



**OFFICE OF AUDITOR OF STATE
STATE OF IOWA**

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NEWS RELEASE

FOR RELEASE

April 19, 2010

Contact: Andy Nielsen
515/281-5834

Auditor of State David A. Vaudt today released an audit report on the City of Postville, Iowa.

The City's receipts totaled \$3,397,703 for the year ended June 30, 2009, an 11.5 percent increase over 2008. The receipts included \$495,626 from property tax, \$110,338 from tax increment financing, \$1,489,287 from charges for service, \$1,061,532 from operating grants, contributions and restricted interest, \$182,194 from local option sales tax, \$37,378 from unrestricted interest on investments and \$21,348 from other general receipts.

Disbursements for the year totaled \$3,300,324, a 14.5 percent increase over the prior year, and included \$412,223 for public safety, \$411,805 for public works and \$631,627 for community and economic development. Also, disbursements for business type activities totaled \$1,041,331. The significant increases in receipts and disbursements over the prior year are due to the City receiving and disbursing Community Development Block Grant proceeds.

A copy of the audit report is available for review in the City Clerk's office, in the Office of Auditor of State and on the Auditor of State's web site at <http://auditor.iowa.gov/reports/index.html>.

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CITY OF POSTVILLE

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

JUNE 30, 2009

Table of Contents

			<u>Page</u>
Officials			3
Independent Auditor’s Report			5-6
Management’s Discussion and Analysis			7-12
Basic Financial Statements:		<u>Exhibit</u>	
Government-wide Financial Statement:			
Statement of Activities and Net Assets – Cash Basis	A		14-15
Governmental Fund Financial Statement:			
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	B		16-17
Proprietary Fund Financial Statement:			
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	C		19
Notes to Financial Statements			20-28
Required Supplementary Information:			
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances - Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Funds			30
Notes to Required Supplementary Information – Budgetary Reporting			31
Other Supplementary Information:		<u>Schedule</u>	
Schedule of Cash Receipts, Disbursements and Changes in Cash Balances - Nonmajor Governmental Funds	1		34
Schedule of Cash Receipts, Disbursements and Changes in Cash Balances – Nonmajor Proprietary Funds	2		35
Schedule of Indebtedness	3		36-37
Bond and Note Maturities	4		38-39
Schedule of Receipts by Source and Disbursements by Function – All Governmental Funds	5		40
Schedule of Expenditures of Federal Awards	6		41
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 <u>Government Auditing Standards</u>			43-44
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			47-48
Schedule of Findings and Questioned Costs			49
Staff			55

City of Postville

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Robert O. Penrod Leigh Rekow (Appointed)	Mayor Mayor	(Resigned) Jan 2010
Jeff Reinhardt	Mayor Pro tem	Jan 2010
Virginia Medberry	Council Member	Jan 2010
Larry Moore	Council Member	Jan 2012
Milo Heins	Council Member	Jan 2012
Ross Malcom	Council Member	Jan 2012
Darcy Radloff	Clerk	Indefinite
Cindy Converse Kevin Cronk (Appointed May 2009)	Treasurer Treasurer	(Resigned) Indefinite
Anne Loomis	Attorney	Indefinite

City of Postville



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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 Postville, Iowa, as of and for the year ended June 30, 2009, 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 Postville's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

The financial statements referred to above include only the primary government of the City of Postville, 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. 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 entity of the City of Postville as of June 30, 2009, and the changes in its cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

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 Postville as of June 30, 2009, 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.

The City's General Fund deficit increased to \$286,611 at June 30, 2009, an increase of \$183,418 during the year ended June 30, 2009. The deficit is approximately 50% of the City's recurring General Fund receipts of \$568,501 during the year ended June 30, 2009. The City has reduced spending and is investigating alternatives to eliminate this deficit.

In accordance with Government Auditing Standards, we have also issued our report dated March 4, 2010 on our consideration of the City of Postville'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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 12 and 30 through 31 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 Postville's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2008 (which are not presented herein) and expressed unqualified opinions on those financial statements which were prepared in conformity with an other comprehensive basis of accounting. The financial statements for the four years ended June 30, 2005 (which are not presented herein) were audited by other auditors who 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 6, 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



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

March 4, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Postville 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, 2009. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2009 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities increased 24%, or approximately \$400,000, from fiscal year 2008 to fiscal year 2009. Operating grants, contributions and restricted interest increased approximately \$707,000 and property tax decreased approximately \$146,000 because of delinquencies.
- Disbursements of the City's governmental activities increased 27%, or approximately \$485,000, in fiscal year 2009 from fiscal year 2008. Community and economic development disbursements increased approximately \$623,000.
- The City's total cash basis net assets increased 6%, or approximately \$97,000, from June 30, 2008 to June 30, 2009. Of this amount, the assets of the governmental activities decreased approximately \$191,000 and the assets of the business type activities increased approximately \$288,000.

USING THIS ANNUAL REPORT

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

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

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

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

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

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

Other Supplementary Information provides detailed information about the nonmajor governmental and proprietary funds and the City's indebtedness. 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 water and the sanitary sewer systems. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax, Local Option Sales Tax, Tax Increment Financing and 2008 CDBG, 3) the Debt Service Fund and 4) the Capital Projects Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

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

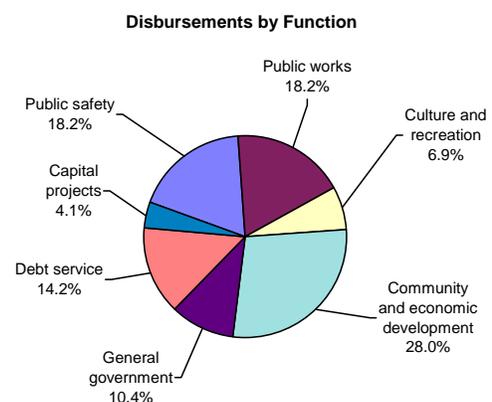
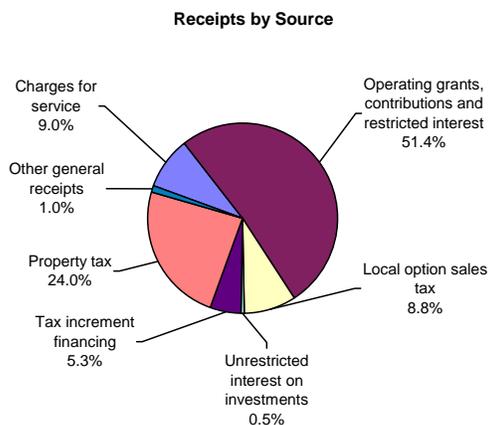
2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains four Enterprise Funds to provide separate information for water, sewer, lagoon and storm water utility operations. The Water and Sewer Funds are considered to 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.

