

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

JUNE 30, 2009

- Prepared By -

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CITY OF NORA SPRINGS, IOWA

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CITY OF NORA SPRINGS, IOWA

OFFICIALS

<u>NAME</u>	<u>TITLE</u>	<u>TERM EXPIRES</u>
George Andersen	Mayor	January 2010
Candace Smith	Mayor Pro Tem	January 2012
Larry Cross	Council Member	January 2010
Jasper Boyd, Jr.	Council Member	January 2010
Alan Brallier	Council Member	January 2012
Steve Blickenderfer	Council Member	January 2012
Deborah Gaul	City Administrator	Indefinite
Mark Walk	Attorney	Indefinite



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**INDEPENDENT AUDITOR'S REPORT**

To the Honorable Mayor and  
Members of the City Council:

I 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 Nora Springs, 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 Nora Springs's management. My responsibility is to express opinions on these financial statements based on my audit.

I conducted my 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 I 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. I believe my audit provides a reasonable basis for my opinions.

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

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Nora Springs 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.

In accordance with Government Auditing Standards, I have also issued my report dated October 30, 2009 on my consideration of the City of Nora Springs's internal control over financial reporting and my 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 my testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of my audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 8 and 26 through 28 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Nora Springs's basic financial statements. I previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the year ended June 30, 2008 (which are not presented herein) and expressed qualified opinions on those financial statements which were prepared in conformity with an other comprehensive basis of accounting since I was unable to satisfy myself as to the distribution by fund of the total fund balance at July 1, 2007. 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 my audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



October 30, 2009

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Nora Springs 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. I 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 91.6%, or approximately \$1,026,000 from fiscal 2008 to fiscal 2009. The City received approximately \$739,000 in bond and loan proceeds during the year. Also, an increase of \$394,000 in capital grants, contributions and restricted assets and \$6,000 in property taxes from 2008 to 2009 contributed to the increase.

Disbursements of the City's governmental activities increased 158.3%, or approximately \$1,401,000, in fiscal 2009 from fiscal 2008. Public works disbursements decreased approximately \$22,000, while capital projects disbursements increased by approximately \$1,348,000.

The City's total cash basis net assets decreased 11.1%, or approximately \$101,000, from June 30, 2008 to June 30, 2009. Of this amount, the assets of the governmental activities decreased approximately \$116,000 and the assets of the business type activities increased by approximately \$15,000.

### **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. 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, health and social services, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.

Business Type Activities include the waterworks and the sanitary sewer system. These activities are financed primarily by user charges.

### *Fund Financial Statements*

The City has two kinds of funds:

1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Tax Increment Financing, 3) the Debt Service Fund and 4) the Capital Projects Funds. 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 several Enterprise Funds, including water and sewer rental funds, considered to be major funds of the City.

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

**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 \$491,976 to \$375,704. 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)

	<u>Year ended June 30,</u>	
	<u>2009</u>	<u>2008</u>
Receipts:		
Program receipts:		
Charges for service	\$ 63	\$ 58
Operating grants, contributions and restricted interest	160	160
Capital grants, contributions and restricted interest	518	124
General receipts:		
Property tax	533	527
Local option sales tax	100	123
Unrestricted interest on investments	7	27
Bond proceeds, net	738	54
Loan proceeds	1	9
Other general receipts	26	38
Total receipts	<u>\$2,146</u>	<u>\$1,120</u>
Disbursements:		
Public safety	\$ 199	\$ 186
Public works	224	202
Health and social services	-	1
Culture and recreation	96	95
Community and economic development	11	11
General government	93	81
Debt service	101	95
Capital projects	<u>1,562</u>	<u>214</u>
Total disbursements	<u>\$2,286</u>	<u>\$ 885</u>
Change in cash basis net assets before transfers	\$ (140)	\$ 235
Transfers, net	<u>24</u>	<u>-</u>
Change in cash basis net assets	\$ (116)	\$ 235
Cash basis net assets beginning of year	<u>492</u>	<u>257</u>
Cash basis net assets end of year	<u>\$ 376</u>	<u>\$ 492</u>

The City's total receipts for governmental activities increased by 91.6%, or approximately \$1,026,000. The total cost of all programs and services increased by approximately \$1,401,000 or 158.3%, with no new programs added this year. The increase in disbursements was primarily the result of capital projects.

The cost of all governmental activities this year was approximately \$2,286,000 compared to approximately \$885,000 last year. However, as shown in the Statement of Activities and Net Assets on pages 9-12, the amount taxpayers ultimately financed for these activities was only \$1,545,000 because some of the cost was paid by those directly benefited from the programs (\$63,000) or by other governments and organizations that subsidized certain programs with grants, contributions, and restricted interest \$(678,000). The City paid for the remaining "public benefit" portion of governmental activities with approximately \$633,000 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	\$ 223	\$ 225
Sewer rental	204	205
Other	-	1
Operating grants, contributions and restricted interest	2	-
General receipts:		
Unrestricted interest on investments	1	2
Other general receipts	5	-
Total receipts	\$ 435	\$ 433
Disbursements:		
Water	\$ 142	\$ 129
Sewer rental	138	157
Other	116	72
Total disbursements	\$ 396	\$ 358
Change in cash basis net assets before transfers	\$ 39	\$ 75
Transfers, net	(24)	-
Change in cash basis net assets	\$ 15	\$ 75
Cash basis net assets beginning of year	418	343
Cash basis net assets end of year	\$ 433	\$ 418

Total business type activities receipts for the fiscal year were approximately \$435,000 compared to approximately \$433,000 last year. This increase was due primarily to an increase in other general receipts. Total disbursements for the fiscal year increased by 10.6% to approximately \$396,000 because of higher operating costs in 2009.

**INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS**

As the City of Nora Springs completed the year, its governmental funds reported a combined fund balance of \$375,704, a decrease of 23.6% from last year's total of \$491,976. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

The General Fund cash balance increased \$75,397 from the prior year to \$244,899. This increase was due mainly to operating transfers in of \$102,734.

The Special Revenue, Local Option Sales Tax Fund cash balance decreased by \$10,268 to \$64,717 due to decreased local option sales tax revenues.

The Special Revenue, Tax Increment Financing Fund cash balance increased \$33,943 from the prior year to \$203,061 even though tax increment financing revenues decreased from the prior year.

The Special Revenue, Library Trust Fund cash balance decreased \$6,856 from the prior year to \$74,393 due to a loan payoff.

The Capital Projects, 2008 Mill Pond Repair Project Fund cash balance decreased by \$256,292 to \$(256,292) in 2009 due to capital project disbursements spent before revenues were received.

The Capital Projects, Water System Improvements Fund cash balance increased by \$33,588 during the fiscal year. This increase was attributable to the receipt of bond proceeds during the year.

**INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS**

The Water Fund cash balance increased by \$1,533 to \$201,437.

The Sewer Rental Fund cash balance decreased by \$67,841 to \$9,315, due primarily to operating transfers out.

The Sewer Sinking Fund cash balance increased by \$21,324 to \$46,360, due to operating transfers in.

The Sewer Reserve Fund cash balance increased by \$26,133 to \$112,060 due to operating transfers in.

