

CITY OF READLYN
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
& SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

June 30, 2010

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City of Readlyn

Officials

<u>Name</u>	<u>Title</u> (Before January 2010)	<u>Term Expires</u>
Herbert Clemen	Mayor	12-31-11
Dan Wedemeier	Mayor Pro-Tem	12-31-11
Tom Cozart	Council Member	12-31-10
Barry Wittenburg	Council Member	12-31-11
Jeff Brunscheon	Council Member	12-31-10
Barry Fortsch	Council Member	12-31-11
(After January 2010)		
Herbert Clemen	Mayor	12-31-11
Dan Wedemeier	Mayor Pro-Tem	12-31-11
Tom Cozart	Council Member	12-31-13
Mike Hupfeld	Council Member	12-31-13
Barry Wittenburg	Council Member	12-31-11
Barry Fortsch	Council Member	12-31-11
Lois Buhr	City Clerk	12-31-10
Janice Heineman	City Treasurer	12-31-10
Gaylen Hassman	Attorney	12-31-10

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 Readlyn, 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 Readlyn'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.

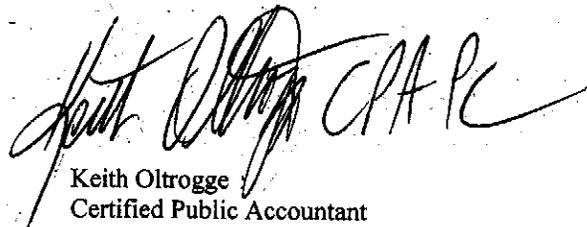
As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than generally accepted accounting principles. Also, as permitted by the Code of Iowa, the accounting records of the City have not been 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 aforementioned financial statements 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 Readlyn 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 reports dated April 27, 2011 on my consideration of the City of Readlyn's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. This 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 9 and 20 through 21 are not required parts of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. I applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the 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 Readlyn's basic financial statements. 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 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

April 27, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Readlyn 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 increased 4% or approximately \$33,000 from fiscal 2009 to fiscal 2010.
- Disbursements of the City's governmental activities increased 23%, or approximately \$190,000, in fiscal 2010 from fiscal 2009. The increase included approximately \$123,000 for a new fire truck.
- The City's total cash basis net assets decreased 18%, or approximately \$204,000 from June 30, 2009 to June 30, 2010. Of this amount, the assets of the governmental activities decreased approximately \$46,000 and the assets of the business type activities decreased by approximately \$159,000.

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 propriety and 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, 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, electric utility, solid waste 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 eight Enterprise Funds to provide separate information for the Electric Utility 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 sharply from a year ago, decreasing from approximately \$1.13 million to approximately \$926,000. The analysis that follows focuses on the changes in cash balances for governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities	
Year Ended June 30, 2010	
Receipts:	
Program receipts:	
Charges for service	\$ 230
Operating grants, contributions and restricted interest	37,746
Capital grants, contributions and restricted interest	100,713
General receipts:	
Property tax	401,444
Local option sales tax	74,210
Unrestricted interest on investments	7,678
Other general receipts	95,818
Total receipts	<u>\$ 717,839</u>
Disbursements:	
Public safety	\$ 228,472
Public works	96,422
Health and social services	550
Culture and recreation	96,930
Community and economic development	73,830
General government	47,917
Debt service	178,605
Capital projects	112,004
Total disbursements	<u>\$ 834,736</u>
Change in cash basis net assets before transfers	\$ -116,897
Transfers, net	<u>71,153</u>
Change in cash basis net assets	\$ -45,744
Cash basis net assets beginning of year	<u>466,627</u>
Cash basis net assets end of year	<u>\$ 420,883</u>

The City's total receipts for governmental activities increased 4%, or approximately \$33,000. The total cost of all programs and services increased approximately \$190,000, or 23% with no new programs added this year. The significant increase in expenses was primarily the result of the purchase of a new ambulance.

The cost of all governmental activities this year was approximately \$835,000 compared to approximately \$645,000 last year. However, as shown in the Statement of Activities and Net Assets on Pages 10-11, the amount taxpayers ultimately financed for these activities was only \$691,000 because some of the cost was paid by those directly benefited from these programs (\$5,300) or by other governments and organizations which subsidized certain programs with grants, contributions, and restricted interest (\$138,000). Overall, the City's governmental activities program receipts, including intergovernmental aid and fees for service, increased in fiscal year 2010 from approximately \$72,000 to approximately \$144,000, principally due to receiving donations for the new ambulance. The City paid for the remaining "public benefit" portion of governmental activities (\$691,000) with taxes (some of which could only be used for certain programs) and other receipts, such as interest and other general receipts.