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 \$238,058 to \$46,958. 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 (Expressed in Thousands)		
	Year ended June 30,	
	2009	2008
Receipts:		
Program receipts:		
Charges for service	\$ 187	201
Operating grants, contributions and restricted interest	1,062	355
General receipts:		
Property tax	496	642
Tax increment financing	110	261
Local option sales tax	182	162
Unrestricted interest on investments	10	15
Other general receipts	21	32
Total receipts	2,068	1,668
Disbursements:		
Public safety	412	396
Public works	412	393
Culture and recreation	156	160
Community and economic development	632	9
General government	235	263
Debt service	320	329
Capital projects	92	224
Total disbursements	2,259	1,774
Changes in cash basis net assets	(191)	(106)
Cash basis net assets beginning of year	238	344
Cash basis net assets end of year	\$ 47	238



The City's total receipts for governmental activities increased 24%, or approximately \$400,000. The total cost of all programs and services increased approximately \$485,000, or 27%. The significant increase in receipts and disbursements was primarily the result of the City receiving Community Development Block Grant (CDBG) proceeds of \$698,000 and disbursing \$623,914 of the grant proceeds.

The cost of all governmental activities this year was approximately \$2.3 million compared to approximately \$1.8 million last year. However, as shown in the Statement of Activities and Net Assets on pages 14-15, the amount taxpayers ultimately financed for these activities was approximately \$1.0 million because some of the cost was paid by those directly benefited from the programs (\$186,777) or by other governments and organizations which subsidized certain programs with grants, contributions and restricted interest (\$1,061,532). The City paid for the remaining "public benefit" portion of governmental activities with approximately \$820,000 in tax (some of which could only be used for certain programs) and with other receipts, such as interest and general entitlements.

Changes in Cash Basis Net Assets of Business Type Activities		
(Expressed in Thousands)		
	Year ended June 30,	
	2009	2008
Receipts:		
Program receipts:		
Charges for service:		
Water	\$ 535	582
Sewer	731	738
Lagoon	2	13
Storm water utility	34	14
General receipts:		
Unrestricted interests in investments	27	32
Total receipts	<u>1,329</u>	<u>1,379</u>
Disbursements:		
Water	398	458
Sewer	643	628
Lagoon	-	23
Total disbursements	<u>1,041</u>	<u>1,109</u>
Change in cash basis net assets	288	270
Cash basis net assets beginning of year	<u>1,402</u>	<u>1,132</u>
Cash basis net assets end of year	<u>\$ 1,690</u>	<u>1,402</u>

Total business type activities receipts for fiscal year 2009 were approximately \$1,329,000 compared to approximately \$1,379,000 last year. This decrease was due primarily to the City collecting less money for services. The cash balance increased approximately \$288,000 from the prior year, primarily due to increases in charges for service. Total disbursements for the fiscal year decreased approximately \$68,000 to a total of approximately \$1,041,000.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Postville completed the year, its governmental funds reported a combined fund balance of \$46,958, a decrease of approximately \$191,000 from last year's total of \$238,058. 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 decreased \$183,418 from the prior year to a deficit balance of \$286,611. Total receipts decreased 13% and total disbursements decreased 1%. Property tax receipts decreased \$35,514.
- The Special Revenue, Road Use Tax Fund cash balance increased \$32,193 to \$106,911. The increase was due primarily to a reduction in public works spending.
- The Special Revenue, Local Option Sales Tax Fund cash balance increased \$24,900 to \$170,793. The increase was primarily due to increased local option sales tax receipts.
- The Special Revenue, Tax Increment Financing Fund cash balance decreased \$133,072 to a deficit balance of \$32,672. The decrease is primarily due to decreased tax increment financing collections.
- The Special Revenue, 2008 Community Development Block Grant (CDBG) Fund was new for fiscal year 2009 and was established to account for CDBG funds. The fund had receipts of \$698,000 and disbursements of \$623,914, leaving an ending cash balance of \$74,086.
- The Debt Service Fund cash balance decreased \$18,119 during the fiscal year to \$21,060. The decrease is primarily due to less property tax receipts in the Debt Service Fund.
- The Capital Projects Fund cash balance increased \$56,245 to \$7,590. The increase was primarily due to a reduction in capital project disbursements of \$131,640.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund was established to accumulate funds to be used for water management and capital projects. During the fiscal year, the cash balance increased \$155,413 to \$874,003. The increase is partially due to an increase in water rates which occurred in July 2008.
- The Sewer Fund cash balance increased \$96,680 to \$717,487. The increase is partially due to an increase in sewer rates which occurred in July 2008.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget twice. The first amendment was approved on January 12, 2009 and resulted in a increase in disbursements of \$956,473 related to operational costs and grants received by the City. Budgeted receipts increased, primarily due to grants received by the City.

The second amendment was approved on May 26, 2009 and resulted in an increase in disbursements of \$89,230 related to operational costs of the City.

The City's receipts were \$1,179,749 less than budgeted. This was primarily due to charges for service for utilities, grant receipts, tax increment financing and property tax collections.

With the amendments, total disbursements were \$928,006 less than the amended budget, primarily due to capital projects.

DEBT ADMINISTRATION

At June 30, 2009, the City had \$8,845,499 in bonds, notes and other long-term debt outstanding, compared to \$9,270,794 last year, as shown below.

	Outstanding Debt at Year-End	
	June 30,	
	2009	2008
General obligation refunding bonds	\$ 1,155,000	1,270,000
General obligation notes	900,000	990,000
Child care facility revenue notes	286,387	290,078
Water revenue notes	1,700,000	1,700,000
Sewer revenue notes	4,666,204	4,860,326
Street lighting lease purchase agreement	137,908	160,390
Total	\$ 8,845,499	9,270,794

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 property within the City's corporate limits. The City's outstanding general obligation debt of \$2,192,908 is below its constitutional debt limit of \$4,105,129.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City of Postville's elected and appointed officials and citizens considered many factors when setting the fiscal year 2010 budget, tax rates and fees charged for various City activities. One of those factors is the economy. The City was not prepared for the financial crisis which developed with the closing of AgriProcessors. The delinquent property taxes and unpaid utilities to the City caused reduction in services and projects originally planned. The number of foreclosed homes became a concern with the City taking an aggressive look for grant opportunities for housing rehabilitation. The City's budget was for minimum services to be provided to the public. Amounts appropriated in the operating budget are \$3,423,340.

The City's budgeted ending fund balance is expected to be approximately \$2,149,000 as of June 30, 2010.

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 Darcy Radloff, City Clerk, 147 N. Lawler St., P.O. Box 242, Postville, Iowa 52162-0242.

Basic Financial Statements

City of Postville

Statement of Activities and Net Assets – Cash Basis

As of and for the year ended June 30, 2009

	Disbursements	Program Receipts	
		Charges for Service	Operating Grants, Contributions and Restricted Interest
Functions/Programs:			
Governmental activities:			
Public safety	\$ 412,223	40,838	16,913
Public works	411,805	121,195	188,590
Culture and recreation	155,681	18,722	9,720
Community and economic development	631,627	-	698,000
General government	235,478	6,022	-
Debt service	320,115	-	-
Capital projects	92,064	-	148,309
Total governmental activities	2,258,993	186,777	1,061,532
Business type activities:			
Water	397,876	535,108	-
Sewer	643,455	731,016	-
Lagoon	-	2,100	-
Storm water utility	-	34,286	-
Total business type activities	1,041,331	1,302,510	-
Total	\$ 3,300,324	1,489,287	1,061,532

General Receipts:

Property and other city tax levied for:
 General purposes
 Debt service
Tax increment financing
Local option sales tax
Unrestricted interest on investments
Miscellaneous
Total general receipts

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
 Local option sales tax
 Debt service
 Other purposes
Unrestricted

Total cash basis net assets

See notes to financial statements.

