

CITY OF POCAHONTAS, IOWA

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

AS OF AND FOR THE YEAR ENDED JUNE 30, 2010

City of Pocahontas, Iowa

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City of Pocahontas, Iowa

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City of Pocahontas, Iowa

Officials

(Before January 2010)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Brian Blomker	Mayor	Jan 2010
Brian Stover	Council Member	Jan 2010
Gus Holzmueler	Council Member	Jan 2012
Rod Stoullil	Council Member	Jan 2010
John Dewall	Council Member	Jan 2010
Brooks Taylor	Council Member	Jan 2010
Robert Donahoo	City Administrator	Appointed
Joan Dewall	Clerk	Jan 2010
Jeff Johnson	Treasurer	Appointed
James W. Hudson	Attorney	Appointed
Shors & Thomas	Attorney	Appointed
Dennis Marten	Airport Commissioner	July 2012
Ray Krips	Airport Commissioner	July 2012
Ken DeYoung	Airport Commissioner	July 2009
Dr. Dennis Dahl	Airport Commissioner	July 2011
Gary McCarten	Airport Commissioner	July 2011
Nancy Kopriva	Library Trustee	July 2012
Donna Dewall	Library Trustee	July 2012
Jada Hallberg	Library Trustee	July 2012
Walter Cooke	Library Trustee	July 2009
Pat Spangler	Library Trustee	July 2010
Nancy Berte	Library Trustee	July 2010
Don Beneke	Library Trustee	July 2011
Dennis Fitzgerald	Library Trustee	July 2011
Chris Radig	Library Trustee	July 2011

City of Pocahontas, Iowa

Officials

(After January 2010)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Brian Blomker	Mayor	Jan 2014
Brian Stover	Council Member	Jan 2014
Gus Holzmueler	Council Member	Jan 2012
Rod Stoulil	Council Member	Jan 2014
John Dewall	Council Member	Jan 2014
Jeff Nielsen	Council Member (Appointed)	Jan 2014
Brooks Taylor	Council Member	Resigned
Robert Donahoo	City Administrator	Appointed
Joan Dewall	Clerk	Jan 2012
Jeff Johnson	Treasurer	Appointed
James W. Hudson	Attorney	Appointed
Shors & Thomas	Attorney	Appointed
Dennis Marten	Airport Commissioner	July 2012
Ray Krips	Airport Commissioner	July 2012
Ken DeYoung	Airport Commissioner	July 2013
Dr. Dennis Dahl	Airport Commissioner	July 2011
Gary McCarten	Airport Commissioner	July 2011
Nancy Kopriva	Library Trustee	July 2012
Donna Dewall	Library Trustee	July 2012
Jada Hallberg	Library Trustee	July 2012
Walter Cooke	Library Trustee	July 2013
Pat Spangler	Library Trustee	July 2010
Nancy Berte	Library Trustee	July 2010
Don Beneke	Library Trustee	July 2011
Dennis Fitzgerald	Library Trustee	July 2011
Chris Radig	Library Trustee	July 2011

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 Pocahontas, Iowa, as of and for the year ended June 30, 2010, which collectively comprise the City's primary government basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Pocahontas' management. Our responsibility is to express opinions on these financial statements based on our audit.

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

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

The financial statements do not include financial data for the City's legally separate component unit, the Pocahontas Community Hospital. 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 \$8,141,568, \$7,707,247 and \$7,719,231.

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, 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 Pocahontas, Iowa 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 October 8, 2010 on our consideration of the City of Pocahontas' 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 5 through 11 and 30 through 32 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 Pocahontas' primary government's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the primary government's financial statements for the seven years ended June 30, 2009 (which are not presented herein) and expressed unqualified opinions on those financial statements which were prepared in conformity with an other comprehensive basis of accounting. Other supplementary information included in Schedules 1 through 7, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, 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

October 8, 2010

Management's Discussion and Analysis

The City of Pocahontas provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2010. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2010 Financial Highlights

- Total receipts increased 11.34%, or approximately \$542,188 from fiscal 2009 to fiscal 2010. Governmental Funds revenues increased \$520,445 while Proprietary Funds revenues increased \$22,743 from the previous year.
- Total disbursements decreased 4.55% or approximately \$243,513 in fiscal 2010 from fiscal 2009. Governmental Fund expenditures decreased \$26,324 and Proprietary Funds expenditures decreased \$217,189 from the previous year.
- The City's total cash basis net assets increased 13.54%, or approximately \$213,516 from June 30, 2009 to June 30, 2010. Of this amount, the assets of the governmental activities increased \$286,370 and the assets of the business type activities decreased \$72,854.

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

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

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

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

Other Supplementary Information provides detailed information about the non-major governmental funds. In addition, the Schedule of Expenditures of Federal Awards provides details of various federal programs benefiting the City.

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.

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

- Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the waterworks, sanitary sewer system, and the electric 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 service. 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 Urban Renewal Tax Increment, 3) the Debt Service Fund, 4) and the Capital Projects Fund. The

governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial 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 four Enterprise Funds to provide separate information for the water, sewer, electric, and telecommunications 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.

Reconciliations between government-wide statement and the fund financial statements follow the fund financial statements.

Government-wide Financial Analysis

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from a year ago, increasing from \$0.728 million to \$1.014 million. 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

	Year ended June 30	
	2010	2009
Receipts and Transfers		
Program Receipts:		
Charges for service	\$ 275,003	\$ 290,756
Operating Grants, contributions and restricted interest	\$ 944,204	\$ 803,008
Capital grants, contributions and restricted interest	\$ 345,836	\$ 3,500
General receipts:		
Property tax	\$ 789,526	\$ 779,302
Local Option Sales Tax	\$ 139,361	\$ 137,649
Unrestricted interest on investments	\$ 10,338	\$ 28,904
Other general receipts	\$ 96,589	\$ 38,293
Transfers, net	\$ 281,560	\$ 237,500
Total receipts and transfers	\$ 2,882,417	\$ 2,318,912

Disbursements:		
Public Safety	\$ 255,329	\$ 247,291
Public Works	\$ 471,823	\$ 603,095
Culture and Recreation	\$ 212,045	\$ 259,503
Community and Economic Development	\$ 749,291	\$ 876,815
General Government	\$ 257,534	\$ 242,584
Debt Service	\$ 199,405	\$ 195,905
Capital Projects	\$ 450,620	\$ 197,178
Total Disbursements	\$ 2,596,047	\$ 2,622,371
Increase in cash basis net assets	\$ 286,370	\$ (303,459)
Cash Basis net assets beginning of year	\$ 727,719	\$ 1,031,178
Cash basis net assets end of year	\$ 1,014,089	\$ 727,719

The City's total receipts for governmental activities increased 24.30%, or \$563,505. The total cost of all programs and services decreased \$26,324, or 1.00%, with no new programs added this year. The largest revenue increase was in Operating and Capital Grants, Contributions and Restricted Interest, which increased 60.65% or approximately \$487,032 because of the receipt of federal grants.

Property tax collections increased 1.31%, or approximately \$10,224. Tax collections are expected to increase at a steady pace in the future in the area of 1% to 5% growth per year.

