

CITY OF WALL LAKE, IOWA

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

AS OF AND FOR THE YEAR ENDED JUNE 30, 2010

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City of Wall Lake, Iowa

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January 2010)		
Edwin Rieter	Mayor	Jan 2010
Ray Boeckman	Council Member	Jan 2010
Daryl Potthoff	Council Member	Jan 2010
John Morrow	Council Member	Jan 2012
Rob Germann	Council Member	Jan 2012
Francis Riedell	Council Member	Jan 2012
(After January 2010)		
Steve Druivenga	Mayor	Jan 2014
John Morrow	Council Member	Jan 2012
Rob Germann	Council Member	Jan 2012
Francis Riedell	Council Member	Jan 2012
Ray Boeckman	Council Member	Jan 2014
Daryl Potthoff	Council Member	Jan 2014
Marlene Anderson	City Administrator/Clerk	Resigned Nov 2010
Warren Bush	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 Wall Lake, Iowa, as of and for the year ended June 30, 2010, which collectively comprise the basic financial statements of the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Wall Lake'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.

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, the business type activities, each major fund and the aggregate remaining fund information of the City of Wall Lake 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 May 25, 2011 on our consideration of the City of Wall Lake '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 8 and 23 through 25 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 Wall Lake'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

May 25, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Wall Lake 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.

As permitted by the Code of Iowa, the City is not required to be audited annually so much of the information is not easily comparable to prior years. Comparative data has been provided if available.

2010 FINANCIAL HIGHLIGHTS

- The cash basis net assets of the City's governmental activities increased by 28.96% or 26,996 primarily to funds transfers from our proprietary funds to the general fund.
- The cash basis net assets of the City's business type activities decreased by 19.07% or \$204,752, due primarily to capital expenditures in the electric fund. The City of Wall Lake completed two large electrical projects in 2010. The Halletts project extended our electrical line south one mile to Hallett's new pit. The Twilight Acres project ran new wire to Twilight Acres from the substation. This also consisted of a new pad mount and a new generator. These two projects added roughly \$140,000 to our capital expenditures. We also had a well pump shut down and need replacing.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

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

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

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

Other Supplementary Information provides detailed information about the City's outstanding debt.

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 operational results 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 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, health and social services, culture and recreation, community and economic development and general government. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the electric, natural gas, water, sewer and solid waste systems. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Urban Renewal Tax Increment, 3) the Debt Service Fund, 4) the Permanent 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 five Enterprise Funds to provide separate information for the electric, natural gas, water, sewer, and solid waste operations.

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from a year ago, increasing from \$93,213 at June 30, 2009 to \$120,209 at June 30, 2010. 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 <u>June 30, 2010</u>
Receipts:	
Program receipts:	
Charges for service	\$ 56,124
Operating grants, contributions and restricted interest	154,179
Capital grants, contributions and restricted interest	98,801
General receipts:	
Property tax	207,919
Local option sales tax	51,567
Unrestricted interest on investments	15,722
Other general receipts	<u>222,973</u>
Total receipts	<u>807,285</u>
Disbursements:	
Public safety	94,590
Public works	132,331
Health and social services	4,700
Culture and recreation	313,836
Community and economic development	139,451
General government	111,696
Debt service	<u>53,685</u>
Total disbursements	<u>850,289</u>
Change in cash basis net assets before transfers	(43,004)
Transfers, net	<u>70,000</u>
Change in cash basis net assets	26,996
Cash basis net assets beginning of year	<u>93,213</u>
Cash basis net assets end of year	\$ <u>120,209</u>

Changes in Cash Basis Net Assets of Business Type Activities

	<u>Year ended June 30, 2010</u>
Receipts:	
Program receipts:	
Charges for service:	
Electric	\$ 783,878
Natural Gas	901,722
Water	117,700
Sewer	57,332
Solid Waste	70,443
General receipts:	
Unrestricted interest on investments	3,486
Total receipts	<u>1,934,561</u>
Disbursements:	
Electric	905,414
Natural Gas	854,611
Water	162,125
Sewer	55,788
Solid Waste	<u>91,375</u>
Total disbursements	<u>2,069,313</u>
Change in cash basis net assets before transfers	(134,752)
Transfers, net	<u>(70,000)</u>
Change in cash basis net assets	<u>(204,752)</u>
Cash basis net assets beginning of year	<u>1,073,841</u>
Cash basis net assets end of year	<u>\$ 869,089</u>

