

**CITY OF WELLSBURG**

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

**June 30, 2010**

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CITY OF WELLSBURG

OFFICIALS

<u>Name</u>	<u>Title</u> (Before January 2010)	<u>Term Expires</u>
Richard Fox	Mayor	Jan 2010
Steve Nielsen	Mayor Pro tem	Jan 2010
Dale VanHauen	Council Member	Jan 2010
Warren Lindaman	Council Member	Jan 2010
Rick Buseman	Council Member	Jan 2012
Lance VanHeiden	Council Member	Jan 2012
Wendy Lage	City Clerk	Indefinite
Diane Babcock	Treasurer	Indefinite
T. J. Heronimus	Attorney	Indefinite
(After December 2009)		
Dale VanHauen	Mayor	Jan 2012
Rick Buseman	Mayor Pro Tem	Jan 2012
Warren Lindaman	Council Member	Jan 2012
Dale Eilderts	Council Member	Jan 2014
Calvin Workman	Council Member	Jan 2014
Camie Nederhoff	Council Member	Jan 2014
Wendy Lage	City Clerk	Indefinite
Diane Babcock	Treasurer	Indefinite
T. J. Heronimus	Attorney	Indefinite

# Dietz, Donald & Company

CERTIFIED PUBLIC ACCOUNTANTS

**STEVEN S. CLAUSEN, CPA**

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Elkader, Iowa 52043

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## INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and  
Members of the City Council:

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

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

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles. Also, as permitted by the Code of Iowa, the accounting records of the City have not been audited for all prior years. Accordingly, we were unable to satisfy ourselves as to the distribution by activity of the cash basis net assets and by fund of the cash balances at July 1, 2009.

Management has elected to exclude the financial statements of the Special Revenue, Fire Department Fund which, if included would be included as a non-major special revenue fund and be included in the amounts reported for governmental activities. U.S. generally accepted accounting principles, as applied to the City's cash basis of accounting, require

that the activities of the Special Revenue, Fire Department Fund be included in the financial statements where appropriate. As a result, the amount by which this departure would affect the cash receipts and disbursements and cash basis net assets of the governmental activities and the cash receipts and disbursements and cash balances of the aggregate remaining fund information is not reasonably determinable.

In our opinion, except for the effects of not reporting the Special Revenue, Fire Department Fund, as described in the preceding paragraph, and the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by activity of the cash basis net assets and the distribution by fund of the cash balances at July 1, 2009 as discussed in the third paragraph, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities and the aggregate remaining fund information of the City of Wellsburg 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 addition, in our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by activity of the cash basis net assets and the distribution by fund of the cash balances at July 1, 2009, as discussed in the third paragraph, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the business type activities, and each major fund of the City of Wellsburg as of June 30, 2010, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

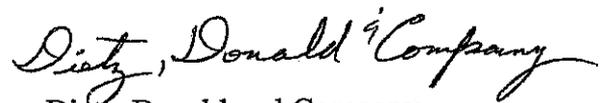
In accordance with Government Auditing Standards, we have also issued our report dated January 31, 2011 on our consideration of the City of Wellsburg's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 14 and 27 through 28 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Wellsburg'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 our audit of the basic financial statements and, except for the effects of not reporting the Special Revenue, Fire Department Fund as discussed in the fourth paragraph and the effects, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the cash balances at July 1, 2009, as discussed in the third paragraph, as it relates to Schedule 1, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Elkader, Iowa

January 31, 2011

  
Dietz, Donald and Company  
Certified Public Accountants  
FEIN 42-1172392

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Wellsburg 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. However, keep in mind that Chapter 11 of the Code of Iowa does not require cities with a population of less than 2,000 to have an annual audit. The last audit performed of the City's financial statements was for the fiscal year ended June 30, 2006. Therefore, any financial information presented herein for the fiscal year ended June 30, 2009, has not been audited.

### **2010 FINANCIAL HIGHLIGHTS**

- Receipts of the City's governmental activities increased 14.5%, or approximately \$ 145,000, from fiscal 2009 to fiscal 2010. Note proceeds increased approximately \$ 272,000, while capital grants and contributions decreased approximately \$ 142,000.
- Disbursements of the City's governmental activities increased 15.9% or approximately \$ 173,000 in fiscal 2010 from fiscal 2009. Public works, general government, and debt service disbursements increased approximately \$ 127,000, \$ 24,000 and \$ 49,000, respectively.
- The City's total cash basis net assets decreased over 21.1%, or approximately \$ 89,000 from June 30, 2009 to June 30, 2010. Of this amount, the assets of the governmental activities decreased approximately \$ 118,000 and the assets of the business type activities increased approximately \$ 29,000.

### **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 report, readers should keep in mind the limitations resulting from the use of the cash basis of accounting.

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

### *Government-wide Financial Statement*

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information which helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases and 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:

1. 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.
2. Business Type Activities include the waterworks and the sanitary sewer system and garbage collection. 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 [a] the General Fund, [b] the Special Revenue Funds such as Local Option Sales Tax, [c] the Debt Service Fund, and [d] the Capital Projects Funds. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statement for governmental funds 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 account for business type activities. The City maintains three Enterprise Funds to provide separate information for the water, sewer and garbage collection funds, considered to be major funds of the City.

