

CITY OF GILBERTVILLE, IOWA
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION
SCHEDULE OF FINDINGS

June 30, 2010

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City of Gilbertville, Iowa

Officials

<u>Name</u>	<u>Title</u> (Before January 2010)	<u>Term Expires</u>
Harry R Fischels	Mayor	Jan 2011
Mark Thome	Mayor Pro tem	Jan 2010
Barbara Sells	Council Member	Jan 2011
Scott Becker	Council Member	Jan 2013
Pamela Meinert	Council Member	Jan 2011
Harold Kavalier	Council Member	Jan 2011
(After January 2010)		
Harry R Fischels	Mayor	Jan 2011
Mark Thome	Mayor Pro tem	Jan 2013
Barbara Sells	Council Member	Jan 2011
Scott Becker	Council Member	Jan 2013
Harold Kavalier	Council Member	Jan 2011
Pamela Meinert	Council Member	Jan 2011
Teresa Adamson	City Clerk	Indefinite
Brenda Volker	Deputy City Clerk	Indefinite
John McCoy	Attorney	Indefinite

Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

I have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Gilbertville, 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 the City of Gilbertville's management. My responsibility is to express opinions on these financial statements based on my audit.

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

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than US 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, I was unable to satisfy myself as to the distribution by fund of the total fund balance at July 1, 2009.

In my opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had I been able to verify the distribution by fund of the total fund balance at July 1, 2009, as discussed in the preceding paragraph, 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 Gilbertville 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, I have also issued my report dated March 21, 2011 on my consideration of the City of Gilbertville's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of my audit.

Management's Discussion and Analysis and Budgetary Comparison Information on pages 4 through 8 and 18 through 19 are not required parts of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Gilbertville's basic financial statements. Other 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 my audit of the basic financial statements and, in my opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had I been able to verify the distribution by fund of the total fund balance at July 1, 2009, as discussed in the third paragraph, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Keith Oltrogge
Certified Public Accountant

March 21, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Gilbertville 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 were \$746,433.
- Disbursements of the City's governmental activities were \$892,533.
- The City's total cash basis net assets decreased 23%, or approximately \$151,000 from June 30, 2009 to June 30, 2010. Of this amount, the assets of the governmental activities decreased approximately \$146,000 and the assets of the business type activities decreased by approximately \$5,000.

USING THIS ANNUAL REPORT

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

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

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

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

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

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

Other Supplementary Information provides detailed information about the non-major 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 which helps answer this question.

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

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

- Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the waterworks and the sanitary sewer system. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

1. Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax, 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 two 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 include a statement of cash receipts, disbursements and changes in cash balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased from a year ago, decreasing from approximately \$654,000 to approximately \$503,000:

Changes in Cash Basis Net Assets of Governmental Activities

	Year Ended June 30 2010
Receipts and transfers:	
Program receipts:	
Charges for service	\$ 45,381
Operating grants, contributions and restricted interest	23,146
Capital grants, contributions and restricted interest	75,000
General receipts:	
Property tax	337,233
Local option sales tax	92,942
Unrestricted investment earnings	3,875
Other general receipts	168,856
Total receipts	<u>\$ 746,433</u>
Disbursements:	
Public safety	\$ 253,531
Public works	205,996
Health and social services	1,237
Culture and recreation	34,432
Community and economic development	31,615
General government	108,195
Debt service	118,185
Capital projects	114,163
Total disbursements and transfers	<u>\$ 867,354</u>
Change in cash basis net assets before transfers	\$ -120,921
Transfers, net	<u>-25,179</u>
Change in cash basis net assets	\$ -146,100
Cash basis net assets beginning of year	<u>420,638</u>
Cash basis net assets end of year	<u>\$ 274,538</u>

The cost of all governmental activities this year was approximately \$867,000 compared to approximately \$796,000 last year. However, as shown in the Statement of Activities and Net Assets on page 9, the amount taxpayers ultimately financed for these activities was only \$724,000 because some of the cost was paid by those directly benefited from these programs (\$45,000) or by other governments and organizations that subsidized certain programs with grants, contributions, and restricted interest (\$98,000). The City paid for the remaining "public benefit" portion of governmental activities \$724,000 with taxes (some of which could only be used for certain programs) and with other receipts, such as interest and general receipts.

