

CITY OF LARCHWOOD
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS
JUNE 30, 2010

City of Larchwood, Iowa
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CITY OF LARCHWOOD

OFFICIALS

<u>NAME</u>	<u>TITLE</u>	<u>TERM EXPIRES</u>
Leonard Vanden Bosch	Mayor	January 1, 2011
Mike Metzger	Council Member	January 1, 2014
Josh Feucht	Council Member	January 1, 2014
Dean Snyders	Council Member/Mayor Pro-Tem	January 1, 2012
Ted Underberg	Council Member	January 1, 2012
Sharon Meffert	Council Member	January 1, 2012
Sandi DeSmet	Clerk/Treasurer	Indefinite
Lachlan Murphy Bonander	Attorney	Indefinite

EAST, VANDER WOUDE, GRANT & CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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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 Larchwood, 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 Larchwood's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2009, as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Larchwood 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 reports dated January 14, 2011 on our consideration of the City of Larchwood's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance.

That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 6 through 12 and 24 through 26 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Larchwood'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, in our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 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.

East Vander Woude, Grant & Co. P.C.

East, Vander Woude, Grant & Co., P.C.
Certified Public Accountants
Sioux Falls, South Dakota
January 14, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

City of Larchwood 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

- Revenues of the City's governmental activities increased 18.18%, or approximately \$72,000, from fiscal 2009 to fiscal 2010. Transfers from the local option sales taxes decreased by approximately \$37,000.
- Disbursements decreased 42.13%, or approximately \$316,000, in fiscal 2010 from fiscal 2009. Public works, community and economic development, and general government disbursements decreased and culture and recreation increased with public safety and health and social services remaining about the same.
- The City's total cash basis net assets increased approximately \$238,000, from June 30 2009 to June 30, 2010. Of this amount, the assets of the governmental activities increased approximately \$34,000 and the assets of the business type activities decreased by approximately \$204,000.

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 – Cash Basis. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

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

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

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

Other Supplementary Information provides detailed information about the nonmajor governmental funds.

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 – Cash Basis reports information, which helps answer this question.

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

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

Fund Financial Statements

The City has two kinds of funds:

- 1) Governmental funds account for most of the City's basic 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, Local Option Tax and Urban Renewal Tax Increment. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