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

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased sharply from a year ago, decreasing from approximately \$ 360,000 to approximately \$ 242,000. The analysis that follows focuses on the changes in cash basis net assets of governmental activities.

**Changes in Cash Basis Net Assets of Governmental Activities**  
(Expressed in Thousands)

	<u>Year Ended June 30,</u>	
	<u>2010</u>	<u>2009</u>
Receipts:		
Program receipts:		
Charges for service	\$ 85	82
Operating grants and contributions	84	89
Capital grants and contributions	357	479

General Receipts:		
Property tax	244	245
Local option sales tax	44	47
Utility franchise tax	29	31
Non restricted interest on investments	3	3
Note proceeds	292	20
Other general receipts	9	6
	<u>1,147</u>	<u>1,002</u>
Total receipts		
Disbursements:		
Public safety	70	63
Public works	280	153
Culture and recreation	103	110
Community and economic development	2	-
General government	55	31
Debt service	187	138
Capital projects	567	596
	<u>1,264</u>	<u>1,091</u>
Total disbursements		
Change in cash basis net assets before transfers	(117)	(89)
Transfers, net	0	24
	<u>0</u>	<u>24</u>
Change in cash basis net assets	(117)	(65)
Cash basis net assets beginning of year	359	424
	<u>359</u>	<u>424</u>
Cash basis net assets end of year	<u>\$ 242</u>	<u>359</u>

The City's total receipts for governmental activities increased 14.5% or approximately \$ 145,000. The total cost of all programs and services increased approximately \$ 272,000, or 15.9%, which included the completion of the library and Washington Street improvements. The significant increase in receipts was primarily the result of proceeds received from the issuance of general obligation notes of approximately \$ 292,000.

The City property tax rates remained virtually unchanged and will remain nearly constant again next year, with a 1% decline in millage rate, coupled with a 1.4% increase in assessed valuations.

The cost of all governmental activities this year was approximately \$ 1.264 million compared to \$ 1.002 million last year. However, as shown in the Statement of Activities and Net Assets on page 16, the amount taxpayers ultimately financed for these activities was only \$ 738,000 because some of the cost was paid by those directly benefited from the programs (\$ 85,000) or by other governments and organizations that subsidized

certain programs with grants, contributions and restricted interest (\$ 441,000). Overall, the City's governmental activities program receipts, including intergovernmental aid and fees for services, decreased in 2010 from approximately \$ 650,000 to approximately \$ 526,000, principally due to receiving more contributions for the Library in 2009. The City paid for the remaining "public benefit" portion of governmental activities with a taxes (some of which could only be used for certain programs) and with other receipts, such as interest and other general receipts.

Changes in Cash Basis Net Assets of Business Type Activities  
(Expressed in Thousands)

	<u>Year Ended June 30</u>	
	<u>2010</u>	<u>2009</u>
Receipts:		
Program receipts:		
Charges for service:		
Water	\$ 183	161
Sewer	89	91
Garbage	44	44
	<u>316</u>	<u>296</u>
Total receipts		
Disbursements:		
Water	165	112
Sewer	75	95
Garbage	47	47
	<u>287</u>	<u>254</u>
Total disbursements		
Increase in cash basis net assets before transfers	29	42
Transfers, net	0	(24)
Change in cash basis net assets	29	18
Cash balances beginning of year	60	42
Cash balances end of year	<u>\$ 89</u>	<u>60</u>

Total business type activities receipts for the fiscal year were \$ 316,000 compared to \$ 296,000 last year. The increase was due primarily to an increase in water revenue of approximately \$ 22,000. The cash balance increased approximately \$ 29,000 from the prior year. Total disbursements for the fiscal year increased 13% to approximately \$ 287,000.

## **INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS**

As the City of Wellsburg completed the year, its governmental funds reported a combined fund balance of \$ 242,202, a decrease of more than \$ 117,000 below last year's total of \$ 356,209. 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 \$ 24,431 from the prior year to \$ 89,562. This decrease was due to the completion of the Washington Street improvement project.
- The Special Revenue, Local Option Sales Tax Fund cash balance decreased \$ 4,686 to \$ 98,490. Sales tax receipts were \$ 44,400 of which \$ 17,200 was transferred to the General Fund and \$ 33,000 was transferred to the Capital Projects Fund.
- The Debt Service Fund cash balance increased \$ 1,861 to \$ 21,614 during the fiscal year. Note principal payments were \$ 137,500 for the year, while interest payments were \$ 49,394.
- The Capital Projects Fund cash balance decreased \$ 97,539 to \$(26,168) as project receipts ran behind construction progress.

## **INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS**

- The Water Fund cash balance decreased \$ 17,627 to \$ 54,313 due primarily to an increase in water usage.
- The Sewer Fund cash balance increased \$ 13,657 to \$ 12,185 due primarily to an increase in water usage.
- The Garbage Fund cash balance decreased \$ 2,666 to \$ 22,945.

## **BUDGETARY HIGHLIGHTS**

Over the course of the year, the City amended its budget once. The amendment was approved on May 3, 2010 and resulted in an increase in operating disbursements related to the library project, the Washington Street project, city hall remodeling and additional debt service. The City had sufficient cash balances and miscellaneous receipts to absorb these additional costs.

The City's receipts were \$ 141,475 less than budgeted. This was due primarily to an over estimation of library donations when the amended budget was approved.