Changes in Cash Basis Net Assets of Business Type Activities

	Year Ended June 30, 2010
Receipts:	
Program receipts:	
Charges for service:	
Water	\$ 110,370
Sewer	161,687
General receipts:	
Unrestricted interest in investments	4,368
Total receipts	\$ 276,425
Disbursements and transfers:	
Water	\$ 175,504
Sewer	130,916
Total disbursements	\$ 306,420
Change in cash basis net assets before transfers	\$ -29,995
Transfers, net	25,179
Increase (decrease) in cash balance	\$ -4,816
Cash basis net assets beginning of year	233,625
Cash basis net assets end of year	\$ 228,809

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Gilbertville completed the year, its governmental funds reported a combined fund balance of \$503,347, a decrease of more than \$150,000. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance decreased \$43,460 from the prior year to \$197,225. Approximately \$77,000 of this decrease was due to the purchase of a fire truck.
- The Special Revenue, Road Use Tax Fund cash balance increased \$1,617 to \$46,176 during the fiscal year. This increase was attributable to an increase in the amount of road use tax received from the state.
- The Special Revenue, Urban Renewal tax Increment Fund was established to account for major urban renewal projects within the City's tax increment district. At the end of the fiscal year, the cash balance was \$15,974, a decrease of \$8,013 from the previous year. The decrease was the result of increased debt payments.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Enterprise, Water Fund cash balance decreased \$39,677 to \$103,984, due primarily to an increase in expenses.
- The Enterprise, Sewer Fund cash balance increased \$34861 to \$124825, due primarily to increased charges for service.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget one time. The amendment was approved on May 3, 2010, and resulted in a decrease in other financing sources and a corresponding decrease in operating expenses.

The City’s receipts were \$48,492 less than budgeted. This was primarily due to the City receiving less in intergovernmental receipts than anticipated, even after the amendment.

DEBT ADMINISTRATION

At June 30, 2010, the City had \$1,075,000 in bonds outstanding, compared to \$1,140,000 last year, as shown below.

Outstanding Debt at Year-End

	June 30,	
	2010	2009
General obligation notes	\$ 1,075,000	\$ 1,140,000

The City continues to carry a general obligation bond rating of A3 assigned by national rating agencies to the City’s debt since 1995. 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 of \$1,075,000 is significantly below its constitutional debt limit of approximately \$2 million.

ECONOMIC FACTORS AND NEXT YEAR’S BUDGETS AND RATES

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

Amounts available for appropriation in the operating budget are approximately \$3 million, an increase of 65% over the final fiscal year 2010 budget. Bond proceeds are expected to lead this increase. Budgeted disbursements are expected to rise approximately \$1.6 million. Sewer plant construction represents the largest increase. The City has added no major new programs or initiatives to the fiscal year 2011 budget.

If these estimates are realized, the City’s budgeted cash balance is expected to increase approximately \$80,000 by the close of fiscal year 2011.

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 Teresa Adamson, City Clerk, 1321 5th Street, Gilbertville, Iowa 50634.

Basic Financial Statements

City of Gilbertville, Iowa

Statement of Activities and Net Assets – Cash Basis

As of and for the year ended June 30, 2010

	Program Receipts			
	Disbursements	Charges for Service	Operating Grants, Contributions, & Restricted Interest	Capital Grants, Contributions, & Restricted Interest
Functions/Programs:				
Governmental activities:				
Public safety	\$ 253,531	\$ 1,127	\$ 2,426	\$ 75,000
Public works	205,996	42,949	3,350	-
Health and social services	1,237	-	-	-
Culture and recreation	34,432	1,305	17,370	-
Community and economic development	31,615	-	-	-
General government	108,195	-	-	-
Debt service	118,185	-	-	-
Capital projects	114,163	-	-	-
Total governmental activities	\$ 867,354	\$ 45,381	\$ 23,146	\$ 75,000
Business type activities:				
Water	\$ 175,504	\$ 110,370	\$ -	\$ -
Sewer	130,916	161,687	-	-
Total business type activities	\$ 306,420	\$ 272,057	\$ -	\$ -
Total	\$ 1,173,774	\$ 317,438	\$ 23,146	\$ 75,000
General Receipts:				
Property and other city tax levied for:				
General purposes				
Debt service				
Tax increment financing				
Local option sales tax				
Unrestricted interest on investments				
Miscellaneous				
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				
Expendable:				
Streets				
Urban renewal purposes				
Unrestricted				
Total cash basis net assets				

See notes to financial statements.

