u>-</u> | <u>(75,524)</u> |
| Total non-operating receipts (disbursements) | <u>540,226</u> | <u>(32,204)</u> | <u>-</u> | <u>508,022</u> |
| Excess (deficiency) of receipts over (under) disbursements | <u>(18,199)</u> | <u>2,646</u> | <u>368</u> | <u>(15,185)</u> |
| <u>Other financing sources (uses):</u> | | | | |
| Transfers in | 22,686 | 33,991 | 108,908 | 165,585 |
| Transfers out | <u>(22,686)</u> | <u>(31,768)</u> | <u>(125,878)</u> | <u>(180,332)</u> |
| Total other financing sources (uses) | <u>-</u> | <u>2,223</u> | <u>(16,970)</u> | <u>(14,747)</u> |
| Net change in cash balances | (18,199) | 4,869 | (16,602) | (29,932) |
| <u>CASH BALANCES</u> - Beginning of year | <u>148,162</u> | <u>206,606</u> | <u>73,122</u> | <u>427,890</u> |
| <u>CASH BALANCES</u> - End of year | \$ <u>129,963</u> | \$ <u>211,475</u> | \$ <u>56,520</u> | \$ <u>397,958</u> |
| <u>CASH BASIS FUND BALANCES</u> | | | | |
| Reserved for: | | | | |
| Debt service | \$ - | \$ - | \$ 48,185 | \$ 48,185 |
| Customer deposits | - | - | 8,335 | 8,335 |
| Unreserved | <u>129,963</u> | <u>211,475</u> | <u>-</u> | <u>341,438</u> |
| Total cash basis fund balances | \$ <u>129,963</u> | \$ <u>211,475</u> | \$ <u>56,520</u> | \$ <u>397,958</u> |

CITY OF KEOSAUQUA, IOWA

NOTES TO FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Keosauqua, Iowa is a political subdivision of the State of Iowa located in Van Buren County. It was first incorporated in 1883 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 and sewer utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Keosauqua, 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.

These financial statements present the City of Keosauqua, Iowa (the primary government) and its component unit. The component unit discussed below is included in the City's reporting entity because of the significance of its operational or financial relationship with the City. Certain disclosures about the discretely presented component unit are not included because the component unit has been audited separately and a report has been issued under separate cover. The audited financial statements are available at the City Clerk's office.

Discretely Presented Component Unit

The Keosauqua Municipal Light and Power is presented in a separate column to emphasize that it is legally separate from the City, but is financially accountable to the City, or whose relationship with the City is such that exclusion would cause the City's financial statements to be misleading or incomplete. The Utility is governed by a three-member board appointed by the City Council and the Utility's operating budget is subject to the approval of the City Council.

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 Van Buren County solid waste commission.

B. Basis of Presentation

Government-Wide Financial Statements – 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:

CITY OF KEOSAUQUA, IOWA

NOTES TO FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 funds are aggregated and reported as nonmajor funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From this 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 Library Fund is used to account for all library activities.

The Urban Renewal Tax Increment Fund is used to account for projects financed by tax increment financing.

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

The City reports the following major proprietary funds:

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

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

C. Measurement Focus and Basis of Accounting

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

CITY OF KEOSAUQUA, IOWA

NOTES TO FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 public safety and capital projects functions.

NOTE 2: CASH AND POOLED INVESTMENTS

The City's deposits in banks at June 30, 2008 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This Chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

The City's investments at June 30, 2008 are as follows:

| <u>Type</u> | <u>Carrying Amount</u> | <u>Fair Value</u> |
|---------------|----------------------------|-----------------------|
| Time deposits | \$ <u>110,427</u> | \$ <u>110,427</u> |

Interest rate risk – The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the City.

