

CITY OF GRAETTINGER, IOWA

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

YEAR ENDED JUNE 30, 2010

City of Graettinger, Iowa

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City of Graettinger, Iowa

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January 2010)		
Kevin Hanson	Mayor	Jan 2008
Ken Smith	Mayor Pro Tem	Jan 2010
Daniel Skattebo	Council Member	Jan 2008
LeAnn Dietrich	Council Member	Jan 2008
Wayne Anderson	Council Member	Jan 2010
Mike Flaherty	Council Member	Jan 2010
Sandra Henderson	Clerk/Treasurer	Indefinite
John D. Brown	Attorney	Indefinite
(After January 2010)		
Kevin Hanson	Mayor	Jan 2012
Ken Smith	Mayor Pro Tem	Jan 2014
Daniel Skattebo	Council Member	Jan 2012
Chris McGrauth	Council Member	Jan 2012
Wayne Anderson	Council Member	Jan 2014
Mike Flaherty	Council Member	Jan 2014
Sandra Henderson	Clerk/Treasurer	Indefinite
Kevin Sanders	Attorney	Indefinite

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 Graettinger, Iowa, as of and for the year ended June 30, 2010, which collectively comprise the basic financial statements of the City's primary government as listed in the table of contents. These financial statements are the responsibility of the City of Graettinger'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 that our audit provides a reasonable basis for our opinions.

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

The financial statements do not include financial data for the City's legally separate component unit, the Graettinger Municipal Light plant. Accounting principles generally accepted in the United States of America require the financial data for this component unit to be reported with the financial data of the City's primary government unless the City also issues financial statements for the financial reporting entity that include the financial data for its component units. The City has not issued such reporting entity financial statements. Because of this departure from accounting principles generally accepted in the United States of America, the receipts, disbursements and net assets of the business type activities would have increased by \$1,076,859, \$968,478 and \$2,752,450.

In our opinion, because of the omission of the blended component unit as discussed above, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the cash basis financial position of the business type activities.

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, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, each major fund and the aggregate remaining fund information for the primary government of the City of Graettinger 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 Graettinger's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or 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 4 through 12 and 27 through 29 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Graettinger's primary government's basic financial statements. Other supplementary information included in Schedules 1 through 4 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Cornwell, Frideres, Maher & Associates, P.L.C.
Certified Public Accountants

November 10, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the City of Graettinger's Annual Financial Report presents the Management's Discussion and Analysis of the City's financial activities during the fiscal year ended June 30, 2010.

FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental funds were \$562,110 and receipts of the proprietary funds were \$735,454. Property taxes stayed about the same at \$188,770 at \$10.78 per thousand evaluations.
- Disbursements of the City's governmental activities were approximately \$572,022 and the proprietary funds were \$645,958.
- The city's total cash basis net assets increased \$79,583 from June 30, 2009.
- Total debt decreased by approximately \$93,500 during the 2009–2010 fiscal year. Of this amount, governmental activities retired \$56,500 of debt; business type activities retired \$23,000 of debt and TIF payment of \$14,000.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements as well as other requirements as follows:

- ***Management's Discussion and Analysis*** – introduces the basic financial statements and provides an analytical overview of the City's financial activities.
- ***Government-wide Financial Statements*** – consist of a Statement of Net Assets and a Statement of Activities. This statement provides information about the activities of the City as a whole and represents an overall view of the City's finances.
- ***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 statements by providing information about the most significant funds.
- ***Notes to Financial Statements*** – provide additional information that is essential to a full understanding of the data provided in the basic financial statements.
- ***Required Supplementary Information*** – further explains and supports the financial statements by showing budgetary comparisons.
- ***Other Supplementary Information*** – provides detailed information about the non-major governmental funds.

BASIS OF ACCOUNTING

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statement 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 Statements

One of the most important questions asked about the City's finances is "Is the City as a whole better or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the City as whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting.

The statements report the City's net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Net Assets and the Statement of Activities are divided into two activities:

- ***Governmental Activities*** –includes 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*** includes the Waterworks, the Sanitary Sewer System, and the Gas Utility. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

- ***Governmental Funds*** account for most of the City's basic services. The accounts focus on how money flows into and out of those funds and the balances at year-end that is available for spending. The governmental funds include 1) General Fund; 2) Special Revenue Funds, such as Road Use, Trust and Agency and TIF; 3) Debt Service Fund; and 4) Capital Projects Fund. The Governmental Fund Financial Statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

- The financial statements required for governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.
- ***Proprietary Funds*** account for the City's Enterprise Funds. These funds report services for which the City charges customers for the service it provides. The Enterprise Funds include the Water, Sewer, and Gas, which are all considered major funds of the City. The financial statements for proprietary funds are a statement of cash receipts, disbursements and charges in cash balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The following analysis shows the City's total net assets for government activities as of June 30, 2010.

