

CITY OF BRITT

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

JUNE 30, 2010

## Table of Contents

		<u>Page</u>
Officials		3
Independent Auditor's Report		4-5
Management's Discussion and Analysis		6-12
Basic Financial Statements:	<u>Exhibit</u>	
Government-wide Financial Statement:		
Statement of Activities and Net Assets – Cash Basis	A	14
Governmental Fund Financial Statements:		
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	B	15
Proprietary Fund Financial Statements:		
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	C	16
Notes to Financial Statements		17-22
Required Supplementary Information:		
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances-Budget and Actual (Cash Basis)-All Governmental Funds and Proprietary Funds		24
Notes to Required Supplementary Information-Budgetary Reporting		25
Other Supplementary Information:	<u>Schedule</u>	
Schedule of Cash Receipts, Disbursements and Changes in Cash Balances-Nonmajor Governmental Funds	1	27
Schedule of Indebtedness	2	28
Bond and Note Maturities	3	29
Schedule of Receipts by Source and Disbursements by Function-All Governmental Funds	4	30
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		31-32
Schedule of Findings		33-34

CITY OF BRITT

OFFICIALS

Before January 1, 2010

James Nelson	Mayor	Jan 2010
Douglas Weiland	Mayor Pro tem	Jan 2010
Nathan Lemmon	Council Member	Jan 2010
Gary Gelner	Council Member	Jan 2012
Curt Gast	Council Member	Jan 2012
Bryan Aitchison	Council Member	Jan 2012

Jean Purvis	City Clerk	Jan 2010
Darcy Eisenman	Deputy City Clerk	Jan 2010
Jane Swenson	Treasurer	Jan 2010
Earl Hill	Attorney	Jan 2010

After January 1, 2010

David Mitchell	Mayor	Jan 2012
Douglas Weiland	Mayor Pro tem	Jan 2014
Gary Gelner	Council Member	Jan 2012
Curt Gast	Council Member	Jan 2012
Bryan Aitchison	Council Member	Jan 2012
Michael Ostercamp	Council Member	Jan 2014

Jean Purvis	City Clerk	Jan 2011
Darcy Eisenman	Deputy City Clerk	Jan 2011
Jane Swenson	Treasurer	Jan 2011
Earl Hill	Attorney	Jan 2011

## INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and  
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Britt, Iowa, as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of City of Britt'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 that 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Britt as of June 30, 2010, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated November 4, 2010 on our consideration of the City of Britt's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 6 through 12 and 24 through 25 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Britt's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the six years ended June 30, 2009 (which are not presented herein) and expressed unqualified opinions on those financial statements which were prepared in conformity with an other comprehensive basis of accounting. Other supplementary information included in Schedules 1 through 4 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

November 4, 2010

Renner & Birchem, P.C.

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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The City of Britt 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, 2010. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

### 2010 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities decreased 50.3% \$1,656,294, from fiscal 2009 to fiscal 2010. Property tax increased \$14,343 and bond proceeds decreased \$1,624,020 due to Aquatic Center bonding in the prior year.
- Disbursements decreased 54.0% or \$1,798,986 in fiscal 2010 from fiscal 2009. Public works, debt service and capital projects disbursements decreased \$75,242, \$78,267 and \$1,614,172 respectively. Culture and recreation disbursements increased \$1,774.
- The City's total cash basis net assets increased 5.7%, or \$106,540 from June 30, 2009 to June 30, 2010. Of this amount, the assets of the governmental activities increased \$102,104 and the assets of the business type activities increased by \$4,436.

### 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 funds and the City's indebtedness.

## **Basis of Accounting**

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

## **REPORTING THE CITY'S FINANCIAL ACTIVITIES**

### *Government-wide Financial Statement*

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information that 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 Revolving Loan, 3) the Debt Service Fund and 4) the Capital Projects Fund. The governmental fund financial statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial 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 four Enterprise Funds to provide separate information for the water and sewer funds, considered to be major funds of the City.

The required financial statements 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 increased from a year ago, increasing from \$1,331,240 to \$1,433,344. The analysis that follows focuses on the changes in cash balances for governmental activities.