The City total disbursements were \$ 84,718 less than budgeted. Actual disbursements for the public works, capital projects and business type activities function were \$ 17,519, \$ 24,128 and \$ 19,354, respectively, less than the amended budget. This was primarily due to capital projects not proceeding as far along as originally planned.

## DEBT ADMINISTRATION

At June 30, 2010, the City had \$ 1,534,869 in notes and other long-term debt outstanding, compared to \$ 1,320,944 last year, as shown in the following.

	Outstanding Debt at Year-End (Expressed in Thousands)	
	June 30,	
	2010	2009
General obligation notes	\$ 1,038	998
Loan agreement	47	54
Lease/purchase agreement	78	0
Pledge revenue anticipation note	115	0
Revenue notes	257	269
Total	<u>\$ 1,535</u>	<u>1,321</u>

Debt increased as a result of issuing \$ 125,000 of general obligation notes for street improvements, financing a loader for \$ 77,795 with a lease/purchase agreement and financing a portion of the library with a \$ 114,929 pledge revenue anticipation note.

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$ 1,162,940 is nearing the constitutional debt limit of \$ 1,353,496.

## ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City of Wellsburg's elected and appointed officials and citizens considered many factors when setting the fiscal year 2011 budget, tax rates and fees that will be charged for various City activities. Tax assessed values increased approximately \$ 204,000 or 1.4%. Over the last 30 years population has decreased 5% from 754 to 716.

These indicators were taken into account when adopting the budget for fiscal year 2011. Amounts available for appropriation in the operating budget are \$ 790,506, a decrease of 52% under the final 2010 budget. Property taxes are budgeted to decrease approximately \$ 1,000. Proceeds from debt are budgeted to decrease \$ 301,625 and miscellaneous receipts are budgeted to decrease \$ 542,220. Budgeted disbursements are expected to decrease \$ 1.147 million. The City has added no major new programs or initiatives to the 2011 budget. Capital projects disbursements are budgeted to decrease \$ 590,869, with no capital projects anticipated in fiscal year 2011.

If these estimates are realized, the City's budgeted cash balance is expected to increase approximately \$ 59,000 by the close of fiscal year 2011.

### **CONTACTING THE CITY'S 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 Wendy Lage, City Clerk, P.O. Box L, Wellsburg, Iowa 50680.

## BASIC FINANCIAL STATEMENTS

Exhibit A

CITY OF WELLSBURG  
STATEMENT OF ACTIVITIES AND NET ASSETS  
As of and for the Year Ended June 30, 2010

	Disbursements	Charges for Service	Program Receipts			Governmental Activities	Business Type Activities	Total
			Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest				
<b>Functions/Programs:</b>								
<b>Governmental activities:</b>								
Public safety	\$ 70,047	40,594	-	-	(29,453)	-	(29,453)	
Public works	279,792	-	65,154	-	(214,638)	-	(214,638)	
Culture and recreation	103,199	41,278	13,672	-	(48,249)	-	(48,249)	
Community and economic development	2,278	-	-	-	(2,278)	-	(2,278)	
General government	55,155	2,960	5,200	-	(46,995)	-	(46,995)	
Debt service	186,893	-	-	70,000	(116,893)	-	(116,893)	
Capital projects	566,741	-	-	286,910	(279,831)	-	(279,831)	
Total governmental activities	1,264,105	84,832	84,026	356,910	(738,337)	-	(738,337)	
<b>Business type activities:</b>								
Water	165,153	182,780	-	-	-	17,627	17,627	
Sewer	75,053	88,710	-	-	-	13,657	13,657	
Garbage	46,961	44,295	-	-	-	(2,666)	(2,666)	
Total business type activities	287,167	315,785	-	-	-	28,618	28,618	
Total	\$ 1,551,272	400,617	84,026	356,910	(738,337)	28,618	(709,719)	
<b>General Receipts:</b>								
Property and other city taxes levied for:								
General purposes					169,947	-	169,947	
Debt service					57,047	-	57,047	
Tax increment financing					16,610	-	16,610	
Utility franchise tax					28,790	-	28,790	
Local option sales tax					44,400	-	44,400	
Unrestricted interest on investments					2,531	-	2,531	
Note proceeds					292,429	-	292,429	
Miscellaneous					9,165	-	9,165	
Total general receipts					620,919	-	620,919	
Change in cash basis net assets					(117,418)	28,618	(88,800)	
Cash basis net assets beginning of year					359,620	60,825	420,445	
Cash basis net assets end of year					\$ 242,202	\$ 89,443	\$ 331,645	
Cash Basis Net Assets								
Restricted:								
Expendable:								
Debt service					\$ 21,614	-	21,614	
Streets					23,672	-	23,672	
Urban renewal purposes					16,256	-	16,256	
Other					117,266	-	117,266	
Unrestricted					63,394	89,443	152,837	
Total cash basis net assets					\$ 242,202	\$ 89,443	\$ 331,645	