The cost of all governmental activities this year was \$2.596 million compared to \$2.622 million last year. The largest change was in Capital Projects which increased 128.54%, or \$253,442. Other program increases generally reflected increases in the cost of salaries, health insurance and other benefits.

Changes in Cash Basis Net Assets of Business Type Activities

	Year ended June 30,	
	2010	2009
Receipts and Transfers		
Program Receipts:		
Charges for service:		
Electric	\$ 1,923,392	\$ 1,697,113
Water	\$ 403,468	\$ 410,453
Sewer	\$ 355,265	\$ 376,527
Telecommunications (Internet)	\$ 7,695	\$ 10,305
Capital grants, contributions and restricted interest	\$ 0	\$ 111
Miscellaneous	\$ 32,573	\$ 36,823

Bond proceeds	\$ 0	\$ 171,768
Total receipts and transfers	\$ 2,722,393	\$ 2,699,650
Disbursements:		
Electric	\$ 1,780,418	\$ 1,845,453
Water	\$ 416,577	\$ 419,206
Sewer	\$ 305,269	\$ 451,028
Telecommunications (Internet)	\$ 1,343	\$ 1,468
Miscellaneous	\$ 10,080	\$ 13,721
Transfers	\$ 281,560	\$ 237,500
Total Disbursements	\$ 2,795,247	\$ 2,968,376
Increase in cash basis net assets	\$ (72,854)	\$ (268,726)
Cash Basis net assets beginning of year	\$ 849,600	\$ 1,118,326
Cash Basis net assets end of year	\$ 727,719	\$ 849,600

Total business type activities receipts for the fiscal year were \$2.722 million compared to \$2.700 million last year. The increase was due primarily to the increased receipts from electric revenues. The cash balance decreased by approximately \$72,854 from the prior year. Total disbursements for the fiscal year decreased to \$2.795 million compared to \$2.968 million last year.

Individual Major Governmental Fund Analysis

As the City of Pocahontas completed the year, its governmental funds reported a combined fund balance of \$1,014,089, an increase of \$286,370 above last year's total of \$ 727,719. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance decreased \$80,497 from the prior year to \$215,544. The majority of this decrease was due to additional disbursements for pool related expenses, community development expenses, and public safety expenses.
- The REDG Revolving Loan Fund cash balance decreased \$32,195 from the prior year to \$39,625. This fund received a large federal grant and then loaned that money back to the school district for their One-to-One initiative and energy efficiency improvements in the new high school building.
- The Capital Improvement Fund cash balance increased \$17,486 from the prior year to \$89,277. This fund received a large federal grant for the re-pavement of the runway at the airport.

Individual Major Business Type Fund Analysis

- The Water Fund cash balance decreased \$52,539 to \$187,368, due primarily to increased costs of production and increased debt payments. A future rate increase may be needed.
- The Electric Fund cash balance increased \$3,329 to \$484,972. This balance will continue to grow as the rate increase enacted in 2009 will help increase electric revenues.
- The Sewer Fund cash balance decreased \$32,038 to \$64,308, due primarily to increased operational expenses and increased debt payments.

Budgetary Highlights

Over the course of the year, the City amended its budget one time. The amendment increased revenues by \$567,305 and increased expenditures by \$1,039,400. The City had sufficient cash balances to absorb the additional costs estimated under the budget amendment.

The City's receipts were \$445,783 over budgeted expectations. This was primarily due to the City receiving more electric revenue than anticipated. Actual interest income, intergovernmental, and miscellaneous revenue greatly exceeded estimated amount.

The City's total expenditures were \$416,588 under budgeted expectations. Most individual programs were under budget with the exception of Community and Economic Development, Debt Service, Water, and Sewer.

Debt Administration

At June 30, 2010, the City had \$3,490,921 in bonds and other long-term debt outstanding, compared to \$3,929,098 last year, as shown below.

	Outstanding Debt At Year-End	
	June 30	
	<u>2010</u>	<u>2009</u>
General obligation bonds	\$ 405,000	\$ 580,000
Revenue Bonds	\$ 1,935,701	\$ 2,155,701
Promissory Notes	\$ 1,150,220	\$ 1,193,397
Total	\$ 3,490,921	\$ 3,929,098

Annual payments on the general obligation bonds, revenue bonds, and promissory notes decreased the outstanding amounts. 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 \$405,000 is significantly below its constitutional debt limit of \$1.77 million.

Economic Factors and Next Year's Budget and Rates

The elected and appointed officials and citizens of Pocahontas considered many factors when setting the fiscal year 2010 budget, tax rates, and fees charged for various City activities. One of those factors is the economy. The unemployment in the county now stands at 5.9%. This compares with the State's unemployment rate of 7.0% and the national rate of 9.6%. Inflation was at 1.10% from June 2009 to June 2010.

Economic conditions in Pocahontas and the surrounding area remain stable. While economic crisis has struck much of the country, Pocahontas has weathered the storm quite well. The strong farm economy, boosted by high commodity prices, benefits the local economy. The addition of a new residential subdivision and aggressive marketing will attract people to the community and have a positive economic impact on the surrounding area. The community is in the process of attracting a large industrial operation that would be very beneficial to the community. The City also continues to pursue municipalization of the natural gas system which would also provide a financial benefit to both the City and the community.

These indicators were taken into account when adopting the budget for fiscal year 2010. Total revenues of \$5.278 million increased \$668,956 from the previous year primarily due to increased revenues from business type enterprises and intergovernmental funds. Property tax revenue increased \$13,083. Total expenditures of \$5,109,734 million, excluding transfers, decreased approximately \$243,513 from the previous year. The City has added no major new programs or initiatives to the 2010 budget.

The City's cash balance increased approximately \$213,516 in Fiscal Year 2010.

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 any questions about this report or need additional financial information, contact Robert Donahoo, City Administrator, or Joan DeWall, City Clerk, 23 West Elm Avenue, Pocahontas, IA 50574.

Basic Financial Statements

City of Pocahontas, 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	\$ 255,329	7,410	4,865	-
Public works	471,823	228,626	234,870	345,836
Culture and recreation	212,045	29,636	17,483	-
Community and economic development	749,291	2,342	633,596	-
General government	257,534	6,989	10,463	-
Debt service	199,405	-	42,927	-
Capital projects	<u>450,620</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total governmental activities	<u>2,596,047</u>	<u>275,003</u>	<u>944,204</u>	<u>345,836</u>
Business type activities:				
Water	416,577	403,468	-	-
Electric	1,780,418	1,923,392	-	-
Sewer	305,269	355,265	-	-
Other non-major	<u>11,423</u>	<u>22,817</u>	<u>-</u>	<u>-</u>
Total business type activities	<u>2,513,687</u>	<u>2,704,942</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 5,109,734</u>	<u>2,979,945</u>	<u>944,204</u>	<u>345,836</u>