	<b>Changes in Cash Basis Net Assets of Governmental Activities</b>	
	<b>Year ended June 30,</b>	
	<b>2010</b>	<b>2009</b>
Receipts and transfers:		
Program receipts:		
Charges for service	\$88,157	73,814
Operating grants, contributions and restricted interest	236,650	202,677
Capital grants, contributions and restricted interest	298,730	234,501
General receipts:		
Property tax	722,995	712,536
Local option sales tax	178,531	162,349
Unrestricted investment earnings	31,849	32,340
Bond issue		1,549,416
Sale of assets		37,000
Other general receipts	80,117	288,690
Total receipts	1,637,029	3,293,323

Disbursements:		
Public safety	217,064	231,053
Public works	210,408	285,650
Health and social services	3,500	3,500
Culture and recreation	207,378	205,604
Community and economic development	45,583	64,894
General government	203,231	193,162
Debt Service	247,600	325,867
Capital projects	400,161	2,024,181
Total disbursements	<u>1,534,925</u>	<u>3,333,911</u>
Change in cash basis net assets before other financing sources	102,104	(40,588)
Other financing sources (uses):		
Transfer, net		<u>85,000</u>
Total other financing sources (uses)		85,000
Change in cash basis net assets	102,104	44,412
Cash basis net assets beginning of year	<u>1,331,240</u>	<u>1,286,828</u>
Cash basis net assets end of year	<u>\$1,433,344</u>	<u>1,331,240</u>

The City's total receipts for governmental activities decreased by 50.3% or \$1,656,294. The total cost of all programs and services decreased by \$1,798,986 or 54.0%. The majority of the decrease is a result of the Aquatic Center construction in the prior year.

The City's property tax receipts for 2010 increased by approximately \$14,343.

The cost of all governmental activities this year was \$1.53 million compared to \$3.33 million last year. However, as shown in the Statement of Activities and Net Assets on page 14, the amount taxpayers ultimately financed for these activities was \$911,388, because some of the cost was paid by those directly benefited from the programs (\$88,157) or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest (\$535,380). Overall, the City's governmental activities receipts, including intergovernmental aid and fees for service totaled \$1,637,029. The City paid for the remaining "public benefit" portion of governmental activities with \$911,388 in tax (some of which could only be used for certain programs) and with other receipts, such as interest and general entitlements.

<b>Changes in Cash Basis Net Assets of Business Type Activities</b>		
	<b>Year ended June 30,</b>	
	<b>2010</b>	<b>2009</b>
Receipts:		
Program receipts:		
Charges for service:		
Water	\$172,979	171,095
Sewer	176,074	178,748
General receipts:		
Unrestricted interest on investments		2,774
Total receipts	<u>349,053</u>	<u>352,617</u>
Disbursements:		
Water	152,751	83,318
Sewer	191,866	150,318
Total disbursements and transfers	<u>344,617</u>	<u>233,636</u>
Change in cash basis net assets before other financing sources	4,436	118,981
Other financing sources (uses):		
Transfers, net		<u>(85,000)</u>
Total other financing sources (uses)		<u>(85,000)</u>
Change in cash basis net assets	4,436	33,981
Cash basis net assets beginning of year	<u>541,865</u>	<u>507,884</u>
Cash basis net assets end of year	<u><u>\$546,301</u></u>	<u><u>541,865</u></u>

Total business type activities receipts for the fiscal year were \$349,053 compared to \$352,617 last year. Total disbursements for the fiscal year increased by 47.5% to a total of \$344,617. The cash balance increased by \$4,436 during the fiscal year compared to an increase of \$33,981 last year.

## **INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS**

As the City of Britt completed the year, its governmental funds reported a combined fund balance of \$1,433,344 an increase of \$102,104 above last year's total of \$1,331,240. 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 \$30,145 from the prior year to \$280,169, including a transfer of \$24,165 from the Capital Projects Fund.
- The Local Option Tax Fund cash balance increased by \$165,183 to \$716,040 during the fiscal year.

- The Capital Projects Fund cash balance decreased by \$119,906 to \$157,738 during the fiscal year, due to the building of the Aquatic Center.
- The Debt Service Fund cash balance decreased by \$2,117 to \$3,514 during the fiscal year.

**INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS**

- The Water Fund cash balance increased by \$20,228 to \$313,414 during the fiscal year and will be used to maintain service and repair the water system.
- The Sewer Fund cash balance decreased by \$15,792 to \$140,664 during the fiscal year and will be used to maintain service and repair the sewer system.