Exhibit B

CITY OF WELLSBURG  
 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	Debt Service	Capital Projects	Nonmajor	Total
<b>Receipts:</b>							
Property tax	\$ 133,468	-	-	53,045	-	30,340	218,853
Tax increment financing	-	-	-	-	-	16,610	16,610
Other city tax	33,785	44,400	-	2,002	-	1,144	81,331
Licenses and permits	2,160	-	-	-	-	-	2,160
Use of money and property	12,603	1,114	-	-	-	-	13,717
Intergovernmental	54,850	-	-	-	137,687	-	257,691
Changes for service	13,619	-	-	73,502	150,346	490	13,619
Miscellaneous	25,939	-	-	130,349	288,033	113,738	250,277
Total receipts	276,424	45,514	-	186,893	566,741	90,930	854,258
<b>Disbursements:</b>							
Operating:							
Public safety	59,024	-	-	-	-	11,023	70,047
Public works	206,996	-	-	-	-	72,796	279,792
Culture and recreation	97,402	-	-	-	-	5,797	103,199
Community and economic development	2,278	-	-	-	-	-	2,278
General government	53,841	-	-	-	-	1,314	55,155
Debt service	-	-	-	186,893	-	-	186,893
Capital projects	-	-	-	-	566,741	-	566,741
Total disbursements	419,541	-	-	186,893	566,741	90,930	1,264,105
Excess (deficiency) of receipts over (under) disbursements	(143,117)	45,514	-	(56,344)	(278,708)	22,808	(409,847)
<b>Other financing sources (uses):</b>							
Note proceeds	125,000	-	-	-	167,429	-	292,429
Operating transfers in	17,200	-	-	58,205	33,000	-	108,405
Operating transfers out	(23,514)	(50,200)	-	-	(19,260)	(15,431)	(108,405)
Total other financing sources (uses)	118,686	(50,200)	-	58,205	181,169	(15,431)	292,429
Net changes in cash balances	(24,431)	(4,686)	-	1,861	(97,539)	7,377	(117,418)
Cash balances beginning of year	113,993	103,176	-	19,753	71,371	51,327	359,620
Cash balances end of year	89,562	98,490	-	21,614	(26,168)	58,704	242,202
<b>Cash basis fund balances</b>							
Reserved for debt service	-	-	-	21,614	-	-	21,614
Unreserved, designated:							
Ambulance	20,908	-	-	-	-	-	20,908
Library	26,498	-	-	-	-	-	26,498
Unreserved, undesignated:							
General fund	42,156	-	-	-	-	-	42,156
Special revenue funds	-	98,490	-	-	-	58,704	157,194
Capital projects fund	-	-	-	-	(26,168)	-	(26,168)
Total cash basis fund balances	\$ 89,562	\$ 98,490	-	\$ 21,614	-\$ (26,168)	\$ 58,704	\$ 242,202

See notes to financial statements.

CITY OF WELLSBURG  
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS  
AND CHANGES IN CASH BALANCES  
PROPRIETARY FUNDS  
As of and for the Year Ended June 30, 2010

	<u>Enterprise</u>			<u>Total</u>
	<u>Water</u>	<u>Sewer</u>	<u>Garbage</u>	
Operating receipts:				
Charges for service	\$ 182,780	88,710	44,295	315,785
Operating disbursements:				
Business type activities	<u>139,904</u>	<u>75,053</u>	<u>46,961</u>	<u>261,918</u>
Excess (deficiency) of operating Receipts over (under) operating Disbursements	42,876	13,657	(2,666)	53,867
Non-operating disbursements:				
Debt service	<u>25,249</u>	<u>0</u>	<u>0</u>	<u>25,249</u>
Excess (deficiency) of receipts Over (under) disbursements	17,627	13,657	(2,666)	28,618
Cash balances beginning of year	<u>36,686</u>	<u>(1,472)</u>	<u>25,611</u>	<u>60,825</u>
Cash balances end of year	<u>\$ 54,313</u>	<u>12,185</u>	<u>22,945</u>	<u>89,443</u>
Cash Basis Fund Balances				
Unreserved, undesignated	<u>\$ 54,313</u>	<u>12,185</u>	<u>22,945</u>	<u>89,443</u>

See notes to financial statements.

# CITY OF WELLSBURG

## NOTES TO FINANCIAL STATEMENTS

June 30, 2010

### **(1) Summary of Significant Accounting Policies**

The City of Wellsburg is a political subdivision of the State of Iowa located in Grundy County. It was first incorporated in 1880 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, culture and recreation, community and economic development, and general government services. The City also provides water, sewer and garbage utilities for its citizens.

#### **A. Reporting Entity**

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

#### **Jointly Governed Organizations**

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

## B. Basis of Presentation

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

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

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

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

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

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

The City reports the following major governmental funds:

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

The Special Revenue, Local Option Sales Tax Fund is utilized to account for

the receipt and disbursement of the 1% local option sales tax.

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

The Capital Projects Fund is utilized to account for disbursements on major capital projects in the City.

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 wastewater treatment and sanitary sewer system.

The Enterprise Garbage Fund accounts for the operation of the City's garbage pickup.

#### C. Measurement Focus and 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.

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.

### **(2) Cash and Pooled Investments**

The City's deposits in banks at June 30, 2010 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the

depositories to insure there will be no loss of public funds.

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

The City has no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3.

