

CITY OF NEW SHARON, IOWA
INDEPENDENT AUDITOR'S REPORT
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

June 30, 2010

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**City of New Sharon, Iowa
City Officials**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Before January, 2010		
Ed Davis	Mayor	January, 2012
Lisa Munn	Council Member	January, 2012
Ken Ward	Council Member	January, 2010
Zach Pickard	Council Member	January, 2010
Diana Klinker	Council Member	Resigned November, 2009
Jeff Foster	Council Member	Appointed November, 2009 until November, 2010
Diane Brand	City Clerk	Indefinite
Stravers Law Firm, Randy Stravers	Attorney	January, 2011
After January, 2010		
Ed Davis	Mayor	January, 2012
Lisa Munn	Council Member	January, 2012
Ken Ward	Council Member	January, 2014
Zach Pickard	Council Member	January, 2014
Jeff Foster	Council Member	November, 2010
Diane Brand	City Clerk	Indefinite
Stravers Law Firm, Randy Stravers	Attorney	January, 2011



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Van Maanen, Sietstra & Meyer, PC

CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditor's Report

To the Honorable Mayor and Members of the City Council:
City of New Sharon
New Sharon, Iowa

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 New Sharon, 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 New Sharon'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 statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. 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, this financial statement is 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 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 New Sharon as of June 30, 2010, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 10, 2010 on our consideration of the City of New Sharon'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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and Budgetary Comparison Information on pages 21 and 22 are not a required part of the basic financial statement, 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 New Sharon'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.

Van Maanen, Sietstra & Meyer, PC

Van Maanen, Sietstra & Meyer, PC
Certified Public Accountants

November 10, 2010

Management's Discussion and Analysis
City of New Sharon, Iowa
Year ending June 30, 2010

City of New Sharon, Iowa 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.

Because the City is not required to be audited annually, much of the information is not easily comparable to prior years. Comparative data has been provided if available.

2010 FINANCIAL HIGHLIGHTS

- The City's total cash basis net assets increased 7.1%, or approximately \$77,000, from June 30, 2009 to June 30, 2010. Of this amount, the assets of the governmental activities decreased approximately \$2,000 and the assets of the business type activities increased approximately \$79,000.

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 nonmajor governmental funds and the City's indebtedness.

BASIS OF ACCOUNTING

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

Management's Discussion and Analysis
City of New Sharon, Iowa
Year ending June 30, 2010

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

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

Fund Financial Statements

The City has two kinds of funds:

- 1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Local Option Sales Tax and 3) Permanent 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 is a statement of cash receipts, disbursements and changes in cash balances.

- 2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains two Enterprise Funds to provide separate information for the Water and Sewer Funds, considered to be major funds of the City.

The required financial 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 from a year ago, decreasing from approximately \$879,000 to approximately \$877,000. 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)	
Year ended June 30, 2010	
Receipts:	
Program receipts:	
Charges for service	\$ 76
Operating grants, contributions and restricted interest	12
Capital grants, contributions and restricted interest	267
General receipts:	
Property tax	209
Local option sales and services tax	90
Other taxes	4
Unrestricted interest on investments	16
Other general receipts	9
Total receipts	<u>683</u>
Disbursements:	
Public safety	110
Public works	374
Culture and recreation	44
Community and economic development	43
General government	114
Total disbursements	<u>685</u>
Change in cash basis net assets	(2)
Cash basis net assets beginning of year,	<u>879</u>
Cash basis net assets end of year	<u>\$ 877</u>

The cash basis net assets of the City's governmental funds decreased primarily due to increased personnel costs.