Cash Basis net Assets of Government Activities

	<u>Year ended June 30</u>
Receipts and transfers:	2010
Property tax	188,770
Tax increment financing collections	19,108
Other City Tax	138,729
Licenses and permits	2,385
Use of money and property	4,250
Intergovernmental	111,432
Charges for service	84,286
Miscellaneous	13,150
Total receipts	<u>562,110</u>
Disbursements:	
Operating:	
Public Safety	48,365
Public works	216,629
Culture and recreation	165,428
Community and economic development	24,180
General Government	50,086
Capital Projects	6,549
Debt Service	60,785
Total Disbursements	<u>572,022</u>
Excess (deficiency) of receipts over (under) disbursements	(9,912)
Other financing sources (uses):	
Sale of capital assets	
Operating transfers in	20,000
Operating transfers out	
Total other financing sources (uses)	<u>20,100</u>
Net change in cash balances	10,088
Cash balances beginning of year	<u>241,701</u>
Cash balances end of year	<u>251,789</u>
Cash Basis Fund balances	
Reserved:	
Debt Services	
Unreserved:	
General fund	185,596
Special revenue funds	69,193
Capital Project funds	0
Total cash basis fund balances	<u>251,789</u>

The city's total receipts for governmental activities was \$562,110, which included \$188,770 property taxes, \$19,108 tax increment financing, \$111,432 intergovernmental which includes road use money and \$84,058 for charges of services of solid waste collection and fees collected for the Graettinger Municipal Swimming Pool.

The city's total disbursement were \$572,022 which includes Public Safety of \$48,365 for police protection, Public Works of \$216,629 for street work, garbage service and street lighting, Culture and recreation of \$165,428 for library, parks pool and cemetery expense, Community and economic development of \$24,180 for economic development for housing incentives and payment to Economic development for improvements in the development park, General Government of \$60,785 for administration, city buildings and tort liability, and Capital Projects of \$6,549 for funds received from Palo Alto County Gaming Development. The Debt Service fund was \$60,785 for bond payment for the Municipal Swimming pool bond and payment for TIF bond for the \$125,000 loan for the Energy Panels Structures.

The following analysis shows the City's total net assets for business type activities as of June 30, 2010.

Cash basis net assets of Business Type Activities

	Sewer	Gas	Water	Non major	Total
Operating Receipts:					
Charges for Service	\$92,881	551,979	75,907		720,767
Miscellaneous			325	5,110	5,435
Total Operating Receipts	92,881	551,979	76,232	5,110	726,203
Operating disbursements:					
Business type activities	50,353	474,315	75,313	2,596	602,577
Total operating disbursements	50,353	474,315	75,313	2,596	602,577
Excess (deficiency) of receipts over (under) disbursements	42,528	77,664	919	2,514	123,625
Non-operating receipts (disbursements)					
Interest on investments	2,092	5,465	1,545	149	9,251
Capital Projects	(5,647)				(5,647)
Debt Service	(37,734)				(37,734)
Total non-operating receipts (disbursements)	(41,289)	6,828	3,618	149	(34,130)
Excess (deficiency) of receipts over (under) disbursements	1,239	83,129	2,464	2,663	89,495
Operating transfers out		(20,000)			(20,000)
Net change in cash balances	1,239	63,129	2,464	2,663	69,495
Cash balances beginning of year	141,069	419,304	10*,407		681,631
Cash balances end of year	\$142,308	482,433	111,871		751,126
Cash Bases Fund Balances					
Reserved					
Debt Service	41,654				41,654
Improvements		100,000			100,000
Meter Deposits				14,514	14,514
Unreserved	100,654	382,433	111,871		594,958
Total cash basis fund balances	\$142,308	482,433	111,871	14,514	751,126

Total business type activities receipts for fiscal year 2009–2010 was \$735,454 and total operating disbursements were \$645,958 increasing cash balances in the funds by \$89,495 before operating transfers out.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

At June 30, 2010, the City of Graettinger's governmental funds reported a total fund balance of \$251,789. The following are main reasons for the changes in fund balances of the major governmental funds from the prior year.

- **General Fund** – The General Fund (operating fund for the City of Graettinger), ending FY 2010 with a \$251,789 balance. An increase is due to an increase in revenues and decrease in overall spending within each program in the general fund.
- **Road Use Fund** – The Road Use Fund accounts for revenue received from the State of Iowa for street purposes. The Road Use Fund ended FY10 with a \$42870 balance. This fund balance increased over last fiscal year, due to saving funds to do street work in fiscal 2010–11.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- **Water Fund** – The Water Fund, which accounts for the operation of the City's water system, ended FY10 with an \$111,871.
- **Sewer Fund** – The Sewer Fund, which accounts for the operation of the City's wastewater treatment and sanitary sewer system, ended FY10 with a \$100,654 balance.
- **Sewer Sinking Fund**– The Sewer Sinking Fund, which accounts for the operation of the payment for revenue bonds for the Sanitary Sewer System has a balance of \$11,654.
- **Sewer Reserve Fund**– The Sewer Reserve Fund, which accounts for reserves for payment of revenue bonds for the Sanitary Sewer System has a required balance of \$30,000.
- **Gas Fund** – The Gas Fund, which accounts for the operation of the municipal gas utility, ended FY10 with a \$382,433 balance. The gas utility also has a Gas improvement fund balance of \$100,000 to be used for improvements to the system.

BUDGETARY HIGHLIGHTS

During the fiscal year ending June 30, 2010, the City amended its budget. The amendment was approved in March 2010. The amendment provided for additional disbursements for projects for the Palo Alto County Gaming Development for grants received in February 2010.

DEBT ADMINISTRATION

Long-Term Debt

At June 30, 2010, the City of Graettinger has approximately \$606,500 in bonds and long-term debt.