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

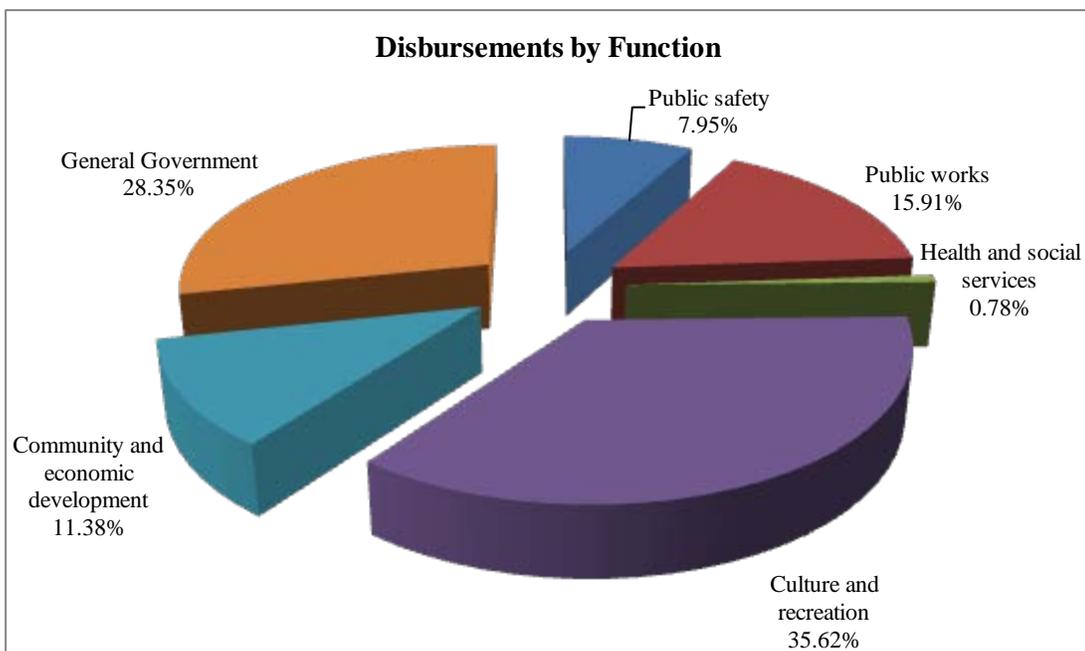
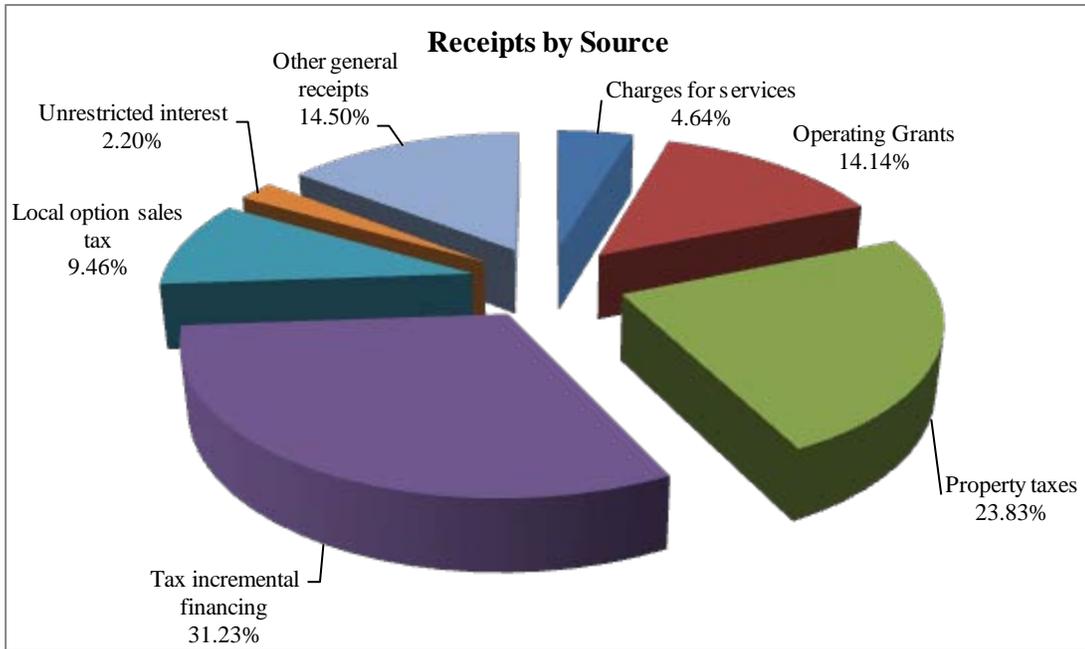
- 2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains four Enterprise Funds to provide separate information for the electric, garbage, water, and sanitary sewer system funds. Electric, sewer and water funds are 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 increased from a year ago, increasing from \$(98,480) to \$(64,685). The analysis that follows focuses on the changes in cash balances for governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities		
(Expressed in Thousands)		
	Year ended June 30,	
	2010	2009
Receipts and transfer:		
Program receipts:		
Charges for service	\$ 24	\$ 26
Operating grants, contributions and restricted interest	73	65
Capital grants, contributions and restricted interest	-	-
General receipts:		
Property tax	285	257
Local option sales tax	49	49
Grants and contributions not restricted to specific purposes	16	15
Unrestricted investment earnings	11	18
Bond proceeds	-	-
Other general receipts	59	52
Transfers, net	(49)	(86)
Total receipts and transfers	<u>468</u>	<u>396</u>
Disbursements:		
Public safety	35	34
Public works	69	133
Health and social services	3	3
Culture and recreation	155	135
Community and economic development	49	82
General government	123	363
Debt service	-	-
Capital projects	-	-
Total disbursements	<u>434</u>	<u>750</u>
Increase (decrease) in cash basis net assets	34	(354)
Cash basis net assets beginning of year	(99)	255
Cash basis net assets end of year	<u>\$ (65)</u>	<u>\$ (99)</u>



The City's total receipts for governmental activities increased by 18.18%, or \$72,000 and the total cost of all programs and services decreased by approximately \$316,000, or 42.13%, due to the water loan payoff in the prior year. The significant increase in receipts was primarily the result of the increase in property taxes and the sale of assets during the current year.

The City property tax rates remained the same for 2010 but an increase in property valuations increased the amount received by approximately \$28,000 in 2010. Based on increases in the total assessed valuation, property tax receipts are budgeted to increase by approximately \$3,000 next year.

The cost of all governmental activities this year was \$434,121 compared to \$750,924 last year. However, as shown in the Statement of Activities and Net Assets – Cash Basis on pages 14-15, the amount taxpayers ultimately financed for these activities was only \$337,026 because

some of the cost was paid by those directly benefited from the programs or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest totaling \$97,095. Overall, the City's governmental activities receipts, including intergovernmental aid and fees for service, remained about the same in 2010, principally due to the same income from recreation membership fees and with other receipts, such as interest and general entitlements.