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
Governmental Activities	Business Type Activities	Total
(354,472)	-	(354,472)
(102,020)	-	(102,020)
(127,239)	-	(127,239)
66,373	-	66,373
(229,456)	-	(229,456)
(320,115)	-	(320,115)
56,245	-	56,245
(1,010,684)	-	(1,010,684)
-	137,232	137,232
-	87,561	87,561
-	2,100	2,100
-	34,286	34,286
-	261,179	261,179
(1,010,684)	261,179	(749,505)
436,830	-	436,830
58,796	-	58,796
110,338	-	110,338
182,194	-	182,194
10,078	27,300	37,378
21,348	-	21,348
819,584	27,300	846,884
(191,100)	288,479	97,379
238,058	1,401,685	1,639,743
\$ 46,958	1,690,164	1,737,122
\$ 106,911	-	106,911
170,793	-	170,793
38,160	535,945	574,105
74,995	-	74,995
(343,901)	1,154,219	810,318
\$ 46,958	1,690,164	1,737,122

City of Postville

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

As of and for the year ended June 30, 2009

	General	Special Revenue		
		Road Use Tax	Local Option Sales Tax	Tax Increment Financing
Receipts:				
Property tax	\$ 329,930	-	-	-
Tax increment financing	-	-	-	110,338
Other city tax	1,476	-	182,194	-
Licenses and permits	5,375	-	-	-
Use of money and property	8,618	-	-	-
Intergovernmental	12,781	188,590	-	-
Charges for service	162,911	-	-	-
Special assessments	-	-	3,250	-
Miscellaneous	47,410	-	-	-
Total receipts	568,501	188,590	185,444	110,338
Disbursements:				
Operating:				
Public safety	212,199	-	104,077	-
Public works	177,943	156,397	56,467	-
Culture and recreation	150,700	-	-	-
Community and economic development	7,303	-	-	410
General government	199,774	-	-	-
Debt service	-	-	-	-
Capital projects	-	-	-	-
Total disbursements	747,919	156,397	160,544	410
Excess (deficiency) of receipts over (under) disbursements	(179,418)	32,193	24,900	109,928
Other financing sources (uses):				
Operating transfers in	-	-	-	-
Operating transfers out	(4,000)	-	-	(243,000)
Total other financing sources (uses)	(4,000)	-	-	(243,000)
Net change in cash balances	(183,418)	32,193	24,900	(133,072)
Cash balances beginning of year	(103,193)	74,718	145,893	100,400
Cash balances end of year	\$ (286,611)	106,911	170,793	(32,672)
Cash Basis Fund Balances				
Reserved for debt service	\$ -	-	-	-
Unreserved:				
Designated:				
Library	52,765	-	-	-
Swimming pool	66,631	-	-	-
Childcare	10,866	-	-	-
Undesignated:				
General fund	(416,873)	-	-	-
Special revenue funds	-	106,911	170,793	(32,672)
Capital projects fund	-	-	-	-
Total cash basis fund balances	\$ (286,611)	106,911	170,793	(32,672)

See notes to financial statements.

2008 CDBG	Debt Service	Capital Projects	Nonmajor	Total
-	58,796	-	105,424	494,150
-	-	-	-	110,338
-	-	-	-	183,670
-	-	-	-	5,375
-	-	-	4,291	12,909
698,000	-	121,760	-	1,021,131
-	-	-	-	162,911
-	-	-	-	3,250
-	200	26,549	-	74,159
698,000	58,996	148,309	109,715	2,067,893
-	-	-	95,947	412,223
-	-	-	20,998	411,805
-	-	-	4,981	155,681
623,914	-	-	-	631,627
-	-	-	35,704	235,478
-	320,115	-	-	320,115
-	-	92,064	-	92,064
623,914	320,115	92,064	157,630	2,258,993
74,086	(261,119)	56,245	(47,915)	(191,100)
-	243,000	-	4,000	247,000
-	-	-	-	(247,000)
-	243,000	-	4,000	-
74,086	(18,119)	56,245	(43,915)	(191,100)
-	39,179	(48,655)	29,716	238,058
74,086	21,060	7,590	(14,199)	46,958
-	21,060	17,100	-	38,160
-	-	-	-	52,765
-	-	-	-	66,631
-	-	-	-	10,866
-	-	-	-	(416,873)
74,086	-	-	(14,199)	304,919
-	-	(9,510)	-	(9,510)
74,086	21,060	7,590	(14,199)	46,958

City of Postville

City of Postville

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

As of and for the year ended June 30, 2009

	Enterprise			Total
	Water	Sewer	Nonmajor	
Operating receipts:				
Charges for service	\$ 509,070	467,797	36,386	1,013,253
Miscellaneous	26,038	263,219	-	289,257
Total operating receipts	535,108	731,016	36,386	1,302,510
Operating disbursements:				
Business type activities	319,934	238,383	-	558,317
Excess of operating receipts over operating disbursements	215,174	492,633	36,386	744,193
Non-operating receipts (disbursements):				
Interest on investments	18,181	9,119	-	27,300
Debt service	(77,942)	(405,072)	-	(483,014)
Total non-operating receipts (disbursements)	(59,761)	(395,953)	-	(455,714)
Net change in cash balances	155,413	96,680	36,386	288,479
Cash balances beginning of year	718,590	620,807	62,288	1,401,685
Cash balances end of year	\$ 874,003	717,487	98,674	1,690,164
Cash Basis Fund Balances				
Reserved for debt service	\$ 173,739	362,206	-	535,945
Unreserved	700,264	355,281	98,674	1,154,219
Total cash basis fund balances	\$ 874,003	717,487	98,674	1,690,164

See notes to financial statements.

City of Postville

Notes to Financial Statements

June 30, 2009

(1) Summary of Significant Accounting Policies

The City of Postville is a political subdivision of the State of Iowa located in Allamakee and Clayton Counties. It was first incorporated in 1873 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 Postville 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 Postville (the primary government) and exclude the City's component unit. The component unit discussed below is not included in the City's reporting entity.

Excluded Component Unit

The Postville Volunteer Fire Department, Inc. has been incorporated under the provisions of the Iowa Nonprofit Corporation Act, Chapter 504C of the Code of Iowa, for the purpose of aiding in the extinguishing of fires and performing such other duties as set forth by the Postville Fire Department. The Postville Volunteer Fire Department, Inc. meets the definition of a component unit which should be blended, but has declined to make its financial data available to the City. As a result, the component unit which should be blended has been excluded from the financial statements.

Jointly Governed Organizations

The City 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 or appoint representatives to the following boards and commissions: Allamakee County Assessor's Conference Board, Allamakee County Emergency Management Commission and Allamakee County E911 Joint Service Board.

B. Basis of Presentation

Government-wide Financial Statement - The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from these statements. 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 service.

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

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

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

The City reports the following major governmental funds:

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

Special Revenue:

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

The Local Option Sales Tax Fund is used to account for local option sales tax received and its uses.

The Tax Increment Financing Fund is used to account for the urban renewal projects financed by tax increment financing.

The 2008 Community Development Block Grant (CDBG) Fund is used for the receipt and disbursement of CDBG contract 08-OT-001.

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

The Capital Projects Fund is utilized to account for all resources used in the acquisition and construction of capital facilities, with the exception of those financed through Enterprise Funds.