CITY OF KEOSAUQUA, IOWA

NOTES TO FINANCIAL STATEMENTS

NOTE 3: BONDS AND NOTES PAYABLE

Annual debt service requirements to maturity for revenue and tax increment financing revenue bonds/notes are as follows:

| Year Ending | Tax Increment Financing Revenue Bonds | | Revenue Bonds/Notes | | Total | |
|----------------|--|------------------|---------------------|-------------------|-------------------|-------------------|
| | Principal | Interest | Principal | Interest | Principal | Interest |
| June 30, | | | | | | |
| 2009 | \$ 11,000 | \$ 8,117 | \$ 43,033 | \$ 33,823 | \$ 54,033 | \$ 41,940 |
| 2010 | 11,800 | 7,418 | 44,571 | 31,895 | 56,371 | 39,313 |
| 2011 | 12,600 | 6,667 | 47,184 | 29,891 | 59,784 | 36,558 |
| 2012 | 13,400 | 5,875 | 48,879 | 27,793 | 62,279 | 33,668 |
| 2013 | 14,500 | 5,015 | 51,657 | 25,574 | 66,157 | 30,589 |
| 2014 | 15,500 | 4,093 | 53,522 | 23,254 | 69,022 | 27,347 |
| 2015 | 16,700 | 3,106 | 56,481 | 20,840 | 73,181 | 23,946 |
| 2016 | 17,900 | 2,045 | 58,538 | 18,309 | 76,438 | 20,354 |
| 2017 | 19,222 | 905 | 61,695 | 15,651 | 80,917 | 16,556 |
| 2018 | - | - | 63,961 | 12,865 | 63,961 | 12,865 |
| 2019 | - | - | 62,464 | 9,966 | 62,464 | 9,966 |
| 2020 | - | - | 46,921 | 7,154 | 46,921 | 7,154 |
| 2021 | - | - | 49,396 | 5,118 | 49,396 | 5,118 |
| 2022 | - | - | 43,526 | 2,987 | 43,526 | 2,987 |
| 2023 | - | - | 21,240 | 1,123 | 21,240 | 1,123 |
| 2024 | - | - | 12,697 | 414 | 12,697 | 414 |
| Total | \$ <u>132,622</u> | \$ <u>43,241</u> | \$ <u>765,765</u> | \$ <u>266,657</u> | \$ <u>898,387</u> | \$ <u>309,898</u> |

The urban renewal tax increment financing revenue bonds were issued for the purpose of defraying a portion of the costs of carrying out an urban renewal project of the City. The bonds are payable solely from the income and proceeds of the Special Revenue, Urban Renewal Tax Increment Fund and the taxes to be paid into the fund in accordance with Chapter 403.19 of the Code of Iowa. The proceeds of the urban renewal tax increment financing revenue bonds shall be expended only for purposes which are consistent with the plans of the City's urban renewal area. The bonds are not a general obligation of the City. However, the debt is subject to the constitutional debt limitation of the City.

The resolutions providing for the issuance of the revenue bonds (notes) include the following provisions:

- a. The bonds (notes) will only be redeemed from the future earnings of the appropriate funds (water, sewer and TIF) and the bond (note) holders hold a lien on the future earnings of the funds.
- b. Sufficient monthly transfers shall be made to separate water and sewer revenue bond (note) sinking accounts within the Enterprise Funds for the purpose of making the bond (note) principal and interest payments when due.

In addition to the outside financing obtained for the TIF project, additional monies for the project were advanced to the TIF fund by the sewer and general fund. The repayment of these advanced amounts is included as operating transfers in the schedule of cash transactions. Original amounts advanced, current year repayments, year end balance due and interest paid to the sewer and general funds are as follows:

| | <u>Sewer</u> | <u>General</u> | <u>Total</u> |
|----------------------------|------------------|-------------------|-------------------|
| Original advance | \$ <u>29,666</u> | \$ <u>174,000</u> | \$ <u>203,666</u> |
| Current year advances | \$ <u>-</u> | \$ <u>148,000</u> | \$ <u>148,000</u> |
| Current year repayments | \$ <u>1,774</u> | \$ <u>1,582</u> | \$ <u>3,356</u> |
| Balance due June 30, 2008 | \$ <u>13,241</u> | \$ <u>159,544</u> | \$ <u>172,785</u> |
| Current year interest paid | \$ <u>449</u> | \$ <u>393</u> | \$ <u>842</u> |

CITY OF KEOSAUQUA, IOWA

NOTES TO FINANCIAL STATEMENTS

NOTE 3: BONDS AND NOTES PAYABLE (Continued)

The interest rate on the sewer fund loan is currently 3% (originally 7%) and the interest rate on the general fund loan is 3% (originally 10%).