Changes in Cash Basis Net Assets of Business Type Activities (Expressed in Thousands)		
	Year ended June 30,	
	2010	2009
Receipts and transfer:		
Program receipts:		
Charges for service		
Electric	\$ 737	\$ 665
Water	117	113
Other nonmajor	145	149
General receipts:		
Unrestricted investment earnings	3	9
Miscellaneous income	14	13
Bond proceeds	-	-
Total receipts	<u>1,016</u>	<u>949</u>
Disbursements:		
Electric	572	681
Water	138	419
Other nonmajor	151	94
Transfers	(49)	(86)
Total disbursements	<u>812</u>	<u>1,108</u>
Increase (decrease) in cash basis net assets	204	(159)
Cash basis net assets beginning of year	<u>784</u>	<u>943</u>
Cash basis net assets end of year	<u>\$ 988</u>	<u>\$ 784</u>

Total business type activities receipts for the fiscal year were \$1,016,489 compared to \$949,194 last year. This increase was due primarily to increases in Electric and Water fund receipts. The cash balance increased by approximately \$204,000 from the prior year because fewer funds were transferred to the sewer fund to cover cost of the long-term debt. Total disbursements and transfers for the fiscal year decreased by approximately \$296,000.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As City of Larchwood completed the year, its governmental funds reported a combined fund balance of \$(64,685), an increase of \$33,795 above last year's total of \$(98,480). 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 \$81,241 from the prior year to \$(329,705). This decrease was due to disbursement were greater than the revenues received during the year.
- The Road Use Tax – I –Jobs Funds cash balance increased by \$7,372 to \$60,762 during the fiscal year. This increase was attributable to revenues were greater than the disbursements during the year.

- The Urban Renewal Tax Increment Fund was established to account for urban renewal projects within the City’s business district. At the end of the fiscal year, the cash balance was \$204,258, an increase of \$107,664 from the previous year increase in taxes received during the year.
- The Local Option Sales Tax Fund was established to pay debts of the City. At the end of the fiscal year, the cash balance was \$0 net change from the previous year.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Electric Fund cash balance decreased by \$179,079 to \$619,392, due primarily to fewer funds being transferred to other funds to pay for improvements and operations.
- The Water Fund cash balance decreased by \$20,917 to \$77,252, due primarily to the costs of providing water services to the City.
- The Sewer Fund cash balance increased by \$44,135 to \$267,591, due primarily to the transfer of local option sales taxes used for making the sewer loan payments.
- The Garbage Fund cash balance increased by \$2,167 to \$23,717, due primarily to the receipts in the current year being higher than the expenditures this year.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended the budget one time. The amendment was approved May 3, 2010 and resulted in an increase in business type expenditures.

The City’s receipts were \$235,807 more than budgeted primarily due to receiving more revenues in TIF and charges for services than anticipated. Even with the budget amendments, public safety, community and economic development, general government and business type activities were over budget by \$150, \$49,406, \$45,116, and \$6,000, respectively. However, the actual disbursements for public works, health and social services, culture and recreation, and debt service were \$412, \$100, \$28,366, \$49,340, respectively, less than the amended budget. The net effect was the expenditures were more than the amended budget.

DEBT ADMINISTRATION

At June 30, 2010, the City had \$414,000 in bonds compared to \$442,000 last year, as shown below.

Outstanding Debt at Year-End (Expressed in Thousands)		
	June 30,	
	2010	2009
Capital Revenue Notes	414,000	442,000
Total	\$ 414,000	\$ 442,000

Debt decreased \$28,000.

ECONOMIC FACTORS AND NEXT YEAR’S BUDGETS AND RATES

City of Larchwood’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. One of those factors is the economy. The City is expecting growth during the next year due to the casino being built nearby and will be operational in July 2011.

These indicators were taken into account when adopting the budget for fiscal year 2011. Amounts available for appropriation in the operating budget are \$1.37 million, an increase of 2.5% over the final 2010 budget. Budgeted disbursements are expected to go down approximately \$34,000. Decreases in public works and general government represent the largest decreases. The City has added no major new programs or initiatives to the 2011 budget.

If these estimates are realized, the City's budgeted cash balance is expected to increase by approximately \$64,000 by the close of 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 Sandi DeSmet, City Clerk, 909 Broadway, Larchwood, Iowa, 51241-0216.