The Sewer Improvement Fund cash balance increased \$25,000 to \$50,000 due to operating transfers in.

**BUDGETARY HIGHLIGHTS**

Over the course of the year the City amended its budget once. The amendment was approved on April 14, 2009 and increased revenues and expenditures \$544,461 and \$710,334 respectively. These increases were due primarily to a state revolving loan received for capital projects. The City exceeded the amount budgeted in the debt service function for the year ended June 30, 2009.

**DEBT ADMINISTRATION**

At June 30, 2009, the City had approximately \$1,521,000 in bonds and other long-term debt outstanding, compared to approximately \$935,000 last year, as shown below.

**Outstanding Debt at Year-End**  
(Expressed in Thousands)

	June 30,	
	2009	2008
General obligation bonds	\$ 240	\$ 315
Revenue bonds	1,280	604
Bank note	1	10
Capital lease	-	6
Total	<u>\$1,521</u>	<u>\$ 935</u>

The City incurred water revenue bonds and a bank loan during 2009. Principal and interest payments were made as scheduled. The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$240,000 is significantly below its constitutional debt limit of \$2,699,821.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

The City of Nora Springs'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.

**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 Deborah Gaul, City Administrator, 45 North Hawkeye Avenue, Nora Springs, Iowa 50458-9998.

CITY OF NORA SPRINGS, IOWA  
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2009

	<u>Disbursements</u>	<u>Program Receipts</u>		
		<u>Charges for Service</u>	<u>Contributions and Restricted Interest</u>	<u>Capital Grants, Contributions and Restricted Interest</u>
<b>FUNCTIONS/PROGRAMS:</b>				
Governmental activities:				
Public safety	\$ 198,746	\$ 755	\$ 8,284	\$ -
Public works	223,685	47,509	136,662	-
Health and social services	15	-	-	-
Culture and recreation	95,736	11,230	14,757	-
Community and economic development	11,156	-	-	-
General government	92,882	4,003	-	-
Debt service	101,341	-	-	-
Capital projects	<u>1,562,431</u>	<u>-</u>	<u>-</u>	<u>517,987</u>
Total governmental activities	<u>\$2,285,992</u>	<u>\$ 63,497</u>	<u>\$ 159,703</u>	<u>\$ 517,987</u>
Business type activities:				
Water	\$ 141,749	\$ 223,094	\$ -	\$ -
Sewer rental	137,821	203,673	2,306	-
Other	<u>116,092</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total business type activities	<u>\$ 395,662</u>	<u>\$ 426,767</u>	<u>\$ 2,306</u>	<u>\$ -</u>
Total	<u>\$2,681,654</u>	<u>\$ 490,264</u>	<u>\$ 162,009</u>	<u>\$ 517,987</u>

(Continued)

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

<b>Governmental Activities</b>	<b>Business Type Activities</b>	<b>Total</b>
\$ (189,707)	\$ -	\$ (189,707)
(39,514)	-	(39,514)
(15)	-	(15)
(69,749)	-	(69,749)
(11,156)	-	(11,156)
(88,879)	-	(88,879)
(101,341)	-	(101,341)
(1,044,444)	-	(1,044,444)
\$(1,544,805)	\$ -	\$(1,544,805)
\$ -	\$ 81,345	\$ 81,345
-	68,158	68,158
-	(116,092)	(116,092)
\$ -	\$ 33,411	\$ 33,411
\$(1,544,805)	\$ 33,411	\$(1,511,394)

CITY OF NORA SPRINGS, IOWA  
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2009

**General Receipts:**

Property and other city tax levied for:  
    General purposes  
    Debt service  
Tax increment financing  
Local option sales tax  
Unrestricted interest on investments  
Loan proceeds  
Bond proceeds, net  
Miscellaneous  
Transfers

Total general receipts and transfers

Change in cash basis net assets

Cash basis net assets beginning of year

Cash basis net assets end of year

**Cash Basis Net Assets**

Restricted:

    Streets  
    Urban renewal purposes  
    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**

<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
\$ 321,310	\$ -	\$ 321,310
26,808	-	26,808
185,283	-	185,283
99,732	-	99,732
6,762	580	7,342
1,330	-	1,330
737,764	-	737,764
25,575	4,826	30,401
<u>23,969</u>	<u>(23,969)</u>	<u>-</u>
<u>\$ 1,428,533</u>	<u>\$ (18,563)</u>	<u>\$ 1,409,970</u>
\$ (116,272)	\$ 14,848	\$ (101,424)
<u>491,976</u>	<u>418,392</u>	<u>910,368</u>
<u><b>\$ 375,704</b></u>	<u><b>\$ 433,240</b></u>	<u><b>\$ 808,944</b></u>
\$ 156	\$ -	\$ 156
203,061	-	203,061
-	172,486	172,486
187,397	50,002	237,399
<u>(14,910)</u>	<u>210,752</u>	<u>195,842</u>
<u><b>\$ 375,704</b></u>	<u><b>\$ 433,240</b></u>	<u><b>\$ 808,944</b></u>

CITY OF NORA SPRINGS, IOWA  
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES  
GOVERNMENTAL FUNDS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2009

	<b>Special</b>		
	<b>General</b>	<b>Local Option Sales Tax</b>	<b>Tax Increment Financing</b>
<b>RECEIPTS:</b>			
Property tax	\$ 214,225	\$ -	\$ -
Tax increment financing	-	-	185,283
Other city tax	16,676	99,732	691
Licenses and permits	2,470	-	-
Use of money and property	5,333	-	-
Intergovernmental	26,560	-	-
Charges for service	58,741	-	-
Special assessments	1,718	-	-
Miscellaneous	19,184	-	530
Total receipts	\$ 344,907	\$ 99,732	\$ 186,504
<b>DISBURSEMENTS:</b>			
Operating:			
Public safety	\$ 156,276	\$ -	\$ -
Public works	50,498	-	-
Health and social services	15	-	-
Culture and recreation	86,880	-	-
Community and economic development	390	-	10,766
General government	78,185	-	-
Debt service	-	-	-
Capital projects	-	60,000	-
Total disbursements	\$ 372,244	\$ 60,000	\$ 10,766
Excess (deficiency) of receipts over (under) disbursements	\$ (27,337)	\$ 39,732	\$ 175,738
Other financing sources (uses):			
Operating transfers in	\$ 102,734	\$ -	\$ -
Operating transfers out	-	(50,000)	(141,795)
Loan proceeds	-	-	-
Bond proceeds	-	-	-
Less: bond fee	-	-	-
Total other financing sources (uses)	\$ 102,734	\$ (50,000)	\$(141,795)
Net change in cash balances	\$ 75,397	\$ (10,268)	\$ 33,943
Cash balances beginning of year	169,502	74,985	169,118
<b>Cash balances end of year</b>	<b>\$ 244,899</b>	<b>\$ 64,717</b>	<b>\$ 203,061</b>
<b>Cash Basis Fund Balances:</b>			
Unreserved:			
General fund	\$ 244,899	\$ -	\$ -
Special revenue funds	-	64,717	203,061
Debt service fund	-	-	-
Capital projects funds	-	-	-
Total cash basis fund balances	<b>\$ 244,899</b>	<b>\$ 64,717</b>	<b>\$ 203,061</b>

See Notes to Financial Statements.