Outstanding Debt at June 30, 2010

General Obligation Bonds	
Pool and grader- April 15, 2006	\$57,500
Revenue Bonds:	
Sewer Revenue July 5, 1995	125,000
Sewer Revenue January 10, 2005	325,000
Urban renewal tax increment (TIF)	
EPS June 23, 2005	99,000

- The City had \$57,500 in general obligation bonds/notes outstanding as of June 30, 2010. The general obligation bonds were issued to pay for the new swimming pool and grader.
- The City had \$450,000 in total revenue bonds/notes outstanding as of June 30, 2010. The revenue bonds were issued to pay for the construction of the sewer lagoon and sanitary sewer lining projects.
- The City had \$99,000 in total tax increment financing loans outstanding as of June 30, 2010. The TIF bonds were used for expansion of Energy Panel Structures.
- The constitution of the State of Iowa Limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the city's corporate limits. The City's outstanding general obligation debt of \$57,500 is significantly below its constitutional debt limit of \$1,534,900.

ECONOMIC FACTORS

The City of Graettinger's elected and appointed officials and department heads considered many factors when setting the FY10 budget, tax rates and fees that will be charged for various City services and activities. There were no major changes to the expected revenues.

The tax levy rates per \$1,000 of taxable valuation for FY10 are provided below:

FY10 Levy Rates	
General Levy Rate	\$ 7.49250
Insurance	.69977
Employee Benefits	2.1619
Support local Emg Mgmt Com	.16499
Emergency	.27000
Total	\$ 10.78916

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to present citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and operating activities. If you have any questions or require additional information please contact City Clerk, City of Graettinger, 106 S. Cedar Avenue, PO Box 418, Graettinger, Iowa 51342 or call (712) 859-3359.

Basic Financial Statements

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

	<u>Disbursements</u>	<u>Program Receipts</u>		
		<u>Charges for Service</u>	<u>Operating Grants, Contributions, and Restricted Interest</u>	<u>Capital Grants, Contributions, and Restricted Interest</u>
Functions/Programs:				
Governmental activities:				
Public safety	\$ 48,365	-	-	-
Public works	216,629	65,720	83,486	-
Culture and recreation	165,428	13,616	14,591	-
Community and economic development	24,180	-	36,981	-
General government	50,086	3,585	-	-
Debt service	60,785	-	-	-
Capital projects	6,549	-	-	-
Total governmental activities	<u>572,022</u>	<u>82,921</u>	<u>135,058</u>	<u>-</u>
Business type activities:				
Water	75,313	76,232	-	-
Sewer	93,734	92,881	-	-
Gas	474,315	551,979	-	-
Nonmajor	2,596	-	-	-
Total business type activities	<u>645,958</u>	<u>721,092</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 1,217,980</u>	<u>804,013</u>	<u>135,058</u>	<u>-</u>

General Receipts:

- Property and other city tax levied for:
 - General purposes
- Tax increment financing
- Local option sales tax
- Grants and contributions not restricted to specific purpose
- Unrestricted interest on investments
- Miscellaneous
- Transfers
- Total general receipts and transfers
- Change in cash basis net assets
- Cash basis net assets beginning of year
- Cash basis net assets end of year

Cash Basis Net Assets

- Restricted:
 - Expendable:
 - Streets
 - Urban renewal purposes
 - Debt service
 - Improvements
 - Other purposes
- Unrestricted
- Total cash basis net assets**

See notes to financial statements.

Exhibit A

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

Governmental Activities	Business Type Activities	Total
(48,365)	-	(48,365)
(67,423)	-	(67,423)
(137,221)	-	(137,221)
12,801	-	12,801
(46,501)	-	(46,501)
(60,785)	-	(60,785)
(6,549)	-	(6,549)
<u>(354,043)</u>	<u>-</u>	<u>(354,043)</u>
-	919	919
-	(853)	(853)
-	77,664	77,664
<u>-</u>	<u>(2,596)</u>	<u>(2,596)</u>
<u>-</u>	<u>75,134</u>	<u>75,134</u>
<u>(354,043)</u>	<u>75,134</u>	<u>(278,909)</u>
189,999	-	189,999
19,109	-	19,109
63,947	-	63,947
55,614	-	55,614
3,793	9,251	13,044
11,669	5,110	16,779
20,000	(20,000)	-
<u>364,131</u>	<u>(5,639)</u>	<u>358,492</u>
10,088	69,495	79,583
241,701	681,631	923,332
<u>\$ 251,789</u>	<u>751,126</u>	<u>1,002,915</u>
\$ 42,870	-	42,870
2,744	-	2,744
-	41,654	41,654
-	100,000	100,000
26,323	14,514	40,837
179,852	594,958	774,810
<u>\$ 251,789</u>	<u>751,126</u>	<u>1,002,915</u>

