CITY OF VILLISCA

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

JUNE 30, 2009

Table of Contents

		Page
Officials		3
Independent Auditors' Report		5-6
Management's Discussion and Analysis		7-11
Basic Financial Statements:	Exhibit	
Government-wide Financial Statement:		
Statement of Activities and Net Assets – Cash Basis	A	13-14
Governmental Fund Financial Statements:		
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	B	15-16
Proprietary Fund Financial Statements:		
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	C	17
Notes to Financial Statements		19-28
Required Supplementary Information:		
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances - Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Funds		30-31
Notes to Required Supplementary Information – Budgetary Reporting		32
Other Supplementary Information:	Schedule	
Statement of Cash Receipts, Disbursements and Changes in Cash Balances - Nonmajor Governmental Funds	1	34
Schedule of Indebtedness	2	35-36
Bond and Note Maturities	3	37
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*		39-40
Schedule of Findings		41-45

City of Villisca

Officials

Name	Title	Term Expires
Larry Figgins	Mayor	January 2010
Tom McAlpin	Council Member	January 2010
Janice Phillis	Council Member	January 2010
Curtis Gaunt	Council Member	January 2012
Lee Haidsiak	Council Member	January 2012
Marilyn Halda	Council Member	January 2012
Kerin Wright	City Clerk	Indefinite

City of Villisca

SCHROER
and associates p.c.
certified public accountants

Marilyn Schroer, CPA
Diane McGrain, CPA
Jim Menard, CPA

March 5, 2010

Independent Auditors' 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 Villisca, 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 Villisca'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. Also, as permitted by the Code of Iowa, the accounting records of the City have not been audited for all prior years. Accordingly, we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2008.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2008, 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 Villisca 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.

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In accordance with *Government Auditing Standards*, we have also issued our report dated March 5, 2010 on our consideration of the City of Villisca's internal control over financial reporting, and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or 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 11 and 30 through 32 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Villisca's basic financial statements. The supplementary information included in Schedules 1 through 3, 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, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2008, as discussed in the fourth preceding paragraph, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Schrader & Associates, P.C.

MANAGEMENT'S DISCUSSION AND ANALYSIS

City of Villisca 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.

Because the City is implementing new reporting standards for this fiscal year with significant changes in content and structure, much of the information is not easily comparable to prior years. However, in future years, comparisons will be more meaningful and will go further in explaining the City's financial position and results of operations.

2009 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities were approximately $838,000. Property taxes were approximately $229,000 and intergovernmental receipts were $382,000.

- Disbursements were approximately $1,434,000. Public safety, public works and capital projects were $163,000, $177,000 and $804,000 respectively.

- The City's total cash basis net assets decreased 28% or approximately $742,000 from June 30, 2008 to June 30, 2009. Of this amount, the assets of the governmental activities decreased approximately $719,000 and the assets of the business type activities decreased by approximately $23,000.

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 date 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 funds.

Basis of Accounting

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

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-side 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 activities5" The Statement of Activities and Net Assets reports information which helps answer this question.

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

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

- Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.

- Business Type Activities include the waterworks and 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 service. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds (such as Road Use Tax and Local Option Sales Tax, and 3) 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 statements for governmental funds include a statement of cash receipts, disbursements and changes in cash balances.

2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains three Enterprise Funds to provide separate information for the water, sewer and electric funds.

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from $1,201,000 to $482,000. The analysis that follows focuses on the changes in cash balances for governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities (Expressed in Thousands)		Year Ended June 30, 2009
Receipts and transfers:		
Program receipts:		
Charges for service	$	58
Operating grants, contributions and restricted interest		253
Capital grants, contributions and restricted interest		192
General receipts:		
Property tax		229
Local option sales tax		104
Grants and contributions not restricted to specific purpose		1
Unrestricted investment earnings		1
Total receipts and transfers		838
Disbursements:		
Public safety		163
Public works		177
Culture and recreation		101
Community and economic development		36
General government		71
Debt service		82
Capital projects		804
Total disbursements		1,434
Increase in cash basis net assets		(596)
Other financing sources (uses), net		(123)
Change in cash basis net assets		(719)
Cash basis net assets beginning of year		1,201
Cash basis net assets end of year	$	482