**City of Larchwood, Iowa
Basic Financial Statements**

City of Larchwood
Statement of Activities and Net Assets - Cash Basis
As of and for the year ended June 30, 2010

	Disbursements	Program Revenues		
		Charges for Service	Operating Grants Contributions and Restricted Interest	Capital Grants Contributions and Restricted Interest
Functions/Programs				
Governmental activities:				
Public safety	\$ 34,506	\$ -	\$ -	\$ -
Public works	69,088	-	73,096	-
Health and social services	3,400	-	-	-
Culture and recreation	154,635	21,691	-	-
Community and economic development	49,406	-	-	-
General government	123,086	2,308	-	-
Total governmental activities	434,121	23,999	73,096	-
Business type activities:				
Electric	572,377	737,063	-	-
Water	137,889	116,972	-	-
Other nonmajor	150,623	145,177	-	-
Total business type activities	860,889	999,212	-	-
Total	1,295,010	1,023,211	73,096	-
General Receipts:				
Property tax levied for:				
General purposes				
Tax incremental financing				
Local option sales tax				
Grants and contributions not restricted to specific purpose				
Unrestricted investment earnings				
Miscellaneous				
Transfers				
Total general receipts and transfers				
Change in cash basis net assets				
Cash basis net assets beginning of year, as restated				
Cash basis net assets end of year				
Cash Basis Net Assets				
Restricted:				
Streets				
Urban renewal purposes				
Unrestricted				
Total cash basis net assets				

See notes to financial statements.

Exhibit A

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business Type Activities	Total
\$ (34,506)	\$ -	\$ (34,506)
4,008	-	4,008
(3,400)	-	(3,400)
(132,944)	-	(132,944)
(49,406)	-	(49,406)
(120,778)	-	(120,778)
<u>(337,026)</u>	<u>-</u>	<u>(337,026)</u>
-	164,686	164,686
-	(20,917)	(20,917)
-	(5,446)	(5,446)
-	138,323	138,323
<u>(337,026)</u>	<u>138,323</u>	<u>(198,703)</u>
123,148	-	123,148
161,384	-	161,384
48,864	-	48,864
16,426	-	16,426
11,350	3,090	14,440
58,513	14,187	72,700
(48,864)	48,864	-
<u>370,821</u>	<u>66,141</u>	<u>436,962</u>
33,795	204,464	238,259
(98,480)	783,488	685,008
<u>\$ (64,685)</u>	<u>\$ 987,952</u>	<u>\$ 923,267</u>
\$ 60,762	\$ -	\$ 60,762
204,258	-	204,258
(329,705)	987,952	658,247
<u>\$ (64,685)</u>	<u>\$ 987,952</u>	<u>\$ 923,267</u>

See notes to financial statements.

City of Larchwood
Statement of Cash Receipts, Disbursements and Changes in
Cash Balances - Governmental Funds
As of and for the year ended June 30, 2010

Exhibit B

	General	Road Use Tax & I - Jobs	Local Option Sales Tax	Urban Renewal Tax Increment	Total
Receipts:					
Property tax	\$ 123,148	\$ -	\$ -	\$ -	\$ 123,148
Tax increment financing	-	-	-	161,384	161,384
Other city tax	-	-	48,864	-	48,864
Licenses and permits	2,308	-	-	-	2,308
Use of money and property	8,088	2,576	-	686	11,350
Intergovernmental	16,426	73,097	-	-	89,523
Charges for service	21,691	-	-	-	21,691
Miscellaneous	57,725	787	-	-	58,512
Total Receipts	229,386	76,460	48,864	162,070	516,780
Disbursements:					
Operating:					
Public safety	34,506	-	-	-	34,506
Public works	-	69,088	-	-	69,088
Health and social services	3,400	-	-	-	3,400
Culture and recreation	154,635	-	-	-	154,635
Community and economic development	-	-	-	49,406	49,406
General government	123,086	-	-	-	123,086
Total Disbursements	315,627	69,088	-	49,406	434,121
Excess of receipts over	(86,241)	7,372	48,864	112,664	82,659
Other financing sources (uses):					
Operating transfers in (out)	5,000	-	(48,864)	(5,000)	(48,864)
Total other financing sources (uses)	5,000	-	(48,864)	(5,000)	(48,864)
Net change in cash balances	(81,241)	7,372	-	107,664	33,795
Cash balances beginning of year	(248,464)	53,390	-	96,594	(98,480)
Cash balances end of year	\$ (329,705)	\$ 60,762	\$ -	\$ 204,258	\$ (64,685)
Cash Basis Fund Balances					
Unreserved:					
General fund	\$ (329,705)	\$ -	\$ -	\$ -	\$ (329,705)
Special revenue funds	-	60,762	-	204,258	265,020
Total cash basis fund balances	\$ (329,705)	\$ 60,762	\$ -	\$ 204,258	\$ (64,685)

See notes to financial statements.