Changes in Cash Basis Net Assets of Business Type Activities
Year Ended June 30, 2010

Receipts:	
Program receipts:	
Charges for service:	
Water	\$ 72,807
Sewer	64,951
Electric	472,962
Storm water	17,148
Garbage	52,544
Sewer improvement	54,918
Meter deposits	1,750
General receipts:	
Unrestricted interest on investments	9,208
Other general receipts	
Total receipts	\$ 749,402
Disbursements:	
Water	\$ 66,670
Sewer	132,290
Electric	537,159
Garbage	66,693
Storm water	94
Meter deposits	200
Sewer improvement revenue note sinking	33,952
Total disbursements	\$ 837,058
Change in cash basis net assets before transfers	\$ -87,656
Transfers, net	-71,153
Change in cash balance net assets	\$ -158,809
Cash basis net assets beginning of year	663,810
Cash basis net assets end of year	\$ 505,001

Total business type activities receipts for the fiscal year were approximately \$749,000 compared to approximately \$715,000 last year. This increase was due primarily to increased charges for service. The cash balance decreased approximately \$159,000 from the prior year. Total disbursements for the fiscal year increased by 17%, approximately \$147,000.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Readlyn completed the year, its governmental funds reported a combined fund balance of \$420,883, a decrease of more than \$45,000 from last year's total of \$466,627. 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 \$32,922 from the prior year to \$133,834.
- The Special Revenue, Local Option Sales Tax Fund cash balance decreased \$74,366 to \$74,422 during the fiscal year.
- The Special Revenue, Urban Renewal Tax Increment Fund was established to account for a major urban renewal project within the City's business district. At the end of the fiscal year, the cash balance was \$61,930, a decrease of \$13,732 from the previous year.

- The Debt Service Fund cash balance increased \$267 to \$1,125 during the fiscal year. Bond principal and interest payments decreased \$957 in fiscal year 2010.
- The Capital Projects Fund cash balance increased \$68,037 during the fiscal year.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Enterprise, Electric Utility Fund cash balance decreased \$124,591 to \$482,161.
- The Enterprise, Sewer Fund cash balance decreased \$66,083 to -\$94,624.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget one time. The amendment was approved on May 10, 2011 and resulted in an increase in operating receipts and disbursements.

- The City’s receipts were \$119,989 less than budgeted. This was primarily due to the City receiving less in charges for service than anticipated.
- Even with the budget amendment, total disbursements were \$21,561 more than the amended budget. The City exceeded the amended amounts budgeted in the debt service, capital projects and business type activities functions for the year ended June 30, 2010 due to higher costs for City Hall maintenance projects and sewer improvement costs not budgeted.

DEBT ADMINISTRATION

At June 30, 2010, the City had \$690,000 in bonds and other long-term debt outstanding, compared to \$865,000 last year, as shown below.

	Outstanding Debt at Year-End	
	June 30,	
	2010	2009
General obligation notes	\$ 525,000	\$ 675,000
Revenue notes	165,000	190,000
Total	\$ 690,000	\$ 865,000

Debt decreased as a result of payments made.

The City continues to carry a general obligation bond rating of A3 assigned by national ratings 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 debt of \$525,000 is significantly below its constitutional debt limit of approximately \$2 million.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City of Readlyn 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 \$1.6 million, a decrease of 6% from the final fiscal year 2010 budget. The City will use these receipts to finance programs we currently offer and to defray a portion of the costs of carrying out a major urban renewal project for the City. Budgeted disbursements are expected to decrease approximately \$160,000. Decreased public safety costs, represent the largest decrease. 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 \$100,000 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 Lois Buhr, City Clerk, 128 Main Street, Readlyn IA 50668.

Basic Financial Statements

City of Readlyn

Statement of Activities and Net Assets – Cash Basis

As of and for the year ended June 30, 2010

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions, & Restricted Interest	Capital Grants, Contributions & Restricted Interest
Functions/Programs:				
Governmental activities:				
Public safety	\$ 228,472	\$ -	\$ 2,385	\$ 100,713
Public works	96,422	-	3,433	-
Health and social services	550	-	-	-
Culture and recreation	96,930	5,313	31,928	-
Community and economic development	73,836	-	-	-
General government	47,917	-	-	-
Debt service	178,605	-	-	-
Capital projects	112,004	-	-	-
Total governmental activities	\$ 834,736	\$ 5,313	\$ 37,746	\$ 100,713
Business type activities:				
Water	\$ 66,670	\$ 72,807	\$ -	\$ -
Sewer	132,290	64,951	-	-
Garbage	66,693	52,544	-	-
Storm water	94	17,148	-	-
Electric utility	537,159	472,962	-	-
Sewer improvement revenue note sinking	33,952	-	-	-
Meter deposits	200	1,750	-	-
Sewer improvement	-	54,918	-	-
Total business type activities	\$ 837,058	\$ 737,080	\$ -	\$ -
Total	\$ 1,671,794	\$ 742,393	\$ 37,746	\$ 100,713

See notes to financial statements.