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 wastewater 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.

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, 2009, disbursements exceeded the amount budgeted in the community and economic development function.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2009 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

The City had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3, as amended by Statement No. 40.

(3) Bonds and Notes Payable

Annual debt service requirements to maturity for general obligation bonds, general obligation notes and child care facility, water and sewer revenue notes are as follows:

Year Ending June 30,	General Obligation Bonds		General Obligation Notes		Revenue Notes		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2010	\$ 120,000	52,650	100,000	52,180	333,787	267,668	553,787	372,498
2011	130,000	47,730	100,000	47,218	322,954	267,803	552,954	362,751
2012	135,000	42,205	105,000	42,117	335,377	254,661	575,377	338,983
2013	140,000	36,265	115,000	36,797	343,110	240,882	598,110	313,944
2014	145,000	29,965	115,000	30,900	351,165	226,656	611,165	287,521
2015-2019	485,000	47,635	245,000	93,570	1,958,913	898,757	2,688,913	1,039,962
2020-2024	-	-	120,000	12,510	1,962,118	472,685	2,082,118	485,195
2025-2029	-	-	-	-	877,488	88,356	877,488	88,356
2030-2034	-	-	-	-	49,047	31,640	49,047	31,640
2035-2039	-	-	-	-	60,638	20,274	60,638	20,274
2040-2043	-	-	-	-	57,994	6,250	57,994	6,250
Total	\$ 1,155,000	256,450	900,000	315,292	6,652,591	2,775,632	8,707,591	3,347,374

USDA Child Care Facility Revenue Capital Loan Notes – The City previously issued \$300,000 of Child Care Facility Revenue Capital Loan Notes, Series 2003 (Notes) approved by City resolution number 841 dated April 14, 2003. Certain provisions of the Notes were amended by City resolution number 848 dated July 14, 2003. The Notes were issued to provide financing for construction of a Child Care Facility (Facility).

Pursuant to the amended resolution, the Notes are payable to the U.S. Department of Agriculture (USDA) in monthly installments of \$1,329, including interest at 4.25% per annum. During the year ended June 30, 2009, principal payments to the USDA totaled \$3,691, leaving a principal balance at June 30, 2009 of \$286,387.

The amended resolution providing for the issuance of the revenue notes includes the following provisions:

- (a) The notes will only redeemed from the future earnings of the Facility and the note holders hold a lien on the future earnings of the Facility.
- (b) Sufficient monthly transfers shall be made to a Child Care Facility Revenue Note and Interest Sinking Fund (Sinking Fund) for the purpose of making the note principal and interest payments when due.
- (c) A Child Care Facility Revenue Debt Service Reserve shall be established. The City has funded the reserve by setting aside \$17,100 in the Capital Projects Fund. This account is restricted for the purpose of paying principal and interest on the notes.
- (d) A Child Care Facility Improvement Fund shall be established for the purpose of paying principal and interest when there is insufficient money in the sinking and reserve funds and extraordinary maintenance and repairs, as needed.

In conjunction with the issuance of the Notes, the City entered into a Joint Agreement Regarding Child Care Center (28E agreement) with the Postville Community School District (District) whereby the District provided the land for the City to construct the Facility. The City also entered into a Management Agreement with Postville Child Care Services, Incorporated (PCCS) for management of the Facility. The City and PCCS do not appear to be in compliance with certain terms and conditions of the amended resolution providing for the Notes. According to the Management Agreement with the

City and PCCS, which operates the Child Care Facility, PCCS is responsible for the pledged receipts and maintaining sufficient receipts to pay disbursements and principal and interest.

Water Revenue Notes – The City has pledged future water customer receipts, net of specified operating disbursements, to repay \$1,700,000 of revenue capital loan notes issued in May 2005. Proceeds from the notes provided financing for the construction of improvements to the municipal water utility. The notes are payable solely from water customer net receipts and are payable through 2025. The total principal and interest remaining to be paid on the notes is \$2,418,200. For the current year, no principal was paid and interest paid and total customer net receipts were \$77,543 and \$215,174, respectively.

Annual principal and interest payments on the water revenue notes are expected to require 36 percent of net receipts.

The resolution providing for the issuance of the water revenue notes includes 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 water revenue note sinking account for the purpose of making the note principal and interest payments when due.
- (c) A separate water revenue note reserve account shall be established. The City has funded the reserve at \$170,000. The account is to be used solely for the purpose of paying principal and interest on the notes.

Sewer Revenue Refunding Notes

On February 1, 2007, the City issued \$640,000 of sewer revenue refunding notes. The City entered into an escrow agreement with Bankers Trust Company, N.A. and deposited a portion of the proceeds from the refunding notes. The proceeds were used to advance refund \$600,000 of the 1999 sewer revenue bonds on the call date of June 1, 2008.

The resolution providing for the issuance of the sewer revenue refunding notes includes 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 sewer revenue note sinking account for the purpose of making the note principal and interest payments when due.
- (c) A separate sewer revenue note reserve account shall be established. The City has funded the reserve at \$64,000. The account is to be used solely for the purpose of paying principal and interest on the notes.

USDA Rural Development Sewer Revenue Note – The City issued a sewer revenue note totaling \$4,520,000 on February 8, 2007 to defray a portion of the cost of constructing a sewer treatment plant. The note is payable to the U.S. Department of Agriculture (USDA) in semi-annual installments of \$167,060, including interest at 4.125% per annum, due on June 1 and December 1 of each year. During the year ended June 30,

2009, the City paid principal of \$149,122 to the USDA, leaving a balance due at June 30, 2009 of \$4,106,204.

The resolution providing for the issuance of the sewer revenue note includes the following provisions:

- (a) The note will only be redeemed from the future earnings of the enterprise activity and the note holder holds a lien on the future earnings of the funds.
- (b) Sufficient monthly transfers shall be made to a sewer revenue note sinking account for the purpose of making the note principal and interest payments when due.
- (c) A sewer reserve account shall be established. Annually, there shall be deposited in the sewer reserve account an amount equal to 25 percent of the sewer reserve account requirement. This account is restricted for the purpose of paying principal and interest when funds in the sinking account are inadequate.
- (d) An improvement account shall be established for the purpose of paying principal and interest when there is insufficient money in the sinking and reserve accounts and extraordinary maintenance and repairs, as needed.

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay the \$640,000 and the \$4,520,000 of sewer revenue notes. The notes are payable solely from sewer customer net receipts and are payable through 2027. The total principal and interest remaining to be paid on the notes is \$6,464,938. For the current year, principal and interest paid and total customer net receipts were \$404,672 and \$492,633, respectively.

Annual principal and interest payments on the sewer revenue notes are expected to require 82 percent of net receipts.

The balance in the sewer reserve account is not in compliance with the requirement of the note resolution.

Lease Purchase Agreement

On December 20, 2002, the City entered into a lease purchase agreement with interest at 9.75% per annum for street lighting and improvements. Annual debt service requirements are as follows:

Year Ending June 30,	Principal	Interest	Total
2010	\$ 24,712	12,044	36,756
2011	27,165	9,591	36,756
2012	29,861	6,895	36,756
2013	32,825	3,928	36,753
2014	23,345	2,317	25,662
Total	\$ 137,908	34,775	172,683

(4) Pension and Retirement Benefits

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

Most regular plan members are required to contribute 4.10% of their annual covered salary and the City is required to contribute 6.35% 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, 2009, 2008 and 2007 were \$34,997, \$33,486 and \$30,851, respectively, equal to the required contributions for each year.