Management's Discussion and Analysis
City of New Sharon, Iowa
Year ending June 30, 2010

Changes in Cash Basis Net Assets of Business Type Activities
(Expressed in thousands)
Year ended June 30, 2010

Receipts:	
Program receipts:	
Charges for service:	
Water	\$ 157
Sewer	97
General receipts:	
Unrestricted interest on investments	2
Bond proceeds	272
Total receipts	528
Disbursements:	
Water	333
Sewer	116
Total disbursements and transfers:	449
Change in cash basis net assets	79
Cash basis net assets beginning of year	211
Cash basis net assets end of year	\$ 290

The total business type activities net assets increased from a year ago, increasing from \$210,933 to \$289,868.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As City of New Sharon, Iowa completed the year, its governmental funds reported a combined fund balance of \$877,225, a decrease of more than \$2,000 from last year's total of \$879,269. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance increased \$18,778 from the prior year to \$556,700. This increase was due to an increase in property valuations.
- The Special Revenue, Road Use Tax Fund cash balance decreased \$81,196 to a deficit balance of \$(44,717) during the fiscal year. The decrease was primarily due to expenses for street repairs.
- The Special Revenue, Local Option Sales Tax Fund was established to promote economic development within the City. At the end of the fiscal year, the cash balance was \$301,336, an increase of \$59,164 from the previous year. The increase was the result of decreased spending from the LOST fund.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Enterprise, Water Fund cash balance increased \$57,076 to \$17,601, due primarily to an increase in the sale of water and reductions in debt service payments over the prior year.
- The Enterprise, Sewer Fund cash balance decreased \$18,141 to \$232,267, due primarily to debt service costs in excess of operating receipts over operating disbursements.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget once. The amendment was approved on March 17, 2010 and resulted in an increase in intergovernmental revenues of \$225,000 and public works expenditures of \$225,000. It also increased charges for service by \$220,000 and business type expenditures by \$220,000.

The City's receipts were \$5,149 less than budgeted. This was primarily due to the City receiving less in sewer and water charges for service than anticipated, even after the amendments.

With the budget amendments, total disbursements were \$24,420 less than the amended budget. However, actual disbursements for the culture and recreation, general government and business type activities functions were \$10,387, \$11,779 and \$41,388 respectively, more than the amended budget. This was primarily due to costs of a water improvement project.

DEBT ADMINISTRATION

At June 30, 2010, the City had \$521,027 in revenue bonds. Debt increased \$255,027 mainly as a result of issuing water revenue bonds in the amount of \$272,027 for a water construction project.

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 carries no outstanding general obligation debt.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City of New Sharon's elected and appointed officials and citizens considered many factors when setting the fiscal year 2011 budget, tax rates and fees charged for various city activities. The City's fiscal year 2011 assessed value has decreased approximately \$387,000 from the fiscal year 2010 level.

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 Diane Brand, City Clerk, P.O. Box 507, New Sharon, Iowa, Iowa 50207.

Basic Financial Statements

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

	Net (Disbursements) Receipts and Changes in Cash Basis Net Assets						
	Program Receipts				Primary Government		
	Disbursements	Charges for Service	Operating		Governmental Activities	Business Type Activities	Total
Contributions and Restricted Interest			Capital Grants, Contributions and Restricted Interest				
Functions/Programs:							
Primary government:							
Governmental activities:							
Public safety	\$ 110,064	60,019	-	-	(50,045)	-	(50,045)
Public works	373,609	3,840	-	267,417	(102,352)	-	(102,352)
Culture and recreation	43,887	-	108	-	(43,779)	-	(43,779)
Community and economic development	43,232	-	11,810	-	(31,422)	-	(31,422)
General government	114,264	11,768	-	-	(102,496)	-	(102,496)
Total governmental activities	<u>685,056</u>	<u>75,627</u>	<u>11,918</u>	<u>267,417</u>	<u>(330,094)</u>	-	<u>(330,094)</u>
Business type activities:							
Water	333,166	157,061	-	-	-	(176,105)	(176,105)
Sewer	115,812	97,219	-	-	-	(18,593)	(18,593)
Total business type activities	<u>448,978</u>	<u>254,280</u>	-	-	-	<u>(194,698)</u>	<u>(194,698)</u>
Total primary government	<u>\$ 1,134,034</u>	<u>329,907</u>	<u>11,918</u>	<u>267,417</u>	<u>(330,094)</u>	<u>(194,698)</u>	<u>(524,792)</u>
General Receipts:							
Property tax levied for:							
General purposes					\$ 208,844	-	208,844
Local option sales tax					90,497	-	90,497
Other taxes					4,104	-	4,104
Unrestricted interest on investments					15,785	1,606	17,391
Miscellaneous					8,820	-	8,820
Note proceeds					-	272,027	272,027
Total general receipts					<u>328,050</u>	<u>273,633</u>	<u>601,683</u>
Change in cash basis net assets					(2,044)	78,935	76,891
Cash basis net assets beginning of year					879,269	210,933	1,090,202
Cash basis net assets end of year					<u>\$ 877,225</u>	<u>289,868</u>	<u>1,167,093</u>
Cash Basis Net Assets							
Restricted:							
Non expendable:							
Permanent endowment fund					\$ 63,906	-	63,906
Expendable:							
Debt Service					-	59,616	59,616
Special Purposes					301,336	-	301,336
Unrestricted					511,983	230,252	742,235
Total cash basis net assets					<u>\$ 877,225</u>	<u>289,868</u>	<u>1,167,093</u>