**BUDGETARY HIGHLIGHTS**

The City did not amend its budget during the fiscal year June 30, 2010.

**DEBT ADMINISTRATION**

At June 30, 2010, the City had \$1,940,000 in general obligation bonds, compared to \$2,170,000 at the end of the prior year, as shown below.

	<b>Outstanding Debt at Year-End</b>	
	<b>June 30,</b>	
	<b>2010</b>	<b>2009</b>
General obligation bonds and short-term borrowing	\$1,940,000	2,095,000
Revenue notes		75,000
Total	<u>\$1,940,000</u>	<u>2,170,000</u>

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 \$1,940,000 is significantly below its constitutional debt limit of approximately \$3,684,564.

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

The City of Britt's elected and appointed officials and citizens considered many factors when setting the fiscal year 2011 budget, tax rates, and fees that will be charged for various City activities.

These among other economic factors were taken into account when adopting the budget for fiscal year 2011. Amounts available for appropriation in the operating budget are \$2.9 million, an increase of 38% from the final 2010 budget. Federal grant income for the fire station addition is expected to lead this increase. The City will use this increase in receipts to defray a portion of the costs of carrying out the construction of the fire station addition. Budgeted disbursements are expected to increase by approximately \$1,178,000 over 2010 actual.

If these estimates are realized, the City's budgeted cash balance is expected to decrease approximately \$429,000 by the close of 2011. Actual amounts can and usually do differ from budgeted amounts.

## **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 Jeanie Purvis, City Clerk, 170 Main Avenue South, Britt, Iowa.

## BASIC FINANCIAL STATEMENTS

## Statement of Activities and Net Assets - Cash Basis

As of and for the year ended June 30, 2010

	Program Receipts				Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
	Disbursements	Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	Total
<b>Functions / Programs:</b>							
Governmental activities:							
Public safety	\$ 217,064		20,801		(196,263)		(196,263)
Public works	210,408	26,439	191,686		7,717		7,717
Health and social services	3,500				(3,500)		(3,500)
Culture and recreation	207,378	61,718	21,861		(123,799)		(123,799)
Community and economic development	45,583				(45,583)		(45,583)
General government	203,231		2,302		(200,929)		(200,929)
Debt service	247,600				(247,600)		(247,600)
Capital projects	400,161			298,730	(101,431)		(101,431)
Total governmental activities	1,534,925	88,157	236,650	298,730	(911,388)		(911,388)
Business type activities:							
Water	152,751	172,979				20,228	20,228
Sewer	191,866	176,074				(15,792)	(15,792)
Total business type activities	344,617	349,053				4,436	4,436
Total	\$ 1,879,542	437,210	236,650	298,730	(911,388)	4,436	(906,952)
<b>General Receipts:</b>							
Property tax levied for:							
General purposes					\$ 398,132		398,132
Employee benefits and insurance					79,380		79,380
Debt service					245,483		245,483
Local option sales tax					178,531		178,531
Unrestricted interest on investments					31,849		31,849
Miscellaneous					80,117		80,117
Total general receipts and transfers					1,013,492		1,013,492
Change in cash basis net assets					102,104	4,436	106,540
Cash basis net assets beginning of year					1,331,240	541,865	1,873,105
Cash basis net assets end of year					\$ 1,433,344	546,301	1,979,645
<b>Cash Basis Net Assets</b>							
Restricted:							
Expendable:							
Streets					\$ 130,746		130,746
Debt service					3,514		3,514
Other purposes					1,018,915		1,018,915
Unrestricted					280,169	546,301	826,470
Total cash basis net assets					\$ 1,433,344	546,301	1,979,645

See notes to financial statements.