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

Governmental Activities	Business Type Activities	Total
\$ -174,978	\$ -	\$ -174,978
-159,697	-	-159,697
-1,237	-	-1,237
-15,757	-	-15,757
-31,615	-	-31,615
-108,195	-	-108,195
-118,185	-	-118,185
-114,163	-	-114,163
<u>\$ -723,827</u>	<u>\$ -</u>	<u>\$ -723,827</u>
\$ -	\$ -65,134	\$ -65,134
-	30,771	30,771
<u>\$ -</u>	<u>\$ -34,363</u>	<u>\$ -34,363</u>
<u>\$ -723,827</u>	<u>\$ -34,363</u>	<u>\$ -758,190</u>
\$ 159,677	\$ -	\$ 159,677
-	-	-
177,556	-	177,556
92,942	-	92,942
3,875	4,368	8,243
168,856	-	168,856
-25,179	25,179	-
<u>\$ 577,727</u>	<u>\$ 29,547</u>	<u>\$ 607,274</u>
\$ -146,100	\$ -4,816	\$ -150,916
420,638	233,625	654,263
<u>\$ 274,538</u>	<u>\$ 228,809</u>	<u>\$ 503,347</u>
\$ 46,176	\$ -	\$ 46,176
15,974	-	15,974
212,388	228,809	441,197
<u>\$ 274,538</u>	<u>\$ 228,809</u>	<u>\$ 503,347</u>

City of Gilbertville, Iowa

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

As of and for the year ended June 30, 2010

	Special Revenue		
	General	Road Use Tax	Urban Renewal Tax Increment
Receipts:			
Property tax	\$ 121,443	\$ -	\$ -
Tax increment financing	-	-	177,556
Other city tax	-	-	-
Licenses and permits	9,500	-	-
Use of money and property	3,202	-	673
Intergovernmental	45,002	83,933	-
Charges for service	45,381	-	-
Miscellaneous	110,648	-	-
Total receipts	\$ 335,176	\$ 83,933	\$ 178,229
Disbursements:			
Operating:			
Public safety	\$ 253,531	\$ -	\$ -
Public works	108,446	97,550	-
Health and social services	1,237	-	-
Culture and recreation	34,432	-	-
Community and economic development	98	-	31,517
General government	108,195	-	-
Debt service	-	-	-
Capital projects	-	-	-
Total disbursements	\$ 505,939	\$ 97,550	\$ 31,517
Excess (deficiency) of receipts over (under) disbursements	\$ -170,763	\$ -13,617	\$ 146,712
Other financing sources (uses):			
Operating transfer in	\$ 133,558	\$ 23,234	\$ -
Operating transfers out	-6,255	-8,000	-154,725
Total other financing sources (uses)	\$ 127,303	\$ 15,234	\$ -154,725
Net change in cash balances	\$ -43,460	\$ 1,617	\$ -8,013
Cash balances beginning of year	240,685	44,559	23,987
Cash balances end of year	\$ 197,225	\$ 46,176	\$ 15,974
Cash Basis Fund Balances			
Reserved for debt service	\$ -	\$ -	\$ -
Unreserved:			
General fund	197,225	-	-
Special revenue fund	-	46,176	15,974
Capital projects fund	-	-	-
Total cash basis fund balances	\$ 197,225	\$ 46,176	\$ 15,974

See notes to financial statements.