(5) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation, personal leave 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, personal leave and sick leave payable to employees at June 30, 2009, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Vacation	\$ 12,500
Personal leave	1,900
Sick leave	83,100
Total	<u>\$ 97,500</u>

This liability has been computed based on rates of pay in effect at June 30, 2009.

(6) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2009 is as follows:

Transfer to	Transfer from	Amount
Special Revenue:		
Health Care/Ambulance	General	\$ 4,000
Debt Service	Special Revenue:	
	Tax Increment Financing	<u>243,000</u>
Total		<u>\$ 247,000</u>

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

(7) Risk Management

The City is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 577 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine and boiler/machinery. There have been no reductions in insurance coverage from prior years.

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

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

The City's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The City's contributions to the Pool for the year ended June 30, 2009 were \$60,984.

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

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. As of June 30, 2009, 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 claim 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 casualty capital contributions. If a member withdraws after the sixth year, the member is refunded 100 percent of its casualty capital contributions. However, the refund is reduced by an amount equal to the annual 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 workers compensation. The City assumes liability for any deductibles, and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past four fiscal years.

(8) Promissory Notes Receivable

The City entered into two promissory notes with the Postville Chamber of Commerce dated March 1, 2000 and August 14, 2000. These notes are for repayment of improvements made by the City to the industrial park, are interest free and are to be repaid to the City as lots are sold. The final payments are due in 10 years. The amounts due on these notes are as follows:

Date of Issue	Original Amount	Balance Beginning of Year	Received During Year	Balance End of Year
Mar 1, 2000	\$ 110,000	80,000	-	80,000
Aug 14, 2000	100,000	100,000	-	100,000
Total		\$ 180,000	-	180,000

(9) Community Economic Betterment Account (CEBA)

The City entered into a forgivable loan agreement dated October 19, 2006 with the Iowa Department of Economic Development for \$70,000. The proceeds were received during the year ended June 30, 2007 and loaned to a local business to assist with economic development. The local business agreed to a \$20,000 loan with monthly payments of \$333 beginning September 1, 2007 payable to the Iowa Department of Economic Development. The term of the loan is 5 years with no interest. Also, the local business agreed to create at least 4 full time positions and retain 14 full time positions. The forgivable loan is for \$50,000 at no interest unless an event of default occurs.

The local business agreed, in the event the total job creation/retention requirement is not met by October 31, 2009 and maintained through October 31, 2011, funds will be returned in the same ratio as the job shortfall is to the total job requirement.

(10) Deficit Balances

The General Fund and the Special Revenue, Employees Benefits, Emergency and Tax Increment Financing Funds had deficit balances of \$286,611, \$10,751, \$4,357 and \$32,672, respectively, at June 30, 2009. The City is currently investigating alternatives to eliminate these deficits to return these funds to a sound financial position.

(11) Litigation

The City and AgriProcessors have entered into agreements which concern the wastewater treatment plant owned by the City which has been treating AgriProcessors wastewater. The plant is financed by a loan from the USDA. Pursuant to agreements with the City, AgriProcessors has been making most of the payments on the USDA loan as well as making other payments to the City for rental of the City’s old treatment lagoons and utility service. AgriProcessors filed a voluntary Chapter 11 Bankruptcy Petition in New York on November 4, 2008. The case was transferred to the Northern District of Iowa on December 12, 2008 and is currently pending. As part of the bankruptcy proceeding, selected assets of AgriProcessors have been sold to SHF Industries, LLC (SHF). SHF has assumed the agreements between the City and AgriProcessors. No claims have been made against the City arising out of this sale and subsequent assumption. The probability of loss, if any, is undeterminable.

Required Supplementary Information

City of Postville

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, 2009

	Governmental	Proprietary	Total	Budgeted Amounts		Final to
	Funds	Funds		Original	Final	Total
	Actual	Actual				Variance
Receipts:						
Property tax	\$ 494,150	-	494,150	603,193	603,193	(109,043)
Tax increment financing	110,338	-	110,338	242,000	242,000	(131,662)
Other city tax	183,670	-	183,670	175,394	185,394	(1,724)
Licenses and permits	5,375	-	5,375	7,550	8,350	(2,975)
Use of money and property	12,909	27,300	40,209	23,250	24,800	15,409
Intergovernmental	1,021,131	-	1,021,131	289,600	1,274,073	(252,942)
Charges for service	162,911	1,013,253	1,176,164	1,792,942	1,817,692	(641,528)
Special assessments	3,250	-	3,250	11,000	11,000	(7,750)
Miscellaneous	74,159	289,257	363,416	410,650	410,950	(47,534)
Total receipts	<u>2,067,893</u>	<u>1,329,810</u>	<u>3,397,703</u>	<u>3,555,579</u>	<u>4,577,452</u>	<u>(1,179,749)</u>
Disbursements:						
Public safety	412,223	-	412,223	399,670	423,020	10,797
Public works	411,805	-	411,805	434,330	488,730	76,925
Culture and recreation	155,681	-	155,681	180,280	181,480	25,799
Community and economic development	631,627	-	631,627	15,500	281,500	(350,127)
General government	235,478	-	235,478	261,350	298,130	62,652
Debt service	320,115	-	320,115	322,250	322,250	2,135
Capital projects	92,064	-	92,064	347,500	995,473	903,409
Business type activities	-	1,041,331	1,041,331	1,221,747	1,237,747	196,416
Total disbursements	<u>2,258,993</u>	<u>1,041,331</u>	<u>3,300,324</u>	<u>3,182,627</u>	<u>4,228,330</u>	<u>928,006</u>
Excess (deficiency) of receipts over (under) disbursements	(191,100)	288,479	97,379	372,952	349,122	(251,743)
Balances beginning of year	<u>238,058</u>	<u>1,401,685</u>	<u>1,639,743</u>	<u>1,366,146</u>	<u>1,366,146</u>	<u>273,597</u>
Balances end of year	<u>\$ 46,958</u>	<u>1,690,164</u>	<u>1,737,122</u>	<u>1,739,098</u>	<u>1,715,268</u>	<u>21,854</u>

See accompanying independent auditor's report.

City of Postville

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2009

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 the component unit which should be blended. 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 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, two budget amendments increased budgeted disbursements by \$1,045,703. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2009, disbursements exceeded the amount budgeted in the community and economic development function.

City of Postville

Other Supplementary Information

Schedule 1

City of Postville

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

As of and for the year ended June 30, 2009

	Special Revenue			
	Employees Benefits	Emergency	Health Care/ Ambulance	Total
Receipts:				
Property tax	\$ 95,412	10,012	-	105,424
Use of money and property	-	24	4,267	4,291
Total receipts	95,412	10,036	4,267	109,715
Disbursements:				
Operating:				
Public safety	69,709	18,438	7,800	95,947
Public works	20,998	-	-	20,998
Culture and recreation	4,981	-	-	4,981
General government	35,704	-	-	35,704
Total disbursements	131,392	18,438	7,800	157,630
Deficiency of receipts under disbursements	(35,980)	(8,402)	(3,533)	(47,915)
Other financing sources:				
Operating transfers in	-	-	4,000	4,000
Net change in cash balances	(35,980)	(8,402)	467	(43,915)
Cash balances beginning of year	25,229	4,045	442	29,716
Cash balances end of year	\$ (10,751)	(4,357)	909	(14,199)
Cash Basis Fund Balances				
Unreserved:				
Special revenue funds	\$ (10,751)	(4,357)	909	(14,199)

See accompanying independent auditor's report.