City of Larchwood, Iowa
Statement of Cash Receipts, Disbursements and Changes in
Cash Balances - Proprietary Funds
As of and for the year ended June 30, 2010

Exhibit C

	Enterprise Funds			Total
	Electric	Water	Other Nonmajor Enterprise	
Operating receipts:				
Use of money and property	\$ 206	\$ -	\$ 2,884	\$ 3,090
Licenses and permits	-	400	460	860
Charge for service	737,063	116,572	144,717	998,352
Miscellaneous	14,187	-	-	14,187
Total operating receipts	<u>751,456</u>	<u>116,972</u>	<u>148,061</u>	<u>1,016,489</u>
Operating disbursements:				
Business type activities	572,377	137,889	109,363	819,629
Total operating disbursements	<u>572,377</u>	<u>137,889</u>	<u>109,363</u>	<u>819,629</u>
Excess (deficiency) of operating receipts over (under)	<u>179,079</u>	<u>(20,917)</u>	<u>38,698</u>	<u>196,860</u>
Non-operating receipts (disbursements):				
Debt service	-	-	(41,260)	(41,260)
Total non-operating receipts (disbursements)	<u>-</u>	<u>-</u>	<u>(41,260)</u>	<u>(41,260)</u>
Excess (deficiency) of operating receipts over (under) operating disbursements	<u>179,079</u>	<u>(20,917)</u>	<u>(2,562)</u>	<u>155,600</u>
Operating transfers out	-	-	48,864	48,864
Net change in cash balances	<u>179,079</u>	<u>(20,917)</u>	<u>46,302</u>	<u>204,464</u>
Cash balances beginning of year	<u>440,313</u>	<u>98,169</u>	<u>245,006</u>	<u>783,488</u>
Cash balances end of year	<u>\$ 619,392</u>	<u>\$ 77,252</u>	<u>\$ 291,308</u>	<u>\$ 987,952</u>
Cash Basis Fund Balances				
Reserved for debt service	\$ -	\$ -	\$ -	\$ -
Unreserved	619,392	77,252	291,308	987,952
Total cash basis fund balances	<u>\$ 619,392</u>	<u>\$ 77,252</u>	<u>\$ 291,308</u>	<u>\$ 987,952</u>

See notes to financial statements.

City of Larchwood, Iowa
Notes to Financial Statements
June 30, 2010

(1) Summary of Significant Accounting Policies

The City of Larchwood is a political subdivision of the State of Iowa located in Lyon County. It was first incorporated in 1872 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, recreation, public improvements and general administrative services. The City also provides water, sewer, electric and garbage utilities for its citizens.

A. Reporting Entity

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

Jointly Governed Organization

The City participates in a jointly governed organization that provides goods or services to the citizenry of the City but does 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 Lyon County Economic Development.

B. Basis of Presentation

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

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

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.

City of Larchwood, Iowa
Notes to Financial Statements
June 30, 2010

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

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

The City reports the following major governmental funds:

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

Special Revenue:

The Road Use Tax Fund is used to account for road construction and maintenance.

The Urban Renewal Tax Increment Fund is used to account for urban renewal projects financed by tax increment financing.

The Local Option Sales Tax Fund is used to account for the sales tax receipts to be used for payments of the long-term debt.

The City reports the following major proprietary funds:

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

The Electric Fund accounts for the operation and maintenance of the City's electricity and generator substation system.

The City also reports the following additional proprietary funds:

A Sewer and Garbage Funds are utilized to account for the sewer and garbage services provided by the City.

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

City of Larchwood, Iowa
Notes to Financial Statements
June 30, 2010

proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2010, disbursements exceeded the amounts budgeted in the general government, public safety, community and economic development, and business type activities functions.

(2) Cash and Pooled Investments

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

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

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

Interest rate risk – The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) 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.

Credit risk - The City's investments consist of savings accounts and certificates of deposits all held within the State of Iowa which are unrated.

(3) 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 contributions to IPERS for the year ended June 30, 2010, was \$8,165 equal to the required contributions for the year.

City of Larchwood, Iowa
Notes to Financial Statements
June 30, 2010

(4) Compensated Absences

City employees accumulate a limited amount of earned but unused personal time off 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 personal time off payments payable to employees at June 30, 2010, is \$2,114. These liabilities have been computed based on rates of pay as of June 30, 2010.

(5) Related Party Transactions

The City had business transactions between the City and City officials or spouses totaling \$18,212 during the year ended June 30, 2010.