<u>Revenue</u>	<u>Capital Projects</u>				
<u>Library Trust</u>	<u>2008 Mill Pond Repair Project</u>	<u>Water System Improvements</u>	<u>Other Nonmajor Governmental Funds</u>	<u>Total</u>	
\$ -	\$ -	\$ -	\$ 112,195	\$ 326,420	
-	-	-	-	185,283	
-	-	-	4,331	121,430	
-	-	-	-	2,470	
1,429	-	-	-	6,762	
-	48,932	464,401	139,998	679,891	
-	-	-	-	58,741	
-	-	-	-	1,718	
3,636	-	-	592	23,942	
<u>\$ 5,065</u>	<u>\$ 48,932</u>	<u>\$ 464,401</u>	<u>\$ 257,116</u>	<u>\$ 1,406,657</u>	
\$ -	\$ -	\$ -	\$ 42,470	\$ 198,746	
-	-	-	173,187	223,685	
-	-	-	-	15	
3,370	-	-	5,486	95,736	
-	-	-	-	11,156	
-	-	-	14,697	92,882	
9,881	-	-	91,460	101,341	
-	305,224	1,192,546	4,661	1,562,431	
<u>\$ 13,251</u>	<u>\$ 305,224</u>	<u>\$ 1,192,546</u>	<u>\$ 331,961</u>	<u>\$ 2,285,992</u>	
<u>\$ (8,186)</u>	<u>\$ (256,292)</u>	<u>\$ (728,145)</u>	<u>\$ (74,845)</u>	<u>\$ (879,335)</u>	
\$ -	\$ -	\$ 23,969	\$ 94,795	\$ 221,498	
-	-	-	(5,734)	(197,529)	
1,330	-	-	-	1,330	
-	-	745,764	-	745,764	
-	-	(8,000)	-	(8,000)	
<u>\$ 1,330</u>	<u>\$ -</u>	<u>\$ 761,733</u>	<u>\$ 89,061</u>	<u>\$ 763,063</u>	
\$ (6,856)	\$ (256,292)	\$ 33,588	\$ 14,216	\$ (116,272)	
81,249	-	(33,771)	30,893	491,976	
<u>\$ 74,393</u>	<u>\$ (256,292)</u>	<u>\$ (183)</u>	<u>\$ 45,109</u>	<u>\$ 375,704</u>	
\$ -	\$ -	\$ -	\$ -	\$ 244,899	
74,393	-	-	47,041	389,212	
-	-	-	(3,334)	(3,334)	
-	(256,292)	(183)	1,402	(255,073)	
<u>\$ 74,393</u>	<u>\$ (256,292)</u>	<u>\$ (183)</u>	<u>\$ 45,109</u>	<u>\$ 375,704</u>	

CITY OF NORA SPRINGS, IOWA  
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND  
CHANGES IN CASH BALANCES  
PROPRIETARY FUNDS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2009

	<u>Enterprise</u>		
	<u>Water</u>	<u>Sewer Rental</u>	<u>Sewer Sinking</u>
Operating receipts:			
Charges for service	\$ 223,094	\$ 203,673	\$ -
Operating disbursements:			
Business type activities	<u>141,749</u>	<u>115,342</u>	<u>-</u>
Excess of operating receipts over operating disbursements	<u>\$ 81,345</u>	<u>\$ 88,331</u>	<u>\$ -</u>
Non-operating receipts (disbursements):			
Intergovernmental	\$ -	\$ 2,306	\$ -
Interest on investments	-	-	-
Miscellaneous	1,070	3,754	-
Debt service	-	-	(67,876)
Capital projects	<u>-</u>	<u>(22,479)</u>	<u>-</u>
Net non-operating receipts (disbursements)	<u>\$ 1,070</u>	<u>\$ (16,419)</u>	<u>\$ (67,876)</u>
Excess (deficiency) of receipts over (under) disbursements	<u>\$ 82,415</u>	<u>\$ 71,912</u>	<u>\$ (67,876)</u>
Other financing sources (uses):			
Operating transfers in	\$ -	\$ -	\$ 89,200
Operating transfers out	<u>(80,882)</u>	<u>(139,753)</u>	<u>-</u>
Total other financing sources (uses)	<u>\$ (80,882)</u>	<u>\$ (139,753)</u>	<u>\$ 89,200</u>
Net change in cash balances	\$ 1,533	\$ (67,841)	\$ 21,324
Cash balances beginning of year	<u>199,904</u>	<u>77,156</u>	<u>25,036</u>
<b>Cash balances end of year</b>	<b><u>\$ 201,437</u></b>	<b><u>\$ 9,315</u></b>	<b><u>\$ 46,360</u></b>
<b>Cash Basis Fund Balances:</b>			
Reserved for other	\$ -	\$ -	\$ -
Reserved for debt service	-	-	46,360
Unreserved	<u>201,437</u>	<u>9,315</u>	<u>-</u>
<b>Total cash basis fund balances</b>	<b><u>\$ 201,437</u></b>	<b><u>\$ 9,315</u></b>	<b><u>\$ 46,360</u></b>

*See Notes to Financial Statements.*

<u>Funds</u>			
<u>Sewer Reserve</u>	<u>Sewer Improvement</u>	<u>Other Nonmajor Enterprise Funds</u>	<u>Total</u>
\$ -	\$ -	\$ -	\$ 426,767
<u>-</u>	<u>-</u>	<u>-</u>	<u>257,091</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 169,676</u>
\$ -	\$ -	\$ -	\$ 2,306
580	-	-	580
-	-	2	4,826
-	-	(48,216)	(116,092)
<u>-</u>	<u>-</u>	<u>-</u>	<u>(22,479)</u>
<u>\$ 580</u>	<u>\$ -</u>	<u>\$ (48,214)</u>	<u>\$ (130,859)</u>
<u>\$ 580</u>	<u>\$ -</u>	<u>\$ (48,214)</u>	<u>\$ 38,817</u>
\$ 25,553	\$ 25,000	\$ 56,913	\$ 196,666
<u>-</u>	<u>-</u>	<u>-</u>	<u>(220,635)</u>
<u>\$ 25,553</u>	<u>\$ 25,000</u>	<u>\$ 56,913</u>	<u>\$ (23,969)</u>
\$ 26,133	\$ 25,000	\$ 8,699	\$ 14,848
<u>85,927</u>	<u>25,000</u>	<u>5,369</u>	<u>418,392</u>
<u><b>\$ 112,060</b></u>	<u><b>\$ 50,000</b></u>	<u><b>\$ 14,068</b></u>	<u><b>\$ 433,240</b></u>
\$ -	\$ 50,000	\$ 2	\$ 50,002
112,060	-	14,066	172,486
<u>-</u>	<u>-</u>	<u>-</u>	<u>210,752</u>
<u><b>\$ 112,060</b></u>	<u><b>\$ 50,000</b></u>	<u><b>\$ 14,068</b></u>	<u><b>\$ 433,240</b></u>

CITY OF NORA SPRINGS, IOWA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2009

(1) Summary of Significant Accounting Policies

The City of Nora Springs is a political subdivision of the State of Iowa located in Floyd County. It was first incorporated in 1875 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 Nora Springs has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City. The City has no component units which meet the Governmental Accounting Standards Board criteria.