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

Governmental Activities	Business Type Activities	Total
\$ -125,374	\$ -	\$ -125,374
-92,989	-	-92,989
-550	-	-550
-59,689	-	-59,689
-73,836	-	-73,836
-47,917	-	-47,917
-178,605	-	-178,605
-112,004	-	-112,004
<u>\$ -690,964</u>	<u>\$ -</u>	<u>\$ -690,964</u>
\$ -	\$ 6,137	\$ 6,137
-	-67,339	-67,339
-	-14,149	-14,149
-	17,054	17,054
-	-64,197	-64,197
-	-33,952	-33,952
-	1,550	1,550
-	54,918	54,918
<u>\$ -</u>	<u>\$ -99,978</u>	<u>\$ -99,978</u>
<u>\$ -690,964</u>	<u>\$ -99,978</u>	<u>\$ -790,942</u>

City of Readlyn

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
General Receipts and Transfers:			
Property and other city tax levied for:			
General purposes			
Debt service			
Tax increment financing			
Local option sales tax			
Unrestricted interest on investments			
Miscellaneous			
Sale of assets			
Transfers			
 Total general receipts and transfers			
 Change in cash basis net assets			
 Cash basis net assets beginning of year			
 Cash basis net assets end of year			
 Cash Basis Net Assets			
Restricted:			
Expendable:			
Streets			
Urban renewal purposes			
Debt service			
Other purposes			
Unrestricted			
Total cash basis net assets			

See notes to financial statements.

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

Governmental Activities	Business Type Activities	Total
\$ 163,756	\$ -	\$ 163,756
37,814	-	37,814
199,874	-	199,874
74,210	-	74,210
7,678	9,208	16,886
83,235	3,114	86,349
7,500	-	7,500
71,153	-71,153	-
<u>\$ 645,220</u>	<u>\$ -58,831</u>	<u>\$ 586,389</u>
\$ -45,744	\$ -158,809	\$ -204,553
<u>466,627</u>	<u>663,810</u>	<u>1,130,437</u>
<u>\$ 420,883</u>	<u>\$ 505,001</u>	<u>\$ 925,884</u>
\$ 33,314	\$ -	\$ 33,314
129,916	-	129,916
1,125	-	1,125
112,964	-	112,964
143,564	505,001	648,565
<u>\$ 420,883</u>	<u>\$ 505,001</u>	<u>\$ 925,884</u>

City of Readlyn

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

As of and for the year ended June 30, 2010

	General	Special Revenue	
		Local Option Sales Tax	Urban Renewal Tax Increment
Receipts:			
Property tax	\$ 121,454	\$ -	\$ -
Tax increment financing collections	-	-	199,874
Other city tax	-	74,210	-
Licenses and permits	689	-	-
Use of money and property	7,368	167	-
Intergovernmental	29,675	-	-
Charges for service	230	-	-
Miscellaneous	105,603	-	-
Total receipts	\$ 265,019	\$ 74,377	\$ 199,874
Disbursements:			
Operating:			
Public safety	\$ 228,472	\$ -	\$ -
Public works	31,167	-	-
Health and social services	550	-	-
Culture and recreation	78,242	-	-
Community and economic development	1,250	-	72,586
General government	47,917	-	-
Debt service	-	-	-
Capital projects	-	-	-
Total disbursements	\$ 387,598	\$ -	\$ 72,586
Excess (deficiency) of receipts over (under) disbursements	\$ -122,579	\$ 74,377	\$ 127,288
Other financing sources (uses):			
Sale of capital assets	\$ 7,500	\$ -	\$ -
Operating transfers in	82,157	-	-
Operating transfers out	-	-148,743	-141,020
Total other financing sources (uses)	\$ 89,657	\$ -148,743	\$ -141,020
Net change in cash balances	\$ -32,922	\$ -74,366	\$ -13,732
Cash balances beginning of year	166,756	148,788	75,662
Cash balances end of year	\$ 133,834	\$ 74,422	\$ 61,930
Cash Basis Fund Balances			
Reserved:			
Debt service	\$ -	\$ -	\$ -
Unreserved:			
General fund	133,834	-	-
Special revenue funds	-	74,422	61,930
Capital projects fund	-	-	-
Total cash basis fund balances	\$ 133,834	\$ 74,422	\$ 61,930

See notes to financial statements.