(6) Notes Payable

On June 20, 2006, the City obtained a 20-year loan note to cover construction costs of a sewer lagoon system. Sewer Revenue Capital Loan Note Series 2009 was entered into with Iowa Finance Authority with an interest rate of 3% and requirements of semi-annual interest payments and annual principal payments. The note is subject to optional redemption at a price of par plus accrued interest on any interest payment date after the ten year anniversary date of June 1, 2012.

Annual debt service requirements to maturity for revenue capital loan note are as follows:

Year Ending June 30,	Capital Loan Notes		
	Principal	Interest	Totals
2011	\$ 29,000	\$ 12,420	\$ 41,420
2012	30,000	11,550	41,550
2013	31,000	10,650	41,650
2014	32,000	9,720	41,720
2015	33,000	8,760	41,760
2016 - 2020	180,000	28,390	208,390
2021 - 2022	79,000	3,570	82,570
Totals	\$ 414,000	\$ 85,060	\$ 499,060

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

- 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. Net revenues of the system for the preceding fiscal year need to be 110% of the principal and interest requirements of the next succeeding Fiscal Year. The required amount was \$45,562 was not met.
- Sufficient monthly transfers shall be made to separate sewer revenue note sinking account within the Enterprise Funds for the purpose of making the note principal and interest payments when due.

City of Larchwood, Iowa
Notes to Financial Statements
June 30, 2010

(7) Risk Management

The City of Larchwood is exposed to various risks of loss related to torts; theft, damage to and destruction of assets, errors and omissions; injuries to employee; and natural disasters. These risks are covered by 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.

(8) Interfund Transfers

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

Transfer to:	Transfer from:	Amount
General	TIF	\$ 5,000
Sewer	Local Option	48,864
	Total	\$ 53,864

(9) Other Postemployment Benefits (OPEB)

The City does not have any other postemployment benefits available for any employees.

(10) Deficit Balance

The General Fund had a deficit balance of \$329,705 at June 30, 2010. The deficit balance is the result of disbursements being greater than revenues the last couple of years. The City is working to eliminate the deficit in the future years.

(11) Litigation

There is no litigation involving the City as of June 30, 2010.

Required Supplementary Information

City of Larchwood, Iowa
 Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances -
 Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Funds
 Required Supplementary Information
 Year ended June 30, 2010

	Governmental Funds Actual	Proprietary Funds Actual
	<u>Actual</u>	<u>Actual</u>
Receipts:		
Property tax	\$ 123,148	\$ -
Tax increment financing collections	161,384	-
Other city tax	48,864	-
Licenses and permits	2,308	860
Use of money and property	11,350	3,090
Intergovernmental	89,523	-
Charges for service	21,691	998,352
Special assessments	-	-
Miscellaneous	58,512	14,187
Total receipts	<u>516,780</u>	<u>1,016,489</u>
Disbursements:		
Public safety	34,506	-
Public works	69,088	-
Health and social services	3,400	-
Culture and recreation	154,635	-
Community and economic development	49,406	-
General government	123,086	-
Debt service	-	41,260
Capital projects	-	-
Business type activities	-	819,629
Total disbursements	<u>434,121</u>	<u>860,889</u>
Excess of receipts over disbursements	82,659	155,600
Other financing sources, net	<u>(48,864)</u>	48,864
Excess of receipts and other financing sources over disbursements and other financing uses	33,795	204,464
Balances beginning of year	<u>(98,480)</u>	783,488
Balances end of year	<u>\$ (64,685)</u>	<u>\$ 987,952</u>

See accompanying independent auditor's report.

Less Funds not Required to be Budgeted	Total Actual	Budgeted Amounts		Final to Actual Variance
		Original	Final	
\$ -	\$ 123,148	\$ 123,073	\$ 123,073	\$ 75
-	161,384	90,000	90,000	71,384
-	48,864	64,000	64,000	(15,136)
-	3,168	3,740	3,740	(572)
-	14,440	31,650	31,650	(17,210)
-	89,523	85,812	85,812	3,711
-	1,020,043	887,322	887,322	132,721
-	-	-	-	-
-	72,699	11,865	11,865	60,834
-	1,533,269	1,297,462	1,297,462	235,807
-	34,506	34,356	34,356	150
-	69,088	69,500	69,500	(412)
-	3,400	3,500	3,500	(100)
-	154,635	183,001	183,001	(28,366)
-	49,406	-	-	49,406
-	123,086	77,970	77,970	45,116
-	41,260	90,600	90,600	(49,340)
-	-	-	-	-
-	819,629	686,629	813,629	6,000
-	1,295,010	1,145,556	1,272,556	22,454
-	238,259	151,906	24,906	213,353
-	-	-	-	-
-	238,259	151,906	24,906	213,353
-	685,008	1,467,622	1,467,622	(782,614)
\$ -	\$ 923,267	\$ 1,619,528	\$ 1,492,528	\$ (569,261)

See accompanying independent auditor's report.