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 the following boards: North Iowa Area Council of Governments, the Landfill of North Iowa, and the IMWCA Loss Control Board (Iowa Municipalities Workers' Compensation Association).

B. Basis of Presentation

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

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

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

*Unrestricted net assets* consist of net assets 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.

CITY OF NORA SPRINGS, IOWA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2009

(1) Summary of Significant Accounting Policies - continued

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

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

The City reports the following major governmental funds:

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

Special Revenue:

The Local Option Sales Tax Fund is used to account for local option sales tax receipts and disbursements.

The Tax Increment Financing Fund is used to account for TIF receipts and disbursements.

The Library Trust Fund is used to account for library operations and maintenance.

Capital Projects:

The 2008 Mill Pond Repair Project Fund is used to account for the levee repair.

The Water System Improvements Fund is used to account for the water supply and treatment capital project.

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

The Sewer Sinking Fund accounts for the payment of the sewer revenue bonds principal and interest payments.

CITY OF NORA SPRINGS, IOWA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2009

(1) **Summary of Significant Accounting Policies** - continued

The Sewer Reserve Fund accounts sewer for sewer funds required to be set aside by the sewer revenue bond requirements.

The Sewer Improvement Fund accounts for moneys reserved for future sewer capital outlays.

C. **Measurement Focus and Basis of Accounting**

The City of Nora Springs 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 debt service 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.

In addition, the City had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$113,906 pursuant to Rule 2a-7 under the Investment Company Act of 1940.

**CITY OF NORA SPRINGS, IOWA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2009**

(2) **Cash and Pooled Investments** - continued

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

Credit risk - The City's investment in the Iowa Public Agency Investment Trust is unrated.

(3) **Bonds and Notes Payable**

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

Year Ending June 30,	General Obligation Bond and Notes		Revenue Bonds and Notes		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2010	\$ 80,000	\$ 11,945	\$ 76,000	\$ 48,129	\$ 156,000	\$ 60,074
2011	85,000	7,895	77,000	44,969	162,000	52,864
2012	25,000	3,525	77,000	41,725	102,000	45,250
2013	25,000	2,375	83,000	38,294	108,000	40,669
2014	25,000	1,200	84,000	34,651	109,000	35,851
2015-2019	-	-	465,000	114,283	465,000	114,283
2020-2024	-	-	218,000	50,010	218,000	50,010
2025-2028	-	-	200,000	15,210	200,000	15,210
Total	<u>\$240,000</u>	<u>\$ 26,940</u>	<u>\$1,280,000</u>	<u>\$387,271</u>	<u>\$1,520,000</u>	<u>\$414,211</u>

The resolutions providing for the issuance of the general obligation bonds and notes include the following provision:

- a) At the option of the City, notes due on the General Obligation Wastewater Treatment Plant Bond issue of December 29, 2000, are subject to redemption and prepayment in any order beginning June 1, 2007, and on any interest payment date thereafter, at a price of par plus accrued interest to call date, by giving proper notice.
- b) At the option of the City, notes due on the General Obligation Refunding Note issue of December 1, 2002, are subject to redemption and prepayment in any order of maturity beginning June 1, 2010, and on any interest payment thereafter, at a price of par plus accrued interest to call date, by giving proper notice.

Revenue Notes

The City has pledged future sewer customer receipts, net of specified operating disbursement, to repay \$410,000 in sewer revenue notes issued in December 2000, and \$350,000 in sewer revenue notes issued in January 2004. Proceeds from the notes provided financing for constructing improvements and extensions to the municipal sewer utility. The notes are payable solely from sewer customer net receipts and are payable through 2019. Annual principal and interest payments on the notes are expected to require less than 75 percent of net receipts. The total principal and interest remaining to be paid on the notes is \$645,961. For the current year, principal and interest paid and total customer net receipts were \$67,076 and \$88,331, respectively.

CITY OF NORA SPRINGS, IOWA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2009

(3) Bonds and Notes Payable - continued

The City has pledged future water customer receipts, net of specified operating disbursement, to repay \$800,000 in water revenue bonds issued in June 2008. Proceeds from the bonds provided financing for drinking water system improvements. The bonds are payable solely from water customer net receipts and are payable through 2028. Annual principal and interest payments on the bonds are expected to require less than 70 percent of net receipts. The total principal and interest remaining to be paid on the bonds is \$1,021,310. For the current year, principal and interest paid and total customer net receipts were \$46,211 and \$81,345, respectively.

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

- a) The bonds will only be redeemed from the future earnings of the enterprise activities and bond holders hold a lien on the future earnings of the funds.
- b) At the option of the City, Sewer Revenue Notes dated December 1, 2000 and the Sewer Revenue Notes dated January 1, 2004 maturing after December 1, 2011 may be called for redemption and paid before maturity on said date or any date thereafter, from any funds regardless of source, in whole or from time to time in part, in any order of maturity and within an annual maturity by lot. The terms of redemption shall be par plus accrued interest to date of call.
- c) At the option of the City, Water Revenue Bonds dated June 1, 2008 may be called at any date for redemption and paid before maturity on said date or any date thereafter, from any funds regardless of source, in whole or from time to time in part, in inverse order of maturity upon not less than thirty days notice of redemption. The terms of redemption shall be par plus accrued interest to date of call.
- d) Sufficient monthly transfers shall be made to separate water and sewer revenue bond sinking accounts within the Enterprise Funds for the purpose of making the bond principal and interest payments when due.
- e) Transfers shall be made from the bond proceeds to a water reserve account and a sewer revenue reserve account within the Enterprise funds in an amount equal to the principal and interest payments for the fiscal year. The reserve accounts are restricted for the purpose of paying principal and interest due on the revenue bonds when insufficient money is available in the revenue bond sinking account.
- f) Additional monthly transfer shall be made to a sewer revenue improvement account until a specific minimum balance has been accumulated. This account is restricted for the purpose of paying for any improvement, extension or repair to the system of for note and interest payments which the other funds might be unable to make.

**CITY OF NORA SPRINGS, IOWA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2009**

**(3) Bonds and Notes Payable - continued**

The City has also entered into the following loan agreement with the First State Bank, Nora Springs, Iowa:

<u>Date of Loan</u>	<u>6-05-09</u>
Original amount	\$1,330
Interest rate	3.5%
Payment dates	Monthly
Payment amount	\$1,330
Maturity date	7-6-09

At June 30, 2009:

Number of payments remaining	1
Outstanding balance	\$1,330

**(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 contribution to IPERS for the years ended June 30, 2009 and 2008 were \$18,903 and \$18,067, respectively, equal to the required contribution for each year.

**(5) Other Postemployment Benefits (OPEB)**

The City implemented GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits other Than Pensions during the year ended June 30, 2009.

Plan Description - The City operates a single-employer retiree benefit plan which provides medical/prescription drug benefits for retirees and their spouses. There are 6 active and no retired members in the plan. Participants must be age 55 or older at retirement.