Debt Service	Capital Projects	Non-Major	Total
\$ 37,814	\$ -	\$ 42,302	\$ 201,570
-	-	-	199,874
-	-	-	74,210
-	-	-	689
38	-	105	7,678
-	-	75,304	104,979
-	-	-	230
-	-	15,506	121,109
<u>\$ 37,852</u>	<u>\$ -</u>	<u>\$ 133,217</u>	<u>\$ 710,339</u>
\$ -	\$ -	\$ -	\$ 228,472
-	-	65,255	96,422
-	-	-	550
-	-	18,688	96,930
-	-	-	73,830
-	-	-	47,917
178,605	-	-	178,605
-	112,004	-	112,004
<u>\$ 178,605</u>	<u>\$ 112,004</u>	<u>\$ 83,943</u>	<u>\$ 834,736</u>
<u>\$ -140,753</u>	<u>\$ -112,004</u>	<u>\$ 49,274</u>	<u>\$ -124,397</u>
\$ -	\$ -	\$ -	\$ 7,500
141,020	180,041	-	403,218
-	-	-42,302	-332,065
<u>\$ 141,020</u>	<u>\$ 180,041</u>	<u>\$ -42,302</u>	<u>\$ 78,653</u>
\$ 267	\$ 68,037	\$ 6,972	-45,744
858	38,491	36,072	466,627
<u>\$ 1,125</u>	<u>\$ 106,528</u>	<u>\$ 43,044</u>	<u>\$ 420,883</u>
\$ 1,125	\$ -	\$ -	\$ 1,125
-	-	-	133,834
-	-	43,044	179,396
-	106,528	-	106,528
<u>\$ 1,125</u>	<u>\$ 106,528</u>	<u>\$ 43,044</u>	<u>\$ 420,883</u>

City of Readlyn

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

As of and for the year ended June 30, 2010

	Enterprise Funds			
	Electric Utility	Sewer	Non-Major	Total
Operating receipts:				
Charges for service	\$ 472,962	\$ 64,951	\$ 199,167	\$ 737,080
Miscellaneous	1,660	1,256	198	3,114
Total operating receipts	\$ 474,622	\$ 66,207	\$ 199,365	\$ 740,194
Operating disbursements:				
Business type activities	\$ 537,159	\$ 132,290	\$ 133,657	\$ 803,106
Excess (deficiency) of operating receipts over (under) operating disbursements	\$ -62,537	\$ -66,083	\$ 65,708	\$ -62,912
Non-operating receipts (disbursements):				
Interest on investments	\$ 9,099	\$ -	\$ 109	\$ 9,208
Debt service	-	-	-33,952	-33,952
Total non-operating receipts (disbursements)	\$ 9,099	\$ -	\$ -33,843	\$ -24,744
Excess (deficiency) of receipts over (under) disbursements	\$ -53,438	\$ -66,083	\$ 31,865	\$ -87,656
Operating transfers in	-	-	33,952	33,952
Operating transfers out	-71,153	-	-33,952	-105,105
Net change in cash balances	\$ -124,591	\$ -66,083	\$ 31,865	\$ -158,809
Cash balances beginning of year	606,752	-28,541	85,599	663,810
Cash balances end of year	\$ 482,161	\$ -94,624	\$ 117,464	\$ 505,001
Cash Basis Fund Balances				
Unreserved	\$ 482,161	\$ -94,624	\$ 117,464	\$ 505,001

See notes to financial statements.

City of Readlyn

Notes to Financial Statements

June 30, 2010

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Readlyn is a political subdivision of the State of Iowa located in Bremer County 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, sewer, electric and solid waste utilities for its citizens.

A. Reporting Entity

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

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Bremer County Assessor's Conference Board, City Assessor's Conference Board, Bremer County Emergency Management Commission, Bremer County Landfill Commission and Bremer County Joint E911 Service Board.

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 enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds and proprietary funds are aggregated and reported as non-major funds.

The City reports the following major governmental funds:

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

Special Revenue:

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

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

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 Project Fund is used to account for construction and acquisition of capital assets.

The City reports the following major proprietary funds:

The Enterprise, Electric Utility Fund accounts for the operation and maintenance of the City's electric service.

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

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

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

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2010, disbursements exceeded the amount budgeted in the debt service, capital projects and business type activities functions.

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.

At June 30, 2010, the City had the following investments:

Certificates of Deposit	Carrying Amount	Fair Value	Maturity	Interest Rate
Readlyn Savings Bank	\$11,001	\$11,001	8-8-10	2.09%
Readlyn Savings Bank	60,000	60,000	7-16-10	4.25%
Readlyn Savings Bank	23,000	23,000	9-6-10	3.57%
Readlyn Savings Bank	11,002	11,002	8-8-10	2.09%
Readlyn Savings Bank	10,700	10,700	9-19-11	3.32%
Readlyn Savings Bank	40,000	40,000	7-7-10	2.63%
Readlyn Savings Bank	10,000	10,000	7-13-10	2.68%
Readlyn Savings Bank	40,000	40,000	5-16-14	3.27%
Readlyn Savings Bank	19,450	19,450	7-28-10	2.09%
Readlyn Savings Bank	15,000	15,000	4-6-13	2.73%
Readlyn Savings Bank	25,000	25,000	3-23-11	1.44%
Readlyn Savings Bank	10,000	10,000	2-27-13	2.78%
Readlyn Savings Bank	40,000	40,000	9-10-14	3.52%
	<u>\$315,153</u>	<u>\$315,153</u>		

In addition, the City had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$334,166 pursuant to Rule 2a-7 under the Investment Company Act of 1940.