City of Larchwood, Iowa
Notes to Required Supplementary Information – Budgetary Reporting
June 30, 2010

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

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds. 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. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and 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 revenues by \$0 and disbursements by \$127,000. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2010, disbursements exceeded the amounts budgeted in the public safety, community and economic development, general government, and business type activities functions.

Other Supplementary Information

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

Obligation	Date of Issue	Interest Rate	Amount Originally Issued	Balance Beginning of Year
General obligation debt:				
Capital Revenue Loan Notes:				
Sewer Capital Loan	6/28/2002	3%	633,614	\$ <u>442,000</u>

See accompanying independent auditor's report.

Schedule 1

Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
\$ -	\$ 28,000	\$ 414,000	\$ 13,260	\$ 1,001

See accompanying independent auditor's report.

City of Larchwood, Iowa
 Bond and Note Maturities
 June 30, 2010

Schedule 2

Year Ending June 30	Capital Loan Notes	
	Sewer Project	
	Issued June 28, 2002	
	Interest	
	Rates	Amounts
2011	3.00%	29,000
2012	3.00%	30,000
2013	3.00%	31,000
2014	3.00%	32,000
2015	3.00%	33,000
2016	3.00%	34,000
2017	3.00%	35,000
2018	3.00%	36,000
2019	3.00%	37,000
2020	3.00%	38,000
2021	3.00%	39,000
2022	3.00%	40,000
TOTAL		\$ 414,000

See accompanying independent auditor's report.

City of Larchwood, Iowa
 Schedule of Revenues by Source and Expenditures by Function -
 All Governmental Funds

Schedule 3

	2010
Receipts:	
Property tax	\$ 123,148
Tax increment financing collections	161,384
Other city tax	48,864
Licenses and permits	2,308
Use of money and property	11,350
Intergovernmental	89,523
Charges for service	21,691
Miscellaneous	58,512
Total	516,780
 Disbursements:	
Operating:	
Public safety	34,506
Public works	69,088
Health and social services	3,400
Culture and recreation	154,635
Community and economic development	49,406
General government	123,086
Total	\$ 434,121

See accompanying independent auditor's report.

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

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Larchwood, 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 14, 2011. Our report on the financial statements, which were prepared in conformity with an other comprehensive basis of accounting, expressed qualified opinions since we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2009. 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 Larchwood's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of City of Larchwood's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of City of Larchwood's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses 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, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weaknesses is a deficiency, or combination of control deficiencies, in internal control such that there is a reasonable possibility a material misstatement of City's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in Part I of the accompanying Schedule of Findings as items I-A-10 and I-B-10 to be material.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control which is less

severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in Part I of the accompanying Schedule of Findings as items as I-C-10, I-D-10 and I-E-10 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Larchwood's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations and contracts, 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 object of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of non-compliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters which are described in Part II of the accompanying Schedule of Findings.

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

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

This report, a public record by law, is intended for the information and use of the officials, employees and citizens of City of Larchwood and other parties to whom the City of Larchwood 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 the personnel of the City of Larchwood 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.



East, Vander Woude, Grant & Co., P.C.
Certified Public Accountants
Sioux Falls, South Dakota
January 14, 2011

Part I: Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCY:

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 following functions are all done by the same person: cash receipts; bank deposits; disbursement transactions; maintaining accounting records; reconciling bank accounts and accounting records; custody of investments; financial reporting; and computer functions.

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

Response – The City of Larchwood understands the concern, but with a small office it is difficult to maintain segregation of duties. We will review our policies and make an extra effort to maximize internal controls.

Conclusion – Response accepted.

I-B-10 Drafting of the financial statements – The City’s internal control structure should be designed to provide for the preparation of financial statements being audited. The City requested the external auditors to prepare the financial statements and related note disclosures as part of our regular audit services.