City of Postville

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

As of and for the year ended June 30, 2009

	Enterprise		
	Lagoon	Storm Water Utility	Total
Operating receipts:			
Charges for service	\$ 2,100	34,286	36,386
Operating disbursements:			
None	-	-	-
Excess of operating receipts over operating disbursements	2,100	34,286	36,386
Cash balances beginning of year	47,830	14,458	62,288
Cash balances end of year	\$ 49,930	48,744	98,674
Cash Basis Fund Balances			
Unreserved	\$ 49,930	48,744	98,674

See accompanying independent auditor's report.

City of Postville
 Schedule of Indebtedness
 Year ended June 30, 2009

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation bonds:			
Refunding	Jun 1, 2002	3.90-4.90%	\$ 1,700,000
General obligation notes:			
Refunding	Dec 1, 1998	4.20-4.50%	\$ 900,000
Capital loan	Aug 1, 2006	6.10-6.95	610,000
Total			
Revenue notes:			
Child care facility	Apr 14, 2003	4.25%	\$ 300,000
Water	May 1, 2005	3.70-5.10	1,700,000
Sewer refunding	Feb 1, 2007	3.90-4.45	640,000
Sewer	Feb 8, 2007	4.125	4,520,000
Total			
Lease purchase agreement:			
Street lighting	Dec 20, 2002	9.75%	\$ 242,000

See accompanying independent auditor's report.

Balance Beginning of Year	Redeemed During Year	Balance End of Year	Interest Paid
1,270,000	115,000	1,155,000	57,250
410,000	60,000	350,000	18,060
580,000	30,000	550,000	38,530
\$ 990,000	90,000	900,000	56,590
290,078	3,691	286,387	12,258
1,700,000	-	1,700,000	77,543
605,000	45,000	560,000	25,548
4,255,326	149,122	4,106,204	185,002
\$ 6,850,404	197,813	6,652,591	300,351
160,390	22,482	137,908	14,272

City of Postville
Bond and Note Maturities
June 30, 2009

Year Ending June 30,	General Obligation Bonds		General Obligation Notes					Total
	Refunding		Refunding		Capital Loan			
	Issued Jun 1, 2002		Issued Dec 1, 1998		Issued Aug 1, 2006			
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount		
2010	4.10%	\$ 120,000	4.35%	\$ 65,000	6.10%	\$ 35,000	100,000	
2011	4.25	130,000	4.40	65,000	6.40	35,000	100,000	
2012	4.40	135,000	4.40	70,000	6.40	35,000	105,000	
2013	4.50	140,000	4.45	75,000	6.40	40,000	115,000	
2014	4.60	145,000	4.50	75,000	6.40	40,000	115,000	
2015	4.70	155,000	-	-	6.70	45,000	45,000	
2016	4.80	160,000	-	-	6.70	45,000	45,000	
2017	4.90	170,000	-	-	6.70	50,000	50,000	
2018	-	-	-	-	6.90	50,000	50,000	
2019	-	-	-	-	6.90	55,000	55,000	
2020	-	-	-	-	6.90	60,000	60,000	
2021	-	-	-	-	6.95	60,000	60,000	
2022	-	-	-	-	-	-	-	
2023	-	-	-	-	-	-	-	
2024	-	-	-	-	-	-	-	
2025	-	-	-	-	-	-	-	
2026	-	-	-	-	-	-	-	
2027	-	-	-	-	-	-	-	
2028	-	-	-	-	-	-	-	
2029	-	-	-	-	-	-	-	
2030	-	-	-	-	-	-	-	
2031	-	-	-	-	-	-	-	
2032	-	-	-	-	-	-	-	
2033	-	-	-	-	-	-	-	
2034	-	-	-	-	-	-	-	
2035	-	-	-	-	-	-	-	
2036	-	-	-	-	-	-	-	
2037	-	-	-	-	-	-	-	
2038	-	-	-	-	-	-	-	
2039	-	-	-	-	-	-	-	
2040	-	-	-	-	-	-	-	
2041	-	-	-	-	-	-	-	
2042	-	-	-	-	-	-	-	
2043	-	-	-	-	-	-	-	
Total		<u>\$ 1,155,000</u>		<u>\$ 350,000</u>		<u>\$ 550,000</u>	<u>900,000</u>	

See accompanying independent auditor's report.

Revenue Notes									
Child Care Facility		Water		Sewer Refunding		Sewer			
Issued Apr 14, 2003		Issued May 1, 2005		Issued Feb 1, 2007		Issued Feb 8, 2007			
Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Total	
4.25%	\$ 3,851	3.70%	\$ 100,000	4.00%	\$ 50,000	4.125%	\$ 179,936	333,787	
4.25	4,017	3.90	100,000	4.05	45,000	4.125	173,937	322,954	
4.25	4,191	4.00	100,000	4.10	50,000	4.125	181,186	335,377	
4.25	4,373	4.10	100,000	4.15	50,000	4.125	188,737	343,110	
4.25	4,563	4.20	100,000	4.20	50,000	4.125	196,602	351,165	
4.25	4,760	4.30	100,000	4.25	55,000	4.125	204,796	364,556	
4.25	4,961	4.50	100,000	4.30	60,000	4.125	213,331	378,292	
4.25	5,182	4.60	100,000	4.35	60,000	4.125	222,222	387,404	
4.25	5,407	4.70	100,000	4.40	70,000	4.125	231,483	406,890	
4.25	5,641	4.75	105,000	4.45	70,000	4.125	241,130	421,771	
4.25	5,885	4.80	110,000	-	-	4.125	251,179	367,064	
4.25	6,140	4.90	110,000	-	-	4.125	261,647	377,787	
4.25	6,406	4.95	110,000	-	-	4.125	272,551	388,957	
4.25	6,684	5.00	115,000	-	-	4.125	283,910	405,594	
4.25	6,974	5.05	120,000	-	-	4.125	295,742	422,716	
4.25	7,276	5.10	130,000	-	-	4.125	308,067	445,343	
4.25	7,591	-	-	-	-	4.125	320,906	328,497	
4.25	7,920	-	-	-	-	4.125	78,842	86,762	
4.25	8,264	-	-	-	-	-	-	8,264	
4.25	8,622	-	-	-	-	-	-	8,622	
4.25	8,995	-	-	-	-	-	-	8,995	
4.25	9,385	-	-	-	-	-	-	9,385	
4.25	9,792	-	-	-	-	-	-	9,792	
4.25	10,216	-	-	-	-	-	-	10,216	
4.25	10,659	-	-	-	-	-	-	10,659	
4.25	11,121	-	-	-	-	-	-	11,121	
4.25	11,603	-	-	-	-	-	-	11,603	
4.25	12,106	-	-	-	-	-	-	12,106	
4.25	12,630	-	-	-	-	-	-	12,630	
4.25	13,178	-	-	-	-	-	-	13,178	
4.25	13,749	-	-	-	-	-	-	13,749	
4.25	14,345	-	-	-	-	-	-	14,345	
4.25	14,966	-	-	-	-	-	-	14,966	
4.25	14,934	-	-	-	-	-	-	14,934	
	<u>\$ 286,387</u>		<u>\$ 1,700,000</u>		<u>\$ 560,000</u>		<u>\$4,106,204</u>	<u>6,652,591</u>	