Nonmajor		Total	
\$	38,234	\$	159,677
	-		177,556
	92,942		92,942
	-		9,500
	-		3,875
	-		128,935
	-		45,381
	17,919		128,567
\$	149,095	\$	746,433
\$	-	\$	253,531
	-		205,996
	-		1,237
	-		34,432
	-		31,615
	-		108,195
	118,185		118,185
	114,163		114,163
\$	232,348	\$	867,354
\$	-83,253	\$	-120,921
\$	118,185	\$	274,944
	-131,176		-300,156
\$	-12,991	\$	-25,179
\$	-96,244	\$	-146,100
	111,407		402,638
\$	15,163	\$	274,538
\$	-	\$	-
	-		197,225
	-		62,150
	15,163		15,163
\$	15,163	\$	274,538

City of Gilbertville, Iowa

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

As of and for the year ended June 30, 2010

	Enterprise Funds		
	Water	Sewer	Total
Operating receipts:			
Charges for service	\$ 110,370	\$ 161,687	\$ 272,057
Operating disbursements:			
Business type activities	\$ 175,504	\$ 130,916	\$ 306,420
Excess (deficiency) of operating receipts over (under) operating disbursements	\$ -65,134	\$ 30,771	\$ -34,363
Non-operating receipts (disbursements):			
Interest on investments	\$ 2,799	\$ 1,569	\$ 4,368
Excess of receipts over (under) disbursements	\$ -62,335	\$ 32,340	\$ -29,995
Other financing sources (uses):			
Operating transfers in	\$ 26,658	\$ 6,521	\$ 33,179
Operating transfers out	\$ -4,000	\$ -4,000	\$ -8,000
Total other financing sources (uses)	\$ 22,658	\$ 2,521	\$ 25,179
Net change in cash balances	\$ -39,677	\$ 34,861	\$ -4,816
Cash balances beginning of year	143,661	89,964	233,625
Cash balances end of year	\$ 103,984	\$ 124,825	\$ 228,809
Cash Basis Fund Balances			
Unreserved	\$ 103,984	\$ 124,825	\$ 228,809

City of Gilbertville, Iowa

Notes to Financial Statements

June 30, 2010

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Gilbertville is a political subdivision of the State of Iowa located in Black Hawk County. It was first incorporated in 1917 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, health and social services, culture and recreation, community and economic development, and general government services. The City also provides water and sewer utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Gilbertville 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 of Gilbertville 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: Black Hawk County Assessor's Conference Board, Black Hawk County Emergency Management Commission, Black Hawk County Landfill Commission, and Black Hawk County Joint E911 Service Board. The City also participates in the Black Hawk County Fireman's Association, a jointly governed organization established pursuant to Chapter 28E of the Code of Iowa.

B. Basis of Presentation

Government-wide Financial Statements – The Statement of Activities and Net Assets reports information on all of the non-fiduciary activities of the City. For the most part, the effect of inter-fund 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 non-fiduciary net assets. Net assets are reported in the following categories/components:

Expendable restricted 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 proprietary funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as non-major 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 Road Use Tax Fund is used to account for road construction and maintenance.

The Urban Renewal Tax Increment Fund is used to account for tax increment financing collections and the repayment of tax increment financing indebtedness.

The City reports the following major proprietary funds:

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

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

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

NOTE 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.

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 PAYABLE

Annual debt service requirements to maturity for general obligation bonds are as follows:

Year Ending June 30,	Water Improvement Series 2004 General Obligation Bonds		Water Improvement Series 2006 General Obligation Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2011	\$30,000	\$28,475	\$35,000	\$21,228	\$65,000	\$49,703
2012	35,000	27,245	35,000	19,757	70,000	47,002
2013	35,000	25,810	40,000	18,270	75,000	44,080
2014	35,000	24,340	40,000	16,550	75,000	40,890
2015	40,000	22,835	40,000	14,810	80,000	37,645
2016	40,000	21,055	45,000	13,050	85,000	34,105
2017	40,000	19,215	45,000	11,048	85,000	30,263
2018	45,000	17,315	45,000	9,022	90,000	26,337
2019	45,000	15,110	50,000	6,975	95,000	22,085
2020	45,000	12,860	50,000	4,675	95,000	17,535
2021	50,000	10,610	50,000	2,350	100,000	12,960
2022	50,000	8,110	-	-	50,000	8,110
2023	55,000	5,610	-	-	55,000	5,610
2024	55,000	2,805	-	-	55,000	2,805
Total	\$600,000	\$241,395	\$475,000	\$137,735	\$1,075,000	\$379,130

NOTE 4 – PENSION AND RETIREMENT BENEFITS

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

Most regular plan members are required to contribute 4.30% of their annual covered salary and the City is required to contribute 6.65% of annual 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, 2010 was \$13,745, 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, 2010.