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

As of and for the year ended June 30, 2010

	<u>General</u>	<u>Special Revenue Road Use Tax</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
Receipts:				
Property tax	\$ 146,117	-	42,653	188,770
Tax increment financing	-	-	19,108	19,108
Other city tax	74,751	-	63,978	138,729
Licenses and permits	2,385	-	-	2,385
Use of money and property	3,558	-	692	4,250
Intergovernmental	27,946	83,486	-	111,432
Charges for service	84,058	-	228	84,286
Miscellaneous	11,764	-	1,386	13,150
Total receipts	<u>350,579</u>	<u>83,486</u>	<u>128,045</u>	<u>562,110</u>
Disbursements:				
Operating:				
Public safety	48,365	-	-	48,365
Public works	143,020	53,715	19,894	216,629
Culture and recreation	146,092	-	19,336	165,428
Community and economic development	2,700	-	21,480	24,180
General government	41,917	-	8,169	50,086
Debt service	-	-	60,785	60,785
Capital projects	6,549	-	-	6,549
Total disbursements	<u>388,643</u>	<u>53,715</u>	<u>129,664</u>	<u>572,022</u>
Excess (deficiency) of receipts over (under) disbursements	<u>(38,064)</u>	<u>29,771</u>	<u>(1,619)</u>	<u>(9,912)</u>
Other financing sources (uses):				
Operating transfers in	26,923	-	60,785	87,708
Operating transfers out	-	-	(67,708)	(67,708)
Total other financing sources (uses)	<u>26,923</u>	<u>-</u>	<u>(6,923)</u>	<u>20,000</u>
Net change in cash balances	(11,141)	29,771	(8,542)	10,088
Cash balances beginning of year	<u>193,737</u>	<u>13,099</u>	<u>34,865</u>	<u>241,701</u>
Cash balances end of year	<u>\$ 182,596</u>	<u>42,870</u>	<u>26,323</u>	<u>251,789</u>
Cash Basis Fund Balances				
Unreserved:				
General fund	\$ 182,596	-	-	182,596
Special revenue funds	-	42,870	26,323	69,193
Capital project funds	-	-	-	-
Total cash basis fund balances	<u>\$ 182,596</u>	<u>42,870</u>	<u>26,323</u>	<u>251,789</u>

See notes to financial statements.

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

As of and for the year ended June 30, 2010

	Enterprise Funds				
	<u>Water</u>	<u>Sewer</u>	<u>Gas</u>	<u>Nonmajor</u>	<u>Total</u>
Operating receipts:					
Charges for service	\$ 75,907	\$ 92,881	551,979	-	720,767
Miscellaneous	<u>325</u>	<u>-</u>	<u>-</u>	<u>5,110</u>	<u>5,435</u>
Total operating receipts	<u>76,232</u>	<u>92,881</u>	<u>551,979</u>	<u>5,111</u>	<u>726,203</u>
Operating disbursements:					
Business type activities	<u>75,313</u>	<u>50,353</u>	<u>474,315</u>	<u>2,596</u>	<u>602,577</u>
Total operating disbursements	<u>75,313</u>	<u>50,353</u>	<u>474,315</u>	<u>2,596</u>	<u>602,577</u>
Excess (deficiency) of operating receipts over (under) operating disbursements	<u>919</u>	<u>42,528</u>	<u>77,664</u>	<u>2,514</u>	<u>123,625</u>
Non-operating receipts (disbursements):					
Interest on investments	1,545	2,092	5,465	149	9,251
Capital projects	-	(5,647)	-	-	(5,647)
Debt service	<u>-</u>	<u>(37,734)</u>	<u>-</u>	<u>-</u>	<u>(37,734)</u>
Total non-operating receipts (disbursements)	<u>1,545</u>	<u>(41,289)</u>	<u>5,465</u>	<u>149</u>	<u>(34,130)</u>
Excess (deficiency) of receipts over (under) disbursements	2,464	1,239	83,129	2,663	89,495
Operating transfers out	<u>-</u>	<u>-</u>	<u>(20,000)</u>	<u>-</u>	<u>(20,000)</u>
Net change in cash balances	2,464	1,239	63,129	2,663	69,495
Cash balances beginning of year	<u>109,407</u>	<u>141,069</u>	<u>419,304</u>	<u>11,851</u>	<u>681,631</u>
Cash balances end of year	<u>\$ 111,871</u>	<u>\$ 142,308</u>	<u>482,433</u>	<u>14,514</u>	<u>751,126</u>
Cash Basis Fund Balances					
Reserved:					
Debt Service	-	41,654	-	-	41,654
Improvements	-	-	100,000	-	100,000
Meter deposits	-	-	-	14,514	14,514
Unreserved	<u>111,871</u>	<u>100,654</u>	<u>382,433</u>	<u>-</u>	<u>594,958</u>
Total cash basis fund balances	<u>\$ 111,871</u>	<u>\$ 142,308</u>	<u>482,433</u>	<u>14,514</u>	<u>751,126</u>

See notes to financial statements.

City of Graettinger, Iowa

Notes to Financial Statements

June 30, 2010

(1) Summary of Significant Accounting Policies

The City of Graettinger is a political subdivision of the State of Iowa located in Palo Alto County. It was first incorporated in 1893 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, culture and recreation, community and economic development, and general government services. The City also provides water, sewer, and gas utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Graettinger has included only the primary government of the City of Graettinger, which consists of all funds, organizations, institutions, agencies, departments, and offices that comprise the City's legal entity. The financial statements do not include financial data for the City's legally separate component units, which U.S. generally accepted accounting principles require to be reported with the financial data of the City's primary government.

Jointly Governed Organizations

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

City of Graettinger, Iowa

Notes to Financial Statements

June 30, 2010

B. Basis of Presentation

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

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

Nonexpendable restricted net assets are subject to externally imposed stipulations which require them to be maintained permanently by the City.

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 categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

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

City of Graettinger, Iowa

Notes to Financial Statements

June 30, 2010

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 other 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 financed by road use tax revenues.