The above maturities include water and sewer revenue bonds which require principal payments on July 1 (June 1 for the new water loan) of each year. It is the City's policy to pay these prior to June 30 of each year. (i.e. The July 1, 2008 payment was paid prior to June 30, 2008.) The maturity schedule shows maturities that will occur if the City continues with this policy.

NOTE 4: PENSION AND RETIREMENT BENEFITS

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

Most regular Plan members are required to contribute 3.90% of their annual covered salary and the City is required to contribute 6.05% of covered salary. Contribution requirements are established by state statute. The City's contribution to IPERS for the year ended June 30, 2008 was \$17,381, equal to the required contributions for the year.

NOTE 5: RISK MANAGEMENT

The City is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 563 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public official's liability, police professional liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 200 percent of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

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

The City's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The City's contributions to the Pool for the year ended June 30, 2008 were \$31,310.

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

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event that a series

CITY OF KEOSAUQUA, IOWA

NOTES TO FINANCIAL STATEMENTS

NOTE 5: RISK MANAGEMENT (Continued)

of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. As of June 30, 2008, settled claims have not exceeded the risk pool or reinsurance coverage since the pool's inception.

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

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

NOTE 6: COMPENSATED ABSENCES

City employees accumulate a limited amount of earned, but unused vacation and sick leave hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation and sick leave payable to employees at June 30, 2008 is \$9,691. This liability has been computed based on rates of pay in effect at June 30, 2008.

NOTE 7: RELATED PARTY TRANSACTIONS

The City had business transactions between the City and the City's component unit, totaling \$21,515 during the year ended June 30, 2008. The City had transactions between the City and Keosauqua Municipal Light and Power as follows:

| | |
|--|------------------|
| Paid to the City by the Utility for water and sewer fees | \$ <u>344</u> |
| Paid to the City by the Utility for bookkeeping services | \$ <u>15,225</u> |
| Paid to the Utility by the City for electrical service | \$ <u>5,946</u> |

NOTE 8: INTERFUND TRANSFERS

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

| <u>Transfer In</u> | <u>Transfer Out</u> | |
|-----------------------------|-----------------------------|-----------------------|
| General | Urban renewal tax increment | \$ 1,975 |
| Library | General | 32,500 |
| Water | Water debt service | 22,686 |
| Urban renewal tax increment | General | 148,402 |
| Water reserve | Water | 22,686 |
| General | Water reserve | 16,970 |
| Sewer | Sewer debt service | 31,768 |
| Sewer | Urban renewal tax increment | 2,223 |
| Water debt service | Water reserve | 22,686 |
| Sewer debt service | Sewer reserve | 31,768 |
| Sewer reserve | Sewer | <u>31,768</u> |
| | | \$ <u>365,432</u> |

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

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF KEOSAUQUA, IOWA

BUDGETARY COMPARISON SCHEDULE
OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN BALANCES
BUDGET AND ACTUAL (CASH BASIS) - ALL GOVERNMENTAL FUNDS,
PROPRIETARY FUNDS AND COMPONENT UNITS
YEAR ENDED JUNE 30, 2008