The cost of all governmental activities this year was $931,960. As shown in the Statement of Activities and Net Assets the amount taxpayers ultimately financed for these activities was $212,756 because some of the cost was paid by those directly benefited from the programs ($58,540) or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest ($444,813). The City paid the remaining "public benefit" portion of governmental activities with approximately $229,000 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
Receipts and transfers:		
Program receipts:		
Charges for service:		
Water	$	225
Sewer		330
Electric		1,013
General receipts:		
Unrestricted interest on investments		18
Total receipts		1,586
Disbursements and transfers:		
Water		212
Sewer		297
Electric		1,077
Total disbursements and transfers		1,586
Change in cash basis net assets before transfers		0
Transfers, net		(23)
Change in cash basis net assets		(23)
Cash basis net assets beginning of year		1,393
Cash basis net assets end of year		1,370

Total business type activities receipts for the fiscal year were $1,586,000. The enterprise cash balance decreased approximately $23,000 from the prior year.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As City of Villisca completed the year, its governmental funds reported a combined fund balance of $482,218, a decrease of $719,204 below last year's total of $1,201,452. The following are the major reasons for the changes in fund balances of the major funds for the prior year.

- The General Fund cash balance decreased $24,138 from the prior year to $133,533.
- The Local Option Sales Tax Fund cash balance increased $75,371 to $246,355 due to the receipt of local option sales tax funds.
- The Capital Projects Fund decreased $770,660 to $22,833 due to construction costs of a sewer improvement project and the payoff of interim financing with the proceeds of the long term debt.
- The Debt Service Fund decreased $6,934 to $5,807.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance increased $14,128 to $109,992.
- The Sewer Fund cash balance increased $14,070 to $354,928.
- The Electric Fund cash balance decreased $51,035 to $905,016.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget one time. The amendment resulted in an increase in the business type function due to a sewer improvement project.

DEBT ADMINISTRATION

At June 30, 2009 the City had approximately $3,439,000 in bonds and other debt, compared to approximately $2,835,000 last year as shown below:

Outstanding Debt at Year End (Expressed in Thousands)		
	Year Ended June 30,	
	2009	2008
General obligation notes and bonds	$ 1,094	$ -
Revenue bonds	2,399	1,085
Anticipatory notes	-	2,750
	$ 3,493	$ 3,835

The Constitution of the State of Iowa limits the amount of general obligation debt cites 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 is below its constitutional debt limit of approximately $1,500,000.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

City of Villisca's elected and appointed officials and citizens considered many factors when setting the fiscal year 2010 budget, tax rates and fees that will be charged for various City activities.

A requirement from the City's insurance carrier for volunteer firemen to obtain physicals and possible purchases of bunker gear, pagers and a generator are projected to be additional expenses. The City also projected the purchase of a new recycling trailer and saving for the future purchase of a rescue unit and payloader. The wastewater project is projected to increase the costs of supplies and electricity associated with the operation. The estimated tax levy is up for the 2010 budget from 14.46917% to 14.91197% due to an increase in general obligation debt service payments on the wastewater treatment project.

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 shot the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Kerin Wright, City Clerk 318 S. 3rd Ave. Villisca, Iowa 50864.

Basic Financial Statements

City of Villisca
Statement of Activities and Net Assets – Cash Basis
As of and for the year ended June 30, 2009

		Program
	Disbursements	Charges for Service
Functions/Programs:		
Governmental activities:		
Public safety	$ 163,443	25,567
Public works	177,270	7,256
Culture and recreation	101,080	23,721
Community and economic development	36,351	-
General government	70,655	1,996
Debt service	82,483	-
Capital projects	804,031	-
Total governmental activities	1,435,313	58,540
Business type activities:		
Water	211,854	225,186
Sewer	297,097	329,869
Electric	1,077,049	1,013,285
Total business type activities	1,586,000	1,568,340
Total	$ 3,021,313	1,626,880

General Receipts:
Property tax levied for:
General purposes
Debt service
Local option sales tax
Grants not restricted to specific purposes
Unrestricted interest on investments
Note proceeds
Anticipation notes redeemed
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:
Community betterment and infrastructure
Capital projects
Debt service
Improvements
Other purposes
Unrestricted