Schedule 5

City of Postville

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

For the Last Eight Years

	2009	2008	2007	2006	2005	2004	2003	2002
Receipts:								
Property tax	\$ 494,150	640,224	622,672	596,806	601,959	591,367	503,421	513,060
Tax increment financing	110,338	260,799	253,785	136,429	140,963	38,406	69,220	12,201
Other city tax	183,670	163,993	181,984	156,424	154,567	138,283	143,186	135,644
Licenses and permits	5,375	6,868	10,960	7,607	6,190	7,117	10,130	6,396
Use of money and property	12,909	22,953	16,179	29,827	33,549	42,937	34,417	36,567
Intergovernmental	1,021,131	201,426	392,657	2,122,705	4,313,858	618,058	679,959	290,484
Charges for service	162,911	170,731	145,263	139,560	143,301	130,927	109,517	104,557
Special assessments	3,250	12,278	6,175	7,293	73,973	15,702	8,440	7,611
Miscellaneous	74,159	188,508	103,163	386,255	253,278	154,350	187,864	519,968
Total	\$ 2,067,893	1,667,780	1,732,838	3,582,906	5,721,638	1,737,147	1,746,154	1,626,488
Disbursements:								
Operating:								
Public safety	\$ 412,223	396,159	356,384	350,573	343,843	311,710	292,179	280,242
Public works	411,805	392,742	400,510	352,049	367,570	388,450	352,294	428,369
Culture and recreation	155,681	160,046	201,829	132,571	134,690	127,302	137,258	146,965
Community and economic development	631,627	9,493	86,651	4,943	176,964	183,221	57,486	106,388
General government	235,478	262,795	263,622	677,853	383,205	371,080	200,384	196,662
Debt service	320,115	328,905	288,444	256,132	251,572	153,698	150,698	83,651
Capital projects	92,064	223,704	4,904,965	4,055,279	8,854,246	976,055	2,377,674	1,209,380
Total	\$ 2,258,993	1,773,844	6,502,405	5,829,400	10,512,090	2,511,516	3,567,973	2,451,657

See accompanying independent auditor's report.

City of Postville
 Schedule of Expenditures of Federal Awards
 Year ended June 30, 2009

Grantor/Program	CFDA Number	Agency Pass-through Number	Program Expenditures
Indirect:			
U.S. Department of Housing and Urban Development:			
Iowa Department of Economic Development:			
Community Development Block Grants/ State's program and Non-Entitlement Grants in Hawaii			
	14.228	08-OT-001	\$ 623,914
U.S. Department of Transportation:			
National Highway Traffic Safety Administration:			
Iowa Department of Public Safety:			
Safety Belt Performance Grants			
	20.609	08-157, Task 141	337
Safety Belt Performance Grants			
	20.609	09-406, Task 133	4,354
			<u>4,691</u>
U.S. Department of Homeland Security:			
Iowa Department of Public Defense:			
Iowa Homeland Security and Emergency Management Division:			
Disaster Grants - Public Assistance (Presidentially Declared Disasters)			
	97.036	FEMA-1763-DRIA	34,000
Total			<u>\$ 662,605</u>

Basis of Presentation – The Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Postville 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.

City of Postville



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

David A. Vaudt, CPA
Auditor of State

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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 Postville, Iowa, as of and for the year ended June 30, 2009, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated March 4, 2010. 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 Postville'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 Postville's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Postville'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 a deficiency we consider to be a material weakness.

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 Postville'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 Postville's financial statements that is more than inconsequential will not be prevented or detected by the City of Postville's 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 Postville'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-09 is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Postville's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part 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, 2009 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 Postville's 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 Postville'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 Postville and other parties to whom the City of Postville 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 Postville 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.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

March 4, 2010

**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**

City of Postville



OFFICE OF AUDITOR OF STATE
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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 Postville, 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 program for the year ended June 30, 2009. The City of Postville's major federal program is 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 Postville's management. Our responsibility is to express an opinion on the City of Postville's 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 Postville's 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 Postville's compliance with those requirements.

In our opinion, the City of Postville 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, 2009.

Internal Control Over Compliance

The management of the City of Postville 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 Postville's 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 Postville's 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 certain deficiencies in internal control over compliance we consider to be significant deficiencies, including deficiencies we consider to be material weaknesses.

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 deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items III-A-09, III-B-09 and III-C-09 to be significant deficiencies.

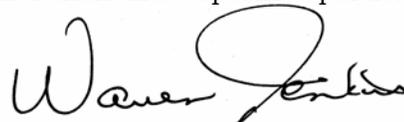
A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood material non-compliance with a type of compliance requirement of a federal program will not be prevented or detected by the City's internal control. We consider the significant deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items III-A-09, III-B-09 and III-C-09 to be material weaknesses.

The City of Postville's 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 Postville'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 Postville and other parties to whom the City of Postville 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.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

March 4, 2010

City of Postville

Schedule of Findings and Questioned Costs

Year ended June 30, 2009

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 a material weakness.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) Significant deficiencies in internal control over the major program were disclosed by the audit of the financial statements, which are considered to be material weaknesses.
- (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 program was CFDA Number 14.228 – Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii.
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) The City of Postville did not qualify as a low-risk auditee.

City of Postville

Schedule of Findings and Questioned Costs

Year ended June 30, 2009

Part II: Findings Related to the Financial Statements:

SIGNIFICANT DEFICIENCIES:

II-A-09 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. Bank deposits are prepared and cash receipts are posted to the cash receipts journal by the same person.

Recommendation – We realize 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.

All incoming mail should be opened by an employee who is not authorized to make entries to the accounting records. This employee should prepare a listing of cash and checks received. The mail should then be forwarded to the accounting personnel for processing. Later, the same listing should be compared to the cash receipt records.

Response – We understand the potential weakness, however, it is difficult to segregate duties with a limited number of employees. We will monitor procedures to try to obtain the maximum internal control with current staff.

Conclusion – Response accepted.

II-B-09 Annual Financial Report – The City’s annual financial report was prepared and filed timely for the year ended June 30, 2009. However, the report contained material errors and amounts which could not be substantiated.

Recommendation – The annual financial report should be amended to correct material errors.

Response – Clerk will make corrections and resubmit the annual financial report.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

City of Postville

Schedule of Findings and Questioned Costs

Year ended June 30, 2009

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCE OF NON-COMPLIANCE:

No matters were noted.

SIGNIFICANT DEFICIENCIES:

CFDA Number: 14.228 Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii

Pass-through Agency Number: 08-OT-001

Federal Award Year: 2009

U.S. Department of Housing and Urban Development

Passed through the Iowa Department of Economic Development

III-A-09 Period of Availability – OMB Circular A-133 requires expenditures for goods and services to fall within the contract period in order to qualify as a reimbursable expenditure. If needed, the contract period may be extended if approved by the awarding agency. The City did not monitor payments in order to verify they were within the contract period.