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

As of and for the year ended June 30, 2010

	General	Local Option	Debt Service	Capital Projects	Nonmajor	Total
<b>Receipts:</b>						
Property tax	\$ 398,132		245,483		79,380	722,995
Other city tax		178,531				178,531
Licenses and permits	22,364					22,364
Use of money and property	34,314					34,314
Intergovernmental	46,303			298,730	190,347	535,380
Charges for services	88,157					88,157
Miscellaneous	18,013			5,690	31,585	55,288
Total receipts	<u>607,283</u>	<u>178,531</u>	<u>245,483</u>	<u>304,420</u>	<u>301,312</u>	<u>1,637,029</u>
<b>Disbursements:</b>						
<b>Operating:</b>						
Public safety	184,526				32,538	217,064
Public works	26,933				183,475	210,408
Health and social services		3,500				3,500
Culture and recreation	197,386				9,992	207,378
Community and economic development	19,866				25,717	45,583
General government	172,592	9,848			20,791	203,231
Debt service			247,600			247,600
Capital projects				400,161		400,161
Total disbursements	<u>601,303</u>	<u>13,348</u>	<u>247,600</u>	<u>400,161</u>	<u>272,513</u>	<u>1,534,925</u>
Excess (deficiency) of receipts over (under) disbursements	<u>5,980</u>	<u>165,183</u>	<u>(2,117)</u>	<u>(95,741)</u>	<u>28,799</u>	<u>102,104</u>
<b>Other financing sources (uses):</b>						
Operating transfers in	24,165					24,165
Operating transfers out				(24,165)		(24,165)
Total other financing sources (uses)	<u>24,165</u>			<u>(24,165)</u>		
Net change in cash balances	30,145	165,183	(2,117)	(119,906)	28,799	102,104
Cash balances beginning of year	250,024	550,857	5,631	239,619	285,109	1,331,240
Cash balances end of year	<u>\$ 280,169</u>	<u>716,040</u>	<u>3,514</u>	<u>119,713</u>	<u>313,908</u>	<u>1,433,344</u>
<b>Cash Basis Fund Balances</b>						
<b>Reserved:</b>						
Debt service			3,514			3,514
<b>Unreserved:</b>						
General fund	\$ 280,169					280,169
Special revenue funds		716,040			313,908	1,029,948
Capital projects				119,713		119,713
Total cash basis fund balances	<u>\$ 280,169</u>	<u>716,040</u>	<u>3,514</u>	<u>119,713</u>	<u>313,908</u>	<u>1,433,344</u>

See notes to financial statements.

## City of Britt

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

As of and for the year ended June 30, 2010

	Enterprise Funds				Total
	Water	Sewer	Sewer Utility Sinking	Sewer Reserve	
Operating receipts:					
Charges for service	\$ 172,979	176,074			349,053
Total operating receipts	172,979	176,074			349,053
Operating disbursements:					
Business type activities	152,751	112,478			265,229
Total operating disbursements	152,751	112,478			265,229
Excess of operating receipts over operating disbursements	20,228	63,596			83,824
Non-operating receipts (disbursements):					
Interest on investments					
Debt service		(79,388)			(79,388)
Net non-operating receipts (disbursements)		(79,388)			(79,388)
Excess (deficiency) of receipts over (under) disbursements	20,228	(15,792)			4,436
Net change in cash balances	20,228	(15,792)			4,436
Cash balances beginning of year	293,186	156,456	20,223	72,000	541,865
Cash balances end of year	\$ 313,414	140,664	20,223	72,000	546,301
<b>Cash Basis Fund Balances</b>					
Unreserved	\$ 313,414	140,664	20,223	72,000	546,301
Total cash basis fund balances	\$ 313,414	140,664	20,223	72,000	546,301

See notes to financial statements.

# CITY OF BRITT

## Notes to Financial Statements

June 30, 2010

### (1) Summary of Significant Accounting Policies

The City of Britt is a political subdivision of the State of Iowa located in Hancock County. It was first incorporated in 1881 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 of Britt also provides water and sewer utilities for its citizens.

#### A. Reporting Entity

For financial reporting purposes, City of Britt has included all funds, organizations, agencies, 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 of Britt has no component units which meet the Governmental Accounting Standards Board criteria.

#### Jointly Governed Organizations

The City also participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Hancock County Assessor's Conference Board and Hancock County Development Commission, Hancock County Disaster/911 and Hancock County Task Force.

#### B. Basis of Presentation

Government-wide Financial Statements – The Statement of Activities and Net Assets reports information on all 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/components:

*Nonexpendable restricted net assets* are subject to externally imposed stipulations which require them to be maintained permanently by the City, including the City's Permanent Fund.

## CITY OF BRITT

### Notes to Financial Statements (continued)

June 30, 2010

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

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

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

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental 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 Tax Fund is used to account for local option sales tax collected.

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

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

The City reports the following major proprietary funds:

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

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

CITY OF BRITT

Notes to Financial Statements (continued)

June 30, 2010

The City also reports the following additional proprietary funds:

The Sewer Utility Sinking Fund and Sewer Reserve are to provide for payment of debt service on the sewer revenue bonds.