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

**(3) Long Term Debt**

Annual debt service requirements to maturity for general obligation notes, loan agreements, lease/purchase agreements and revenue notes are as follows:

Year Ending June 30,	General Obligation Notes		Loan Agreement		Lease/Purchase Agreement	
	Principal	Interest	Principal	Interest	Principal	Interest
2011	\$ 90,000	44,615	7,082	1,956	14,506	2,727
2012	100,000	40,751	7,375	1,663	15,014	2,218
2013	101,000	36,423	7,678	1,360	15,540	1,692
2014	82,000	32,050	8,000	1,038	16,085	1,147
2015	53,000	28,649	8,332	706	16,650	584
2016-20	327,000	104,997	8,678	360	0	0
2021-25	272,000	33,968	0	0	0	0
2026	13,000	644	0	0	0	0
<b>Total</b>	<b>\$ 1,038,000</b>	<b>322,097</b>	<b>47,145</b>	<b>7,083</b>	<b>77,795</b>	<b>8,368</b>

Year Ending June 30,	Revenue Notes		Total	
	Principal	Interest	Principal	Interest
2011	\$ 12,000	12,754	123,588	62,052
2012	12,000	12,244	134,389	56,876
2013	13,000	11,719	137,218	51,194
2014	14,000	11,134	120,085	45,369
2015	15,000	10,487	92,982	40,426
2016-20	79,000	37,203	414,678	142,560
2021-25	92,000	20,169	364,000	54,137
2026	20,000	1,070	33,000	1,714
Total	<u>\$ 257,000</u>	<u>116,780</u>	<u>1,419,940</u>	<u>454,328</u>

#### **(4) Pension and Retirement Benefits**

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

Most regular plan members are required to contribute 4.30% of their annual covered salary and the City is required to contribute 6.65% of covered salary. Contribution requirements are established by state statute. The City's contribution to IPERS for the year ended June 30, 2010 was \$ 8,723, equal to the required contribution for the year.

#### **(5) Compensated Absences**

City employees accumulate a limited amount of earned but unused paid time off 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 paid time off payable to employees at June 30, 2010, primarily relating to the General Fund, is \$ 1,500. This liability has been computed based on rates of pay at June 30, 2010.

#### **(6) Pledge Revenue Anticipation Note**

The City issued \$ 167,429 of anticipation notes, at 4.80% per annum, for library construction. As of June 30, 2010, \$ 52,500 of those anticipatory notes had been redeemed leaving an unpaid balance at June 30, 2010 of \$ 114,929. These notes are

to be redeemed solely from pledges made by the community to build a new library. These notes mature October 1, 2011. At June 30, 2010, pledges outstanding were \$ 113,558.

**(7) Interfund Transfers**

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

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Special Revenue: Local Option Sales Tax	\$ 17,200
Debt Service	General	23,514
	Special Revenue: Urban Renewal Tax Increment	15,431
	Capital Projects	<u>19,260</u>
		<u>58,205</u>
Capital Projects	Special Revenue: Local Option Sales Tax	<u>33,000</u>
Total		<u>\$ 108,405</u>

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

**(8) Related Party Transactions**

The City had business transactions between the City and City officials totaling \$ 39,846 during the year ended June 30, 2010.

**(9) Risk Management**

The City 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 did not exceed commercial insurance coverage during the past fiscal year.

**(10) Deficit Balance**

The Capital Projects Fund had a deficit balance of \$ 26,168 at June 30, 2010. The deficit balance was a result of project costs incurred prior to the availability of funds. The deficit will be eliminated upon receipt of corresponding program receipts.

**(11) Non-cash Transactions**

During the fiscal year ended June 30, 2010, the City financed the purchase of a 544 J John Deere tractor loader with a fair market value of \$ 92,795 by signing a lease/purchase agreement for \$ 77,795 (see Note 3 for agreement details) and receiving a trade-in allowance of \$ 15,000 for the City's 224 E John Deere tractor/loader. The trade-in is not recognized as a receipt; and the purchase is not recognized as a disbursement until lease payments are made.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF WELLSBURG  
 BUDGETARY COMPARISON SCHEDULE  
 OF RECEIPTS, DISBURSEMENTS AND CHANGES IN BALANCES -  
 BUDGET AND ACTUAL (CASH BASIS) - ALL GOVERNMENTAL FUNDS AND  
 PROPRIETARY FUNDS  
 REQUIRED SUPPLEMENTARY INFORMATION  
 Year Ended June 30, 2010

	Governmental Funds Actual	Proprietary Funds Actual	Total	Budgeted Amounts		Final to Total Variance
				Original	Final	
<b>Receipts:</b>						
Property tax	\$ 218,853	-	218,853	219,753	219,753	(900)
Tax increment financing	16,610	-	16,610	15,442	15,442	1,168
Other city tax	81,331	-	81,331	75,262	78,262	3,069
Licenses and permits	2,160	-	2,160	2,525	2,525	(365)
Use of money and property	13,717	-	13,717	13,100	13,400	317
Intergovernmental	257,691	-	257,691	112,795	118,316	139,375
Charges for service	13,619	315,785	329,404	316,600	316,600	12,804
Miscellaneous	250,277	-	250,277	5,050	547,220	(296,943)
Total receipts	854,258	315,785	1,170,043	760,527	1,311,518	(141,475)
<b>Disbursements:</b>						
Public safety	70,047	-	70,047	77,665	77,665	7,618
Public works	279,792	-	279,792	134,879	297,311	17,519
Culture and recreation	103,199	-	103,199	106,843	115,695	12,496
Community and economic development	2,278	-	2,278	3,000	3,000	722
General government	55,155	-	55,155	34,735	58,035	2,880
Debt service	186,893	-	186,893	108,380	186,894	1
Capital projects	566,741	-	566,741	22,825	590,869	24,128
Business type activities	-	287,167	287,167	240,914	306,521	19,354
Total disbursements	1,264,105	287,167	1,551,272	729,241	1,635,990	84,718
Excess of receipts and other financing sources over disbursements and other financing uses	(409,847)	28,618	(381,229)	31,286	(324,472)	(56,757)
Other financing sources, net	292,429	-	292,429	22,825	345,825	(53,396)
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(117,418)	28,618	(88,800)	54,111	21,553	(110,153)
Balances beginning of year	359,620	60,825	420,445	200,609	200,609	219,836
Balances end of year	\$ 242,202	89,443	331,645	254,720	221,962	109,683