Recommendation – The City should develop and implement written policies and procedures for overseeing and monitoring payments in order to verify they are within the contract dates or to ensure an extension to the contract period is appropriately granted, if necessary.

Response and corrective action planned – The City will develop and implement written policies and procedures for oversight and monitor payments within the contract period requesting an extension if needed. Remaining funds will be returned to the Iowa Department of Economic Development (IDED).

Conclusion – Response accepted.

III-B-09 Subrecipient Monitoring – Under the Community Development Block Grant (CDBG) program, a local government may administer the program or may enter into a subrecipient agreement with an administrative entity, such as a Council of Governments, to administer the program.

When a local government enters into such an agreement, the government effectively passes down all federal requirements of the program to the administrative entity, except for approving final reports. The subrecipient must comply with CDBG program and OMB Circular A-133 requirements upon entering into the agreement.

City of Postville

Schedule of Findings and Questioned Costs

Year ended June 30, 2009

OMB Circular A-133 requires a pass-through entity to be responsible for monitoring the activities of its subrecipients, as necessary, to ensure federal awards are used for authorized purposes in compliance with laws, regulations and provisions of the contract or grant. The City has not established written policies and procedures for monitoring subrecipients.

Recommendation – The City should develop and implement subrecipient monitoring policies and procedures required under OMB Circular A-133, including obtaining and reviewing supporting documentation to ensure applicable compliance requirements have been met.

Response and corrective action planned – The City will implement a written policy and procedure for monitoring subrecipients.

Conclusion – Response accepted.

III-C-09 Cash Management – Effective cash management procedures provide for minimizing the amount of time between the drawdown/request for federal funds and the disbursement of those funds. According to the CDBG agreement, federal draws are to be requested only as needed and the City shall not have more than \$500 of grant proceeds including earned interest, on hand for longer than 10 working days, after which time any surplus amount shall be returned to the Department.

A review of the City's ledgers and cash management system identified the City has had more than \$500 of grant proceeds on hand since the inception of the grant.

In addition, the grant agreement states all services shall be completed before the end date of May 30, 2009. The City requested all funds prior to the end date, but had not distributed all funds. As of June 30, 2009, the City has an unspent balance of \$74,086.

During our review, we also identified three program disbursements totaling \$47,356 which were not approved by the City Council prior to disbursement.

Recommendation – The City should ensure federal funds are drawn in amounts sufficient to cover current needs and are disbursed in a timely manner without carrying excessive daily balances. Also, the unspent balance of \$74,086 should be remitted to the IDED. In addition, all disbursements should be approved by the City Council prior to disbursement.

Response and corrective action planned – This particular grant was a one time consideration by the State of Iowa. Under normal circumstances, the City would not draw down funds until reimbursement is requested and would have all transactions approved by the City Council prior to disbursement. Remaining funds will be returned to IDED.

Conclusion – Response accepted.

City of Postville

Schedule of Findings and Questioned Costs

Year ended June 30, 2009

Part IV: Other Findings Related to Required Statutory Reporting:

IV-A-09 Certified Budget – Disbursements during the year ended June 30, 2009 exceeded the amount budgeted in the community and economic development function before the January 12, 2009 budget amendment was adopted and at year end. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

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

Response – The City Clerk was unaware the function code in the City software did not match the budget amendment function code. The City Clerk amended the capital project function instead of the economic development function code on the budget form. The City Clerk will amend the current budget so function codes are correctly matching the budget.

Conclusion – Response accepted.

IV-B-09 Questionable Disbursements – No disbursements we believe may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 were noted.

IV-C-09 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

IV-D-09 Business Transactions – No business transactions between the City and City officials or employees were noted.

IV-E-09 Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure the coverage is adequate for current operations.

IV-F-09 Council Minutes – Excepted as noted in item III-C-09, no transactions were found that we believe should have been approved in the Council minutes but were not.

IV-G-09 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City’s investment policy were noted.

IV-H-09 Revenue Notes – The City has not complied with certain terms and conditions of the resolutions providing for the \$300,000 USDA Child Care Facility Revenue Capital Loan Notes (Notes), including covenants pertaining to charges for the use of and service rendered by the Child Care Facility (Facility).

Pursuant to Section 12 of the resolution, “The Issuer (City) covenants and agrees that it will maintain just and equitable rates or charges for the use of and service rendered by said Facility in each year for the payment of the proper and reasonable expenses of operation and maintenance of said Facility and for the

City of Postville

Schedule of Findings and Questioned Costs

Year ended June 30, 2009

establishment of a sufficient sinking fund to meet the principal of and interest on this Note, and other Obligations ranking on a parity therewith, as the same become due.”

The City established ordinance Chapter 28 “Community Child Care Facilities” dated May 2003 which includes provisions for rates and services. Chapter 28.03 states, in part, “User (Postville Child Care Services, Inc. (PCCS)) shall pay to the City the monthly service charge of \$1,377 in payment for use of the facilities in accordance with the terms of the Agreement (Management Agreement).” The Management Agreement also states, in part, Postville Child Care Services, Inc. covenants it will “make Use Payments to the City in accordance with Rate Ordinance adopted by City.” PCCS is not making these payments to the City.

Pursuant to the City’s amended resolution, the Notes are payable to the U.S. Department of Agriculture (USDA) in monthly installments of \$1,329. However, the City did not amend Ordinance Chapter 28 or the Management Agreement to revise the monthly rate from \$1,377 to \$1,329.

Also, the sewer reserve account balance is not in compliance with the minimum balance requirement of the sewer revenue note resolution.

Recommendation – The City should review and revise these conflicting provisions and consult bond counsel and the USDA regarding compliance as deemed necessary and appropriate.

Also, the City should make sufficient transfers to the sewer reserve account to maintain the minimum balance requirements of the note resolution.

Response – The City has passed the corrected ordinance on Jan 11, 2010. The City is working on an economic development agreement with PCCS in accordance with Chapter 15A.1 of the Code of Iowa.

The City was making sufficient payments to the reserve fund, but due to the unforeseen circumstances with AgriProcessors filing bankruptcy the City was unable to set aside the minimum balance required of the note resolution. We have since continued those reserve account requirements.

Conclusion – Response accepted.

IV-I-09 Financial Condition – The General Fund and the Special Revenue, Employees Benefits, Emergency and Tax Increment Financing Funds had deficit balances of \$286,611, \$10,751, \$4,357 and \$32,672, respectively, at June 30, 2009.

Recommendation – The City should investigate alternatives to eliminate these deficits to return these funds to a sound financial position.

Response – The City is aware property taxes have not been paid. The City has reduced spending and is looking for alternative funds.

Conclusion – Response accepted.

City of Postville

Staff

This audit was performed by:

K. David Voy, CPA, Manager
Billie Jo Heth, Senior Auditor II
Aaron P. Wagner, CPA, Staff Auditor
Brett M. Zeller, Staff Auditor
Kurt D. Goldsmith, Assistant Auditor

A handwritten signature in black ink that reads "Andrew E. Nielsen". The signature is written in a cursive style with a large initial "A" and "N".

Andrew E. Nielsen, CPA
Deputy Auditor of State