C. Measurement Focus and Basis of Accounting

The City of Britt 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.

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, 2010 disbursements exceeded the amounts budgeted in the debt service and capital projects functions.

**(2) Cash and Pooled Investments**

The City's deposits in banks at June 30, 2010 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

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

CITY OF BRITT

Notes to Financial Statements (continued)

June 30, 2010

**(3) Bonds Payable**

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

Year Ending June 30,	General Obligation Bonds		Total	
	Principal	Interest	Principal	Interest
2011	\$ 165,000	85,337	165,000	85,337
2012	175,000	78,313	175,000	78,313
2013	180,000	70,821	180,000	70,821
2014	185,000	63,060	185,000	63,060
2015	195,000	55,050	195,000	55,050
2016-2022	1,040,000	172,885	1,040,000	172,885
	<u>\$ 1,940,000</u>	<u>525,466</u>	<u>1,940,000</u>	<u>525,466</u>

**(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 4.30% of their annual covered salary and the City is required to contribute 6.65% 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, 2010, 2009 and 2008 were \$26,145, \$25,107 and \$22,946 respectively, equal to the required contribution for each year.

**(5) Compensated Absences**

City employees accumulate a limited amount of earned but unused vacation and comp time hours for subsequent use or for payment upon termination, retirement or death. Sick leave hours are accumulated for subsequent use but are not paid upon termination, retirement, or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation and comp time termination payments payable to employees at June 30, 2010, primarily relating to the General Fund, is as follows:

<u>Type of Benefit</u>	<u>Amount June 30, 2010</u>
Vacation and Comp Time	\$ <u>13,659</u>

This liability has been computed based on rates of pay as of June 30, 2010.

CITY OF BRITT

Notes to Financial Statements (continued)

June 30, 2010

**(6) Interfund Transfers**

The detail of interfund transfers for the year ended June 30, 2010 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General Fund	Capital Projects	<u>\$24,165</u>

**(7) Related Party Transactions**

No transactions between the City and City officials occurred during the year ended June 30, 2010.

**(8) 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 it's 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, 2010 were \$40,816.

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.

## CITY OF BRITT

### Notes to Financial Statements (continued)

June 30, 2010

#### **(8) Risk Management (con't)**

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, 2010, 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 the 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 fidelity bonding. The City assumes liability for any deductibles, and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

#### **(9) Other Postemployment Benefits (OPEB)**

Plan Description – The City operates a single-employer retiree benefit plan which provides medical/prescription drug and dental benefits for retirees and their spouses. There are 8 active members in the plan. Participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with Principal. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees. The dental benefits are provided through a fully-insured plan with Delta Dental. Retirees pay the same premium for the dental benefits as active employees.

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 pay-as-you-go basis. The most recent active member monthly premiums for the City and plan members are \$414 for single coverage for medical/prescription drug benefits and \$33.69 for single coverage and \$113.87 for family coverage for dental benefits. The same monthly premiums apply to retirees. For the year ended June 30, 2010 the city contributed \$42,050 to the plan.

#### **(10) Subsequent Events**

The City entered in construction contracts totaling \$298,221 for sanitary sewer trunkline reconstruction. The City also entered into a construction contract for \$553,000 for fire department addition to be financed from federal funding.

REQUIRED SUPPLEMENTARY INFORMATION

City of Britt

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, 2010

	Governmental Funds Actual	Proprietary Funds Actual	Total	Budgeted Amounts Final	Final to Total Variance
<b>Receipts:</b>					
Property tax	\$ 722,995		722,995	689,115	33,880
Other city tax	178,531		178,531	165,199	13,332
Licenses and permits	22,364		22,364	3,500	18,864
Use of money and property	34,314		34,314	24,600	9,714
Intergovernmental	535,380		535,380	770,183	(234,803)
Charges for services	88,157	349,053	437,210	400,159	37,051
Miscellaneous	55,288		55,288	84,375	(29,087)
Total receipts	1,637,029	349,053	1,986,082	2,137,131	(151,049)
<b>Disbursements:</b>					
Public safety	217,064		217,064	245,643	28,579
Public works	210,408		210,408	249,836	39,428
Health and social services	3,500		3,500	5,500	2,000
Culture and recreation	207,378		207,378	220,494	13,116
Community and economic development	45,583		45,583	90,835	45,252
General government	203,231		203,231	242,449	39,218
Debt service	247,600		247,600	245,228	(2,372)
Capital projects	400,161		400,161	400,000	(161)
Business type activities		344,617	344,617	487,039	142,422
Total disbursements	1,534,925	344,617	1,879,542	2,187,024	307,482
Excess (deficiency) of receipts over (under) disbursements	102,104	4,436	106,540	(49,893)	156,433
Balances beginning of year	1,331,240	541,865	1,873,105	1,684,229	188,876
Cash balances end of year	\$ 1,433,344	546,301	1,979,645	1,634,336	345,309