Plan description – The City operates a single-employer retiree benefit plan which provides medical/prescription drug benefits for retirees and their spouses. There are 4 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 Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefit 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 a pay-as-you-go basis. The most recent active member monthly premiums for the City and plan members are \$514 for single coverage and \$630 for family coverage. The same monthly premiums apply to retirees. For the year ended June 30, 2010, the City contributed \$21,375 and plan members eligible for benefits contributed \$3,793 to the plan.

NOTE 6 – COMPENSATED ABSENCES

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

Type of Benefit	Amount
Vacation	\$5,388
Sick leave	33,291
Total	<u>\$38,679</u>

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

NOTE 7 – INTER-FUND TRANSFERS

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

Transfer to	Transfer from	Amount
Debt Service	Special Revenue: Urban Renewal Tax Increment	\$ 118,185
General Fund	Special Revenue: Urban Renewal Tax Increment Local Option Sales Tax Road Use Tax Emergency Levy Employee Benefit Levy FICA/IPERS Levy Enterprise: Water Sewer	\$ 36,541 46,471 8,000 4,048 13,849 16,649 4,000 4,000 <u>\$ 133,558</u>
Special Revenue – Road Use Tax	Special Revenue – Local Option Sales Tax	<u>\$ 23,234</u>
Enterprise – Water	Special Revenue: Local Option Sales Tax Employee Benefit Levy General Fund	\$ 21,686 777 4,195 <u>\$ 26,658</u>
Enterprise – Sewer	Special Revenue: Local Option Sales Tax Employee Benefit Levy FICA/IPERS Levy General Fund	\$ 1,549 2,653 258 2,061 <u>\$ 6,521</u>
Total		<u>\$ 308,156</u>

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

NOTE 8 – RELATED PARTY TRANSACTIONS

The City had business transactions between the City and City officials totaling \$11,471 during the year ended June 30, 2010.

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 634 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

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

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

The City's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The City's contributions to the Pool for the year ended June 30, 2010 were \$13,243.

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 \$150,000 each occurrence, each location, with excess coverage reinsured by The Travelers Insurance Company.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. As of June 30, 2010, settled claims have not exceeded the risk pool or reinsurance coverage since the Pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days prior written notice may withdraw from the Pool. Upon withdrawal, payments for all casualty claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their 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 another insurer for coverage associated with employee dishonesty and forgery in the amount of \$50,000 and \$10,000, respectively. The City assumes liability for any deductibles, and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE 10 – DEVELOPMENT AGREEMENTS

The City of Gilbertville has entered into two development agreements dated March 30, 1999 and July 7, 2003 to assist in urban renewal projects. The City agreed to assist in urban renewal projects by rebating incremental taxes paid by the participating companies with respect to the improvements set forth in the urban renewal plan. The incremental taxes to be received by the City under Chapter 403.19 of the Code of Iowa from the participating companies will be rebated for a period of ten years beginning with the tax year in which the property taxes on the completed value of the improvements are first paid. Payments of \$31,517 were made under these agreements during the year ended June 30, 2010. The agreement dated July 7, 2003 provides for annual tax increment payments for ten years beginning on June 1, 2007. The rebate schedule for the agreement dated March 30, 1999 provides for annual tax increment payments for ten years beginning on June 1, 2009.