The City reports the following major proprietary funds:

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

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

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

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.

City of Graettinger, Iowa

Notes to Financial Statements

June 30, 2010

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

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

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2010, disbursements exceeded the amounts budgeted in the community and economic development activities function.

(2) Cash

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

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

The City has no investments at June 30, 2010. During the year, the City invested excess funds in money market savings and certificates of deposit.

City of Graettinger, Iowa

Notes to Financial Statements

June 30, 2010

(3) Bonds and Notes Payable

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

Year Ending June 30,	General Obligation Bonds		Urban Renewal Tax Increment Financing Revenue Bonds		Revenue Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2011	\$ 31,500	2,444	15,000	4,455	24,000	13,125	70,500	20,024
2012	26,000	1,065	16,000	3,780	25,000	12,360	67,000	17,245
2013	-	-	16,000	3,060	26,000	11,565	42,000	14,625
2014	-	-	17,000	2,340	27,000	10,740	44,000	13,080
2015	-	-	17,000	1,575	28,000	10,020	45,000	11,595
2016-2020	-	-	18,000	810	156,000	36,360	174,000	37,170
2021-2025	-	-	-	-	164,000	12,270	164,000	12,270
Total	\$ 57,500	3,549	99,000	16,020	450,000	106,440	606,500	126,009

Urban Renewal Tax Increment Financing Revenue Bonds

The urban renewal tax increment financing (TIF) revenue bonds were issued for the purpose of defraying a portion of the costs of carrying out an urban renewal projects within the urban renewal district. The bonds are payable solely from TIF receipts generated by increased property values in the City's TIF district and credited to the Special Revenue, Urban Renewal Tax Increment Fund in accordance with Chapter 403.19 of the Code of Iowa. TIF receipts are generally projected to produce 100 percent of the debt service requirement over the life of the bonds. The proceeds of the urban renewal tax increment financing revenue bonds shall be expended only for purposes which are consistent with the plans of the City's urban renewal area. The bonds are not a general obligation of the City. However, the debt is subject to the constitutional debt limitation of the City. Total principal and interest remaining on the bonds is \$115,020, payable through June 2016. For the current year, interest paid and total TIF receipts were \$5,029 and \$19,209, respectively.

City of Graettinger, Iowa

Notes to Financial Statements

June 30, 2010

Revenue Bonds

The City has pledge future sewer customer receipts, net of specified operating disbursements to repay \$369,000 and \$330,000 of sewer revenue bonds issued in July 1995 and January 2005, respectively. Proceeds from the notes provided financing for the construction of improvements to the sewer system. Annual principal and interest payments on the notes are expected to require less than 90 percent of net receipts. The notes are payable solely from the sewer customer net receipts and are payable through 2025. Total principal and interest remaining on the bonds is \$556,440. For the current year, principal and interest paid and total customer net receipts were \$50,353 and \$37,734, respectively.

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 net revenues of the municipal sanitary sewer system of the City, a sufficient portion of which has been ordered set aside and pledged for that purpose.
- (b) Monthly transfers shall be made to the Sewer Revenue Sinking Fund in the amount of one-sixth of the semi-annual interest payment and one-twelfth of the next annual principal payment for the purpose of making the bond principal and interest payments when due.
- (c) Additional monthly transfers from the net revenues of the utility, after making the required payments into the sinking fund, are to be made to the Sewer Revenue Bond Reserve Fund of an amount equal to the amount required to the sinking fund until specific minimum balances have been accumulated. This account is to be used solely for the purpose of paying principal or interest on the bond for which insufficient money is available in the sinking fund.
- (d) All net revenues remaining, after first making the required payments into the sinking fund and the reserve fund and after the reserve fund contains the required balance, are to be transferred to the Sewer Revenue Bond Surplus Fund. As long as both the sinking fund and the reserve fund have the full amounts required to be deposited therein, any balance in the surplus fund may be made available to the City as the Council, may from time to time direct.

City of Graettinger, Iowa

Notes to Financial Statements

June 30, 2010

- (e) The waste water treatment system shall maintain net revenues at a level not less than 110% of the amount of principle and interest on the revenue bonds.

(4) Pension and Retirement Benefits

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

Most regular plan members are required to contribute 4.30% of their annual covered salary and the City is required to contribute 6.65% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contribution to IPERS for the year ended June 30, 2010 was \$11,143 equal to the required contributions for the year.

(5) Other Post Employment Benefits (OPEB)

Plan Description - The City operates a single-employer benefit plan which provides medical/prescription drug benefits for retirees and their spouses. There are 5 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 \$515 for single coverage and \$1,294 for family coverage. The same monthly premiums apply to retirees. For the year ended June 30, 2010, the City contributed \$45,578 and plan members eligible for benefits contributed \$1,969 to the plan.

City of Graettinger, Iowa

Notes to Financial Statements

June 30, 2010

(6) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation leave and compensatory time 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 leave and compensatory time payable to employees at June 30, 2010, primarily relating to the General Fund, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$ 7,400
Compensatory time	<u>600</u>
	<u>\$ 8,000</u>

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

(7) Interfund Transfers

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

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Special Revenue:	
	Emergency	\$ 4,748
	Library Memorial	2,175
	Enterprise:	
	Gas	<u>20,000</u>
		26,923
Debt Service:	Special Revenue:	
	Local Option Sales Tax	<u>60,785</u>
Total		<u>\$ 87,708</u>

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

City of Graettinger, Iowa

Notes to Financial Statements

June 30, 2010

(8) Related Party Transactions

The City had business transactions between the City and City officials totaling 41,714 during the year ended June 30, 2010.