See notes to financial statements.

Exhibit B

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

	Special Revenue				Total
	General	Road Use Tax	Local Option Sales Tax	Non-major	
Receipts:					
Property tax	\$ 199,396	-	-	-	199,396
Other city taxes	13,552	-	90,497	-	104,049
Licenses and permits	2,610	-	-	-	2,610
Use of money and property	19,676	-	11,899	800	32,375
Intergovernmental	58,751	267,417	-	-	326,168
Charges for service	2,196	-	-	530	2,726
Miscellaneous	15,688	-	-	-	15,688
Total receipts	311,869	267,417	102,396	1,330	683,012
Disbursements:					
Operating:					
Public safety	110,064	-	-	-	110,064
Public works	24,996	348,613	-	-	373,609
Culture and recreation	43,767	-	-	120	43,887
Community and economic development	-	-	43,232	-	43,232
General government	114,264	-	-	-	114,264
Total disbursements	293,091	348,613	43,232	120	685,056
Excess (deficiency) of receipts over (under) disbursements	18,778	(81,196)	59,164	1,210	(2,044)
Cash balances beginning of year	537,922	36,479	242,172	62,696	879,269
Cash balances end of year	\$ 556,700	(44,717)	301,336	63,906	877,225
Cash Basis Fund Balances					
Reserved:					
Special revenue funds	\$ -	-	301,336	-	301,336
Permanent funds	-	-	-	63,906	63,906
Unreserved:					
General Fund	556,700	(44,717)	-	-	511,983
Total cash basis fund balances	\$ 556,700	(44,717)	301,336	63,906	877,225

See notes to financial statements.

Exhibit C

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

	Enterprise Funds		Total
	Water	Sewer	
Operating receipts:			
Charges for service	\$ 157,061	97,219	254,280
Total operating receipts	157,061	97,219	254,280
Operating disbursements:			
Business type activities	95,134	87,241	182,375
Total operating disbursements	95,134	87,241	182,375
Excess of operating receipts over operating disbursements	61,927	9,978	71,905
Non-operating receipts (disbursements):			
Interest on investments	1,154	452	1,606
Revenue bond proceed	272,027	-	272,027
Debt service	(11,723)	(28,571)	(40,294)
Capital Projects	(266,309)	-	(266,309)
Total non-operating (disbursements)	(4,851)	(28,119)	(32,970)
Excess (deficiency) of receipts over (under) disbursements	57,076	(18,141)	38,935
Net change in cash balances	57,076	(18,141)	38,935
Cash balances beginning of year	(39,475)	250,408	210,933
Cash balances end of year	\$ 17,601	232,267	249,868
Cash Basis Fund Balances			
Reserved for debt service	\$ 15,277	44,339	59,616
Unreserved	42,324	187,928	230,252
Total cash basis fund balances	\$ 57,601	232,267	289,868

See notes to financial statements.

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

The City of New Sharon is a political subdivision of the State of Iowa located in Mahaska County. It was first incorporated in 1856 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 and sewer utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of New Sharon 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 or appointed representatives to the following boards and commissions: Mahaska County Assessor's Conference Board, Mahaska County Joint E911 Service Board, Mahaska County Emergency Management Commission, Mahaska County Area Solid Waste Management Commission, and Area XV Regional Planning Commission.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Activities and Net Assets report information on all of the non-fiduciary 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 the following categories/components:

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

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, but 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 revenues are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental 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 non-major governmental funds.