The medical/prescription drug coverage is provided through a fully-insured plan with Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefit as active employees, which results in an implicit subsidy and an OPEB liability.

Funding Policy - The contribution requirements of plan members are established and may be amended by the City. The City currently finances the retiree benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the City and plan members are \$336 for single coverage and \$835 for family coverage. The same monthly premiums apply to retirees. For the year ended June 30, 2009, the City contributed \$39,769 and plan members eligible for benefits contributed \$5,311 to the plan.

CITY OF NORA SPRINGS, IOWA  
 NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2009

(6) **Compensated Absences**

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

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$ 8,374
Personal	2,548
Comp	9,608
Total	<u>\$ 20,530</u>

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

(7) **Interfund Transfers**

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

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Special Revenue:	
	Emergency	\$ 5,734
	Local Option Sales Tax	50,000
	Tax Increment Financing	47,000
		<u>\$102,734</u>
Special Revenue:	Special Revenue:	
Downtown Corridor	Tax Increment Financing	<u>\$ 30,000</u>
Debt Service	Special Revenue:	
	Tax Increment Financing	<u>\$ 64,795</u>
Enterprise:	Enterprise:	
Water System	Water	\$ 23,969
Improvement	Water	51,273
Water Sinking	Water	5,640
Water Reserve	Sewer Rental	89,200
Sewer Sinking	Sewer Rental	25,553
Sewer Reserve	Sewer Rental	25,000
Sewer Improvement		<u>\$220,635</u>
Total		<u>\$418,164</u>

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

(8) **Related Party Transactions**

The City had business transactions between the City and City officials totaling \$8,719 during the year ended June 30, 2009.

CITY OF NORA SPRINGS, IOWA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2009

(9) **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 \$27,409.

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 that a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. As of June 30, 2009, settled claims have not exceeded the risk pool or reinsurance coverage since the Pool's inception.

**CITY OF NORA SPRINGS, IOWA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2009**

**(9) Risk Management - continued**

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all casualty claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their 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 public employee dishonesty coverage and workers compensation coverage. 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 two fiscal years.

**(10) Economic Development**

The City has entered into two development assistance agreements with a local business. The assistance is in the form of a rebate by the City of 75% of the Tax Increment received by the City. During the year ended June 30, 2009, \$10,766 was paid in rebates.

**(11) Deficit Fund Balances**

The Debt Service Fund had a deficit balance of \$3,334 at June 30, 2009. The deficit will be eliminated upon future receipt of property taxes.

The Capital Projects, 2008 Mill Pond Repair Project Fund had a deficit balance of \$256,292 at June 30, 2009. The deficit balance was a result of project costs incurred prior to availability of funds. The deficit will be eliminated upon future receipts.

The Capital Projects, Water System Improvements Fund had a deficit balance of \$183 at June 30, 2009. The deficit will be eliminated upon future receipts.

**(12) Commitments**

At June 30, 2009, the following construction commitments had been made:

<u>Project</u>	<u>Total Contract</u>	<u>Costs Incurred To Date</u>
Mill Pond Project	\$ 314,495	\$ 267,062
2009 Street Project	142,030	-
Total	<u>\$ 456,525</u>	<u>\$ 267,062</u>

**Required Supplementary Information**

CITY OF NORA SPRINGS, IOWA  
 BUDGETARY COMPARISON SCHEDULE OF RECEIPTS, DISBURSEMENTS  
 AND CHANGES IN BALANCES -  
 BUDGET AND ACTUAL (CASH BASIS) - ALL  
 GOVERNMENTAL FUNDS AND PROPRIETARY FUNDS  
 REQUIRED SUPPLEMENTARY INFORMATION  
 YEAR ENDED JUNE 30, 2009

	Governmental Funds <u>Actual</u>	Proprietary Funds <u>Actual</u>	Less Funds Not Required to be Budgeted
<b>RECEIPTS:</b>			
Property tax	\$ 326,420	\$ -	\$ -
Tax increment financing	185,283	-	-
Other city tax	121,430	-	-
Licenses and permits	2,470	-	-
Use of money and property	6,762	580	-
Intergovernmental	679,891	2,306	-
Charges for service	58,741	426,767	-
Special assessments	1,718	-	-
Miscellaneous	23,942	4,826	-
Total receipts	<u>\$ 1,406,657</u>	<u>\$ 434,479</u>	<u>\$ -</u>
<b>DISBURSEMENTS:</b>			
Public safety	\$ 198,746	\$ -	\$ -
Public works	223,685	-	-
Health and social services	15	-	-
Culture and recreation	95,736	-	-
Community and economic development	11,156	-	-
General government	92,882	-	-
Debt service	101,341	-	-
Capital projects	1,562,431	-	-
Business type activities	-	395,662	-
Total disbursements	<u>\$ 2,285,992</u>	<u>\$ 395,662</u>	<u>\$ -</u>
Excess (deficiency) of receipts over (under) disbursements	\$ (879,335)	\$ 38,817	\$ -
Other financing sources, net	<u>763,063</u>	<u>(23,969)</u>	<u>-</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	\$ (116,272)	\$ 14,848	\$ -
Balances beginning of year	<u>491,976</u>	<u>418,392</u>	<u>-</u>
<b>Balances end of year</b>	<u><b>\$ 375,704</b></u>	<u><b>\$ 433,240</b></u>	<u><b>\$ -</b></u>

*See Accompanying Independent Auditor's Report.*

<u>Total</u>	<u>Budgeted Amounts</u>		<u>Final to Total Variance</u>
	<u>Original</u>	<u>Final</u>	
\$ 326,420	\$ 327,953	\$ 327,953	\$ (1,533)
185,283	134,000	134,000	51,283
121,430	108,295	108,295	13,135
2,470	2,175	2,175	295
7,342	8,200	8,200	(858)
682,197	606,910	957,100	(274,903)
485,508	426,659	456,450	29,058
1,718	1,400	1,400	318
28,768	4,550	4,550	24,218
<u>\$1,841,136</u>	<u>\$1,620,142</u>	<u>\$ 2,000,123</u>	<u>\$ (158,987)</u>
\$ 198,746	\$ 184,510	\$ 209,840	\$ 11,094
223,685	220,855	287,057	63,372
15	5,000	5,000	4,985
95,736	130,431	130,431	34,695
11,156	20,270	20,170	9,014
92,882	95,326	97,115	4,233
101,341	91,460	91,460	(9,881)
1,562,431	1,178,125	1,583,226	20,795
395,662	371,912	422,146	26,484
<u>\$2,681,654</u>	<u>\$2,297,889</u>	<u>\$ 2,846,445</u>	<u>\$ 164,791</u>
\$ (840,518)	\$ (677,747)	\$ (846,322)	\$ 5,804
<u>739,094</u>	<u>735,062</u>	<u>737,764</u>	<u>1,330</u>
\$ (101,424)	\$ 57,315	\$ (108,558)	\$ 7,134
<u>910,368</u>	<u>910,368</u>	<u>910,368</u>	<u>-</u>
<u><b>\$ 808,944</b></u>	<u><b>\$ 967,683</b></u>	<u><b>\$ 801,810</b></u>	<u><b>\$ 7,134</b></u>

**CITY OF NORA SPRINGS, IOWA**  
**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 Governmental 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. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Funds and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$548,556. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2009, disbursements exceeded the amount budgeted in the debt service function.