(9) Commitments

The City entered an agreement with the Graettinger Economic Development Council (GEDC) to cooperatively undertake activities for the promotion of industrial and commercial enterprises and the provision of housing for families of low and moderate income in the Urban Renewal Area. The City agrees to provide tax increment payments in a total amount not to exceed \$125,000 to the GEDC. The City agrees to make 5 annual economic development tax increment payments in the amount of \$25,000 each to the GEDC during the term of the agreement, pursuant to Chapters 15A and 403 of the Code of Iowa. The payments will be made on June 1 of each fiscal year beginning on June 1, 2011 and continuing to and including June 1, 2015. The payments shall not constitute general obligations of the City, but shall be made solely and only from incremental property tax revenues, as provided for in Section 403.19 of the Code of Iowa.

The City has also committed to a street improvement project for which bids were approved subsequent to June 30, 2010. The total amount of the project approved was \$95,113, which will be paid with road use revenues.

(10) Risk Management

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

City of Graettinger, Iowa
Notes to Financial Statements

June 30, 2010

(11) Subsequent Events

The City has evaluated subsequent events through November 10, 2010, the date the financial statements were available to be issued.

Required Supplementary Information

City of Graettinger, 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 <u>Actual</u>	Proprietary Funds <u>Actual</u>
Receipts:		
Property tax	\$ 188,770	-
Tax increment financing collections	19,108	-
Other city tax	138,729	-
Licenses and permits	2,385	-
Use of money and property	4,250	9,251
Intergovernmental	111,432	-
Charges for service	84,286	720,767
Miscellaneous	<u>13,150</u>	<u>5,435</u>
Total receipts	<u>562,110</u>	<u>735,453</u>
Disbursements:		
Public safety	48,365	-
Public works	216,629	-
Culture and recreation	165,428	-
Community and economic development	24,180	-
General government	50,086	-
Debt service	60,785	-
Capital projects	6,549	-
Business type activities	<u>-</u>	<u>640,311</u>
Total disbursements	<u>572,022</u>	<u>640,311</u>
Excess (deficiency) of receipts over (under) disbursements	(9,912)	95,142
Other financing sources, net	<u>20,000</u>	<u>(20,000)</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	10,088	75,142
Balances beginning of year	<u>241,701</u>	<u>681,631</u>
Balances end of year	<u>\$ 251,789</u>	<u>756,773</u>

See accompanying independent auditor's report.

<u>Total</u>	<u>Budgeted Amounts</u>		<u>Final to Total Variance</u>
	<u>Original</u>	<u>Final</u>	
188,770	188,545	188,545	225
19,108	19,085	19,085	23
138,729	104,562	137,341	1,388
2,385	3,200	3,200	(815)
13,501	19,995	19,995	(6,494)
111,432	110,505	110,505	927
805,053	980,870	980,870	(175,817)
18,585	11,750	11,750	6,835
<u>1,297,563</u>	<u>1,438,512</u>	<u>1,471,291</u>	<u>(173,728)</u>
48,365	48,775	48,775	410
216,629	279,147	279,147	62,518
165,428	175,126	194,126	28,698
24,180	21,784	21,784	(2,396)
50,086	52,483	56,589	6,503
60,785	60,923	60,923	138
6,549	-	9,673	3,124
640,311	901,327	901,327	261,016
<u>1,212,333</u>	<u>1,539,565</u>	<u>1,572,344</u>	<u>360,011</u>
85,230	(101,053)	(101,053)	186,283
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
85,230	(101,053)	(101,053)	186,283
<u>923,332</u>	<u>887,646</u>	<u>1,013,291</u>	<u>(89,959)</u>
<u><u>1,008,562</u></u>	<u><u>786,593</u></u>	<u><u>912,238</u></u>	<u><u>96,324</u></u>

City of Graettinger, Iowa

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2010

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

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds. 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 and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Funds, the Permanent Fund and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$32,779. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2010, disbursements exceeded the amounts budgeted in the community and economic development activities function.

Other Supplementary Information

City of Graettinger, Iowa

Schedule of Cash Receipts, Disbursements
and Changes in Cash Balances
Nonmajor Governmental Funds

As of and for the year ended June 30, 2010

	Special Revenue			
	Employee Benefits	Emergency	Local Option Sales Tax	TIF
Receipts:				
Property tax	\$ 37,936	4,717	-	-
Tax increment financing	-	-	-	19,108
Other city tax	-	31	63,947	-
Use of money and property	246	-	-	101
Charges for service	-	-	228	-
Miscellaneous	-	-	-	-
Total receipts	<u>38,182</u>	<u>4,748</u>	<u>64,175</u>	<u>19,209</u>
Disbursements:				
Operating:				
Public works	19,894	-	-	-
Culture and recreation	13,496	-	-	-
Community and economic development	-	-	-	21,480
General government	8,169	-	-	-
Debt service	-	-	-	-
Total disbursements	<u>41,559</u>	<u>-</u>	<u>-</u>	<u>21,480</u>
Excess (deficiency) of receipts over (under) disbursements	<u>(3,377)</u>	<u>4,748</u>	<u>64,175</u>	<u>(2,271)</u>
Other financing sources (uses):				
Operating transfers in	-	-	-	-
Operating transfers (out)	-	(4,748)	(60,785)	-
Total other financing sources (uses)	<u>-</u>	<u>(4,748)</u>	<u>(60,785)</u>	<u>-</u>
Net change in cash balances	(3,377)	-	3,390	(2,271)
Cash balances beginning of year	<u>11,414</u>	<u>-</u>	<u>3,500</u>	<u>5,015</u>
Cash balances end of year	<u>\$ 8,037</u>	<u>-</u>	<u>6,890</u>	<u>2,744</u>
Cash Basis Fund Balances				
Unreserved:				
Special revenue funds	\$ 8,037	-	6,890	2,744
Total cash basis fund balances	<u>\$ 8,037</u>	<u>-</u>	<u>6,890</u>	<u>2,744</u>