The City reports the following major governmental funds:

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

Special Revenue:

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

The Local Option Sales Tax Fund is used to account for recreation and economic development financed by local option sales tax.

The City reports the following major proprietary funds:

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

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

C. Measurement Focus and Basis of Accounting

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

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

The only restricted net assets available for current expenses are those built up in the sinking funds which are meant to be used for debt payments. Those are described in note 3(b). None of the other restricted net assets are available for current expenses.

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

D. Budgets and Budgetary Accounting

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

(2) Cash and Pooled Investments

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

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

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

(3) Bonds Payable

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

Years ending June 30,	Sewer Revenue Bond		Water Revenue Bond		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2011	\$ 18,000	10,707	22,000	8,271	40,000	18,978
2012	19,000	9,933	22,000	7,625	41,000	17,558
2013	20,000	9,116	23,000	6,938	43,000	16,054
2014	21,000	8,256	24,000	6,241	45,000	14,497
2015	22,000	7,353	25,000	5,514	47,000	12,867
2016-2020	121,000	22,145	136,000	15,804	257,000	37,949
2021	28,000	1,204	20,027	637	48,027	1,841
Total	\$ 249,000	68,714	272,027	51,030	521,027	119,744

Water Revenue Bonds

The City has pledged future water customer receipts, net of specified operating disbursements to repay the Water Revenue Bond. A loan amount of \$600,000 has been made available through the State Revolving Fund, of which \$272,027 has been drawn as of 9/23/09. Proceeds from the notes provided financing for the construction of water main improvements. The note, if drawn in full is scheduled to be payable through 2030, however at the level currently drawn out would be paid off by 2021. The total interest and principal remaining to be paid on the note is \$323,057. For the current year, interest paid on the note was \$4,223, no principal was paid.

Sewer Revenue Bonds

The resolutions providing for the issuance of the Sewer revenue bonds include the following provisions:

- a) The bonds will only be redeemed from the future earnings of the enterprise activity and the bond holders hold a lien on the future earnings of the funds.
- b) The City shall establish, impose, adjust and provide for the collection of rates to be charged to customers of the sewer utility so as to provide a balance of net revenues equal to at least 110% of the principal and interest on all the bonds due in each fiscal year.
- c) Sufficient monthly transfers shall be made to separate sewer revenue bond sinking account for the purpose of making the bond principal and interest payments when due.

- d) All funds remaining in the sewer rental account after the payment of all maintenance and operating expenses and required transfers shall be placed in a sewer revenue surplus account. This account is available for the purpose of paying bond and interest payments which the other accounts might be unable to make. However, as long as the revenue bond sinking account has been funded, the balance of the surplus may be made available as the City Council may direct. As such, this balance has been included with the sewer operating account.

(4) Pension and Retirement Benefits

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

Most regular plan members are required to contribute 4.30% of their annual covered salary, and the City is required to contribute 6.65% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the year ended June 30, 2010 was \$8,486, equal to the required contribution for the year.

Plan members covered under police IPERS are required to contribute 6.14% of their annual covered salary, and the City is required to contribute 9.2% of covered salary. The City's contributions to police IPERS for the year ended June 30, 2010 was \$3,346, equal to the required contribution for the year.

(5) Other Postemployment Benefits (OPEB)

Plan Description - The City operates a single-employer retiree benefit plan which provides medical/prescription drug benefits for retirees and their spouses. There are 3 active and 0 retired members in the plan. Participants must be age 55 or older at retirement.

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

Funding Policy - The contribution requirements of plan members are established and may be amended by the City. The City currently finances the retiree benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the City and plan members are \$440 for single coverage and \$1,099 for family coverage. The City pays 100% of single coverage for eligible employees while actively working. The same monthly premiums apply to retirees. For the year ended June 30, 2010, the City contributed \$16,102 and plan members eligible for benefits contributed \$0 to the plan.