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
Governmental Activities	Business Type Activities	Total
(243,054)	-	(243,054)
337,509	-	337,509
(164,926)	-	(164,926)
(113,353)	-	(113,353)
(240,082)	-	(240,082)
(156,478)	-	(156,478)
<u>(450,620)</u>	<u>-</u>	<u>(450,620)</u>
<u>(1,031,004)</u>	<u>-</u>	<u>(1,031,004)</u>
-	(13,109)	(13,109)
-	142,974	142,974
-	49,996	49,996
<u>-</u>	<u>11,394</u>	<u>11,394</u>
<u>-</u>	<u>191,255</u>	<u>191,255</u>
<u>(1,031,004)</u>	<u>191,255</u>	<u>(839,749)</u>

(continued)

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		
	Governmental Activities	Business Type Activities	Total
General Receipts:			
Property tax levied for:			
General purposes	\$ 500,295	-	500,295
Tax increment financing	152,318	-	152,318
Debt service	136,913	-	136,913
Local options sales tax	139,361	-	139,361
Unrestricted interest on investments	10,338	17,451	27,789
Miscellaneous	51,589	-	51,589
Bond proceeds	45,000	-	45,000
Transfers	281,560	(281,560)	-
Total general receipts and transfers	<u>1,317,374</u>	<u>(264,109)</u>	<u>1,053,265</u>
Change in cash basis net assets	286,370	(72,854)	213,516
Cash basis net assets beginning of year	<u>727,719</u>	<u>849,600</u>	<u>1,577,319</u>
Cash basis net assets end of year	<u>1,014,089</u>	<u>776,746</u>	<u>1,790,835</u>
Cash Basis Net Assets			
Restricted:			
Nonexpendable:			
Culture and recreation	150,000	-	150,000
Expendable:			
Employee benefits	99,108	-	99,108
Culture and recreation	9,371	-	9,371
Debt service	(15,663)	115,670	100,007
Other	684,577	-	684,577
Unrestricted	<u>86,696</u>	<u>661,076</u>	<u>747,772</u>
Total cash basis net assets	<u>\$ 1,014,089</u>	<u>776,746</u>	<u>1,790,835</u>

See notes to financial statements.

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

Exhibit B

		<u>Special Revenue</u>	<u>Capital Projects</u>	Other	
		REDG		Nonmajor	
		Revolving	Capital	Governmental	
	<u>General</u>	<u>Loan Fund</u>	<u>Improvement</u>	<u>Funds</u>	<u>Total</u>
Receipts:					
Property tax	\$ 305,352	-	-	319,937	625,289
Tax increment financing	-	-	-	152,318	152,318
Other city tax	13,335	-	-	144,977	158,312
Licenses and permits	1,625	-	-	-	1,625
Use of money and property	63,036	74,688	3,116	196,039	336,879
Intergovernmental	325,264	300,000	39,417	271,161	935,842
Charges for service	241,916	-	-	-	241,916
Special assessments	-	-	2,939	2,342	5,281
Miscellaneous	40,976	-	24,207	33,212	98,395
Total receipts	<u>991,504</u>	<u>374,688</u>	<u>69,679</u>	<u>1,119,986</u>	<u>2,555,857</u>
Disbursements:					
Operating:					
Public safety	207,275	-	-	48,054	255,329
Public works	234,181	-	-	237,642	471,823
Culture and recreation	190,694	-	-	21,351	212,045
Community and economic development	58,733	466,883	-	223,675	749,291
General government	212,029	-	-	45,505	257,534
Debt service	-	-	-	199,405	199,405
Capital projects	-	-	371,701	78,919	450,620
Total disbursements	<u>902,912</u>	<u>466,883</u>	<u>371,701</u>	<u>854,551</u>	<u>2,596,047</u>
Excess (deficiency) of receipts over (under) disbursements	<u>88,592</u>	<u>(92,195)</u>	<u>(302,022)</u>	<u>265,435</u>	<u>(40,190)</u>
Other financing sources (uses):					
Bond proceeds	-	-	-	45,000	45,000
Operating transfers in	210,000	60,000	319,508	161,141	750,649
Operating transfers out	(379,089)	-	-	(90,000)	(469,089)
Total other financing sources (uses)	<u>(169,089)</u>	<u>60,000</u>	<u>319,508</u>	<u>116,141</u>	<u>326,560</u>
Net change in cash balances	(80,497)	(32,195)	17,486	381,576	286,370
Cash balances beginning of year	296,041	71,820	71,791	288,067	727,719
Cash balances end of year	<u>\$ 215,544</u>	<u>39,625</u>	<u>89,277</u>	<u>669,643</u>	<u>1,014,089</u>
Cash Basis Fund Balances					
Reserved:					
Debt service	\$ -	-	-	(15,663)	(15,663)
Unreserved:					
General fund	215,544	-	-	-	215,544
Special revenue funds	-	39,625	89,277	288,601	417,503
Capital projects funds	-	-	-	246,705	246,705
Permanent funds	-	-	-	150,000	150,000
Total cash basis fund balances	<u>\$ 215,544</u>	<u>39,625</u>	<u>89,277</u>	<u>669,643</u>	<u>1,014,089</u>

See notes to financial statements.

City of Pocahontas, 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		
	Water	Electric	Sewer
Operating receipts:			
Use of money and property	\$ 3,075	-	-
Charges for service	385,374	1,894,969	351,866
Miscellaneous	15,019	28,423	3,399
Total operating receipts	<u>403,468</u>	<u>1,923,392</u>	<u>355,265</u>
Operating disbursements:			
Business type activities	<u>265,680</u>	<u>1,465,605</u>	<u>204,612</u>
Total operating disbursements	<u>265,680</u>	<u>1,465,605</u>	<u>204,612</u>
Excess (deficiency) of operating receipts over (under) operating disbursements	<u>137,788</u>	<u>457,787</u>	<u>150,653</u>
Non-operating receipts (disbursements):			
Interest on investments	7,570	2,355	7,526
Debt service	(112,088)	(241,450)	(67,400)
Capital projects	<u>(38,809)</u>	<u>(73,363)</u>	<u>(33,257)</u>
Total non-operating receipts (disbursements)	<u>(143,327)</u>	<u>(312,458)</u>	<u>(93,131)</u>
Excess (deficiency) of receipts over (under) disbursements	(5,539)	145,329	57,522
Operating transfers out	<u>(47,000)</u>	<u>(142,000)</u>	<u>(89,560)</u>
Net change in cash balances	(52,539)	3,329	(32,038)
Cash balances beginning of year	<u>239,907</u>	<u>481,643</u>	<u>94,346</u>
Cash balances end of year	<u>\$ 187,368</u>	<u>484,972</u>	<u>62,308</u>
Cash Basis Fund Balances			
Reserved for debt service	\$ -	115,670	-
Reserved for capital improvements	155,853	150,000	88,021
Reserved for capital equipment	59,332	18,019	55,625
Unreserved	<u>(27,817)</u>	<u>201,283</u>	<u>(81,338)</u>
Total cash basis fund balances	<u>\$ 187,368</u>	<u>484,972</u>	<u>62,308</u>

See notes to financial statements.