See accompanying independent auditor's report.

Schedule 1

<u>Library Memorial</u>	<u>Debt Service</u>	<u>Total</u>
-	-	42,653
-	-	19,108
-	-	63,978
345	-	692
-	-	228
<u>1,386</u>	-	<u>1,386</u>
<u>1,731</u>	-	<u>128,045</u>
-	-	19,894
5,840	-	19,336
-	-	21,480
-	-	8,169
-	<u>60,785</u>	<u>60,785</u>
<u>5,840</u>	<u>60,785</u>	<u>129,664</u>
<u>(4,109)</u>	<u>(60,785)</u>	<u>(1,619)</u>
-	60,785	60,785
<u>(2,175)</u>	-	<u>(67,708)</u>
<u>(2,175)</u>	<u>60,785</u>	<u>(6,923)</u>
(6,284)	-	(8,542)
<u>14,936</u>	-	<u>34,865</u>
<u>8,652</u>	-	<u>26,323</u>
<u>8,652</u>	-	<u>26,323</u>
<u>8,652</u>	-	<u>26,323</u>

Schedule of Cash Receipts, Disbursements and Changes in Cash Balances
Nonmajor Proprietary Funds

As of and for the year ended June 30, 2010

	<u>Customer Deposit</u>
Operating receipts:	
Miscellaneous	\$ 5,110
Total operating receipts	<u>5,110</u>
Operating disbursements:	
Business type activities	<u>2,596</u>
Total operating disbursements	<u>2,596</u>
Excess of operating receipts over operating disbursements	<u>2,514</u>
Non-operating receipts:	
Interest on investments	<u>149</u>
Total non-operating receipts	<u>149</u>
Excess of receipts over disbursements	2,663
Cash balances beginning of year	<u>11,851</u>
Cash balances end of year	<u><u>\$ 14,514</u></u>
Cash Basis Fund Balances	
Reserved:	
Meter deposits	<u>\$ 14,514</u>
Total cash basis fund balances	<u><u>\$ 14,514</u></u>

See accompanying independent auditor's report.

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

<u>Obligation</u>	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount Originally Issued</u>
General obligation notes:			
Pool and Grader	Apr 15, 2006	4.25 %	\$ 315,000
Revenue bonds:			
Sewer	Jul 5, 1995	3.00 %	\$ 369,000
Sewer	Jan 10, 2005	3.00	330,000
Total			
Urban renewal tax increment financing (TIF) revenue bonds	Jun 23, 2005	4.50 %	\$ 150,000
Total			

See accompanying independent auditor's report.

Schedule 3

<u>Balance Beginning of Year</u>	<u>Issued During Year</u>	<u>Redeemed During Year</u>	<u>Balance End of Year</u>	<u>Interest Paid</u>	<u>Interest Due and Unpaid</u>
<u>\$ 114,000</u>	<u>-</u>	<u>56,500</u>	<u>57,500</u>	<u>4,285</u>	<u>-</u>
147,000	-	22,000	125,000	4,080	-
<u>326,000</u>	<u>-</u>	<u>1,000</u>	<u>325,000</u>	<u>9,765</u>	<u>-</u>
<u>\$ 473,000</u>	<u>-</u>	<u>23,000</u>	<u>450,000</u>	<u>13,845</u>	<u>-</u>
113,000	-	14,000	99,000	5,029	-
<u>\$ 113,000</u>	<u>-</u>	<u>14,000</u>	<u>99,000</u>	<u>5,029</u>	<u>-</u>

Bond and Note Maturities

June 30, 2010

Year Ending June 30,	General Obligation Bonds	
	Pool and Grader	
	Issued April 15, 2005	
	Interest	
	<u>Rates</u>	<u>Amount</u>
2012	4.25 %	\$ 31,500
2013	4.25	<u>26,000</u>
Total		<u>\$ 57,500</u>

Year Ending June 30,	Urban Renewal Tax Increment Financing (TIF) Revenue Bonds	
	Issued May 1, 2001	
	Interest	
	<u>Rates</u>	<u>Amount</u>
2011	4.50 %	\$ 15,000
2012	4.50	16,000
2013	4.50	16,000
2014	4.50	17,000
2015	4.50	17,000
2016	4.50	<u>18,000</u>
Total		<u>\$ 99,000</u>

(continued)