Total business type activities cash balance decreased 19.07%, or \$204,752, decreasing from \$1,073,841 at June 30, 2009 to \$869,089 at June 30, 2010. The decrease is due to an increase in capital project disbursements in the Electric Fund.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Wall Lake completed the year, its governmental funds reported a combined fund balance of \$120,209 an increase of \$26,996 from last year's total of \$93,213. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance increased \$1,275 from June 30, 2009 to \$23,321 at June 30, 2010, which is primarily due to a cash transfer of \$70,000 from the Enterprise Funds.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Electric Fund cash balance decreased \$168,900 to a June 30, 2010 year-end balance of \$666,794. This decrease is attributable to an increase in capital project disbursements.
- The Natural Gas Fund cash balance increased \$37,111 to a June 30, 2010 year-end balance of \$24,632. The increase was attributable to Principal payments on our bonds were \$41,000 less than previous year. Interest was \$3,000 less than previous year.

BUDGETARY HIGHLIGHTS

The City exceeded the amounts budgeted in the public safety, health and social services, culture and recreation, community and economic development, general government and debt service functions for the year ended June 30, 2010. The City had damages due to a hail storm that was not included in the original budgeted amounts which primarily affected the general government and culture and recreation functions.

DEBT ADMINISTRATION

At June 30, 2010, the City had \$1,147,822 in bonds and other long-term debt outstanding, compared to \$1,362,862 last year.

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 \$435,000 is significantly below its constitutional obligation debt limit of approximately \$1.6 million at June 30, 2010.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City of Wall Lake's elected and appointed officials and citizens considered many factors, including the US Consumer Price Index when setting the FY2011 budget, tax rates and fees charged for various City activities.

These indicators were taken into account when adopting the budget for FY2011. The cities property tax is set at the maximum so the only variance will be the valuation of the property. This valuation may go up slightly. Our road use tax will likely decrease slightly because our population went down a little. These two factors will likely cancel each other for a non event. Our proprietary funds should continue to increase due to the addition of customers and updating. Our electrical system has been updated to capture more volume and our largest natural gas customer will be at full capacity for the foreseeable future. These two factors along with the addition of residential natural gas customers will add nicely to our proprietary funds balances.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Chris Rodman, City Clerk/Treasurer, 108 Boyer Street, Wall Lake, Iowa 51466.

Basic Financial Statements

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

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions/Programs:				
Governmental activities:				
Public safety	\$ 94,590	2,308	10,087	-
Public works	132,331	-	79,639	-
Health and social services	4,700	-	-	-
Culture and recreation	313,836	53,816	13,703	98,801
Community and economic development	139,451	-	50,750	-
General government	111,696	-	-	-
Debt service	53,685	-	-	-
Total governmental activities	<u>850,289</u>	<u>56,124</u>	<u>154,179</u>	<u>98,801</u>
Business type activities:				
Electric	905,414	783,878	-	-
Natural Gas	854,611	901,722	-	-
Other nonmajor	309,288	245,475	-	-
Total business type activities	<u>2,069,313</u>	<u>1,931,075</u>	<u>-</u>	<u>-</u>
Total primary government	<u>\$ 2,919,602</u>	<u>1,987,199</u>	<u>154,179</u>	<u>98,801</u>

General Receipts:

Property tax levied for:
 General purposes
 Tax increment financing
 Debt service
Local option sales tax
Unrestricted interest on investments
Miscellaneous
Transfers
Total general receipts
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:
 Nonexpendable:
 Cemetery perpetual care
 Expendable:
 Streets
 Debt service
Unrestricted
 Total cash basis net assets

See notes to financial statements.