(6) Compensated Absences

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

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$11,662

This liability has been computed based on current rates of pay.

(7) Deficit Balance

At June 30, 2010, funds with deficit balances were as follows:

Special Revenue, Road Use Tax Fund	\$44,717
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This deficit balance is the result of project costs in excess of available funds. This deficit will be eliminated upon collection of road use tax revenues.

(8) Related Party Transactions

The City had business transactions between the City and City officials totaling \$2,265 during the year ended June 30, 2010.

(9) Risk Management

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

Required Supplementary Information

City of New Sharon, Iowa
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances
Budget and Actual (Cash Basis) BUDGET AND ACTUAL (CASH BASIS) - ALL GOVERNMENTAL FUNDS
All Governmental Funds and Proprietary Funds
Required Supplementary Information
Year ended June 30, 2010

	Governmental Funds Actual	Proprietary Funds Actual	Net	Budgeted Amounts		Final to Net Variance
				Original	Final	
Receipts:						
Property tax	\$ 199,396	-	199,396	198,248	198,248	1,148
Other city tax	104,049	-	104,049	103,776	103,776	273
Licenses and permits	2,610	-	2,610	4,300	4,300	(1,690)
Use of money and property	32,375	1,606	33,981	55,500	55,500	(21,519)
Intergovernmental	326,168	-	326,168	175,250	400,250	(74,082)
Charges for services	2,726	254,280	257,006	234,000	454,000	(196,994)
Miscellaneous	15,688	-	15,688	-	-	15,688
Other financing sources	-	272,027	272,027	-	-	272,027
Total receipts	683,012	527,913	1,210,925	771,074	1,216,074	(5,149)
Disbursements:						
Public safety	110,064	-	110,064	138,179	138,179	28,115
Public works	373,609	-	373,609	161,000	386,000	12,391
Culture and Recreation	43,887	-	43,887	33,500	33,500	(10,387)
Community & Economic Development	43,232	-	43,232	90,700	90,700	47,468
General government	114,264	-	114,264	102,485	102,485	(11,779)
Business type activities	-	488,978	488,978	227,590	447,590	(41,388)
Total disbursements	685,056	488,978	1,174,034	753,454	1,198,454	24,420
Excess (deficiency) of receipts over (under) disbursements	(2,044)	38,935	36,891	17,620	17,620	19,271
Balances beginning of year	879,269	210,933	1,090,202	1,026,140	1,026,140	
Balances end of year	\$ 877,225	249,868	1,127,093	1,043,760	1,043,760	

See accompanying independent auditor's report.

City of New Sharon, 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 for the certified budget is based upon ten major classes of disbursements known as functions, not by fund. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, the Permanent Funds 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, one budget amendment increased budget disbursements by \$445,000. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2010, disbursements exceeded the amount budgeted in the culture and recreation, general government and business type activities functions.

Other Supplementary Information

Schedule 1

City of New Sharon, Iowa
Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Non-Major Governmental Funds
As of and for the year ended June 30, 2010

	Permanent		Total
	Fleener	Perpetual	
Receipts:			
Use of money and property	\$ 800	-	800
Charges for service	-	530	530
Total receipts	<u>800</u>	<u>530</u>	<u>1,330</u>
Disbursements:			
Operating:			
Culture and recreation	120	-	120
Total disbursements	<u>120</u>	<u>-</u>	<u>120</u>
Excess of receipts over disbursements	680	530	1,210
Cash balances beginning of year	<u>27,297</u>	<u>35,399</u>	<u>62,696</u>
Cash balances end of year	<u>\$ 27,977</u>	<u>35,929</u>	<u>63,906</u>
Cash Basis Fund Balances			
Unreserved:			
General Fund	\$ 7,977	-	7,977
Permanent fund	20,000	35,929	55,929
Total cash basis fund balances	<u>\$ 27,977</u>	<u>35,929</u>	<u>63,906</u>

See accompanying independent auditor's report.