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.

Credit Risk – The City’s investment in the Iowa Public Agency Investment Trust is unrated.

NOTE 3 – BONDS AND NOTES PAYABLE

Annual debt service requirements to maturity for general obligation bonds, urban renewal tax increment financing revenue bonds and revenue notes are as follows:

Year Ending June 30,	General Obligation Bonds		Urban Renewal Tax Increment Financing Revenue Bonds		Revenue Notes		Total	
	Principle	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2011	\$85,000	\$11,135	\$135,000	\$9,855	\$30,000	\$7,515	\$250,000	\$28,505
2012	85,000	7,522	135,000	4,995	30,000	6,240	250,000	18,757
2013	85,000	3,825	-	-	35,000	4,935	120,000	8,760
2014	-	-	-	-	35,000	3,360	35,000	3,360
2015	-	-	-	-	35,000	1,715	35,000	1,715
	\$255,000	\$22,482	\$270,000	\$14,850	\$165,000	\$23,765	\$690,000	\$61,097

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

Urban Renewal Tax Increment Financing Revenue Bonds

The urban renewal tax increment financing revenue bonds were issued for the purpose of defraying a portion of the costs of carrying out an urban renewal project of the City. The bonds are payable solely from the income and proceeds of the Special Revenue, Urban Renewal Tax Increment Fund and the taxes to be paid into the fund in accordance with Chapter 403.19 of the Code of Iowa.

TIF receipts are generally projected to produce 100 percent of the debt service requirements over the life of the bonds. The proceeds of the urban renewal tax increment financing revenue bonds shall be expended only for purposes which are consistent with the plans of the City’s urban renewal area. The bonds are not a general obligation of the City. However, the debt is subject to the constitutional debt limitation of the City. Total principal and interest remaining on the bonds is \$284,850, payable through June 2024. For the current year, interest paid and total TIF receipts were \$15,220 and \$199,874, respectively.

Revenue Notes

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay \$325,000 of sewer revenue notes issued in April 2002. Proceeds from the notes provided financing for sewer improvements. The notes are payable solely from sewer customer receipts and are payable through 2015. Annual principal and interest payments on the notes are expected to require less than 80 percent of net receipts. The total principal and interest remaining to be paid on the notes is \$188,765. For the current year, principal and interest paid and total customer net receipts were \$33,553 and \$66,207, respectively.

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

- a) The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the funds.
- b) Sufficient transfers shall be made to a separate sewer revenue note sinking account within the Enterprise Funds for the purpose of making the note principal and interest payments when due.

NOTE 4 – PENSION AND RETIREMENT BENEFITS

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

Plan members are required to contribute 4.30% 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 \$19,096, equal to the required contributions for the year.

NOTE 5 – OTHER POSTEMPLOYMENT BENEFITS (OPEB)

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 and no retired 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 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 a pay-as-you-go basis. The most recent active member monthly premiums for the City and plan members are \$654 for single coverage and \$832 for family coverage. The same monthly premiums apply to retirees. For the year ended June 30, 2010, the City contributed \$26,444 and plan members eligible for benefits contributed \$0 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 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</u>
Vacation	\$ 7,513
Sick leave	20,412
Total	<u>\$ 27,925</u>

This liability has been computed based on rates of pay in effect 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
General	Special Revenue: Emergency Levy	\$ 4,086
	Employee Benefit Levy	18,102
	FICA and IPERS Levy	20,114
	Enterprise: Electric Utility	39,855
		<u>\$ 82,157</u>
Debt Service	Special Revenue: Urban Renewal Tax Increment	<u>\$ 141,020</u>
Capital Projects	Special Revenue: Local Option Sales Tax	\$ 148,743
	Enterprise: Electric Utility	31,298
		<u>\$ 180,041</u>
Enterprise: Sewer Revenue	Enterprise Sewer Improvement	\$ 33,952
		<u>\$ 437,170</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 \$19,000 during the year ended June 30, 2010

NOTE 9 – DEFICIT FUND BALANCES

The Enterprise Funds – Garbage and Sewer had deficit balances of \$11,381 and \$94,624, respectively, at June 30, 2010.

NOTE 10 – 28E AGREEMENT

The City has a 28E Agreement for garbage pick-up services with the City of Tripoli, forming the Tripoli-Readlyn Sanitation Agency. The City paid \$48,374 for services in 2010.