Other Supplementary Information

CITY OF NORA SPRINGS, IOWA  
SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES  
NONMAJOR GOVERNMENTAL FUNDS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2009

	<b>Special Revenue</b>			
	<b>Road Use Tax</b>	<b>Employee Benefits</b>	<b>Emergency</b>	<b>Forfeiture</b>
<b>RECEIPTS:</b>				
Property tax	\$ -	\$ 80,603	\$ 6,203	\$ -
Other city tax	-	2,704	208	-
Intergovernmental	135,344	-	-	-
Miscellaneous	592	-	-	-
Total receipts	<u>\$ 135,936</u>	<u>\$ 83,307</u>	<u>\$ 6,411</u>	<u>\$ -</u>
<b>DISBURSEMENTS:</b>				
Operating:				
Public safety	\$ -	\$ 42,470	\$ -	\$ -
Public works	148,000	25,187	-	-
Culture and recreation	-	5,486	-	-
General government	-	14,697	-	-
Debt service	-	-	-	-
Capital projects	-	-	-	-
Total disbursements	<u>\$ 148,000</u>	<u>\$ 87,840</u>	<u>\$ -</u>	<u>\$ -</u>
Excess (deficiency) of receipts over (under) disbursements	<u>\$ (12,064)</u>	<u>\$ (4,533)</u>	<u>\$ 6,411</u>	<u>\$ -</u>
Other financing sources (uses):				
Operating transfers in	\$ -	\$ -	\$ -	\$ -
Operating transfers out	-	-	(5,734)	-
Total other financing sources (uses)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (5,734)</u>	<u>\$ -</u>
Net change in cash balances	\$ (12,064)	\$ (4,533)	\$ 677	\$ -
Cash balances beginning of year	<u>12,220</u>	<u>13,890</u>	<u>6,405</u>	<u>446</u>
<b>Cash balances end of year</b>	<b><u>\$ 156</u></b>	<b><u>\$ 9,357</u></b>	<b><u>\$ 7,082</u></b>	<b><u>\$ 446</u></b>
<b>Cash Basis Fund Balances:</b>				
Unreserved:				
Special revenue funds	\$ 156	\$ 9,357	\$ 7,082	\$ 446
Debt service	-	-	-	-
Capital projects fund	-	-	-	-
<b>Total cash basis fund balances</b>	<b><u>\$ 156</u></b>	<b><u>\$ 9,357</u></b>	<b><u>\$ 7,082</u></b>	<b><u>\$ 446</u></b>

*See Accompanying Independent Auditor's Report.*

		<u>Capital Projects</u>		
<u>Downtown Corridor</u>	<u>2006 Housing Rehab</u>	<u>Debt Service</u>	<u>Total</u>	
\$ -	\$ -	\$ 25,389	\$ 112,195	
-	-	1,419	4,331	
-	4,654	-	139,998	
-	-	-	592	
<u>\$ -</u>	<u>\$ 4,654</u>	<u>\$ 26,808</u>	<u>\$ 257,116</u>	
\$ -	\$ -	\$ -	\$ 42,470	
-	-	-	173,187	
-	-	-	5,486	
-	-	-	14,697	
-	-	91,460	91,460	
-	4,661	-	4,661	
<u>\$ -</u>	<u>\$ 4,661</u>	<u>\$ 91,460</u>	<u>\$ 331,961</u>	
<u>\$ -</u>	<u>\$ (7)</u>	<u>\$ (64,652)</u>	<u>\$ (74,845)</u>	
\$ 30,000	\$ -	\$ 64,795	\$ 94,795	
-	-	-	(5,734)	
<u>\$ 30,000</u>	<u>\$ -</u>	<u>\$ 64,795</u>	<u>\$ 89,061</u>	
\$ 30,000	\$ (7)	\$ 143	\$ 14,216	
-	1,409	(3,477)	30,893	
<u>\$ 30,000</u>	<u>\$ 1,402</u>	<u>\$ (3,334)</u>	<u>\$ 45,109</u>	
\$ 30,000	\$ -	\$ -	\$ 47,041	
-	-	(3,334)	(3,334)	
-	1,402	-	1,402	
<u>\$ 30,000</u>	<u>\$ 1,402</u>	<u>\$ (3,334)</u>	<u>\$ 45,109</u>	

CITY OF NORA SPRINGS, IOWA  
 SCHEUDLE OF CASH RECEIPTS, DISBURSEMENTS AND  
 CHANGES IN CASH BALANCES  
 NONMAJOR PROPRIETARY FUND  
 AS OF AND FOR THE YEAR ENDED JUNE 30, 2009

	<u>Enterprise</u>			<u>Total</u>
	<u>Water Meter Deposits</u>	<u>Water Sinking</u>	<u>Water Reserve</u>	
Non-operating receipts (disbursements):				
Miscellaneous	\$ 2	\$ -	\$ -	\$ 2
Debt service	-	(48,216)	-	(48,216)
Net non-operating receipts(disbursements)	\$ 2	\$(48,216)	\$ -	\$ (48,214)
Operating transfer in	-	51,273	5,640	56,913
Net change in cash balance	\$ 2	\$ 3,057	\$ 5,640	\$ 8,699
Cash balances beginning of year	-	5,369	-	5,369
<b>Cash balances end of year</b>	<b><u>\$ 2</u></b>	<b><u>\$ 8,426</u></b>	<b><u>\$ 5,640</u></b>	<b><u>\$ 14,068</u></b>
<b>Cash Basis Fund Balance:</b>				
Reserved for other	\$ 2	\$ -	\$ -	\$ 2
Reserved for debt service	-	8,426	5,640	14,066
<b>Total cash basis fund balances</b>	<b><u>\$ 2</u></b>	<b><u>\$ 8,426</u></b>	<b><u>\$ 5,640</u></b>	<b><u>\$ 14,068</u></b>

*See Accompanying Independent Auditor's Report.*

CITY OF NORA SPRINGS, IOWA  
 SCHEDULE OF INDEBTEDNESS  
 YEAR ENDED JUNE 30, 2009

<u>Obligation</u>	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount Originally Issued</u>
<b>General Obligation Bonds and Notes:</b>			
Wastewater Treatment Plant	12/29/00	4.90-5.45%	\$500,000
Refunding Note	12/04/02	2.20-4.80	240,000
<b>Revenue Bonds and Notes:</b>			
Sewer Revenue Notes	12/01/00	5.00-5.85%	\$410,000
Sewer Revenue Notes	01/01/04	2.00-5.00	350,000
Water Revenue Bonds	06/01/08	3.00	800,000
<b>Note Payable:</b>			
Library Trust	06/27/08	7.00%	\$ 9,862
Library Trust	06/05/09	3.50	1,330
<b>Capital Lease:</b>			
Police Car	09/14/05	5.40%	\$ 22,977
 <b>Total indebtedness</b>			