| | Governmental Funds <u>Actual</u> | Proprietary Funds <u>Actual</u> | Component Unit <u>Actual</u> | <u>Total</u> |
|---|--|---------------------------------------|------------------------------------|---------------------|
| <u>RECEIPTS:</u> | | | | |
| Property tax | \$ 159,010 | \$ - | \$ - | \$ 159,010 |
| Tax increment financing collections | 56,553 | - | - | 56,553 |
| Other City tax | 45,959 | - | - | 45,959 |
| Licenses and permits | - | - | - | - |
| Use of money and property | 35,744 | 4,162 | 27,965 | 67,871 |
| Intergovernmental | 109,512 | 328,187 | - | 437,699 |
| Charges for service | 75,658 | 369,591 | 1,098,911 | 1,544,160 |
| Miscellaneous | 69,955 | 33,591 | 21,756 | 125,302 |
| Total receipts | <u>552,391</u> | <u>735,531</u> | <u>1,148,632</u> | <u>2,436,554</u> |
| <u>DISBURSEMENTS:</u> | | | | |
| Public safety | 44,483 | - | - | 44,483 |
| Public works | 183,860 | - | - | 183,860 |
| Culture and recreation | 87,480 | - | - | 87,480 |
| Community and economic development | 36,090 | - | - | 36,090 |
| General government | 62,198 | - | - | 62,198 |
| Debt service | 14,876 | - | - | 14,876 |
| Capital projects | 148,402 | - | - | 148,402 |
| Business-type activities | - | 1,001,913 | 1,119,223 | 2,121,136 |
| Total disbursements | <u>577,389</u> | <u>1,001,913</u> | <u>1,119,223</u> | <u>2,698,525</u> |
| Excess (deficiency) of receipts over (under) disbursements | (24,998) | (266,382) | 29,409 | (261,971) |
| Other financing sources (uses), net | <u>14,747</u> | <u>236,450</u> | <u>-</u> | <u>251,197</u> |
| Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses | (10,251) | (29,932) | 29,409 | (10,774) |
| <u>BALANCES</u> - Beginning of year | <u>827,403</u> | <u>427,890</u> | <u>1,332,959</u> | <u>2,588,252</u> |
| <u>BALANCES</u> - End of year | \$ <u>817,152</u> | \$ <u>397,958</u> | \$ <u>1,362,368</u> | \$ <u>2,577,478</u> |

| <u>Budgeted Amounts</u> | | <u>Final</u> | <u>Final to Net Variance</u> |
|-------------------------|---------------------|-------------------|--------------------------------------|
| <u>Original</u> | | | |
| \$ 155,555 | \$ 155,555 | \$ 3,455 | |
| 56,000 | 56,000 | 553 | |
| 76,186 | 76,186 | (30,227) | |
| 3,400 | 3,400 | (3,400) | |
| 42,300 | 42,300 | 25,571 | |
| 814,500 | 814,500 | (376,801) | |
| 1,639,120 | 1,639,120 | (94,960) | |
| 16,300 | 16,300 | 109,002 | |
| <u>2,803,361</u> | <u>2,803,361</u> | <u>(366,807)</u> | |
| 41,950 | 41,950 | (2,533) | |
| 253,325 | 253,325 | 69,465 | |
| 84,600 | 88,400 | 920 | |
| 46,000 | 46,000 | 9,910 | |
| 104,665 | 104,665 | 42,467 | |
| 50,000 | 50,000 | 35,124 | |
| 116,500 | 116,500 | (31,902) | |
| <u>2,218,086</u> | <u>2,218,086</u> | <u>96,950</u> | |
| <u>2,915,126</u> | <u>2,918,926</u> | <u>220,401</u> | |
| (111,765) | (115,565) | (146,406) | |
| <u>-</u> | <u>-</u> | <u>(6,557)</u> | |
| (111,765) | (115,565) | (152,963) | |
| <u>2,239,407</u> | <u>2,239,407</u> | <u>(235,741)</u> | |
| \$ <u>2,127,642</u> | \$ <u>2,123,842</u> | \$ <u>454,118</u> | |

CITY OF KEOSAUQUA, IOWA

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING

JUNE 30, 2008

The budgetary comparison is presented as Required Supplemental 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 budgeting 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 nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Funds and the 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 year, budget amendments increased budgeted disbursements by \$3,800. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2008, disbursements exceeded the amounts budgeted in the public safety and capital projects functions.