Exhibit C

<u>Other Nonmajor</u>	<u>Total</u>
8,000	11,075
14,817	2,647,026
-	46,841
<u>22,817</u>	<u>2,704,942</u>
<u>11,423</u>	<u>1,947,320</u>
<u>11,423</u>	<u>1,947,320</u>
<u>11,394</u>	<u>757,622</u>
-	17,451
-	(420,938)
-	(145,429)
<u>-</u>	<u>(548,916)</u>
11,394	208,706
<u>(3,000)</u>	<u>(281,560)</u>
8,394	(72,854)
<u>33,704</u>	<u>849,600</u>
<u>42,098</u>	<u>776,746</u>
-	115,670
-	393,874
-	132,976
<u>42,098</u>	<u>134,226</u>
<u>42,098</u>	<u>776,746</u>

City of Pocahontas, Iowa

Notes to Financial Statements

June 30, 2010

(1) Summary of Significant Accounting Policies

The City of Pocahontas is a political subdivision of the State of Iowa located in Pocahontas County. It was first incorporated in 1870 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, health and social services, culture and recreation, community and economic development and general government services. The City also provides water, sewer and electric utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Pocahontas has included only the primary government of the City of Pocahontas, 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 unit, the Pocahontas Community Hospital, which U.S. generally accepted accounting principles require to be reported with the financial data of the City's primary government. The audited financial statements of the Pocahontas Community Hospital can be obtained at their business office.

Jointly Governed Organizations

The City also 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: Pocahontas County Emergency Management Commission, Pocahontas County Joint E911 Service Board, and Pocahontas County Solid Waste Commission.

City of Pocahontas, 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 services.

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

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

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

City of Pocahontas, Iowa

Notes to Financial Statements

June 30, 2010

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 not paid from other funds.

Capital Projects:

The Capital Improvements Fund is used to account for transactions promoting capital improvements

Special Revenue:

The REDG Revolving Loan Fund is used to account for transactions involving loans to local businesses and repayment of those loans.

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 sewer system.

The Electric Fund accounts for the operation and maintenance of the City's electric system.

C. Measurement Focus and Basis of Accounting

The City of Pocahontas 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 Pocahontas, 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, debt service and business type activities functions.

(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 deposited excess funds in certificates of deposit.

City of Pocahontas, Iowa

Notes to Financial Statements

June 30, 2010

(3) Bonds Payable

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

Year Ending	General		Revenue Bonds		Total	
	Obligation Bonds					
<u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2011	\$ 180,000	16,917	229,000	61,476	409,000	78,393
2012	125,000	9,538	232,000	52,986	357,000	62,524
2013	50,000	4,350	131,000	44,241	181,000	48,591
2014	50,000	2,200	135,000	40,311	185,000	42,511
2015	---	---	139,000	36,261	139,000	36,261
2016-2020	---	---	667,701	116,934	667,701	116,934
2021-2024	---	---	402,000	30,600	402,000	30,600
Total	\$ 405,000	33,005	1,935,701	382,809	2,340,701	415,814
	=====	=====	=====	=====	=====	=====

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

- (a) The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the funds.
- (b) Sufficient monthly transfers shall be made to a separate electric revenue bond sinking account within the enterprise funds for the purpose of making the note principal and interest payments when due.
- (c) There shall be an electric reserve fund with a minimum balance of \$90,000 set up upon issuance of the notes. If the balance is reduced below those amounts, funds shall be deposited to bring it back to the minimum required level.

City of Pocahontas, Iowa

Notes to Financial Statements

June 30, 2010

- (d) There shall be an electric improvement fund with a minimum balance of \$50,000 set up upon issuance of the notes. If the balance is reduced below those amounts, funds shall be deposited to bring it back to the minimum required level.
- (e) The Electric Revenue Fund must produce and maintain net revenues at a level not less than 125% of the amount of principal and interest on the revenue bond due in any one year.
- (f) The Water Revenue Fund must produce and maintain net revenues at a level not less than 110% of the amount of principal and interest on the revenue bond due in any one year.
- (g) The Sewer Revenue Fund must produce and maintain net revenues at a level not less than 110% of the amount of principal and interest on the revenue bond due in any one year.

Revenue Bonds

The City has pledged future water customer receipts, net of specified operating disbursements, to repay \$1,418,582 in water revenue notes issued in April 2004. Proceeds from the notes provided financing for water improvements. The notes are payable through 2025. Annual principal and interest payments on the notes are expected to require less than 90 percent of net receipts. The total principal and interest remaining to be paid on the notes is \$1,518,040. For the current year, principal and interest paid and total customer net receipts were \$112,088 and \$137,788, respectively.

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay \$1,200,000 in sewer revenue notes issued in July 2004. Proceeds from the notes provided financing for the construction of improvements to the sewer treatment plant. The notes are payable solely from sewer customer net receipts and are payable through 2019. Annual principal and interest payments on the notes are expected to require less than 90 percent of net receipts. The total principal and interest remaining to be paid on the notes is \$575,769. For the current year, principal and interest paid and total customer net receipts were \$67,400 and \$150,653, respectively.

City of Pocahontas, Iowa

Notes to Financial Statements

June 30, 2010

The City has pledged future electric customer receipts, net of specified operating disbursements, to repay \$900,000 in electric revenue notes issued in April 2002. Proceeds from the notes provided financing for electric system improvements. The notes are payable solely from electric customer net receipts and are payable through 2012. Annual principal and interest payments on the notes are expected to require less than 75 percent of net receipts. The total principal and interest remaining to be paid on the notes is \$224,700. For the current year, principal and interest paid and total customer net receipts were \$241,450 and \$457,787, respectively.

(4) Promissory Notes

The City entered into a loan agreement dated February 8, 2006 for \$1,000,000 secured by the electric utility revenue and receivables. This agreement has an interest rate of 4.75% for five years with a variable rate thereafter, but not to exceed 7.75%. The loan matures February 8, 2016 at which time all principal and interest are due. Semi-annual payments of \$63,392.25 are due on this note beginning June 1, 2010.

Future payments are due as follows based on 4.75% interest:

Year ending <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>
2011	\$ 96,975	29,810
2012	100,837	25,947
2013	104,866	21,919
2014	109,045	17,739
2015	113,399	13,386
2016	117,930	8,854
2017	<u>104,229</u>	<u>4,163</u>
	\$ 747,281	121,818
	=====	=====

City of Pocahontas, Iowa

Notes to Financial Statements

June 30, 2010

The City also entered into a loan agreement for \$402,939 with the United States Department of Agriculture secured by the portfolio of investments derived from the proceeds of this loan award. This agreement carries an interest rate of 1%, with interest only paid for the first three years. This loan has a due date of 2-1-2038.

Future payments are due as follows:

<u>Year Ending</u> <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>
2011	\$ 4,341	4,029
2012	13,109	3,926
2013	13,240	3,794
2014	13,374	3,661
2015	13,508	3,527
2016-2020	69,604	15,571
2021-2025	73,171	12,004
2026-2030	76,921	8,254
2031-2035	80,862	4,315
2036-2038	<u>44,809</u>	<u>618</u>
Total	\$ 402,939 =====	59,699 =====

(5) 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.