*See Accompanying Independent Auditor's Report.*

<u>Balance Beginning of Year</u>	<u>Issued During Year</u>	<u>Redeemed During Year</u>	<u>Balance End of Year</u>	<u>Interest Paid</u>	<u>Interest Due and Unpaid</u>
\$ 175,000	\$ -	\$ 55,000	\$ 120,000	\$ 9,395	\$ -
140,000	-	20,000	120,000	6,265	-
<u>\$ 315,000</u>	<u>\$ -</u>	<u>\$ 75,000</u>	<u>\$ 240,000</u>	<u>\$ 15,660</u>	<u>\$ -</u>
\$ 260,000	\$ -	\$ 25,000	\$ 235,000	\$ 14,069	\$ -
290,000	-	15,000	275,000	13,007	-
54,236	745,764	30,000	770,000	16,211	-
<u>\$ 604,236</u>	<u>\$745,764</u>	<u>\$ 70,000</u>	<u>\$1,280,000</u>	<u>\$ 43,287</u>	<u>\$ -</u>
\$ 9,862	\$ -	\$ 9,862	\$ -	\$ 19	\$ -
-	1,330	-	1,330	-	-
<u>\$ 9,862</u>	<u>\$ 1,330</u>	<u>\$ 9,862</u>	<u>\$ 1,330</u>	<u>\$ 19</u>	<u>\$ -</u>
\$ 5,913	\$ -	\$ 5,913	\$ -	\$ 385	\$ -
<u>\$ 935,011</u>	<u>\$747,094</u>	<u>\$160,775</u>	<u>\$1,521,330</u>	<u>\$ 59,351</u>	<u>\$ -</u>

CITY OF NORA SPRINGS, IOWA  
 BOND AND NOTE MATURITIES  
 JUNE 30, 2009

<u>GENERAL OBLIGATION BONDS AND NOTES</u>					
Year Ending June 30,	Wastewater Treatment Plant		Refunding Note		Total
	<u>Issued December 29, 2000</u>		<u>Issued December 4, 2002</u>		
	<u>Interest Rates</u>	<u>Amount</u>	<u>Interest Rates</u>	<u>Amount</u>	
2010	5.35%	\$ 60,000	4.20%	\$ 20,000	\$ 80,000
2011	5.45	60,000	4.40	25,000	85,000
2012		-	4.60	25,000	25,000
2013		-	4.70	25,000	25,000
2014		-	4.80	25,000	25,000
<b>Total</b>		<b><u>\$120,000</u></b>		<b><u>\$120,000</u></b>	<b><u>\$ 240,000</u></b>

<u>R E V E N U E B O N D S A N D</u>					
Year Ending June 30,	Sewer		Sewer		
	<u>Issued December 1, 2000</u>		<u>Issued January 1, 2004</u>		
	<u>Interest Rates</u>	<u>Amount</u>	<u>Interest Rates</u>	<u>Amount</u>	
2010	5.55%	\$ 30,000	3.70%	\$ 15,000	
2011	5.60	30,000	3.95	15,000	
2012	5.65	30,000	4.10	15,000	
2013	5.70	35,000	4.25	15,000	
2014	5.75	35,000	4.40	15,000	
2015	5.80	35,000	4.55	20,000	
2016	5.85	40,000	4.65	20,000	
2017		-	4.80	50,000	
2018		-	4.90	55,000	
2019		-	5.00	55,000	
2020		-		-	
2021		-		-	
2022		-		-	
2023		-		-	
2024		-		-	
2025		-		-	
2026		-		-	
2027		-		-	
2028		-		-	
<b>Total</b>		<b><u>\$235,000</u></b>		<b><u>\$275,000</u></b>	

*See Accompanying Independent Auditor's Report.*

N O T E S

<u>Water</u>		
<u>Issued June 1, 2008</u>		
<u>Interest Rates</u>	<u>Amount</u>	<u>Total</u>
3.00%	\$ 31,000	\$ 76,000
3.00	32,000	77,000
3.00	32,000	77,000
3.00	33,000	83,000
3.00	34,000	84,000
3.00	36,000	91,000
3.00	37,000	97,000
3.00	38,000	88,000
3.00	39,000	94,000
3.00	40,000	95,000
3.00	41,000	41,000
3.00	42,000	42,000
3.00	44,000	44,000
3.00	45,000	45,000
3.00	46,000	46,000
3.00	48,000	48,000
3.00	49,000	49,000
3.00	51,000	51,000
3.00	52,000	52,000
	<u>\$ 770,000</u>	<u>\$1,280,000</u>

CITY OF NORA SPRINGS, IOWA  
 SCHEDULE OF RECEIPTS BY SOURCE AND DISBURSEMENTS BY FUNCTION -  
 ALL GOVERNMENTAL FUNDS  
 FOR THE LAST TWO YEARS

	<u>2009</u>	<u>2008</u>
Receipts:		
Property tax	\$ 326,420	\$ 199,972
Tax increment financing	185,283	-
Other city tax	121,430	17,793
Licenses and permits	2,470	1,848
Use of money and property	6,762	21,755
Intergovernmental	679,891	13,657
Charges for service	58,741	57,796
Special assessments	1,718	1,694
Miscellaneous	<u>23,942</u>	<u>16,726</u>
<b>Total</b>	<b><u>\$1,406,657</u></b>	<b><u>\$ 331,241</u></b>
Disbursements:		
Operating:		
Public safety	\$ 198,746	\$ 153,141
Public works	223,685	46,677
Health and social services	15	1,265
Culture and recreation	95,736	76,364
Community and economic development	11,156	704
General government	92,882	68,547
Debt service	101,341	-
Capital projects	<u>1,562,431</u>	<u>-</u>
<b>Total</b>	<b><u>\$2,285,992</u></b>	<b><u>\$ 346,698</u></b>

*See Accompanying Independent Auditor's Report.*

CITY OF NORA SPRINGS, IOWA  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 YEAR ENDED JUNE 30, 2009

<u>GRANTOR/PROGRAM</u>	<u>CFDA NUMBER</u>	<u>AGENCY PASS-THROUGH NUMBER</u>	<u>PROGRAM EXPENDITURES</u>
<b>Direct:</b>			
U.S. Department of Homeland Security: Disaster Grants-Public Assistance	97.036	FEMA-1763-DR-IA	\$ <u>297,447</u>
<b>Indirect:</b>			
U.S. Department of Housing and Urban Development: Iowa Department of Economic Development: Community Development Block Grant Program	14.228	05-HSG-037 07-WS-050	\$ 4,654 454,685 <u>\$ 459,339</u>
Environmental Protection Agency: Iowa Finance Authority: Capitalization Grant for Drinking Water State Revolving Funds	66.468		\$ <u>410,081</u>
<b>Total</b>			<b><u>\$1,166,867</u></b>

**Basis of Presentation** - The Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Nora Springs 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.*



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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:

I 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 Nora Springs, 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 my report thereon dated October 30, 2009. My report expressed unqualified opinions on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. I conducted my 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 my audit, I considered the City of Nora Springs's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing my opinion on the effectiveness of the City of Nora Springs's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the City of Nora Springs's internal control over financial reporting.