OTHER SUPPLEMENTARY INFORMATION

CITY OF KEOSAUQUA, IOWA

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES -
NONMAJOR PROPRIETARY FUNDS

AS OF AND FOR THE YEAR ENDED JUNE 30, 2008

| | Nonmajor Proprietary | | | | | | |
|--|----------------------|-----------------------|------------------|-----------------------|------------------|------------------|-----------|
| | Water Deposit | Water Debt Service | Water Reserve | Sewer Debt Service | Sewer Deposit | Sewer Reserve | Total |
| OPERATING RECEIPTS: | | | | | | | |
| Miscellaneous | \$ 229 | \$ - | \$ - | \$ - | \$ 139 | \$ - | \$ 368 |
| Total receipts | 229 | - | - | - | 139 | - | 368 |
| OPERATING DISBURSEMENTS: | | | | | | | |
| None | | | | | | | |
| Excess of receipts over disbursements | 229 | - | - | - | 139 | - | 368 |
| OTHER FINANCING SOURCES (USES): | | | | | | | |
| Transfers in | - | 22,686 | 22,686 | 31,768 | - | 31,768 | 108,908 |
| Transfers out | - | (22,686) | (39,656) | (31,768) | - | (31,768) | (125,878) |
| Total other financing sources (uses) | - | - | (16,970) | - | - | - | (16,970) |
| Net change in cash balances | 229 | - | (16,970) | - | 139 | - | (16,602) |
| CASH BALANCES - Beginning of year | 5,175 | - | 27,176 | - | 2,792 | 37,979 | 73,122 |
| CASH BALANCES - End of year | \$ 5,404 | \$ - | \$ 10,206 | \$ - | \$ 2,931 | \$ 37,979 | \$ 56,520 |
| CASH BASIS FUND BALANCES: | | | | | | | |
| Reserved for: | | | | | | | |
| Debt service | \$ - | \$ - | \$ 10,206 | \$ - | \$ - | \$ 37,979 | \$ 48,185 |
| Customer deposits | 5,404 | - | - | - | 2,931 | - | 8,335 |
| Total cash basis fund balances | \$ 5,404 | \$ - | \$ 10,206 | \$ - | \$ 2,931 | \$ 37,979 | \$ 56,520 |

CITY OF KEOSAUQUA, 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> | <u>Balance June 30, 2007</u> | <u>Issued During Year</u> |
|-----------------------------|----------------------|-----------------------|---------------------------------|------------------------------|---------------------------|
| <u>REVENUE BONDS/NOTES:</u> | | | | | |
| Sewer project | April 25, 1983 | 5.00 % | \$ 535,800 | \$ 325,728 | \$ - |
| Water project | August 14, 1979 | 5.00 % | 386,000 | 198,099 | - |
| Tax increment financing | December 22, 1997 | 3.26 % | 208,652 | 142,822 | - |
| Sewer project | September 30, 2003 | 4.00 % | 35,000 | 29,610 | - |
| Water project | June 21, 2007 | 3.25 % | 350,000 | - | <u>254,697</u> |
| Total | | | | \$ <u>696,259</u> | \$ <u>254,697</u> |

SCHEDULE 2

| <u>Redeemed During Year</u> | <u>Balance June 30, 2008</u> | <u>Interest Paid</u> | <u>Interest Due and Unpaid</u> |
|-------------------------------------|--------------------------------------|--------------------------|--|
| \$ 15,324 | \$ 310,404 | \$ 16,444 | \$ - |
| 12,686 | 185,413 | 10,000 | - |
| 10,200 | 132,622 | 4,676 | - |
| 1,359 | 28,251 | 1,188 | - |
| <u>13,000</u> | <u>241,697</u> | <u>5,523</u> | <u>-</u> |
| \$ <u>52,569</u> | \$ <u>898,387</u> | \$ <u>37,831</u> | \$ <u>-</u> |