Total cash basis net assets

See notes to financial statements

Receipts		Net (Disbursement) Receipts and Changes in Cash Basis Net Assets		
Operating Grants Contributions and Restricted Interest	Capital Grants Contributions and Restricted Interest	Governmental Activities	Business Type Activities	Total
80,092	-	(57,784)	-	(57,784)
111,511	-	(58,503)	-	(58,503)
39,344	-	(38,015)	-	(38,015)
-	10,452	(25,899)	-	(25,899)
22,191	-	(46,468)	-	(46,468)
-	-	(82,483)	-	(82,483)
-	181,223	(622,808)	-	(622,808)
253,138	191,675	(931,960)	-	(931,960)
-	-	-	13,332	13,332
-	-	-	32,772	32,772
-	-	-	(63,764)	(63,764)
-	-	-	(17,660)	(17,660)
253,138	191,675	(931,960)	(17,660)	(949,620)
	$	182,914	-	182,914
		45,549	-	45,549
		104,171	-	104,171
		1,645	-	1,645
		1,068	17,747	18,815
		2,604,485	-	2,604,485
		(2,750,000)	-	(2,750,000)
		22,924	(22,924)	-
		212,756	(5,177)	207,579
		(719,204)	(22,837)	(742,041)
		1,201,422	1,392,773	2,594,195
	$	482,218	1,369,936	1,852,154
	$	246,355	-	246,355
		22,833	-	22,833
		5,807	214,597	220,404
		-	140,000	140,000
		97,828	-	97,828
		109,395	1,015,339	1,124,734
	$	482,218	1,369,936	1,852,154

City of Villisca
Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Governmental Funds
As of and for the year ended June 30, 2009

			Special Revenue	
		General	Local Option Sales Tax	Capital Projects
Receipts:				
Property tax	$	152,638	-	-
Other city tax		10,501	104,171	-
Licenses and permits		1,996	-	-
Use of money and property		6,866	1,200	8,618
Intergovernmental		88,276	-	183,057
Charges for service		49,516	-	-
Miscellaneous		52,718	-	-
Total receipts		362,511	105,371	191,675
Disbursements:				
Operating:				
Public safety		163,443	-	-
Public works		64,392	-	-
Culture and recreation		101,080	-	-
Community and economic development		638	-	35,713
General government		57,096	-	-
Debt service		-	-	-
Capital projects		-	-	804,031
Total disbursements		386,649	-	839,744
Excess (deficiency) of receipts over (under) disbursements		(24,138)	105,371	(648,069)
Other financing sources:				
Note proceeds		-	-	1,479,845
Anticipation notes redeemed		-	-	(1,615,000)
Operating transfers in		-	-	52,924
Operating transfers out		-	(30,000)	(40,360)
Total other financing sources (uses)		-	(30,000)	(122,591)
Net change in cash balances		(24,138)	75,371	(770,660)
Cash balances, beginning of year		133,533	170,984	793,493
Cash balances, end of year	$	109,395	246,355	22,833
Cash Basis Fund Balances				
Reserved:				
Debt service	$	-	-	-
Unreserved:				
General fund		109,395	-	-
Special revenue funds		-	246,355	-
Capital projects fund		-	-	22,833
Permanent fund		-	-	-
Total cash basis fund balances	$	109,395	246,355	22,833

See notes to financial statements

Debt Service	Other Nonmajor Governmental Funds	Total
43,760	18,991	215,389
1,789	784	117,245
-	-	1,996
-	-	16,684
-	111,511	382,844
-	-	49,516
-	2,308	55,026
45,549	133,594	838,700
-	-	163,443
-	112,878	177,270
-	-	101,080
-	-	36,351
-	13,559	70,655
82,483	-	82,483
-	-	804,031
82,483	126,437	1,435,313
(36,934)	7,157	(596,613)
1,124,640	-	2,604,485
(1,135,000)	-	(2,750,000)
40,360	-	93,284
-	-	(70,360)
30,000	-	(122,591)
(6,934)	7,157	(719,204)
12,741	90,671	1,201,422
5,807	97,828	482,218
5,807	-	5,807
-	-	109,395
-	37,139	283,494
-	-	22,833
-	60,689	60,689
5,807	97,828	482,218