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

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 years ended June 30, 2010, 2009 and 2008 were \$51,738, \$47,143 and \$45,473, respectively, equal to the required contributions for each year.

(6) Other Postemployment Benefits (OPEB)

Plan Description – The City of Pocahontas operates a single-employer health benefit plan which provides medical/prescription drug benefits for employees and retirees and their spouses. There are 17 active and 3 retired members in the plan. Participants must be age 55 or older at retirement. The 3 retired members withdrew from the plan during the current fiscal year.

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 benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the City and plan members are \$332 for single coverage and \$829 for family coverage. The same monthly premiums apply to retirees. For the year ended June 30, 2010, the City contributed \$81,855 and plan members eligible for benefits contributed \$16,637 to the plan.

(7) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation and comp time hours for subsequent use or for payment upon termination, retirement or death. Sick leave hours accumulate and are paid only when used. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned compensated absences 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 and comp time	\$ <u>46,000</u>

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

City of Pocahontas, Iowa

Notes to Financial Statements

June 30, 2010

(8) 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	Enterprise:	
	Water	\$ 45,000
	Sewer	45,000
	Electric	117,000
	Internet	<u>3,000</u>
		<u>210,000</u>
Debt Service	Enterprise:	
	Sewer	<u>44,060</u>
Capital Projects:		
Capital Improvements	General	<u>319,508</u>
Capital Equipment	General	59,581
	Enterprise:	
	Water	1,000
	Sewer	500
	Electric	2,500
	Special Revenue:	
	Road Use	<u>30,000</u>
		<u>93,581</u>
Special Revenue:		
Industrial Development	Enterprise:	
	Water	1,000
	Electric	<u>22,500</u>
		<u>23,500</u>
REDG Revolving Loan Fund	Special Revenue:	
	Tax Increment Fund	<u>60,000</u>
Total		\$ <u>750,649</u>

City of Pocahontas, Iowa

Notes to Financial Statements

June 30, 2010

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

(9) Related Party Transactions

The City had business transactions between the City and City officials totaling \$14,847 during the year ended June 30, 2010.

(10) Risk Management

The City of Pocahontas 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.

(11) Deficit Balances

The Special Revenue, Industrial Development Revenue Fund had a deficit balance of \$464,830 at June 30, 2010. This deficit will be eliminated upon repayment of loans, repayment of inter-fund loans, and sale of property.

The Debt Service Fund had a deficit balance of \$15,663 at June 30, 2010. City officials are reviewing this deficit.

The Enterprise Fund, Sewer Operating Account had a deficit balance of \$81,338 at June 30, 2010. This deficit should be eliminated with repayment of inter-fund loan and possible rate increase.

The Enterprise Fund, Water Operating Account had a deficit balance of \$27,817 at June 30, 2010. City officials are reviewing their rates.

City of Pocahontas, Iowa

Notes to Financial Statements

June 30, 2010

(12) Economic Development Loans Receivable

The City has various long-term loans receivable totaling \$1,284,122 as of June 30, 2010 due from various business in Pocahontas. The loans were financed with the proceeds from various grant agreements, matching contribution from the City and repayments from the businesses. Interest rates on these loans vary from 0% - 4.5% with monthly payments varying from \$221 to \$1,520.

(13) Subsequent Events

The City has evaluated subsequent events through October 8, 2010, the date the financial statements were available to be issued.

The City has been awarded a federal grant which will pay for 95% of the cost of equipment for the airport. The grant is approximately \$220,000 and the cost of the equipment is approximately \$230,000.

Required Supplementary Information

City of Pocahontas, 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	\$ 625,289	-
Tax increment financing collections	152,318	-
Other city tax	158,312	-
Licenses and permits	1,625	-
Use of money and property	336,879	28,526
Intergovernmental	935,842	-
Charges for service	241,916	2,647,026
Special assessments	5,281	-
Miscellaneous	98,395	46,841
Total receipts	<u>2,555,857</u>	<u>2,722,393</u>
Disbursements:		
Public safety	255,329	-
Public works	471,823	-
Culture and recreation	212,045	-
Community and economic development	749,291	-
General government	257,534	-
Debt service	199,405	-
Capital projects	450,620	-
Business type activities	-	2,513,687
Total disbursements	<u>2,596,047</u>	<u>2,513,687</u>
Excess (deficiency) of receipts over (under) disbursements	(40,190)	208,706
Other financing sources (uses), net	<u>326,560</u>	<u>(281,560)</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	286,370	(72,854)
Balances beginning of year	<u>727,719</u>	<u>849,600</u>
Balances end of year	<u>\$ 1,014,089</u>	<u>776,746</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>	
625,289	626,127	626,127	(838)
152,318	152,000	152,000	318
158,312	135,175	152,175	6,137
1,625	2,200	2,200	(575)
365,405	96,000	96,000	269,405
935,842	259,000	267,605	668,237
2,888,942	2,928,040	2,928,040	(39,098)
5,281	-	-	5,281
145,236	66,620	608,320	(463,084)
<u>5,278,250</u>	<u>4,265,162</u>	<u>4,832,467</u>	<u>445,783</u>
255,329	259,858	271,658	16,329
471,823	564,075	584,075	112,252
212,045	201,870	217,370	5,325
749,291	206,500	712,000	(37,291)
257,534	267,324	274,324	16,790
199,405	177,675	177,675	(21,730)
450,620	655,000	1,008,000	557,380
2,513,687	2,154,620	2,281,220	(232,467)
<u>5,109,734</u>	<u>4,486,922</u>	<u>5,526,322</u>	<u>416,588</u>
168,516	(221,760)	(693,855)	862,371
<u>45,000</u>	<u>-</u>	<u>599,600</u>	<u>(554,600)</u>
213,516	(221,760)	(94,255)	307,771
<u>1,577,319</u>	<u>2,663,558</u>	<u>2,663,558</u>	<u>(1,086,239)</u>
<u>1,790,835</u>	<u>2,441,798</u>	<u>2,569,303</u>	<u>(778,468)</u>

City of Pocahontas, 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 Fund, the Permanent Fund and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$1,039,400 and increased budgeted revenues by \$567,305. 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, debt service, and business type activities functions.