NOTE 13 – SUBSEQUENT EVENTS

The City has evaluated subsequent events through March 21, 2011, which is the date that the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

City of Gilbertville, Iowa

**Budgetary Comparison Schedule
of Receipts, Disbursements, and Changes in Balances –
Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Funds**

Required Supplementary Information

Year ended June 30, 2010

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds not Required to be Budgeted
Receipts:			
Property tax	\$ 159,677	\$ -	\$ -
Tax increment financing	177,556	-	-
Other city tax	92,942	-	-
Licenses and permits	9,500	-	-
Use of money and property	3,875	4,368	-
Intergovernmental	128,935	-	-
Charges for service	45,381	272,057	4,751
Miscellaneous	128,567	-	95,720
Total receipts	\$ 746,433	\$ 276,425	\$ 100,471
Disbursements:			
Public safety	\$ 253,531	\$ -	\$ -
Public works	205,996	-	-
Health and social services	1,237	-	-
Culture and recreation	34,432	-	-
Community and economic development	31,615	-	-
General government	108,195	-	-
Debt service	118,185	-	-
Capital projects	114,163	-	-
Business type activities	-	306,420	-
Total disbursements	\$ 867,354	\$ 306,420	\$ -
Excess (deficiency) of receipts over (under) disbursements	\$ -120,921	\$ -29,995	\$ 100,471
Other financing sources (uses), net	-25,179	25,179	-
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	\$ -146,100	\$ -4,816	\$ 100,471
Balances beginning of year	420,638	233,625	-
Balances end of year	\$ 274,538	\$ 228,809	\$ 100,471

See accompanying independent auditor's report.

Total	Budgeted Amounts		Final	Final to Total Variance
	Original			
\$ 159,677	\$ 163,837	\$ 163,837	\$ -4,160	
177,556	181,500	181,500	-3,944	
92,942	86,521	91,521	1,421	
9,500	6,075	6,075	3,425	
8,243	9,265	9,265	-1,022	
128,935	426,337	278,687	-149,752	
312,687	299,334	302,334	10,353	
32,847	20,911	38,131	-5,284	
<u>\$ 922,387</u>	<u>\$ 1,193,780</u>	<u>\$ 1,071,350</u>	<u>\$ -148,963</u>	
\$ 252,531	\$ 124,895	\$ 255,895	\$ 2,364	
205,996	163,725	240,594	34,598	
1,237	1,237	1,237	-	
34,432	35,555	74,905	40,473	
31,615	45,482	76,482	44,867	
108,195	110,001	121,001	12,806	
118,185	118,185	118,185	-	
114,163	-	126,537	12,374	
206,420	2,039,249	420,249	113,829	
<u>\$ 1,173,774</u>	<u>\$ 2,638,329</u>	<u>\$ 1,435,085</u>	<u>\$ 261,311</u>	
\$ -251,387	\$ -1,444,549	\$ -363,735	\$ 112,348	
-	1,500,000	-	-	
\$ -251,387	\$ 55,451	\$ -363,735	\$ 112,348	
654,263	726,020	654,263	-	
<u>\$ 402,876</u>	<u>\$ 781,471</u>	<u>\$ 290,528</u>	<u>\$ 112,348</u>	

City of Gilbertville, Iowa

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 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 ten major classes of disbursements known as functions, not by fund. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Funds, the Permanent Fund and the Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment decreased budgeted disbursements by \$1,203,244 and decreased budgeted revenues by \$122,430.

The budget amendment is reflected in the final budget amounts.

Other Supplementary Information

City of Gilbertville, Iowa

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

Year ended June 30, 2010

	Special		
	Emergency	Employee Benefits	Local Option Sales Tax
Receipts:			
Property tax	\$ 4,048	\$ 17,279	\$ -
Other city taxes	-	-	92,942
Miscellaneous	-	-	-
Total receipts	<u>\$ 4,048</u>	<u>\$ 17,279</u>	<u>\$ 92,942</u>
Disbursements:			
Debt service	\$ -	\$ -	\$ -
Capital projects	-	-	-
Total disbursements	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Excess (deficiency) of receipts over (under) disbursements	<u>\$ 4,048</u>	<u>\$ 17,279</u>	<u>\$ 92,942</u>
Other financing sources (uses):			
Operating transfers in	\$ -	\$ -	\$ -
Operating transfers out	-4,048	-17,279	-92,942
Total other financing sources (uses)	<u>\$ -4,048</u>	<u>\$ -17,279</u>	<u>\$ -92,942</u>
Net change in cash balances	\$ -	\$ -	\$ -
Cash balances beginning of year	-	-	-
Cash balances end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Cash Basis Fund Balances			
Unreserved:			
Capital project funds	\$ -	\$ -	\$ -
Total cash basis fund balances	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See accompanying independent auditor's report.