See accompanying independent auditor's report.

City of Britt

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2010

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

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

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund or fund type. 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, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and 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 ended June 30, 2010, disbursements exceeded the amounts budgeted in the debt service and capital projects functions.

OTHER SUPPLEMENTARY INFORMATION

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

As of and for the year ended June 30, 2010

	Special Revenue				
	Road Use Tax	Revolving Loan	Employee Benefits	Sunset Ridge	Total
Receipts:					
Property tax			79,380		79,380
Intergovernmental	\$ 190,347				190,347
Miscellaneous		31,585			31,585
Total receipts	190,347	31,585	79,380		301,312
Disbursements:					
Public safety			32,538		32,538
Public works	172,006		11,469		183,475
Culture and recreation			9,992		9,992
Community and economic development		25,000	717		25,717
General government			20,791		20,791
Total disbursements	172,006	25,000	75,507		272,513
Net change in cash balances	18,341	6,585	3,873		28,799
Cash balances beginning of year	112,405	94,420	40,259	38,025	285,109
Cash balances end of year	\$ 130,746	101,005	44,132	38,025	313,908
<b>Cash Basis Fund Balances</b>					
Unreserved:					
Special revenue funds	\$ 130,746	101,005	44,132	38,025	313,908

See accompanying independent auditor's report.

## City of Britt

## Schedule of Indebtedness

Year ended June 30, 2010

<b>Obligation</b>	<b>Date of Issue</b>	<b>Rate of Interest</b>	<b>Amount Originally Issued</b>	<b>Balance Beginning of Year</b>	<b>Issued During the Year</b>	<b>Redeemed During Year</b>	<b>Balance End of Year</b>	<b>Interest Paid</b>
General Obligation Bonds:								
Capital loan	3-15-07	3.9-4.3%	\$ 845,000	705,000		75,000	630,000	29,153
Aquatic Center	8-1-08	4.5-4.6%	1,550,000	1,390,000		80,000	1,310,000	62,747
Total				2,095,000		155,000	1,940,000	91,900
Revenue Bond:								
Sewer	4-1-97	4.75-5.85%	720,000	75,000		75,000		4,388
Total				\$ 2,170,000		230,000	1,940,000	96,288

See accompanying independent auditor's report.

City of Britt  
Bond and Note Maturities  
June 30, 2010

Year Ending June 30,	General Obligation Bond					Total
	Capital Loan Issued March 15, 2007		Aquatic Center Issued August 1, 2008			
	Interest Rates	Amount	Interest Rates	Amount		
2011	4.00%	\$ 80,000	4.50%	85,000		165,000
2012	4.05	85,000	4.50	90,000		175,000
2013	4.10	85,000	4.50	95,000		180,000
2014	4.15	90,000	4.50	95,000		185,000
2015	4.20	95,000	4.50	100,000		195,000
2016	4.25	95,000	4.50	105,000		200,000
2017	4.30	100,000	4.55	110,000		210,000
2018			4.55	115,000		115,000
2019			4.40	120,000		120,000
2020			4.50	125,000		125,000
2021			4.55	130,000		130,000
2022			4.60	140,000		140,000
<b>Total</b>		<b>\$ 630,000</b>		<b>1,310,000</b>		<b>1,940,000</b>

See accompanying independent auditor's report.