NOTE 11 – RISK MANAGEMENT

The City of Readlyn is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE 12 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through April 27, 2011 which is the date that the financial statement were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

City of Readlyn

**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	\$ 201,570	\$ -	\$ -
Tax increment financing	199,874	-	-
Other city tax	74,210	-	-
Licenses and permits	689	-	-
Use of money and property	7,678	9,208	-
Intergovernmental	104,979	-	-
Charges for service	230	737,080	-
Miscellaneous	128,609	3,114	36
Total receipts	\$ 717,839	\$ 749,402	\$ 36
Disbursements:			
Public safety	\$ 228,472	\$ -	\$ -
Public works	96,422	-	-
Health and social services	550	-	-
Culture and recreation	96,930	-	-
Community and economic development	73,830	-	-
General government	47,917	-	-
Debt service	178,605	-	-
Capital projects	112,004	-	-
Business type activities	-	837,058	-
Total disbursements	\$ 834,736	\$ 837,058	\$ -
Excess (deficiency) of receipts over (under) disbursements	\$ -116,897	\$ -87,656	\$ -
Other financing sources, net	71,153	-71,153	-
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	\$ -45,744	\$ -158,809	\$ 36
Balances beginning of year	466,627	663,810	-
Balances end of year	\$ 420,883	\$ 505,001	\$ 36

See accompanying independent auditor's report.

Total	Budgeted Amounts		Final	Final to Total Variance
	Original			
\$ 201,570	\$ 200,551	\$ 200,551	\$ 1,019	
199,874	202,000	202,000	-2,126	
74,210	70,478	70,478	3,732	
689	540	540	149	
16,886	35,500	35,500	-18,614	
104,979	97,125	97,125	7,854	
737,310	793,000	833,000	-95,690	
131,687	25,000	148,000	-16,313	
<u>\$ 1,467,205</u>	<u>\$ 1,424,194</u>	<u>\$ 1,587,194</u>	<u>\$ -119,989</u>	
\$ 228,472	\$ 102,770	\$ 240,270	\$ 11,798	
96,422	115,800	120,800	24,378	
550	2,550	2,550	2,000	
96,930	117,550	145,050	48,120	
73,830	144,025	218,625	144,795	
47,917	42,300	60,300	12,383	
178,605	37,585	37,585	-141,020	
112,004	-	30,000	-82,004	
837,058	795,053	795,053	-42,005	
<u>\$ 1,671,794</u>	<u>\$ 1,357,633</u>	<u>\$ 1,650,233</u>	<u>\$ -21,561</u>	
\$ -204,589	\$ 66,561	\$ -63,039	\$ -141,550	
-	-	-	-	
\$ -204,589	\$ 66,561	\$ -63,039	\$ -141,550	
1,130,437	1,157,593	1,120,023	10,414	
<u>\$ 925,848</u>	<u>\$ 1,224,154</u>	<u>\$ 1,056,984</u>	<u>\$ -131,136</u>	

City of Readlyn

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 or fund type. 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, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and 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 increased budgeted disbursements by \$292,600. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2010, disbursements exceeded the amount budgeted in the debt service, capital projects and business type activities functions.

Other Supplementary Information

City of Readlyn

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

As of and for the year ended June 30, 2010

	Special Revenue		
	Road Use Tax	Emergency Levy	Library
Receipts:			
Property tax	\$ -	\$ 4,086	\$ -
Other city tax	-	-	-
Use of money and property	-	-	105
Intergovernmental	72,911	-	2,393
Special assessments	-	-	-
Miscellaneous	-	-	15,506
Total receipts	\$ 72,911	\$ 4,086	\$ 18,004
Disbursements:			
Operating:			
Public safety	\$ -	\$ -	\$ -
Public works	65,255	-	-
Health and social services	-	-	-
Culture and recreation	-	-	18,688
General government	-	-	-
Debt service	-	-	-
Capital projects	-	-	-
Total disbursements	\$ 65,255	\$ -	\$ 18,688
Excess (deficiency) of receipts over (under) disbursements	\$ 7,656	\$ 4,086	\$ -684
Other financing uses:			
Operating transfers out	\$ -	\$ -4,086	\$ -
Net change in cash balances	\$ 7,656	\$ -	\$ -684
Cash balances beginning of year	25,658	-	10,414
Cash balances end of year	\$ 33,314	\$ -	\$ 9,730
Cash Basis Fund Balances			
Restricted:			
Expendable:			
Streets	\$ 33,314	\$ -	\$ -
Unrestricted	-	-	9,730
Total cash basis fund balances	\$ 33,314	\$ -	\$ 9,730

See accompanying independent auditor's report.

Special Revenue			
Employee Benefits Levy	FICA and IPERS Levy		Total
\$ 18,102	\$ 20,114	\$	42,302
-	-		-
-	-		105
-	-		75,304
-	-		-
-	-		15,506
<u>\$ 18,102</u>	<u>\$ 20,114</u>	<u>\$</u>	<u>133,217</u>
\$ -	\$ -	\$	-
-	-		65,255
-	-		-
-	-		18,688
-	-		-
-	-		-
<u>\$ -</u>	<u>\$ -</u>	<u>\$</u>	<u>83,943</u>
\$ 18,102	\$ 20,114	\$	49,274
\$ -18,102	\$ -20,114	\$	-42,302
\$ -	\$ -	\$	6,972
-	-		36,072
<u>\$ -</u>	<u>\$ -</u>	<u>\$</u>	<u>43,044</u>
\$ -	\$ -	\$	33,314
-	-		9,730
<u>\$ -</u>	<u>\$ -</u>	<u>\$</u>	<u>43,044</u>