Bond and Note Maturities

June 30, 2010

Year Ending <u>June 30,</u>	Revenue Bonds					
	Sewer			Sewer		
	Issued July 5, 1995			Issued Jan. 10, 2005		
	Interest		Interest			
	<u>Rates</u>	<u>Amount</u>	<u>Rates</u>	<u>Amount</u>	<u>Total</u>	
2011	3.00 %	\$ 23,000	3.00 %	\$ 1,000	24,000	
2012	3.00	24,000	3.00	1,000	25,000	
2013	3.00	25,000	3.00	1,000	26,000	
2014	3.00	26,000	3.00	1,000	27,000	
2015	3.00	27,000	3.00	1,000	28,000	
2016		-	3.00	31,000	31,000	
2017		-	3.00	31,000	31,000	
2018		-	3.00	31,000	31,000	
2019		-	3.00	31,000	31,000	
2020		-	3.00	32,000	32,000	
2021		-	3.00	32,000	32,000	
2022		-	3.00	33,000	33,000	
2023		-	3.00	34,000	34,000	
2024		-	3.00	34,000	34,000	
2025		-	3.00	31,000	31,000	
		<u>\$ 125,000</u>		<u>\$ 325,000</u>	<u>450,000</u>	

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

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 primary government of the City of Graettinger, Iowa, as of and for the year ended June 30, 2010, which collectively comprise the basic financial statements listed in the table of contents, and have issued our report thereon dated November 10, 2010. Our report expressed unqualified opinions on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. 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 Graettinger's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the City of Graettinger's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Graettinger'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 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 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 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 that a material misstatement of the City of Graettinger's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency in internal control described in Part I of the accompanying Schedule of Findings as item I-A-10 to be a material weakness.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Graettinger's financial statements are 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 that are described in Part II of the accompanying Schedule of Findings.

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

The City of Graettinger'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 Graettinger'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 Graettinger and other parties to whom the City of Graettinger may report including federal awarding agencies and pass-through entities 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 Graettinger 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.

Cornwell, Frideres, Maher & Associates, P.L.C.
Certified Public Accountants

November 10, 2010

City of Graettinger, Iowa

Schedule of Findings

Year ended June 30, 2010

Part I: Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

I-A-10 Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. 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 employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response and Corrective Action Planned – We will consider this.

Conclusion – Response acknowledged. 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.

I-B-10 Preparation of Financial Statements - Management is responsible for establishing and maintaining internal controls over financial reporting and procedures related to the fair presentation of the financial statements in accordance with the cash basis of accounting. The City of Graettinger does not have an internal control system designed to provide for the preparation of the financial statements, including the accompanying footnotes, as required by generally accepted accounting principles. The guidance in Statement of Auditing Standards No. 115, *Communicating Internal Control Related Matters Identified in an Audit*, requires us to communicate this matter with those charged with governance.

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

City of Graettinger, Iowa

Schedule of Findings

Year ended June 30, 2010

Recommendation – We realize that obtaining the expertise to prepare the financial statements, including all necessary disclosures, in accordance with the cash basis of accounting can be considered costly and ineffective. However, it is the responsibility of the City’s management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

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

Conclusion – Response accepted.

I-C-10 Credit Cards – The City has credit cards for use by various employees while on City business. The City has not adopted a formal policy to regulate the use of credit cards and to establish procedures for the proper accounting of credit card charges. Additionally, supporting documentation was not always available to support credit card charges.

Recommendation – The City should adopt a formal written policy regulating the use of City credit cards. The policy, at a minimum, should address who controls the credit cards, who is authorized to use credit cards and for what purposes, as well as the types of supporting documentation required to substantiate charges.

Response – Although we have not established a formal written policy detailing specifics on the use of City credit cards, we have unwritten guidelines. We will review procedures and guidelines and establish a written policy.

Conclusion – Response accepted.

City of Graettinger, Iowa

Schedule of Findings

Year ended June 30, 2010

Part II: Other Findings Related to Statutory Reporting:

II-A-10 Certified Budget – Disbursements during the year ended June 30, 2010 exceeded the amounts budgeted in the community and economic development activities function. 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 – The budget should have been amended in sufficient amounts 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 sufficient amounts in the future, if applicable.

Conclusion – Response accepted.

II-B-10 Questionable Disbursement – We noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979.

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

II-D-10 Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Description</u>	<u>Amount</u>
Kevin Hanson, Mayor Kevin’s Kquality Construction	Repairs	\$ 1,035
Wayne Anderson, Council Member Anderson Construction	Construction, per bid	\$ 40,679

City of Graettinger, Iowa

Schedule of Findings

Year ended June 30, 2010

In accordance with Chapter 362.5(10) of the Code of Iowa, the transaction with the Mayor does not appear to represent a conflict of interest since the total transaction was less than \$2,500 during the fiscal year. The transaction with the Council Member does not appear to represent a conflict of interest since it was entered into through competitive bidding in accordance with Chapter 362.5(4) of the Code of Iowa.

- 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.

Chapter 372.13(6) of the Code of Iowa requires a list of all claims allowed and a summary of all receipts to be published. We noted there was one month where the last two approved claims and the summary of receipts by fund were not included in the publication.

Recommendation – The City should review published minutes in the newspaper to make sure they have been published in accordance with Chapter 372.13(6) of the Code of Iowa and to request that the newspaper make corrections and republish them when necessary to comply with the Code requirements.

Response – We will do this.

Conclusion – Response accepted.

- II-G-10 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.
- II-H-10 Revenue Bonds – The City has complied with the revenue bond resolutions.