Exhibit C

City of Villisca
Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Proprietary Funds
As of and for the year ended June 30, 2009

		Enterprise Funds			
		Water	Sewer	Electric	Total
Operating receipts:					
Charges for service	$	203,129	323,461	952,168	1,478,758
Miscellaneous		22,057	6,408	61,117	89,582
Total operating receipts		225,186	329,869	1,013,285	1,568,340
Operating disbursements:					
Business type activities		211,854	202,791	939,921	1,354,566
Total operating disbursements		211,854	202,791	939,921	1,354,566
Excess (deficiency) of operating receipts over (under) operating disbursements		13,332	127,078	73,364	213,774
Non-operating receipts (disbursements):					
Interest on investments		796	4,222	12,729	17,747
Debt service		-	(94,306)	(137,128)	(231,434)
Total non-operating receipts (disbursements)		796	(90,084)	(124,399)	(213,687)
Excess (deficiency) of receipts over (under) disbursements		14,128	36,994	(51,035)	87
Operating transfers out		-	(22,924)	-	(22,924)
Net change in cash balances		14,128	14,070	(51,035)	(22,837)
Cash balances, beginning of year		95,864	340,858	956,051	1,392,773
Cash balances, end of year	$	109,992	354,928	905,016	1,369,936

Cash Basis Fund Balances

Reserved for debt service	$	-	-	214,597	214,597
Reserved for improvements		-	-	140,000	140,000
Unreserved		109,992	354,928	550,419	1,015,339
Total cash basis fund balances	$	109,992	354,928	905,016	1,369,936

See notes to financial statements

City of Villisca

NOTE (1) Summary of Significant Accounting Policies

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

A. Reporting Entity

For financial reporting purposes, the City of Villisca 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 and commissions: Montgomery County Assessor's Conference Board, Montgomery County Landfill Association, and Montgomery County Emergency Management Commission.

NOTE (1) Summary of Significant Accounting Policies - Continued

B. Basis of Presentation

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

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

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

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

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

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

NOTE (1) Summary of Significant Accounting Policies - Continued

B. Basis of Presentation - Continued

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 receipts from tax authorized by referendum and used for community betterment projects.

The Capital Project 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 Debt Service Fund is utilized to account for the payment of interest and principal of the City's general long term debt.

The City reports the following major proprietary funds:

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

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

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

C. Measurement Focus and Basis of Accounting

The City of Villisca 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.

NOTE (1) Summary of Significant Accounting Policies - Continued

C. Measurement Focus and Basis of Accounting - Continued

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.

E. Property Tax Calendar

The City's property tax rates were extended against the assessed valuation of the City as of January 1, 2007, to compute the amounts which became liens on property on July 1, 2008. These taxes were due and payable in two installments on September 30, 2008 and March 31, 2009, at the Montgomery County Treasurer's Office. These taxes are recognized as income to the City when they are received from the county.

NOTE (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's cash, which consists of cash in bank and certificates of deposit, totaled $1,862,154.

NOTE (2) Cash and Pooled Investments - Continued

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

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) in 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.

NOTE (3) Bonds and Notes Payable

Annual debt service requirements to maturity of general obligation, revenue, and other debt, are as follows:

	General Obligation Bonds		Revenue Bonds		Total	
June 30,	Principal	Interest	Principal	Interest	Principal	Interest
2010	$ 44,000	32,820	150,000	85,803	194,000	118,623
2011	45,000	31,500	151,000	80,404	196,000	111,904
2012	46,000	30,150	158,000	74,675	204,000	104,825
2013	48,000	28,770	165,000	68,500	213,000	97,270
2014	49,000	27,330	172,000	61,888	221,000	89,218
2015-2019	268,000	113,730	832,000	197,533	1,100,000	311,263
2020-2024	310,000	71,100	402,000	92,490	712,000	163,590
2025-2028	284,000	21,600	369,485	28,200	653,485	49,800
	$ 1,094,000	357,000	2,399,485	689,493	3,493,485	1,046,493

Interest costs paid during the year ended June 30, 2009 totaled $133,739.

The Code of Iowa requires that principal and interest on general obligation bonds be paid from the Debt Service Fund.