Recommendation – It is the responsibility of management and those in charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations. During 2006, a new auditing standard from the American Institute of Certified Public Accountants, SAS 112, became effective. This statement requires auditors to communicate this situation to the state as an internal control deficiency. Ultimately, it is management’s responsibility to provide for the preparation of the District’s statements and notes, and the responsibility of the auditor to determine the fairness of presentation of those statements. From a practical standpoint we do both for you at the same time in connection with our audit. However, based on this new auditing standard, it is our responsibility to inform you that this deficiency could result in a misstatement to the financial statements that could have been prevented or detected by the City’s management. We have instructed management to review a draft of the auditor prepared financials in detail for their accuracy; we have answered any questions they might have, and encouraged research of any accounting guidance in connection with the adequacy and appropriateness of classification and disclosure in your statements. We are satisfied that the appropriate steps have been taken to provide you with the completed financial statements. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

City of Larchwood, Iowa
Schedule of Findings
Year ended June 30, 2010

Response – We are aware of the risk associated with not preparing our financial statements, but believe our review of the financial statements to be adequate to reduce this risk

Conclusion – Response accepted.

I-C-10 Financial Reporting – During the audit, we identified a number of items that were posted in the wrong funds. Adjustments were subsequently made by the City to properly report the amounts in the City’s financial statements.

Recommendation – The City should implement procedures to ensure that transactions are properly recorded in the City’s financial statements.

Response – We will double check this in the future to avoid posting errors.

Conclusion – Response accepted.

I-D-10 Credit Cards – the City has credit cards for use by various employees while on City business. Documentation was not always available to support the credit card charges.

Recommendation – The City needs to ensure that it has proper supporting documentation required to substantiate the charges.

Response – We will get the proper supporting documentation required to substantiate the charges.

Conclusion – Response accepted.

I-E-10 Debt Covenants – The City is required by the Sewer Revenue Bonds to generate sufficient net revenue of the municipal sewer system to pay the debt service payments of principal and interest. In the current year there was not sufficient net revenues generated by the charges for services.

Recommendation – The City needs to ensure that the established rates are sufficient to generate the net revenue for payments for the debt payments.

Response – We will correct this in the upcoming year.

Conclusion – Response accepted.

City of Larchwood, Iowa
 Schedule of Findings
 Year ended June 30, 2010

Part II: Other Findings Related to Required Statutory Reporting:

II-A-10 Certified Budget – Disbursements during the year ended June 30, 2010 exceeded the amounts budgeted in the public safety, community and economic development, general government, and business type activities functions. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

Recommendation – Even though the City budget was amended for the business type activities there was no amended budget for the general government funds. 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 of City money for questionable disbursements were noted.

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

II-D-10 Business Transaction – Business transactions between the City and City officials or employees during the year ending June 30, 2010 are as follows:

Name, Title, and Business Connection	Transaction Description	Amount
Leonard Vanden Bosch, Mayor, Owner – D & L Masonry	Park and other small projects, per bid	\$13,945
Dean Snyders, Council Member, Owner– Snyders Home Improvement	Replace Door at Gym and maintenance at Cemetery	\$ 2,443
Ted Underberg, Council Member, Employee of Hillyard Inc.	Supplies for the City	\$1,824

In accordance with Chapter 362.5(4) of the Code of Iowa, the transactions with the Mayor and the Council Members do not appear to represent a conflict of interest since they were 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 insure that the coverage is adequate for current operations.

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

City of Larchwood, Iowa
Schedule of Findings
Year ended June 30, 2010

- II-G-10 Deposits and Investments – We noted no instance of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City’s investment policy.
- II-H-10 Revenue Bonds and Notes – The City has complied with the revenue bond and note resolutions.
- II-I-10 Payment of Debt – Certain debt was paid from the Enterprise Fund, Sewer Fund. The loan agreement requires “the establishment of a sufficient sinking fund to meet the principal of and interest on this series of notes.” The sinking fund has not been established.
- Recommendation – The City should establish the sinking fund for the payment of Sewer Revenue Capital Loan Notes to comply with the agreement.
- Response – We will transfer in the future as recommended.
- Conclusion – Response accepted.
- II-J-10 Financial Condition – The General Fund had a deficit balance of \$329,705 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 is due to various reasons and the City is taking measures to eliminate the deficit in the General Fund.
- Conclusion – Response accepted.
- II-K-10 Economic Development – The City paid \$7,880 to the Lyon County Economic Development Committee which may not be an appropriate expenditure of public funds.
- In accordance with Chapter 15A of the Code of Iowa and an Attorney General’s opinion dated December 22, 1986, government financing of economic development may, in appropriate circumstances, serve a public purpose. The opinion advises the governing body to evaluate the public benefits to be obtained and discusses specific criteria to be considered in documenting the public purpose.
- Recommendation – The Council should evaluate and document the public purpose served by the expenditure before authorizing further payments and should require the Development Committee to provide documentation of how the funds were used to accomplish economic development activities.
- Response – We will do this.
- Conclusion – Response accepted.