## City of Britt

Schedule of Receipts by Source and Disbursements by Function –  
All Governmental Funds

For the Last Seven Years

	2010	2009	2008	2007	2006	2005	2004
<b>Receipts:</b>							
Property tax	\$ 722,995	712,536	704,736	587,176	527,179	452,456	424,817
Tax increment financing			525	86,642	57,755	46,303	19,110
Other city tax	178,531	162,349	127,991	134,871	142,126	122,940	126,438
Licenses and permits	22,364	24,020	23,992	22,291	2,651	1,981	3,969
Use of money and property	34,314	36,907	39,846	39,016	7,787	22,930	25,352
Intergovernmental	535,380	434,906	206,767	233,654	292,596	262,084	321,789
Charges for service	88,157	73,814	39,329	46,713	38,844	43,713	36,732
Miscellaneous	55,288	262,375	301,394	149,765	147,244	92,955	116,808
<b>Total</b>	<b>\$ 1,637,029</b>	<b>1,706,907</b>	<b>1,444,580</b>	<b>1,300,128</b>	<b>1,216,182</b>	<b>1,045,362</b>	<b>1,075,015</b>
<b>Disbursements:</b>							
<b>Operating:</b>							
Public safety	\$ 217,064	231,053	219,589	236,671	246,957	215,160	210,273
Public works	210,408	285,650	282,552	319,535	285,894	381,731	180,968
Health and social services	3,500	3,500					
Culture and recreation	207,378	205,604	114,609	162,517	164,626	153,489	117,531
Community and economic development	45,583	64,894	87,336	95,011	156,537	117,946	165,503
General government	203,231	193,162	190,036	233,067	223,085	164,539	78,845
Debt service	247,600	325,867	107,319	158,533	183,818	159,815	54,692
Capital projects	400,161	2,024,181	128,333	279,726	694,880	91,982	126,410
<b>Total</b>	<b>\$ 1,534,925</b>	<b>3,333,911</b>	<b>1,129,774</b>	<b>1,485,060</b>	<b>1,955,797</b>	<b>1,284,662</b>	<b>934,222</b>

See accompanying independent auditor's report.

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

To the Honorable Mayor and  
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Britt, Iowa, as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements listed in the table of contents and have issued our report thereon dated November 4, 2010. Our report expressed unqualified opinions on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Britt's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the City of Britt's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Britt's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as discussed in accompanying Schedule of findings, we identified certain deficiencies in internal control over financial reporting we consider to be material weaknesses and other deficiencies we consider to be significant deficiencies.

A deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of City of Britt's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in Part I of the accompanying Schedule of Findings as items I-A-10 and I-B-10 to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Britt's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part 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, 2010 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The City of Britt's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the City's responses, we did not audit the City of Britt's responses and, accordingly, we express no opinion of 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 Britt and other parties to whom the City of Britt may report including federal awarding agencies and pass-through entities, and 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 Britt 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.

November 4, 2010

Renner & Birchem, P.C.

City of Britt

Schedule of Findings

Year ended June 30, 2010

Part I: Findings Related to the Financial Statements:

**Internal Control Deficiencies:**

I-A-10 Segregation of Duties - One important aspect of internal accounting control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The areas of cash receipts, cash disbursements, investments, and payroll under ideal conditions would be segregated.

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

Response - We will investigate this.

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.

I-B-10 Preparation of Financial Statements – The City does not have an internal control system designed to provide for the preparation of the financial statements on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Therefore, as auditors, we were requested to draft the financial statements and accompanying notes to the financial statements. This circumstance is not unusual for a governmental entity similar in population to the City of Britt. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Recommendation – We realize that obtaining the expertise necessary to prepare the financial statements, including all necessary disclosures, can be considered costly and ineffective. However, the City’s management and those charged with governance should decide whether to accept the degree of risk associated with this condition because of cost or other considerations.

Response – The city will continue to review and monitor procedures currently in place and evaluate the risks to be accepted in preparation of the financial statements.

Conclusion - Response accepted.

**Instances of Non-compliance:**

No matters were noted.

City of Britt

Schedule of Findings

Year ended June 30, 2010

Part II: Other Findings Related to Statutory Reporting:

II-A-10 Certified Budget – Disbursements during the year ended June 30, 2010 exceeded the amounts budgeted in the debt service and capital projects functions. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.

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

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

Conclusion - Response accepted.

II-B-10 Questionable Disbursements - We noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

II-C-10 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

II-D-10 Business Transactions - No transactions between the City and City officials were noted.

II-E-10 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-10 Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not.

II-G-10 Deposits and Investments - We noted 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.

II-H-10 Revenue Bonds - The City has complied with the revenue bond resolutions.