City of Readlyn

**Schedule of Cash Receipts, Disbursements
and Changes in Cash Balance
Non-Major Proprietary Funds**

As of and for the year ended June 30, 2010

	Sewer Improvement	Garbage	Storm Water
Operating Receipts:			
Charges for service	\$ 54,918	\$ 52,544	\$ 17,148
Miscellaneous	-	-	-
Total operating receipts	<u>\$ 54,918</u>	<u>\$ 52,544</u>	<u>\$ 17,148</u>
Operating Disbursements:			
Business type activities	\$ -	\$ 66,693	\$ 94
Excess (deficiency) of operating receipts over (under) operating disbursements	<u>\$ 54,918</u>	<u>\$ -14,149</u>	<u>\$ 17,054</u>
Non-operating (disbursements):			
Interest on investments	\$ 72	\$ -	\$ -
Debt service	-	-	-
Net non-operating receipts (disbursements)	<u>\$ 72</u>	<u>\$ -</u>	<u>\$ -</u>
Excess of receipts over disbursements	\$ 54,990	\$ -14,149	\$ 17,054
Operating transfers in	-	-	-
Operating transfers out	<u>-33,952</u>	<u>-</u>	<u>-</u>
Net change in cash balances	\$ 21,038	\$ -14,149	\$ 17,054
Cash balances beginning of year	<u>40,076</u>	<u>2,768</u>	<u>8,481</u>
Cash balances end of year	<u>\$ 61,114</u>	<u>\$ -11,381</u>	<u>\$ 25,535</u>
Cash Basis Fund Balances			
Unreserved	<u>\$ 61,114</u>	<u>\$ -11,381</u>	<u>\$ 25,535</u>
Total cash basis fund balances	<u>\$ 61,114</u>	<u>\$ -11,381</u>	<u>\$ 25,535</u>

See accompanying independent auditor's report.

Water	Sewer Improvement Revenue Note Sinking	Meter Deposits	Total
\$ 72,807	\$ -	\$ 1,750	\$ 199,167
198	-	-	198
\$ 73,005	\$ -	\$ 1,750	\$ 199,365
\$ 66,670	\$ -	\$ 200	\$ 133,657
\$ 6,335	\$ -	\$ 1,550	\$ 65,708
\$ 37	\$ -	\$ -	\$ 109
0	-33,952	-	-33,952
\$ 37	\$ -33,952	\$ -	\$ -33,843
\$ 6,372	\$ -33,952	\$ 1,550	\$ 31,865
-	33,952	-	33,952
-	-	-	\$ -33,952
\$ 6,372	\$ -	\$ 1,550	\$ 31,865
20,450	-	13,824	85,599
\$ 26,822	\$ -	\$ 15,374	\$ 117,464
\$ 26,822	\$ -	\$ 15,374	\$ 117,464
\$ 26,822	\$ -	\$ 15,374	\$ 117,464

City of Readlyn
Schedule of Indebtedness
Year ended June 30, 2010

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation capital loan notes:			
Sewer Improvement	April 1, 2002	3.4-4.5%	\$400,000
Urban Renewal Tax Increment Financing (TIF)			
Revenue Bond	October 1, 1999	4.7-5.3%	\$385,000
Revenue Bond	June 15, 2005	285-3.7%	\$575,000
Revenue notes:			
Sewer	April 1, 2002	3.0-4.9%	\$325,000

See accompanying independent auditor's report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
\$280,000	\$-	\$25,000	\$255,000	\$12,185	\$-
\$55,000	\$-	\$55,000	\$-	\$2,915	\$-
34,000	-	70,000	270,000	12,305	-
\$395,000	\$-	\$125,000	\$270,000	\$15,220	\$-
\$190,000	\$-	\$25,000	\$165,000	\$8,553	\$-

City of Readlyn

Note Maturities

June 30, 2010

Year Ending June 30,	General Obligation Capital Loan Note	
	Capital Loan	
	Sewer Improvement	
	Issued April 1, 2002	
	Interest Rate	Amount
2011	4.25%	\$85,000
2012	4.35%	\$85,000
2013	4.50%	\$85,000
		<u>\$255,000</u>

Year Ending June 30,	Urban Renewal Tax Increment Financing Revenue Bonds (TIF)	
	Revenue Bond	
	Issued June 15, 2005	
	Interest Rate	Amount
2011	3.60%	\$135,000
2012	3.70%	135,000
		<u>\$270,000</u>

Year Ending June 30,	Revenue Note	
	Sewer	
	Issued April 1, 2002	
	Interest Rate	Amount
2011	4.25%	\$30,000
2012	4.35%	30,000
2013	4.50%	35,000
2014	4.70%	35,000
2015	4.90%	35,000
		<u>\$165,000</u>

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**

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 Readlyn, 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 April 27, 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 Readlyn'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 Readlyn's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the City of Readlyn'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 and other deficiencies I 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 the City of Readlyn'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, I-B-10 and I-C-10 to be material weaknesses.