Other Supplementary Information

City of Pocahontas, Iowa

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

As of and for the year ended June 30, 2010

	Special Revenue				
	Road <u>Use</u>	Employee <u>Benefits</u>	Local Option Sales <u>Tax</u>	Tax Increment <u>Fund (TIF)</u>	Revolving <u>Loan Fund</u>
Receipts:					
Property tax	\$ -	185,209	-	-	-
Tax increment financing	-	-	-	152,318	-
Other city tax	-	3,431	139,361	-	-
Use of money and property	-	-	-	-	30,767
Intergovernmental	174,136	-	-	-	-
Special assessments	-	-	-	-	-
Miscellaneous	<u>1,338</u>	<u>5,563</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total receipts	<u>175,474</u>	<u>194,203</u>	<u>139,361</u>	<u>152,318</u>	<u>30,767</u>
Disbursements:					
Operating:					
Public safety	-	48,054	-	-	-
Public works	156,039	43,878	37,725	-	-
Culture and recreation	-	21,351	-	-	-
Community and economic development	-	8,515	-	14,996	1,500
General government	-	45,505	-	-	-
Debt Service	-	-	-	-	-
Capital projects	-	-	-	<u>52,960</u>	-
Total disbursements	<u>156,039</u>	<u>167,303</u>	<u>37,725</u>	<u>67,956</u>	<u>1,500</u>
Excess (deficiency) of receipts over (under) disbursements	<u>19,435</u>	<u>26,900</u>	<u>101,636</u>	<u>84,362</u>	<u>29,267</u>

							<u>Capital Projects</u>	
<u>Intermediary Relending Loan Fund</u>	<u>Industrial Development Revenue Fund</u>	<u>Housing Grant</u>	<u>I-Jobs Revenue</u>	<u>"Irma Elbert Bequest"</u>	<u>"Charlotte Lenore Zech Bequest"</u>	<u>Debt Service</u>	<u>Capital Equipment</u>	
-	-	-	-	-	-	134,728	-	
-	-	-	-	-	-	-	-	
-	-	-	-	-	-	2,185	-	
68,580	73,185	-	-	2,407	-	21,100	-	
-	-	86,376	8,604	-	-	-	2,045	
-	2,342	-	-	-	-	-	-	
-	-	-	-	-	-	21,827	4,484	
<u>68,580</u>	<u>75,527</u>	<u>86,376</u>	<u>8,604</u>	<u>2,407</u>	<u>-</u>	<u>179,840</u>	<u>6,529</u>	
-	-	-	-	-	-	-	-	
-	-	-	-	-	-	-	-	
-	-	-	-	-	-	-	-	
7,474	91,634	99,556	-	-	-	-	-	
-	-	-	-	-	-	-	-	
-	-	-	-	-	-	199,405	-	
-	-	-	-	-	-	-	25,959	
<u>7,474</u>	<u>91,634</u>	<u>99,556</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>199,405</u>	<u>25,959</u>	
<u>61,106</u>	<u>(16,107)</u>	<u>(13,180)</u>	<u>8,604</u>	<u>2,407</u>	<u>-</u>	<u>(19,565)</u>	<u>(19,430)</u>	

(continued)

City of Pocahontas, Iowa

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

As of and for the year ended June 30, 2010

	Special Revenue				
	Road <u>Use</u>	Employee <u>Benefits</u>	Local Option Sales <u>Tax</u>	Tax Increment <u>Fund (TIF)</u>	Revolving <u>Loan Fund</u>
Other financing sources (uses):					
Bond proceeds	-	-	-	-	-
Operating transfers in	-	-	-	-	-
Operating transfers out	(30,000)	-	-	(60,000)	-
Total other financing sources (uses)	<u>(30,000)</u>	<u>-</u>	<u>-</u>	<u>(60,000)</u>	<u>-</u>
Net change in cash balances	(10,565)	26,900	101,636	24,362	29,267
Cash balances beginning of year	<u>205,535</u>	<u>72,208</u>	<u>142,542</u>	<u>4,110</u>	<u>21,832</u>
Cash balances end of year	<u>\$ 194,970</u>	<u>99,108</u>	<u>244,178</u>	<u>28,472</u>	<u>51,099</u>
Cash Basis Fund Balances					
Reserved:					
Debt service	-	-	-	-	-
Unreserved:					
Special revenue funds	194,970	99,108	244,178	28,472	51,099
Capital project funds	-	-	-	-	-
Permanent funds	-	-	-	-	-
Total cash basis fund balances	<u>\$ 194,970</u>	<u>99,108</u>	<u>244,178</u>	<u>28,472</u>	<u>51,099</u>

See accompanying independent auditor's report.

<u>Intermediary Relending Loan Fund</u>	<u>Industrial Development Revenue Fund</u>	<u>Housing Grant</u>	<u>I-Jobs Revenue</u>	<u>"Irma Elbert Bequest"</u>	<u>"Charlotte Lenore Zech Bequest"</u>	<u>Debt Service</u>	<u>Capital Equipment</u>
-	45,000	-	-	-	-	-	-
-	23,500	-	-	-	-	44,060	93,581
-	-	-	-	-	-	-	-
-	<u>68,500</u>	-	-	-	-	<u>44,060</u>	<u>93,581</u>
61,106	52,393	(13,180)	8,604	2,407	-	24,495	74,151
<u>56,523</u>	<u>(517,223)</u>	<u>13,180</u>	<u>-</u>	<u>2,710</u>	<u>4,254</u>	<u>(40,158)</u>	<u>172,554</u>
<u>117,629</u>	<u>(464,830)</u>	<u>-</u>	<u>8,604</u>	<u>5,117</u>	<u>4,254</u>	<u>(15,663)</u>	<u>246,705</u>
-	-	-	-	-	-	(15,663)	-
117,629	(464,830)	-	8,604	5,117	4,254	-	-
-	-	-	-	-	-	-	246,705
-	-	-	-	-	-	-	-
<u>117,629</u>	<u>(464,830)</u>	<u>-</u>	<u>8,604</u>	<u>5,117</u>	<u>4,254</u>	<u>(15,663)</u>	<u>246,705</u>

(continued)

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

As of and for the year ended June 30, 2010

	Permanent			Total
	"Jean Wallace Perry <u>Memorial"</u>	"Charlotte Lenore Zech <u>Bequest"</u>	"Irma Elbert <u>Bequest"</u>	
Receipts:				
Property tax	\$ -	-	-	319,937
Tax increment financing collections	-	-	-	152,318
Other city tax	-	-	-	144,977
Use of money and property	-	-	-	196,039
Intergovernmental	-	-	-	271,161
Special assessments	-	-	-	2,342
Miscellaneous	-	-	-	33,212
Total receipts	-	-	-	1,119,986
Disbursements:				
Operating:				
Public safety	-	-	-	48,054
Public works	-	-	-	237,642
Culture and recreation	-	-	-	21,351
Community and economic development	-	-	-	223,675
General government	-	-	-	45,505
Debt Service	-	-	-	199,405
Capital projects	-	-	-	78,919
Total disbursements	-	-	-	854,551
Excess (deficiency) of receipts over (under) disbursements	-	-	-	265,435

(continued)

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

As of and for the year ended June 30, 2010

	Permanent			
	"Jean Wallace Perry <u>Memorial"</u>	"Charlotte Lenore Zech Bequest"	"Irma Elbert Bequest"	<u>Total</u>
Other financing sources (uses):				
Bond proceeds	-	-	-	45,000
Operating transfers in	-	-	-	161,141
Operating transfers out	-	-	-	(90,000)
Total other financing sources (uses)	-	-	-	116,141
Net change in cash balances	-	-	-	381,576
Cash balances beginning of year	<u>\$ 2,500</u>	<u>87,500</u>	<u>60,000</u>	<u>288,067</u>
Cash balances end of year	<u>\$ 2,500</u>	<u>\$ 87,500</u>	<u>\$ 60,000</u>	<u>\$ 669,643</u>
Cash Basis Fund Balances				
Reserved:				
Debt service	-	-	-	(15,663)
Unreserved:				
Special revenue funds	-	-	-	288,601
Capital project funds	-	-	-	246,705
Permanent funds	<u>2,500</u>	<u>87,500</u>	<u>60,000</u>	<u>150,000</u>
Total cash basis fund balances	<u>\$ 2,500</u>	<u>87,500</u>	<u>60,000</u>	<u>669,643</u>

See accompanying independent auditor's report.