Exhibit A

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
Primary Government		
Governmental Activities	Business Type Activities	Total
(82,195)	-	(82,195)
(52,692)	-	(52,692)
(4,700)	-	(4,700)
(147,516)	-	(147,516)
(88,701)	-	(88,701)
(111,696)	-	(111,696)
<u>(53,685)</u>	<u>-</u>	<u>(53,685)</u>
<u>(541,185)</u>	<u>-</u>	<u>(541,185)</u>
-	(121,536)	(121,536)
-	47,111	47,111
-	(63,813)	(63,813)
<u>-</u>	<u>(138,238)</u>	<u>(138,238)</u>
<u>(541,185)</u>	<u>(138,238)</u>	<u>(679,423)</u>
128,739	-	128,739
64,050	-	64,050
15,130	-	15,130
51,567	-	51,567
15,722	3,486	19,208
222,973	-	222,973
70,000	(70,000)	-
<u>568,181</u>	<u>(66,514)</u>	<u>501,667</u>
26,996	(204,752)	(177,756)
93,213	1,073,841	1,167,054
<u>\$ 120,209</u>	<u>869,089</u>	<u>989,298</u>
\$ 71,000	-	71,000
28,138	-	28,138
(2,250)	142,318	140,068
23,321	726,771	750,092
<u>\$ 120,209</u>	<u>\$ 869,089</u>	<u>\$ 989,298</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>	Other Nonmajor Governmental <u>Funds</u>	<u>Total</u>
Receipts:			
Property tax	\$ 128,739	15,130	143,869
Tax increment financing	-	64,050	64,050
Local option sales tax	51,567	-	51,567
Licenses and permits	2,308	-	2,308
Use of money and property	45,250	-	45,250
Intergovernmental	74,540	79,639	154,179
Charges for service	34,746	-	34,746
Miscellaneous	310,316	-	310,316
Total receipts	<u>647,466</u>	<u>158,819</u>	<u>806,285</u>
Disbursements:			
Operating:			
Public safety	94,590	-	94,590
Public works	80,663	51,668	132,331
Health and social services	4,700	-	4,700
Culture and recreation	313,836	-	313,836
Community and economic development	92,559	46,892	139,451
General government	111,696	-	111,696
Debt Service	19,147	34,538	53,685
Total disbursements	<u>717,191</u>	<u>133,098</u>	<u>850,289</u>
Excess (deficiency) of receipts over (under) disbursement:	<u>(69,725)</u>	<u>25,721</u>	<u>(44,004)</u>
Other financing sources			
Sale of capital assets	1,000	-	1,000
Operating transfers in	70,000	17,158	87,158
Operating transfers out	-	(17,158)	(17,158)
Total other financing sources (uses)	<u>71,000</u>	<u>-</u>	<u>71,000</u>
Net change in cash balances	1,275	25,721	26,996
Cash balances beginning of year	<u>22,046</u>	<u>71,167</u>	<u>93,213</u>
Cash balances end of year	<u>\$ 23,321</u>	<u>96,888</u>	<u>120,209</u>
Cash Basis Fund Balances			
Reserved for debt service	\$ -	(2,250)	(2,250)
Unreserved:			
General fund	23,321	-	23,321
Special revenue funds	-	28,138	28,138
Permanent fund	-	71,000	71,000
Total cash basis fund balances	<u>\$ 23,321</u>	<u>96,888</u>	<u>120,209</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>Electric</u>	<u>Natural Gas</u>	<u>Other Nonmajor Funds</u>	<u>Total</u>
Operating receipts:				
Charges for service	\$ 783,878	901,722	245,475	1,931,075
Total operating receipts	<u>783,878</u>	<u>901,722</u>	<u>245,475</u>	<u>1,931,075</u>
Operating disbursements:				
Business type activities	<u>556,908</u>	<u>854,611</u>	<u>309,288</u>	<u>1,720,807</u>
Excess (deficiency) of operating receipts over (under) operating disbursements	<u>226,970</u>	<u>47,111</u>	<u>(63,813)</u>	<u>210,268</u>
Non-operating receipts (disbursements):				
Interest on investments	2,636	-	850	3,486
Capital projects	(262,800)	-	-	(262,800)
Debt service	<u>(85,706)</u>	<u>-</u>	<u>-</u>	<u>(85,706)</u>
Net non-operating receipts (disbursements)	<u>(345,870)</u>	<u>-</u>	<u>850</u>	<u>(345,020)</u>
Excess (deficiency) of receipts over (under) disbursements	<u>(118,900)</u>	<u>47,111</u>	<u>(62,963)</u>	<u>(134,752)</u>
Operating transfers out	(50,000)	(10,000)	(10,000)	(70,000)
Net change in cash balances	(168,900)	37,111	(72,963)	(204,752)
Cash balances beginning of year	835,694	(12,479)	250,626	1,073,841
Cash balances end of year	<u>\$ 666,794</u>	<u>24,632</u>	<u>177,663</u>	<u>869,089</u>
Cash Basis Fund Balances				
Reserved for debt service	142,318	-	-	142,318
Unreserved	<u>524,476</u>	<u>24,632</u>	<u>177,663</u>	<u>726,771</u>
Total cash basis fund balances	<u>\$ 666,794</u>	<u>24,632</u>	<u>177,663</u>	<u>869,089</u>