City of New Sharon, Iowa
Schedule of Indebtedness
Year ended June 30, 2010

Obligation	Date of Issue	Interest Rate	Amount Originally Issued	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
Revenue bonds:									
Sewer	9/28/2001	4.30%	\$ 388,000	\$ 266,000	-	17,000	249,000	11,438	892
Water	9/23/2009	3.00%	272,027	-	272,027	-	272,027	5,674	691
				\$ 266,000	272,027	17,000	521,027	17,112	1,583

See accompanying independent auditor's report.

Schedule 3

City of New Sharon, Iowa
Bond Maturities
Year ended June 30, 2010

Revenue Bonds				
Sewer				
Issued 9-28-2001				
Year	Interest		Principal	Interest
Ending	Rates			
June 30,				
2011	4.30%	\$	18,000	10,707
2012	4.30%		19,000	9,933
2013	4.30%		20,000	9,116
2014	4.30%		21,000	8,256
2015	4.30%		22,000	7,353
2016	4.30%		22,000	6,407
2017	4.30%		23,000	5,461
2018	4.30%		24,000	4,472
2019	4.30%		25,000	3,440
2020	4.30%		27,000	2,365
2021	4.30%		28,000	1,204
		\$	249,000	\$ 68,714

Water SRF Loan				
Issued 9-23-2009				
Year	Interest		Principal	Interest
Ending	Rates			
June 30,				
2011	3.00%	\$	22,000	8,271
2012	3.00%		22,000	7,625
2013	3.00%		23,000	6,938
2014	3.00%		24,000	6,241
2015	3.00%		25,000	5,514
2016	3.00%		26,000	4,770
2017	3.00%		26,000	3,969
2018	3.00%		27,000	3,181
2019	3.00%		28,000	2,364
2020	3.00%		29,000	1,520
2021	3.00%		20,027	637
		\$	272,027	\$ 51,030

See accompanying independent auditor's report.

City of New Sharon, Iowa



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Van Maanen, Sietstra & Meyer, PC

CERTIFIED PUBLIC ACCOUNTANTS

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
City of New Sharon
New Sharon, Iowa

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 New Sharon as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated November 10, 2010. 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. 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 New Sharon's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the City of New Sharon's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of New Sharon'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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, we identified a deficiency in internal control over financial reporting we consider to be a material weakness.

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 a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City of New Sharon's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings as item (A) to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of New Sharon's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of non-compliance or other matters which are described in 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 statement 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 New Sharon's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the City's responses, we did not audit the City of New Sharon'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 New Sharon and other parties to whom the City may report and is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of New Sharon 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.

Van Maanen, Sietstra & Meyer, PC

Van Maanen, Sietstra & Meyer, PC
Certified Public Accountants

November 10, 2010

Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCY:

- (A) 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 segregation of duties is difficult with a limited number of office employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances. The City should segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

Response - We will consider this.

Conclusion - Response acknowledged.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

Other Findings Related to Statutory Reporting:

- (1) Certified Budget - Disbursements during the year ended June 30, 2010 exceeded the budget in the culture and recreation, general government and business type functions. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered under an annual or continuing appropriation.

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

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

Conclusion - Response accepted.

- (2) Questionable Disbursements - No disbursements were noted that we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

- (3) Travel Expense - No disbursements of City of New Sharon money for travel expenses of spouses of City officials or employees were noted.

- (4) Business Transactions

Business transactions between the City and City officials or employees for the year ended June 30, 2010 are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Gary Strobel, Street Supt. Strobel Tiling	Backhoe Work, repairs	\$950
Sherrill's Backhoe Service Owned by Gary Strobel's wife	Backhoe Work, repairs	\$1,315

In accordance with Chapter 362.5(10) of the Code of Iowa, the transactions with the City employee may represent a conflict of interest since the total transactions with the individual was more than \$1,500 during the fiscal year.

Recommendation – The City should consult legal counsel to determine the disposition of this matter

Response – The City will consider your recommendation.

Conclusion – Response accepted.

- (5) Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that coverage is adequate for current operations.
- (6) Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.
- (7) Deposits and Investments - No instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.
- (8) Revenue Bonds and Notes - The City of New Sharon has established proper accounts as required by the City revenue note resolution.