A significant deficiency is a deficiency or combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. I consider the deficiency described in Part I of the accompanying Schedule of Findings as item I-D-10 to be a significant deficiency.

Compliance and Other Matters

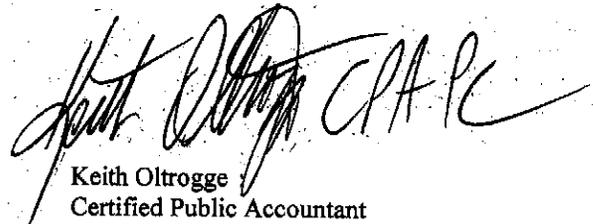
As part of obtaining reasonable assurance about whether the City of Readlyn's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material 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 Readlyn'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 Readlyn'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 Readlyn and other parties to whom the City of Readlyn 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 Readlyn 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

April 27, 2011

City of Readlyn

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 control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. I noted that certain functions are not entirely segregated.

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

Response – We continue to review procedures and make changes to improve internal control.

Conclusion – Response accepted.

I-B-10 Preparation of Full Disclosure Financial Statements – Internal controls over financial reporting include actual preparation and review of financial statements, including footnote disclosure, for external reporting, as required by an other comprehensive basis of accounting. The City does not have internal resources to prepare the full-disclosure financial statements required by an other comprehensive basis of accounting for external reporting. While this circumstance is not uncommon for most small governments and non-profit entities, it is the responsibility of management and those charged with governance, to prepare reliable financial data, or accept the risk associated with this condition because of cost or other considerations.

Recommendation – I recognize that with a limited number of office employees, gaining sufficient knowledge and expertise to properly select and apply accounting principles and prepare full disclosure financial statements for external reporting purposes is difficult. However, I recommend that the City continue to review operating procedures and obtain the internal expertise needed to handle all the aspects of external financial reporting, rather than rely on external assistance.

Response – We recognize our limitations, however it is not fiscally responsible to add additional staff at this time.

Conclusion – Response acknowledged.

I-C-10 Library Accountability – Not all Library receipts and disbursements are accounted for by the City. The Library has its own Board of Directors and controls its bank accounts and financial statements.

Recommendation – The Library should make sure its financial information is made available to the City Clerk so it can be included in City reports.

Response – We will review and implement these recommendations.

Conclusion – Response accepted.

I-D-10 1099 Forms – 1099 forms were not issued for labor paid in excess of \$600.

Recommendation – 1099 forms should be issued when required.

Response – The City will review all transactions and ensure 1099 forms are issued when needed.

Conclusion – Response accepted.

City of Readlyn
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 exceeded the amounts budgeted in the debit service, capital projects and business type activities functions. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

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

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

Conclusion – Response accepted.

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 were noted.

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>Transaction Description</u>	<u>Amount</u>
Barry Fortsch, Council Member Mother is Luella Fortsch	Purchased a Lot from the City	\$19,000

In accordance with Chapter 362.5(10) of the Code of Iowa, the transaction with the Council Member does not appear to represent a conflict of interest since it was entered into through competitive bidding.

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 ensure 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 noncompliance with Chapters 12B and 12C of the Code of Iowa were noted.

II-H-10 Revenue Bonds and Notes - No instances of non-compliance with the revenue bond and note resolutions were noted.

II-I-10 Financial Condition – The Enterprise: Sewer and Garbage Funds had deficit balances of \$94,624 and \$11,381, respectively, at June 30, 2010.

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

Response – We will do this.

Conclusion – Response accepted.

II-J-10 Annual Financial Report – The annual financial report was not filed timely. Section 384.22 of the Code of Iowa states, in part, “Not later than December 1 of each year, a City shall publish an annual report as provided in section 362.3 containing a summary for the preceding fiscal year of all collections and receipts, all accounts due the City, and all expenditures, the current public debt of the City, and the legal debt limit of the City for the current fiscal year. The report shall be prepared on forms and pursuant to instructions prescribed by the auditor of the state. A copy of this report must be filed with the auditor of state not later than December 1 of each year.”

Recommendation – In the future, the City should ensure the annual financial report is filed timely to the Auditor of State.

Response – We will complete future reports on time.

Conclusions – Response accepted.

II-K-09 Electronic Check Retention – Chapter 554D.114 of the Code of Iowa allows the City to retain cancelled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each cancelled check. The City retains cancelled checks through electronic image, but does not obtain an image of the back of each cancelled check as required.

Recommendation – The City should obtain and retain an image of both the front and back of each cancelled check as required.

Response – The City will obtain and retain images of both the front and back of cancelled checks as required.

Conclusion – Response accepted.