See accompanying independent auditor's report and notes to required  
 supplementary information - budgetary reporting.

## CITY OF WELLSBURG

### 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 nine major classes of disbursements known as functions, not by fund. The nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Fund, the Permanent Fund and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund.

During the year ended June 30, 2010, one budget amendment increased budgeted disbursements by \$ 906,749. The budget amendment is reflected in the final budgeted amounts.

OTHER SUPPLEMENTARY INFORMATION

CITY OF WELLSBURG  
 SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS  
 AND CHANGES IN CASH BALANCES  
 NONMAJOR GOVERNMENTAL FUNDS  
 As of and for the Year Ended June 30, 2010

	Special Revenue			
	Road Use Tax	Employees Benefits	Urban Renewal Tax Increment	Total
<b>Receipts:</b>				
Property tax	\$ 0	30,340	0	30,340
Tax increment financing	0	0	16,610	16,610
Other city tax	0	1,144	0	1,144
Intergovernmental	65,154	0	0	65,154
Miscellaneous	0	490	0	490
<b>Total receipts</b>	<b>65,154</b>	<b>31,974</b>	<b>16,610</b>	<b>113,738</b>
<b>Disbursements:</b>				
<b>Operating:</b>				
Public safety	0	11,023	0	11,023
Public works	60,909	11,887	0	72,796
Culture and recreation	0	5,797	0	5,797
General government	0	1,314	0	1,314
<b>Total disbursements</b>	<b>60,909</b>	<b>30,021</b>	<b>0</b>	<b>90,930</b>
Excess of receipts over disbursements	4,245	1,953	16,610	22,808
<b>Other financing uses:</b>				
Operating transfers out	0	0	15,431	15,431
Net change in cash balances	4,245	1,953	1,179	7,377
Cash balances beginning of year	19,427	16,823	15,077	51,327
Cash balances end of year	<b>\$ 23,672</b>	<b>18,776</b>	<b>16,256</b>	<b>58,704</b>
<b>Cash Basis Fund Balances</b>				
<b>Unreserved:</b>				
Special revenue funds	<b>\$ 23,672</b>	<b>18,776</b>	<b>16,256</b>	<b>58,704</b>

See accompanying independent auditor's report.

Schedule 2

CITY OF WELLSBURG  
SCHEDULE OF INDEBTEDNESS  
Year Ended June 30, 2010

Obligation	Date of Issue	Interest Rates	Amount Originally Issued	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
General obligation notes:								
Industrial park	Jan. 1, 2002	4.00%	\$ 325,000	219,000	-	17,000	202,000	8,760
Fire station	Sep. 15, 2002	4.75	250,000	110,000	-	25,000	85,000	5,225
Water improvement	Aug. 17, 2006	4.50 - 4.95	200,000	179,000	-	8,000	171,000	8,570
Housing subdivision	Oct. 19, 2007	4.25	500,000	490,000	-	15,000	475,000	20,825
Street improvement	Sep. 16, 2009	4.00	125,000	-	125,000	20,000	105,000	3,514
				<u>\$ 998,000</u>	<u>125,000</u>	<u>85,000</u>	<u>1,038,000</u>	<u>46,894</u>
Loan agreement:								
Fire truck	Jan. 3, 2006	4.15%	\$ 73,000	53,944	-	6,799	47,145	2,239
Revenue notes:								
Water improvement	Aug. 17, 2006	4.125 - 5.35%	\$ 300,000	269,000	-	12,000	257,000	13,249
Pledge revenue anticipation note:								
Library building	Sep. 17, 2009	4.80%	\$ 167,429	-	167,429	52,500	114,929	2,500
Lease/purchase agreement:								
John Deere 544 J loader Tractor	Feb. 25, 2010	3.45%	\$ 77,795	-	77,795	-	77,795	-