The City has a general obligation debt limit of approximately $1,500,000 which was not exceeded during the year ended June 30, 2009.

NOTE (3) Bonds and Notes Payable - Continued

Revenue Notes

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay $1,468,485 in sewer revenue notes issued in September 2008. Proceeds from the notes provided financing for the construction of improvements to the sewer treatment plant. The notes are payable solely from sewer customer net receipts and are payable through 2028. Annual principal and interest payments on the notes required less than 75% of net receipts. The total principal and interest remaining to be paid on the notes is $1,866,787. For the current year, principal and interest paid and total customer net receipts were $94,306 and $127,078, respectively.

The City has pledged future electric customer receipts, net of specified operating disbursements, to repay $1,500,000 in electric revenue notes issued in February 2003. Proceeds from the notes provided financing for construction of improvements to the municipal electric system. The notes are payable solely from electric customer net receipts and are payable through 2018. Annual principal and interest payments on the notes required more than 100% of net receipts. Total principal and interest remaining to be paid on the notes is $1,222,706. For the current year, principal and interest paid and total customer net receipts were $137,128 and $73,364, respectively.

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

a) The notes will only be redeemed from the future earnings of the sewer enterprise activity and note holders hold a lien on the future earnings of the funds.

b) Establish rates sufficient to meet operation and maintenance of the wastewater treatment system, and produce revenues at a level not less than 110% of the amount of principal and interest due on the notes in the same fiscal year.

The City has complied with these provisions.

NOTE (3) Bonds and Notes Payable - Continued

Revenue Notes - Continued

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

c) The notes will only be redeemed from the future earnings of the enterprise activity and note holders hold a lien on the future earnings of the funds.

d) Sufficient monthly transfers shall be made to a separate sinking account for the purpose of making the note principal and interest payments when due.

e) At the time of delivery of the notes, $141,590 shall be deposited into a principal and interest reserve account. These funds shall be used for the payment of principal and interest on the notes if, for any reason, funds on deposit in the sinking account are insufficient to pay such when due.

f) At the time of delivery of the notes, $140,000 shall be deposited into an improvement and extension account. These funds shall be used if there is a deficiency in the sinking account, reserve account or to pay for capital improvements and extensions to the electric system.

The City has complied with these provisions.

NOTE (4) Pension and Retirement Benefits

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

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 year ended June 30, 2009 was $26,471, equal to the required contribution for the year.

NOTE (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.

The City operates a single-employer retiree benefit plan which provides medical/prescription drug benefits for retirees and their spouses. There are 10 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. The same premium is paid for retirees under age 65 for the medical/prescription drug benefit as active employees, which results in an implicit subsidy and an OPEB liability.

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 premium for the City and plan members is $303 for single coverage and $758 for family coverage. The same monthly premiums apply to retirees.

NOTE (6) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation 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 benefits payable to employees at June 30, 2009, relating to the General Fund and Enterprise Fund was $6,509. This liability has been computed based on rates of pay in effect at June 30, 2009.

NOTE (7) Interfund Transfers

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

Transfer to	Transfer from	Amount
Capital Projects	Special Revenue:	
	Local Option Sales Tax	$ 30,000
	Proprietary:	
	Sewer	22,924
		52,924
Debt Service	Capital Projects	40,360
Total		93,284

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

NOTE (8) Project Anticipation Notes

During the year, the City redeemed a $1,135,000 general obligation sewer improvement anticipation project note with an interest rate of 3.80%, and a $1,615,000 sewer revenue anticipation project note with an interest rate of 4.00%, leaving no unpaid balances at June 30, 2009. The notes were issued for construction of sewer improvements and were redeemed with the issuance of long term financing.

NOTE (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 annual contributions to the Pool for the year ended June 30, 2009 were $36,208. This premium was paid in June 2008.

NOTE (9) Risk Management - Continued

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

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event that a series 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 company 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 claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their capital contributions. If a member withdraws after the sixth year, the member is refunded 100 percent of its capital contributions. However, the refund is reduced by an amount equal to the annual operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

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

Electric Utility

The Electric Utility is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The Electric Utility assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in the year ended December 31, 2009.