<u>Revenue</u>				
<u>FICA/IPERS</u>	<u>Capital Projects</u>	<u>Debt Service</u>	<u>Total</u>	
\$ 16,907	\$ -	\$ -	\$	38,234
-	-	-		92,942
-	17,919	-		17,919
<u>\$ 16,907</u>	<u>\$ 17,919</u>	<u>\$ -</u>	<u>\$</u>	<u>149,095</u>
\$ -	\$ -	\$ 118,185	\$	118,185
-	114,163	-		114,163
<u>\$ -</u>	<u>\$ 114,163</u>	<u>\$ 118,185</u>	<u>\$</u>	<u>232,348</u>
\$ 16,907	\$ -96,244	\$ -118,185	\$	-83,253
\$ -	\$ -	\$ 118,185	\$	118,185
-16,907	-	-		-131,176
<u>\$ -16,907</u>	<u>\$ -</u>	<u>\$ 118,185</u>	<u>\$</u>	<u>-12,991</u>
\$ -	\$ -96,244	\$ -	\$	-96,244
-	111,407	-		111,407
<u>\$ -</u>	<u>\$ 15,163</u>	<u>\$ -</u>	<u>\$</u>	<u>15,163</u>
\$ -	\$ 15,163	\$ -	\$	15,163
<u>\$ -</u>	<u>\$ 15,163</u>	<u>\$ -</u>	<u>\$</u>	<u>15,163</u>

City of Gilbertville, Iowa
Schedule of Indebtedness
Year ended June 30, 2010

<u>Obligation</u>	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount Originally Issued</u>
General Obligation Notes:			
Water improvements	7-1-04	4.10-5.10%	\$750,000
Water improvements	6-1-06	4.00-4.70%	600,000
Total indebtedness			<u>\$1,350,000</u>

See accompanying independent auditor's report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
\$630,000	\$-	\$30,000	\$600,000	\$29,705
510,000	-	35,000	475,000	22,680
<u>\$1,140,000</u>	<u>\$-</u>	<u>\$65,000</u>	<u>\$1,075,000</u>	<u>\$52,385</u>

City of Gilbertville, Iowa

Note Maturities

June 30, 2010

Year Ending June 30,	General Obligation Loan Notes				Total
	Water Improvements Issued July 1, 2004		Water Improvements Issued June 1, 2006		
	Interest Rate	Amount	Interest Rate	Amount	
2011	4.10%	\$30,000	4.20%	\$35,000	\$65,000
2012	4.10	35,000	4.25	35,000	70,000
2013	4.20	35,000	4.30	40,000	75,000
2014	4.30	35,000	4.35	40,000	75,000
2015	4.45	40,000	4.40	40,000	80,000
2016	4.60	40,000	4.45	45,000	85,000
2017	4.75	40,000	4.50	45,000	85,000
2018	4.90	45,000	4.55	45,000	90,000
2019	5.00	45,000	4.60	50,000	95,000
2020	5.00	45,000	4.65	50,000	95,000
2021	5.00	50,000	4.70	50,000	100,000
2022	5.00	50,000	-	-	50,000
2023	5.10	55,000	-	-	55,000
2024	5.10	55,000	-	-	55,000
Total		<u>\$60,000</u>		<u>\$475,000</u>	<u>\$1,075,000</u>

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

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

To the Honorable Mayor and
Members of the City Council:

I have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Gilbertville, 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 my report thereon dated March 21, 2011. My report expressed qualified opinions on the financial statements, which were prepared in conformity with an other comprehensive basis of accounting. I conducted my audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

My consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and 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 described in the accompanying Schedule of Findings, I identified certain deficiencies in internal control over financial reporting I consider to be material weaknesses.