CITY OF KEOSAUQUA, IOWA

BOND AND NOTE MATURITIES

JUNE 30, 2008

| Year Ending June 30 | Sewer Project Issued April 25, 1983 | | Water Project Issued August 14, 1979 | | | Revenue Bonds and Notes Tax Increment Financing Issued December 22, 1997 | | |
|---------------------------|--|-------------------|---|-------------------|--------|--|--------|--|
| | Interest | | Interest | | | Interest | | |
| | Rate | Amount | Rate | Amount | Rate | Amount | Amount | |
| 2009 | 5.00 % | \$ 16,219 | 5.00 % | \$ 13,397 | 3.26 % | \$ 11,000 | | |
| 2010 | 5.00 | 17,030 | 5.00 | 14,067 | 3.26 | 11,800 | | |
| 2011 | 5.00 | 17,882 | 5.00 | 14,770 | 3.26 | 12,600 | | |
| 2012 | 5.00 | 18,776 | 5.00 | 15,509 | 3.26 | 13,400 | | |
| 2013 | 5.00 | 19,715 | 5.00 | 16,284 | 3.26 | 14,500 | | |
| 2014 | 5.00 | 20,700 | 5.00 | 17,098 | 3.26 | 15,500 | | |
| 2015 | 5.00 | 21,735 | 5.00 | 17,953 | 3.26 | 16,700 | | |
| 2016 | 5.00 | 22,822 | 5.00 | 18,851 | 3.26 | 17,900 | | |
| 2017 | 5.00 | 23,963 | 5.00 | 19,793 | 3.26 | 19,222 | | |
| 2018 | 5.00 | 25,161 | 5.00 | 20,783 | | - | | |
| 2019 | 5.00 | 26,420 | 5.00 | 16,908 | | - | | |
| 2020 | 5.00 | 27,740 | | - | | - | | |
| 2021 | 5.00 | 29,128 | | - | | - | | |
| 2022 | 5.00 | 23,113 | | - | | - | | |
| 2023 | | - | | - | | - | | |
| 2024 | | - | | - | | - | | |
| Total | | \$ <u>310,404</u> | | \$ <u>185,413</u> | | \$ <u>132,622</u> | | |

SCHEDULE 3

| <u>Sewer Project</u> | | | <u>Water Project</u> | | | |
|----------------------------------|---|------------------|-----------------------------|---|-------------------|-------------------|
| <u>Issued September 30, 2003</u> | | | <u>Issued June 21, 2007</u> | | | |
| <u>Interest</u> | | | <u>Interest</u> | | | |
| <u>Rate</u> | | <u>Amount</u> | <u>Rate</u> | | <u>Amount</u> | <u>Total</u> |
| 4.00 | % | \$ 1,417 | 3.25 | % | \$ 12,000 | \$ 54,033 |
| 4.00 | | 1,474 | 3.25 | | 12,000 | 56,371 |
| 4.00 | | 1,532 | 3.25 | | 13,000 | 59,784 |
| 4.00 | | 1,594 | 3.25 | | 13,000 | 62,279 |
| 4.00 | | 1,658 | 3.25 | | 14,000 | 66,157 |
| 4.00 | | 1,724 | 3.25 | | 14,000 | 69,022 |
| 4.00 | | 1,793 | 3.25 | | 15,000 | 73,181 |
| 4.00 | | 1,865 | 3.25 | | 15,000 | 76,438 |
| 4.00 | | 1,939 | 3.25 | | 16,000 | 80,917 |
| 4.00 | | 2,017 | 3.25 | | 16,000 | 63,961 |
| 4.00 | | 2,136 | 3.25 | | 17,000 | 62,464 |
| 4.00 | | 2,181 | 3.25 | | 17,000 | 46,921 |
| 4.00 | | 2,268 | 3.25 | | 18,000 | 49,396 |
| 4.00 | | 2,413 | 3.25 | | 18,000 | 43,526 |
| 4.00 | | 2,240 | 3.25 | | 19,000 | 21,240 |
| | | - | 3.25 | | 12,697 | 12,697 |
| | | <u>\$ 28,251</u> | | | <u>\$ 241,697</u> | <u>\$ 898,387</u> |