Required Supplementary Information

City of Villisca
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 Actual	Proprietary Funds Actual
Receipts:			
Property tax	$	215,389	-
Other city tax		117,245	-
Licenses and permits		1,996	-
Use of money and property		16,684	17,747
Intergovernmental		382,844	-
Charges for service		49,516	1,478,758
Miscellaneous		55,026	89,582
Total receipts		838,700	1,586,087
Disbursements:			
Public safety		163,443	-
Public works		177,270	-
Culture and recreation		101,080	-
Community and economic development		36,351	-
General government		70,655	-
Debt service		82,483	-
Business type activities		804,031	1,586,000
Total disbursements		1,435,313	1,586,000
Excess (deficiency) of receipts over (under) disbursements		(596,613)	87
Other financing sources, net		(122,591)	(22,924)
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses		(719,204)	(22,837)
Balances, beginning of year		1,201,422	1,392,773
Balances, end of year	$	482,218	1,369,936

See accompanying notes to financial statement

Net	Budgeted Amounts Original	Budgeted Amounts Final	Final to Net Variance
215,389	216,764	216,764	(1,375)
117,245	105,493	105,493	11,752
1,996	3,000	3,000	(1,004)
34,431	12,700	12,700	21,731
382,844	508,500	508,500	(125,656)
1,528,274	1,823,730	1,823,730	(295,456)
144,608	82,500	82,500	62,108
2,424,787	2,752,687	2,752,687	(327,900)
163,443	297,400	297,400	133,957
177,270	235,250	235,250	57,980
101,080	129,813	129,813	28,733
36,351	113,000	113,000	76,649
70,655	125,200	125,200	54,545
82,483	75,631	75,631	(6,852)
2,390,031	1,748,948	2,448,948	58,917
3,021,313	2,725,242	3,425,242	403,929
(596,526)	27,445	(672,555)	76,029
(145,515)	-	700,000	(845,515)
(742,041)	27,445	27,445	(769,486)
2,594,195	306,557	306,557	2,287,638
1,852,154	334,002	334,002	1,518,152

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

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

Formal and legal budgetary control is based upon major classes of disbursements known as functions, not by fund or fund type. These functions are: public safety, public works, culture and recreation, community and economic development, general government, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Capital Projects Fund, the Debt Service Fund, the Permanent Fund 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 $700,000. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2009, disbursements exceeded the amounts budgeted in the Debt Service function.

Other Supplementary Information

Schedule 1

City of Villisca
Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Nonmajor Governmental Funds
As of and for the year ended June 30, 2009

		Special Revenue		Permanent	
		Road Use Tax	Employee Benefits	Cemetery Perpetual Care	Total
Receipts:					
Property tax	$	-	18,991	-	18,991
Other city tax		-	784	-	784
Intergovernmental		111,511	-	-	111,511
Miscellaneous		-	-	2,308	2,308
Total receipts		111,511	19,775	2,308	133,594
Disbursements:					
Operating:					
Public works		112,878	-	-	112,878
General government		-	13,559	-	13,559
Total disbursements		112,878	13,559	-	126,437
Net change in cash balances		(1,367)	6,216	2,308	7,157
Cash balances, beginning of year		20,034	12,256	58,381	90,671
Cash balances, end of year	$	18,667	18,472	60,689	97,828

Cash Basis Fund Balances

Unreserved:					
Special revenue funds	$	18,667	18,472	-	37,139
Permanent fund		-	-	60,689	60,689
	$	18,667	18,472	60,689	97,828

See accompanying independent auditors' report

City of Villisca
Schedule of Indebtedness
June 30, 2009

Obligation	Date of Issue	Interest Rates		Amount Originally Issued
General obligation bonds:				
Sewer improvement	Sept. 3, 2008	3.00 %	$	1,136,000
Revenue notes:				
Sewer	Sept. 3, 2008	3.00 %	$	1,468,485
Electric	Feb. 1, 2003	3.85-5.10 %		1,500,000
Total				
Anticipation Project Notes:				
General obligation sewer improvement	Mar. 27, 2007	3.80 %	$	1,135,000
Sewer revenue	Mar. 27, 2007	3.80 %		1,615,000
Total				