My 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, I identified a deficiency in internal control over financial reporting that I consider to be a significant deficiency and 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 Nora Springs'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 Nora Springs's financial statements that is more than inconsequential will not be prevented or detected by the City of Nora Springs's internal control. I consider the deficiency in internal control described in Part II of the accompanying Schedule of Findings to be a significant deficiency 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 Nora Springs's internal control.

My 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, I believe the significant deficiency described above, item II-A-09, is a material weakness.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Nora Springs's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations and 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 my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, I noted certain immaterial instances of non-compliance or other matters that are described in Part IV of the accompanying Schedule of Findings.

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 my audit of the financial statements of the City. Since my 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 Nora Springs's responses to findings identified in my audit are described in the accompanying Schedule of Findings. While I have expressed my conclusions on the City's responses, I did not audit the City of Nora Springs's responses and, accordingly, I 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 Nora Springs and other parties to whom the City of Nora Springs 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.

I would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Nora Springs during the course of my audit. Should you have any questions concerning any of the above matters, I shall be pleased to discuss them with you at your convenience.



October 30, 2009



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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

I have audited the compliance of the City of Nora Springs, Iowa, with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal programs for the year ended June 30, 2009. The City of Nora Spring's major federal programs are identified in Part I of the accompanying Schedule of Findings. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to its major federal programs are the responsibility of the City of Nora Spring's management. My responsibility is to express an opinion on the City of Nora Spring's compliance based on my audit.

I conducted my 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 I 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 Nora Spring's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances. I believe my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination on the City of Nora Spring's compliance with those requirements.

In my opinion, the City of Nora Springs complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended June 30, 2009.

Internal Control Over Compliance

The management of the City of Nora Springs 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 my audit, I considered the City of Nora Spring's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine my auditing procedures for the purpose of expressing my opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, I do not express an opinion on the effectiveness of the City of Nora Spring's internal control over compliance.

My 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, I identified a deficiency in internal control over compliance that I consider to be a material weakness.

A control deficiency in the City's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect non-compliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to administer a federal program such that there is more than a remote likelihood non-compliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the City's internal control. I consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings as item III-A-09 to be a significant deficiency.

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

The City of Nora Spring's response to the finding identified in my audit is described in the accompanying Schedule of Findings. While I have expressed my conclusion on the City's response, I did not audit the City of Nora Spring's response and, accordingly, I express no opinion on it.

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 Nora Springs and other parties to whom the City of Nora Springs 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.



October 30, 2009

**CITY OF NORA SPRINGS, IOWA**  
**Schedule of Findings**  
**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) A significant deficiency in internal control over financial reporting was disclosed by the audit of the financial statements, which is considered to be a material weakness.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) A significant deficiency in internal control over the major programs were disclosed by the audit of the financial statements, which is considered to be a material weakness.
- (e) An unqualified opinion was issued on compliance with requirements applicable to the major programs.
- (f) The audit disclosed audit findings which are required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) The major programs were CFDA Number 66.468 - Capitalization Grants for Drinking Water State Revolving Funds and CFDA Number 14.228 - Community Development Block Grant Program.
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) The City of Nora Springs did not qualify as a low-risk auditee.

**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. I noted that certain accounting functions are not properly segregated.

Recommendation - I 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.

Response - We will review procedures and make changes to improve internal control where possible.

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

CITY OF NORA SPRINGS, IOWA  
Schedule of Findings  
Year Ended June 30, 2009

**Part II: Findings Related to the Financial Statements:** - continued

II-B-09      Disaster Recovery Plan and Information Systems - During our review of internal control, the existing control activities in the City's computer based systems were evaluated in order to determine that activities, from a control standpoint, were designed to provide reasonable assurance regarding the achievement of objectives in the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.

I noted that the City does not have a disaster recovery plan that should address specific details such as identification of critical applications, staff responsibilities, equipment and software inventory, user documentation, etc.

Recommendation - The City should develop written policies addressing the above items in order to improve the City's control over computer based systems.

Response - We are in the process of adopting a disaster recovery plan.

Conclusion - Response accepted.

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

**Part III: Findings and Questioned Costs for Federal Awards:**

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

**SIGNIFICANT DEFICIENCY:**

CFDA Number 66.468: Capitalization Grant for Drinking Water State Revolving Funds  
Pass through Agency Number: F5-34-07-DWSRF-010  
Federal Award Year: 2009  
Environmental Protection Agency  
Passed through the Iowa Finance Authority

CFDA Number 14:228: Community Development Block Grant  
Pass through Agency Number: 05-HSG-037 and 07-WS-050  
Federal Award Year: 2009  
U.S. Department of Housing and Urban Development  
Passed through the Iowa Department of Economic Development

III-A-09      Segregation of Duties - The City did not properly segregate custody, recordkeeping and reconciling functions for receipts and disbursements, including those related to Federal Programs. See audit finding II-A-09.

CITY OF NORA SPRINGS, IOWA  
 Schedule of Findings  
 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 debt service function. Chapter 384.20 of the Code of Iowa states, in part, that "Public monies may not be expended or encumbered except under an annual or continuing appropriation."

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

Response - We will do this in the future.

Conclusion - Response accepted.

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

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 - Business transactions between the City and City officials or employees are detailed as follows.

<u>Name, Title &amp; Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Al Brallier, Council Member, Owner of Brallier Tooling and Mfg.	Supplies	\$8,719

In accordance with Chapter 362.5(11) of the Code of Iowa, these transactions may represent a conflict of interest since total transactions were more than \$2,500 during the fiscal year.

Recommendation - The City should consult legal counsel to determine the disposition of this matter.

Response - We will do this.

Conclusion - Response accepted.

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 insure that the coverage is adequate for current operations.

IV-F-09      Council Minutes - No transactions were found that I believe should have been approved in the Council minutes but were not.

IV-G-09      Deposits and Investments - No instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy was noted.

CITY OF NORA SPRINGS, IOWA  
Schedule of Findings  
Year Ended June 30, 2009

**Part IV: Other Findings Related to Required Statutory Reporting:** - continued

IV-H-09      Revenue Bonds and Notes - Transfers made to the Water Sinking Fund did not meet the minimum transfers required by the revenue bond indenture.

Recommendation - The City should review the amounts due for principal and interest payments for the year and make the appropriate transfer.

Response - We will do this in the future.

Conclusion - Response accepted.

IV-I-09      Financial Condition - The Debt Service Fund, the Capital Projects Fund, 2008 Mill Pond Repair Project and the Capital Projects Fund, Water System Improvements had deficit balances of \$3,334, \$256,292 and \$183, respectively at June 30, 2009.

Recommendation - The City should monitor these funds and investigate alternatives to eliminate the deficits in order to return these funds to a sound financial condition.

Response - These funds will be monitored.

Conclusion - Response accepted.

IV-J-09      Utility Billings - The City does not appear to bill water and sewer customers based on rates specified in the City Code.

Recommendation - The City should take necessary steps to comply with the City Code and insure the billings are computed correctly.

Response - We will make the necessary changes.

Conclusion - Response accepted.