CITY OF KEOSAUQUA, IOWA

SCHEDULE OF RECEIPTS BY SOURCE AND DISBURSEMENTS BY FUNCTION -
ALL GOVERNMENTAL FUNDS

FOR THE PAST YEAR

Governmental

2008

RECEIPTS:

| | | |
|-------------------------------------|----|----------------|
| Property tax | \$ | 159,010 |
| Tax increment financing collections | | 56,553 |
| Other City tax | | 45,959 |
| Use of money and property | | 35,744 |
| Intergovernmental | | 109,512 |
| Charges for service | | 75,658 |
| Miscellaneous | | <u>69,955</u> |
| Total | \$ | <u>552,391</u> |

DISBURSEMENTS:

| | | |
|------------------------------------|----|----------------|
| Operating: | | |
| Public safety | \$ | 44,483 |
| Public works | | 183,860 |
| Culture and recreation | | 87,480 |
| Community and economic development | | 36,090 |
| General government | | 62,198 |
| Debt service | | 14,876 |
| Capital projects | | <u>148,402</u> |
| Total | \$ | <u>577,389</u> |

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 Officials of City of Keosauqua, Iowa:

We have audited the accompanying financial statements of the governmental activities, the business type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Keosauqua, Iowa, as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements listed in the table of contents and have issued our report thereon dated March 20, 2009. Our report expressed qualified 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 Keosauqua, 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 our opinion on the effectiveness of the City of Keosauqua, Iowa's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Keosauqua, Iowa'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, 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 Keosauqua, Iowa's ability to initiate, authorize, record, process or report financial data reliably in accordance with an other comprehensive basis of accounting such that there is more than a remote likelihood a misstatement of the City of Keosauqua, Iowa's financial statements that is more than inconsequential will not be prevented or detected by the City of Keosauqua, Iowa's internal control. We consider the deficiencies in internal control described in Part II of the accompanying Schedule of Findings, 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 Keosauqua, Iowa's internal control.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Keosauqua, 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 non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance that are described in Part III of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City of Keosauqua, Iowa's operations for the year ended June 30, 2008 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

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

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

ANDERSON, LARKIN & CO. P.C

Ottumwa, Iowa
March 20, 2009

CITY OF KEOSAUQUA, IOWA

SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2008

Part I: Summary of the Independent Auditor's Results

- a A qualified opinion was 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, because we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2007.
- b Significant deficiencies in internal control over financial reporting were disclosed by the audit of the financial statements, including a material weakness.
- c The audit did not disclose any noncompliance which is material to the financial statements.

Part II: Findings Related to the Financial Statements:

Significant Deficiencies:

08-II-A Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal are all done by the same person.

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

Response - City officials will consider this.

Conclusion - Response accepted.

Instances of Noncompliance:

No matters were noted.

Part III: Other Findings Related to Required Statutory Reporting

08-III-A Certified Budget - Disbursements during the year ended June 30, 2008 exceeded the amounts budgeted in the public safety and capital projects functions. 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 - In the current year, we were over budget in the public safety function because five quarterly payments were made for law enforcement coverage. We were over budget in the capital projects function because certain water project expenditures were made prior to receiving grant reimbursement. In the future, the budget will be amended when required.

Conclusion - Response accepted.

CITY OF KEOSAUQUA, IOWA

SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2008

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

- 08-III-B Questionable Disbursements - No expenditures were noted that we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- 08-III-C Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- 08-III-D Business Transactions - Business transactions between the City and City officials are detailed as follows:

| <u>Name, Title and Business Connection</u> | <u>Transaction Description</u> | <u>Amount</u> |
|--|------------------------------------|---------------|
| Keosauqua Municipal Light and Power, Component Unit of City of Keosauqua, Iowa | Electrical service | \$ 5,946 |

In accordance with Chapter 362.5(12) of the Code of Iowa, the transactions with the component unit does not appear to represent a conflict of interest since it was entered into to provide essential City utility services.

- 08-III-E 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.
- 08-III-F Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not.
- 08-III-G Deposits and Investments - No instances of noncompliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City's investment policy were noted.
- 08-III-H Revenue Bonds and Notes - No instances of noncompliance with the revenue bond and note resolutions were noted.