See accompanying independent auditors' report

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
$ -	1,136,000	42,000	1,094,000	25,183	-
$ -	1,468,485	64,000	1,404,485	30,306	-
1,085,000	-	90,000	995,000	47,128	-
$ 1,085,000	1,468,485	154,000	2,399,485	77,434	-
$ 1,135,000	-	1,135,000	-	12,460	-
1,615,000	-	1,615,000	-	18,662	-
$ 2,750,000	-	2,750,000	-	31,122	-

City of Villisca
Bond and Note Maturities
June 30, 2009

Year Ending June 30,	General Obligation Bonds Sewer Improvement Issued Sept. 3, 2008 Interest Rates	Amount
2010	3.00 %	$ 44,000
2011	3.00 %	45,000
2012	3.00 %	46,000
2013	3.00 %	48,000
2014	3.00 %	49,000
2015	3.00 %	50,000
2016	3.00 %	52,000
2017	3.00 %	54,000
2018	3.00 %	55,000
2019	3.00 %	57,000
2020	3.00 %	58,000
2021	3.00 %	60,000
2022	3.00 %	62,000
2023	3.00 %	64,000
2024	3.00 %	66,000
2025	3.00 %	68,000
2026	3.00 %	70,000
2027	3.00 %	72,000
2028	3.00 %	74,000
		$ 1,094,000

Year Ending June 30,	Revenue Notes Sewer Issued Sept. 3, 2008 Interest Rates	Amount	Electric Issued Feb. 1, 2003 Interest Rates	Amount	Total
2010	3.00 %	$ 55,000	3.85 %	$ 95,000	$ 150,000
2011	3.00 %	56,000	4.05 %	95,000	151,000
2012	3.00 %	58,000	4.25 %	100,000	158,000
2013	3.00 %	60,000	4.40 %	105,000	165,000
2014	3.00 %	62,000	4.55 %	110,000	172,000
2015	3.00 %	64,000	4.70 %	115,000	179,000
2016	3.00 %	66,000	4.85 %	120,000	186,000
2017	3.00 %	68,000	5.00 %	125,000	193,000
2018	3.00 %	71,000	5.10 %	130,000	201,000
2019	3.00 %	73,000	-	-	73,000
2020	3.00 %	75,000	-	-	75,000
2021	3.00 %	78,000	-	-	78,000
2022	3.00 %	80,000	-	-	80,000
2023	3.00 %	83,000	-	-	83,000
2024	3.00 %	86,000	-	-	86,000
2025	3.00 %	88,000	-	-	88,000
2026	3.00 %	91,000	-	-	91,000
2027	3.00 %	94,000	-	-	94,000
2028	3.00 %	96,485	-	-	96,485
		$ 1,404,485		$ 995,000	$ 2,399,485

See accompanying independent auditors' report

City of Villisca

SCHROER
and associates p.c.
certified public accountants

Marilyn Schroer, CPA
Diane McGrain, CPA
Jim Menard, CPA

March 5, 2010

Independent Auditors' Report on Internal Control over
Financial Reporting and on Compliance and Other Matters

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 Villisca, 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 5, 2010. Our report expressed a qualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting as we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2008. Except as noted in the Independent Auditors' Report, 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 Villisca'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 City of Villisca's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of City of Villisca'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 control deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

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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 City of Villisca'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 City of Villisca's financial statements that is more than inconsequential will not be prevented or detected by City of Villisca's internal control. We consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Villisca'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 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 II 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 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.

City of Villisca's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the City's responses, we did not audit City of Villisca's responses and, accordingly, we express no opinion on them.

Continued...

City of Villisca
Independent Auditors' Report on
Internal Control and Compliance and Other Matters

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 Villisca and other parties to whom the City of Villisca may report. This report is not intended to be and should not be used by anyone other than these specified parties.

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

Schroer & Associates, P.C.

Part I: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

I-A-09 Credit Cards

Comment – The City has not adopted a formal policy to regulate the use of credit cards and to establish procedures for the proper accounting of credit card charges.

Recommendation – The City should adopt a formal written policy regulating the use of credit cards. The policy at a minimum, should address who controls credit cards, who is authorized to use credit cards and for what purpose, as well as the types of supporting documentation required to substantiate charges.