Schedule 3

CITY OF WELLSBURG  
NOTE AND LOAN MATURITIES  
Year Ended June 30, 2010

Year Ending June 30,	Industrial Park				Fire Station				General Obligation Notes				Housing Subdivision				Street Improvement	
	Issued Jan. 1, 2002	Amount	Interest Rates	Amount	Issued Sep. 15, 2002	Amount	Interest Rates	Amount	Issued Aug. 17, 2006	Interest Rates	Amount	Issued Oct. 19, 2007	Interest Rates	Amount	Issued Sep. 16, 2009	Interest Rates	Amount	Total
2011	4.00%	\$ 17,000	4.75%	\$ 25,000	4.50%	\$ 8,000	4.25%	\$ 15,000	4.00%	\$ 25,000	4.00%	\$ 25,000	4.00%	\$ 25,000	4.00%	\$ 25,000	90,000	
2012	4.00	17,000	4.75	30,000	4.65	8,000	4.25	20,000	4.00	20,000	4.00	20,000	4.00	25,000	4.00	25,000	100,000	
2013	4.00	17,000	4.75	30,000	4.65	9,000	4.25	20,000	4.00	20,000	4.00	20,000	4.00	25,000	4.00	25,000	101,000	
2014	4.00	18,000	-	-	4.65	9,000	4.25	25,000	4.00	30,000	4.00	30,000	4.00	30,000	4.00	30,000	82,000	
2015	4.00	18,000	-	-	4.65	10,000	4.25	25,000	4.00	25,000	4.00	25,000	4.00	30,000	4.00	30,000	53,000	
2016	4.00	18,500	-	-	4.65	10,000	4.25	30,000	4.00	30,000	4.00	30,000	4.00	30,000	4.00	30,000	58,500	
2017	4.00	18,500	-	-	4.80	10,000	4.25	35,000	4.00	35,000	4.00	35,000	4.00	35,000	4.00	35,000	63,500	
2018	4.00	19,000	-	-	4.80	10,000	4.25	35,000	4.00	35,000	4.00	35,000	4.00	35,000	4.00	35,000	64,000	
2019	4.00	19,000	-	-	4.80	11,000	4.25	40,000	4.00	40,000	4.00	40,000	4.00	40,000	4.00	40,000	70,000	
2020	4.00	20,000	-	-	4.80	11,000	4.25	40,000	4.00	40,000	4.00	40,000	4.00	40,000	4.00	40,000	71,000	
2021	4.00	20,000	-	-	4.80	12,000	4.25	45,000	4.00	45,000	4.00	45,000	4.00	45,000	4.00	45,000	77,000	
2022	-	-	-	-	4.95	12,000	4.25	45,000	4.00	45,000	4.00	45,000	4.00	45,000	4.00	45,000	57,000	
2023	-	-	-	-	4.95	12,000	4.25	50,000	4.00	50,000	4.00	50,000	4.00	50,000	4.00	50,000	62,000	
2024	-	-	-	-	4.95	13,000	4.25	50,000	4.00	50,000	4.00	50,000	4.00	50,000	4.00	50,000	63,000	
2025	-	-	-	-	4.95	13,000	4.25	50,000	4.00	50,000	4.00	50,000	4.00	50,000	4.00	50,000	13,000	
2026	-	-	-	-	4.95	13,000	4.25	50,000	4.00	50,000	4.00	50,000	4.00	50,000	4.00	50,000	13,000	
Total		\$202,000		\$ 85,000		\$171,000		\$475,000		\$105,000		\$105,000		\$105,000		\$105,000	1,038,000	

Year Ending June 30,	Loan Agreement				Revenue Notes				Lease/Purchase Agreement					
	Issued Jan. 3, 2006	Amount	Interest Rates	Amount	Issued Aug. 17, 2006	Amount	Interest Rates	Amount	Issued Feb. 25, 2010	Interest Rates	Amount	Issued Feb. 25, 2010	Interest Rates	Amount
2011	4.15%	\$ 7,082	4.250%	\$12,000	3.45%	\$ 14,506	3.45%	\$ 14,506	3.45%	\$ 14,506	3.45%	\$ 14,506	3.45%	\$ 14,506
2012	4.15	7,375	4.375	12,000	3.45	15,014	3.45	15,014	3.45	15,014	3.45	15,014	3.45	15,014
2013	4.15	7,678	4.500	13,000	3.45	15,540	3.45	15,540	3.45	15,540	3.45	15,540	3.45	15,540
2014	4.15	8,000	4.625	14,000	3.45	16,085	3.45	16,085	3.45	16,085	3.45	16,085	3.45	16,085
2015	4.15	8,332	4.750	15,000	3.45	16,650	3.45	16,650	3.45	16,650	3.45	16,650	3.45	16,650
2016	4.15	8,678	4.875	15,000	3.45	16,650	3.45	16,650	3.45	16,650	3.45	16,650	3.45	16,650
2017	-	-	4.900	15,000	-	-	-	-	-	-	-	-	-	-
2018	-	-	4.950	16,000	-	-	-	-	-	-	-	-	-	-
2019	-	-	5.000	16,000	-	-	-	-	-	-	-	-	-	-
2020	-	-	5.050	17,000	-	-	-	-	-	-	-	-	-	-
2021	-	-	5.100	17,000	-	-	-	-	-	-	-	-	-	-
2022	-	-	5.150	18,000	-	-	-	-	-	-	-	-	-	-
2023	-	-	5.200	18,000	-	-	-	-	-	-	-	-	-	-
2024	-	-	5.250	19,000	-	-	-	-	-	-	-	-	-	-
2025	-	-	5.300	20,000	-	-	-	-	-	-	-	-	-	-
2026	-	-	5.350	20,000	-	-	-	-	-	-	-	-	-	-
Total		\$ 47,145		\$257,000		\$ 77,795		\$ 77,795		\$ 77,795		\$ 77,795		\$ 77,795

See accompanying independent auditor's report.