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

As of and for the year ended June 30, 2010

	Enterprise Funds			
	Meter <u>Deposits</u>	<u>Clinic</u>	<u>Internet</u>	<u>Total</u>
Operating receipts:				
Use of money and property	\$ -	8,000	-	8,000
Charges for service	<u>7,122</u>	<u>-</u>	<u>7,695</u>	<u>14,817</u>
Total operating receipts	<u>7,122</u>	<u>8,000</u>	<u>7,695</u>	<u>22,817</u>
Operating disbursements:				
Business type activities	<u>6,584</u>	<u>3,496</u>	<u>1,343</u>	<u>11,423</u>
Total operating disbursements	<u>6,584</u>	<u>3,496</u>	<u>1,343</u>	<u>11,423</u>
Excess of operating receipts over operating disbursements	<u>538</u>	<u>4,504</u>	<u>6,352</u>	<u>11,394</u>
Operating transfers in (out)	<u>-</u>	<u>-</u>	<u>(3,000)</u>	<u>(3,000)</u>
Net change in cash balances	538	4,504	3,352	8,394
Cash balances beginning of year	<u>13,922</u>	<u>6,018</u>	<u>13,764</u>	<u>33,704</u>
Cash balances end of year	<u>\$ 14,460</u>	<u>10,522</u>	<u>17,116</u>	<u>42,098</u>
Cash Basis Fund Balances				
Unreserved				
Total cash basis fund balances	<u>\$ 14,460</u>	<u>10,522</u>	<u>17,116</u>	<u>42,098</u>

See notes to financial statements.

City of Pocahontas, 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 bonds: G.O. refunding bonds Series 2001	Nov 1, 2001	3.00-4.40%	\$ 1,715,000
Revenue bonds:			
Electric	Apr 15, 2002	2.75-4.70%	\$ 900,000
Water	Apr 6, 2004	3.00%	1,418,582
Sewer	Jul 7, 2004	3.00%	1,200,000
Promissory note:			
Electric	Feb 8, 2006	4.75%	\$ 1,000,000
United States Department of Agriculture	Feb 1, 2008	1.00%	402,939

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>
\$ 580,000	-	175,000	405,000	24,005	-
310,000	-	100,000	210,000	14,265	-
1,295,000	-	70,000	1,225,000	38,850	-
550,701	-	50,000	500,701	16,521	-
<u>\$ 2,155,701</u>	<u>-</u>	<u>220,000</u>	<u>1,935,701</u>	<u>69,636</u>	<u>-</u>
790,458	45,000	88,177	747,281	38,608	-
402,939	-	-	402,939	3,325	-
<u>1,193,397</u>	<u>45,000</u>	<u>88,177</u>	<u>1,150,220</u>	<u>41,933</u>	<u>-</u>

Bond Maturities- General Obligation Bonds

June 30, 2010

Year Ending <u>June 30,</u>	General Obligation	
	Refunding Bonds Series 2001	
	Issued November 1, 2001	
	Interest	
	<u>Rates</u>	<u>Amount</u>
2011	4.10	180,000
2012	4.15	125,000
2013	4.30	50,000
2014	4.40	50,000
Total		<u>\$ 405,000</u>

See accompanying independent auditor's report.

Bond Maturities - Revenue Bonds

June 30, 2010

		Electric Revenue Bonds			Sewer Revenue Bonds		
		Series 2002			Series 2004		
		Issued April 15, 2002			Issued July 7, 2004		
Year Ending <u>June 30,</u>	Interest		Amount	Interest		Amount	
	Rates			Rates			
2011	4.60 %		\$ 105,000	3.00 %		\$ 52,000	
2012	4.70		105,000	3.00		53,000	
2013			-	3.00		55,000	
2014			-	3.00		57,000	
2015			-	3.00		58,000	
2016			-	3.00		60,000	
2017			-	3.00		62,000	
2018			-	3.00		64,000	
2019			-	3.00		39,701	
Total			<u>\$ 210,000</u>			<u>\$ 500,701</u>	

		Water Revenue Bonds		
		Series 2004		
		Issued April 23, 2004		
Year Ending <u>June 30,</u>	Interest		Amount	Total
	Rates			
2011	3.00 %		\$ 72,000	229,000
2012	3.00		74,000	232,000
2013	3.00		76,000	131,000
2014	3.00		78,000	135,000
2015	3.00		81,000	139,000
2016	3.00		83,000	143,000
2017	3.00		86,000	148,000
2018	3.00		88,000	152,000
2019	3.00		91,000	130,701
2020	3.00		94,000	94,000
2021	3.00		96,000	96,000
2022	3.00		99,000	99,000
2023	3.00		102,000	102,000
2024	3.00		105,000	105,000
Total			<u>\$ 1,225,000</u>	<u>1,935,701</u>

See accompanying independent auditor's report.

City of Pocahontas, Iowa

Schedule of Receipts By Source and Disbursements by Function -
All Government Funds

For the Last Eight Years

	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Receipts:				
Property tax	\$ 625,289	612,206	578,796	578,775
Tax increment financing collections	152,318	154,619	98,695	60,937
Other city tax	158,312	154,096	129,935	141,821
Licenses and permits	1,625	1,675	1,425	2,717
Use of money and property	336,879	366,456	306,949	132,945
Intergovernmental	935,842	419,799	1,037,160	264,837
Charges for service	241,916	259,374	261,607	223,168
Special assessments	5,281	7,514	12,616	6,489
Miscellaneous	<u>98,395</u>	<u>105,673</u>	<u>93,906</u>	<u>137,713</u>
 Total	 <u>\$ 2,555,857</u>	 <u>2,081,412</u>	 <u>2,521,089</u>	 <u>1,549,402</u>
Disbursements:				
Operating:				
Public safety	\$ 255,329	247,291	243,031	236,813
Public works	471,823	603,095	566,239	471,068
Culture and recreation	212,045	259,503	188,648	181,058
Community and economic development	749,291	876,815	1,233,174	473,909
General government	257,534	242,584	249,901	226,240
Debt service	199,405	195,905	212,467	224,068
Capital projects	<u>450,620</u>	<u>197,178</u>	<u>165,423</u>	<u>48,605</u>
 Total	 <u>\$ 2,596,047</u>	 <u>2,622,371</u>	 <u>2,858,883</u>	 <u>1,861,761</u>

See accompanying independent auditor's report.