Response – We will adopt a formal policy outlining credit card control usage.

Conclusion – Response accepted.

I-B-09 Financial Reporting

Comment – During the audit, we identified the misposting of general obligation debt proceeds to repay general obligation interim financing debt to the Capital Projects Fund. The Code of Iowa requires that principal and interest of general obligation bonds be paid from the Debt Service Fund. Adjustments were subsequently made by the City to properly report the amounts in the City's financial statements.

We also noted that the Library overstated its investments by $10,000. The adjustment was subsequently made to correct the fund balance.

Recommendation – The City should implement procedures to insure all receipts and disbursements are properly classified and investments are accurately recorded.

Response – We will do this.

Conclusion – Response accepted.

Part II: Other Findings Related to Statutory Reporting:

II-A-09 Certified Budget

Comment – 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 sufficiently amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

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

Conclusion – Response accepted.

II-B-09 Entertainment Expense

We noted no disbursements for parties, banquets, or other entertainment for employees that we believe may constitute an unlawful expenditure from public funds as defined in an Attorney General's opinion dated April 25, 1979.

II-C-09 Travel Expense

No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

II-D-09 Business Transactions

No business transactions were noted between the City and City officials or employees.

II-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.

II-F-09 Council Minutes

Comment - No transactions were found that we believe should have been approved in the Council minutes but were not. Although minutes of Council and Board proceedings were published, they were not always published (or posted) within 15 days of the meeting, as required by Chapter 372.13(6) of the Code of Iowa.

Recommendation – The City should publish the information timely.

Response – We will make publications as required.

Conclusion – Response accepted.

Part II: Other Findings Related to Statutory Reporting - Continued:

II-G-09 Deposits and Investments

Comment – 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 were noted. However, the current investment policy adopted by the Council does not contain the correct reference to the Code of Iowa.

The City has approved official depositories. However, the maximum amount stated in the resolution was exceeded.

Recommendation – An updated investment policy should be adopted by the Council with correct code references to Chapter 12B and 12C of the Code of Iowa.

The City should amend the maximum authorized amount allowed in its depositories, as required by Chapter 12C of the Code of Iowa.

Response – The Council will update its investment policy and depository resolution.

Conclusion – Response accepted.

II-H-09 Revenue Notes

The City is in compliance with the provisions of the revenue debt resolutions.

II-I-09 Excess Balances

Comment – The cash balances in the Special Revenue Fund, Local Option Sales Tax Account, and Employee Benefit Account at June 30, 2009 was in excess of the disbursements made from the account during the year.

Recommendation – The City should consider the necessity of maintaining the excess balance, and where financially feasible, consider reducing the balance in an orderly manner through revenue reductions.

Response – We will review this further.

Conclusion – Response accepted.

II-J-09 Vacation Policy

Comment – We noted discrepancies in the vacation policy per the employee handbook and the employment contract of the electric superintendent as to when vacation begins to accrue.

Recommendation – City officials should determine whether the superintendent is bound by the contract or the policy, and how the change, if any, should be transitioned.

Response – We will review this further.

Conclusion – Response accepted.

Part II: Other Findings Related to Statutory Reporting - Continued:

II-K-09 District Court Ruling

Comment – The City makes deposits and writes checks through the City's main checking account. The net transactions of the Villisca Municipal Power Plant (the Electric Fund) are determined and the amount is submitted to/from the City's account to/from the Electric Fund's account. Certain concerned citizens have petitioned the State Auditor alleging a violation of a court order dated November 28, 2007; "It is therefore ordered, adjudged and decreed that a permanent injunction shall issue against Defendant City of Villisca, without bond, directing the City shall not combine its bank accounts or checking accounts with the bank account or checking account of the Villisca Municipal Power Plant."

Recommendation –The process currently used may appear to permit the commingling of funds. The City should seek legal advice on this matter.

Response – The City Attorney has reviewed the procedures of the City and the Villisca Municipal Power Plant and his opinion is that the City is in compliance with the ruling. There are two separate checking accounts maintained and all decisions and approval of claims for the Electric Fund remain with the Villisca Municipal Power Plant.

Conclusion – We have reviewed the City Attorney's opinion and we accept your response.