# Dietz, Donald & Company

CERTIFIED PUBLIC ACCOUNTANTS

STEVEN S. CLAUSEN, CPA

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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND  
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

To the Honorable Mayor and  
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Wellsburg, Iowa, as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements listed in the table of contents and have issued our report thereon dated January 31, 2011. Our report expressed qualified opinions on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. Except as noted in the Independent Auditor's Report, we conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City of Wellsburg's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Responses, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses. We consider the deficiencies in the City's internal control described in Part I of the accompanying Schedule of Findings and Responses 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 Wellsburg's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of noncompliance or other matters that are described in Part II of the accompanying Schedule of Findings and Responses.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2010 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The City of Wellsburg's responses to findings in our audit are described in the accompanying Schedule of Findings and Responses. While we have expressed our conclusions on the City's responses, we did not audit the City of Wellsburg's responses and, accordingly, we 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 Wellsburg and other parties to whom the City of Wellsburg may report. This report is not intended to be and should not be used by anyone other than these specified parties.

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

Elkader, Iowa

January 31, 2011

*Dietz, Donald & Company*

Dietz, Donald & Company, CPAs  
FEIN 42-1172392

CITY OF WELLSBURG  
SCHEDULE OF FINDINGS AND RESPONSES  
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. The cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal are all done by the same person.

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

Response - The treasurer currently performs bank reconciliations. We will continue to review operating procedures to find ways to improve controls without hiring staff.

Conclusion - Response accepted.

I-B-10 Financial Reporting - As is common in small organizations, the City does not prepare its financial statements, complete with notes, in accordance with U.S. generally accepted accounting principles. Accordingly, the City is unable to, and has not established internal controls over the preparation of financial statements.

Recommendation - As part of the audit, we have been requested to prepare a draft of the City's financial statements, including related notes. The City then performs a review of the financial statements. However, in order to provide improved oversight of the financial reporting process, the City should establish review policies and procedures including the performance of some or all of the following:

- [1] Review the adequacy of financial statement disclosures.
- [2] Review and approve schedules and calculations supporting amounts included in the notes to the financial statements.
- [3] Apply analytical procedures to the draft financial statements.
- [4] Apply other procedures as considered necessary by the City.

Response - We will consider this, however, since we only have an audit on a quadrennial basis, we seldom prepare financial statements in accordance with generally accepted accounting principles.

Conclusion - Response acknowledged.

INSTANCES OF NON-COMPLIANCE

No matters were noted.

Part II: Other Findings Related to Required Statutory Reporting:

II-A-10 Certified Budget - Disbursements for the year ended June 30, 2010, did not exceed the amounts budgeted.

II-B-10 Questionable Disbursements - No disbursements that we 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 are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction description</u>	<u>Amount</u>
Rick Buseman, Mayor Pro Tem, Employee at Waterloo Implement	Mower: \$ 8,572 Chain saw <u>585</u>	\$ 9,157
Terry Babcock, spouse of Treasurer, independent Contractor	City Hall furnace and air conditioner \$ 4,990, other repairs \$ 757	5,747
Richard Fox, former Mayor, President, Peoples Savings Bank	Interest	24,942

In accordance with Chapter 362.5(4) of the Code of Iowa, the above transactions over \$ 2,500 were entered into through competitive bidding and do not appear to represent a conflict of interest. In accordance with Chapter 362.5(11) none of the other transactions appear to represent conflicts of interest since the transactions not subject to bidding were less than \$ 2,500 in total.

- 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 the coverage is adequate for current operations.
- II-F-10 Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not.
- II-G-10 Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City's investment policy were noted.
- II-H-10 Revenue Notes - The City has complied with the revenue note resolutions.
- II-I-10 Financial Condition - The Capital Projects Fund had a deficit balance of \$ 26,168 at June 30, 2010.

Recommendation - The City should investigate alternatives to eliminate this deficit in order to return this fund to a sound financial position.

Response - The deficit balance was due to construction costs incurred prior to receiving the corresponding program receipts.

Conclusion - Response accepted.

- II-J-10 Financial Statements - The City maintains an Enterprise Fund for the garbage services it provides even though all garbage services are contracted.

Recommendation - Because the garbage service is contracted, it should not be considered a business type activity. Therefore, we recommend that it be accounted for in the General Fund.

Response - We will consider this.

Conclusion - Response accepted.

II-K-10 Transactions - When reviewing the lease/purchase agreement, we noted that neither the City or Implement Dealer had signed the legal document.

Recommendation - Whenever legal documents are involved in a transaction, they should be reviewed for signatures before they are filed away.

Response - We will do this.

Conclusion - Response accepted.

II-L-10 Fire Department - The Fire Department has separate checking, savings and time certificates of deposit that have not been accounted for or reported by the City in the City's financial statements and reports and they have not been included in these financial statements.

Chapter 384.20 of the Code of Iowa states in part "a City shall keep accounts which show an accurate and detailed statement of all public funds collected, received or expended for any City purpose, by a City officer, employee or other person; which shows the receipt, use and disposition of all City property."

Recommendation - The Fire Department should determine the status of the separate accounts for accountability and reporting purposes. If the Fire Department wishes to maintain control over these accounts, it should be established as a legally separate entity from the City, with articles of incorporation and by-laws. Otherwise, the City should include these accounts in its records, in accordance with Chapter 384.20 of the Code of Iowa. Legal counsel should be consulted for assistance, as necessary, to resolve this issue.

Response - We will look into this matter.

Conclusion - Response accepted.