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 the City of Gilbertville's financial statements will not be prevented or detected and corrected on a timely basis. I 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Gilbertville's financial statements are free of material misstatement, I 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 my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, I noted certain immaterial instances of non-compliance or other matters that are described in Part 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 my audit of the financial statements of the City. Since my audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

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

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Gilbertville and other parties to whom the City of Gilbertville may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

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



Keith Oltrogge
Certified Public Accountant

March 21, 2011

City of Gilbertville, Iowa

Schedule of Findings

Year ended June 30, 2010

Part I – Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCIES:

I-A-10 Segregation of Duties – During my review of internal controls, the existing procedures are evaluated in order to determine that incompatible duties, from a control standpoint, are not performed by the same employee. Over the past years, the City has implemented various procedures to enhance their internal controls. However, due to time and staffing constraints, the City is still unable to fully segregate receipt and posting functions, disbursement preparation and posting functions and reconciliation function from receipt and disbursement functions.

Recommendation – I recognize that with a limited number of office employees, segregation of duties is difficult. However, we recommend the City officials continue reviewing operating procedures in order to obtain the maximum internal control possible under the circumstances.

Response – The City will continue to review operating procedures and segregate employee duties to the extent financially feasible to maximize internal control. There will be no change until it is fiscally responsible to add additional staff.

Conclusion – Response accepted.

I-B-10 Preparation of Financial Statements – Management is responsible for establishing and maintaining internal controls over financial reporting and procedures related to the fair presentation of the financial statements in accordance with the cash basis of accounting. The City of Gilbertville does not have an internal control system designed to provide for the preparation of the financial statements, including the accompanying footnotes as required by generally accepted accounting principles. The guidance in Statement of Auditing Standards No 112, Communicating Internal Control Related Matters Identified in an Audit, requires us to communicate this matter to those charged with governance.

As auditors, we were requested to draft the financial statements and accompanying notes to the financial statements. The outsourcing of these services is not unusual in an organization of your size.

Recommendation – I realize that obtaining the expertise necessary to prepare the financial statements, including all necessary disclosures, in accordance with the cash basis of accounting can be considered costly and ineffective. However, it is the responsibility of the City's 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.

Response – Management feels that committing the resources necessary to remain current on reporting requirements and corresponding footnote disclosures would lack benefit in relation to the cost, but will continue evaluating on a going forward basis.

Conclusion – Response accepted.

City of Gilbertville, Iowa

Schedule of Findings

Year ended June 30, 2010

Part II: Other Findings Related to Required Statutory Reporting:

- II-A-10 Certified Budget – Disbursements during the year ended June 30, 2010 did not exceed the amounts budgeted.
- II-B-10 Questionable Disbursements – No disbursements I believe 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 – Business transactions between the City and City officials or employees are detailed as follows:

<u>Name, Title, and Business Connection</u>	<u>Transcription Description</u>	<u>Amount</u>
Harry Fischels, Mayor, Owner of Star Refrigeration	furnace	\$6,332
Harold Kavalier, Council Member, employed by United Concrete	concrete	5,454
Brian Delegardelle, Public Works Director, Owner of Urban Services LLC	lease building	1,200
	skid loader and tractor use	2,771
	Polaris Ranger utility vehicle	<u>7,500</u>
		<u>\$11,471</u>

In accordance with Chapter 362.5(10) of the Code of Iowa, the transaction with Kavalier may represent a conflict of interest because it is more than \$1,500. The transactions with Delegardelle for the building lease and equipment usage may represent a conflict of interest since they are more than \$1,500. The transaction with Delegardelle for the Polaris Ranger appears to represent a conflict of interest. The amount is over \$1,500 and bids were not taken. The transaction with Fischels does not appear to represent a conflict of interest because it was entered into through competitive bidding.

Recommendation – The City should consult legal counsel to determine the disposition of these matters.

Response – The City will contact legal counsel.

Conclusion – Response accepted.

- 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 I believe should have been approved in the Council minutes but were not.
- II-G-10 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City’s investment policy were noted.