Schedule 6

<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
592,328	569,770	582,771	555,410
51,243	16,831	5,506	-
111,680	173,693	57,090	9,604
2,290	2,005	5,978	2,065
138,368	70,116	79,805	79,939
413,845	349,556	217,340	216,267
198,951	208,711	197,975	193,299
10,446	13,873	23,054	4,699
<u>179,061</u>	<u>80,092</u>	<u>57,168</u>	<u>86,519</u>
<u><u>1,698,212</u></u>	<u><u>1,484,647</u></u>	<u><u>1,226,687</u></u>	<u><u>1,147,802</u></u>
226,559	245,152	235,853	249,267
452,681	345,215	330,161	368,997
174,088	188,266	172,439	151,623
637,418	350,567	537,037	15,591
240,394	236,556	215,623	226,590
224,455	219,784	225,130	217,100
<u>45,882</u>	<u>286,398</u>	<u>34,135</u>	<u>88,181</u>
<u><u>2,001,477</u></u>	<u><u>1,871,938</u></u>	<u><u>1,750,378</u></u>	<u><u>1,317,349</u></u>

Schedule of Expenditures of Federal Awards

Year ended June 30, 2010

Grantor/Program	CFDA Number	Agency Pass-through Number	Program Expenditures
Direct:			
Federal Aviation Authority:			
Airport Improvement Program	20.106	3-19-0076-05	\$ 342,259
Airport Improvement Program	20.106	3-19-0076-06	<u>9,391</u>
			<u>351,650</u>
U.S. Department of Agriculture:			
Revolving Loan Fund	10.854	---	<u>300,000</u>
Total direct			<u>651,650</u>
Indirect:			
U.S. Department of Housing and Urban Development:			
Iowa Department of Economic Development:			
Community Development Block Grants/ State's Program	14.228	06-HSG-021	<u>84,076</u>
Total indirect			<u>84,076</u>
Total			<u><u>\$ 735,726</u></u>

Basis of Presentation - The Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Pocahontas and is presented in conformity with an other comprehensive basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

See accompanying independent auditor's report.

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

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Pocahontas, Iowa, as of and for the year ended June 30, 2010, which collectively comprise the primary government's basic financial statements listed in the table of contents, and have issued our report thereon dated October 8, 2010. Our report expressed unqualified opinions on the financial statements, except for the business type activities, 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 Pocahontas' 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 Pocahontas' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Pocahontas' internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on 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 Pocahontas' financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies in internal control over financial reporting. (Items II-A-10 and II-B-10) 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Pocahontas' 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 IV of the accompanying Schedule of Findings and Questioned Costs.

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 on 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 Pocahontas' responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the City's responses, we did not audit the City of Pocahontas' 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 Pocahontas and other parties to whom the City of Pocahontas may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

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

October 8, 2010

Independent Auditor's Report on Compliance with Requirements
Applicable to Each Major Program and on Internal Control over Compliance
in Accordance with OMB Circular A-133

To the Honorable Mayor and
Members of the City Council:

Compliance

We have audited the compliance of the City of Pocahontas, Iowa, with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal programs for the year ended June 30, 2010. The City of Pocahontas' major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to its major federal programs is the responsibility of the City of Pocahontas. Our responsibility is to express an opinion on the City of Pocahontas' compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Pocahontas' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Pocahontas' compliance with those requirements.

In our opinion, the City of Pocahontas complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended June 30, 2010.

Internal Control Over Compliance

The management of the City of Pocahontas is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grant agreements applicable to federal programs. In planning and performing our audit, we considered the City of Pocahontas' internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Pocahontas' internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

The City of Pocahontas' responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the City's responses, we did not audit the City of Pocahontas' 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 Pocahontas and other parties to whom the City of Pocahontas 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.

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

October 8, 2010

City of Pocahontas, Iowa

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

Part I: Summary of the Independent Auditor's Results:

- (a) Unqualified opinions were issued on the financial statements, except for the business-type activities, which 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.
- (b) Significant deficiencies in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) No material weaknesses in internal control over the major programs were disclosed by the audit of the financial statements.
- (e) An unqualified opinion was issued on compliance with requirements applicable to the major program.
- (f) The audit disclosed no audit findings which are required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) The major programs were CFDA Number 20.106 – Airport Improvements and CFDA Number 10.854 – Revolving Loan Fund.
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) The City of Pocahontas did not qualify as a low-risk auditee.

City of Pocahontas, Iowa

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

Part II: Findings Related to the Financial Statements:

SIGNIFICANT DEFICIENCIES:

II-A-10 Segregation of Duties - Community Center - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the same person writes checks, signs checks, posts receipts and disbursements and reconciles the bank account.

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

Response – We will investigate possible alternatives.

Conclusion – Response accepted.

II-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 Pocahontas 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 to those charged with governance.

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

City of Pocahontas, Iowa

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

Recommendation – We realize that obtaining the expertise necessary to prepare the financial statements, including all necessary disclosures, in accordance with generally accepted accounting principles can be considered costly and effective. 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 GAAP and GASB 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.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

Part III: Findings and Questioned Costs for Federal Awards

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCIES:

No matters were noted.

Part IV: Other Findings Related to Statutory Reporting:

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

Recommendation – The budget should be amended in sufficient amounts before the disbursements exceed the budget.

City of Pocahontas, Iowa

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

Response – The budget will be amended in sufficient amounts in the future, if applicable. In addition, we anticipate a software update which will further assist city personnel with monitoring budget variances.

Conclusion – Response accepted.

IV-B-10 Questionable Disbursements – No disbursements were noted that may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979.

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

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

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Gus Holzmueller – Council Member Owner of Pocahontas Ford	Auto repairs	\$ 6,112
Brian Stover – Council Member Owner of Stover Construction	Repairs	8,735
Brooks Taylor – Council Member Owner of Record Democrat	Publications	<u>3,366</u>
		<u>18,213</u>

In accordance with Chapter 362.5(4) of the Code of Iowa, the transactions with Pocahontas Ford and Stover Construction do not represent conflicts of interest as they were entered into through competitive bidding procedures.

The transaction with the newspaper does not appear to represent a conflict of interest as the Record Democrat has been designated as the City’s official newspaper.

City of Pocahontas, Iowa

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

IV-E-10 Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage is reviewed annually to insure that coverage is adequate for current operations.

IV-F-10 Council Minutes - We noted that one council meeting's minutes were not published during this past year. We also noted a few expenditures that were approved in the body of the council minutes, but were not listed as claims paid.

Recommendation – The City should comply with Chapter 21 of the Code of Iowa and publish minutes and claims as required.

Response – Not publishing one council meeting's minutes was an oversight this year. Also, we will review our procedures so the claims from the separate checking accounts are published.

Conclusion – Response accepted.

IV-G-10 Deposits and Investments - No instances of non-compliance with the deposit and investments provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.

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

IV-I-10 Telecommunications Services – No instances of non-compliance with Chapter 388.10 of the Code of Iowa were noted.

IV-J-10 Deficit Balances – There were several deficit balances noted as of June 30, 2010.

Recommendation – City officials should review these deficits in order to return these funds to a sound financial position.

Response – See footnote #11 in notes to financial statements for our plans to eliminate these deficits.

Conclusion – Response accepted.