See notes to financial statements.

Statement of Changes in Fiduciary Assets and Liabilities
Agency Fund

As of and for the year ended June 30, 2010

	<u>Cafeteria Plan</u>
Additions:	
Reimbursements from employees	\$ 24,965
Deductions:	
Non-program	<u>25,910</u>
Net change in cash balances	<u>(945)</u>
Cash balances beginning of year	<u>2,562</u>
Cash balances end of year	<u><u>\$ 1,617</u></u>

See notes to financial statements.

City of Wall Lake, Iowa

Notes to Financial Statements

June 30, 2010

(1) Summary of Significant Accounting Policies

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

A. Reporting Entity

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

Jointly Governed Organizations

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

City of Wall Lake, 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 Fund.

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

Unrestricted net assets consist of net assets that 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 Wall Lake, 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 that are not paid from other funds.

The City reports the following major proprietary funds:

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

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

The City also reports an Agency Fund to account for its Cafeteria Plan for employees.

C. Measurement Focus and Basis of Accounting

The City of Wall Lake 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.

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.

City of Wall Lake, Iowa

Notes to Financial Statements

June 30, 2010

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 public safety, health and social services, culture and recreation, community and economic development, general government and debt service 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 had no investments at June 30, 2010. During the year ended June 30, 2010 the City invested its excess funds in savings accounts and certificates of deposit.

City of Wall Lake, Iowa

Notes to Financial Statements

June 30, 2010

(3) Bonds, Notes and Bank Loans Payable

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

Year Ending June 30,	General Obligation		Revenue Notes		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2011	\$ 70,000	17,422	65,000	20,025	135,000	37,447
2012	70,000	14,797	65,000	18,725	135,000	33,522
2013	70,000	12,103	65,000	17,100	135,000	29,203
2014	75,000	9,338	70,000	15,475	145,000	24,813
2015	75,000	6,300	70,000	13,375	145,000	19,675
2016-2020	75,000	3,188	300,000	29,500	375,000	32,688
Total	\$ 435,000	63,148	635,000	114,200	1,070,000	177,348

The Code of Iowa requires principal and interest on general obligation bonds be paid from the Debt Service Fund. However, \$15,000, \$85,000 and \$15,000 of general obligation principal and \$ 4,148, \$12,125 and \$5,348 of general obligation interest was paid from the General Fund, the Enterprise, Natural Gas and Enterprise, Water Fund, respectively for the year ended June 31, 2010.

Revenue Bonds/Notes

The City has pledged future electric customer receipts, net of specified operating disbursements to repay \$695,000 in Electric Revenue Bonds issued in March 2009. Proceeds from the notes provided financing for electric improvements. The notes are payable solely from electric 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 \$749,200. For the current year, principal and interest paid and total customer net receipts were \$85,706 and \$226,970 respectively.

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

- (a) The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a first lien on the future earnings of the funds.

City of Wall Lake, Iowa
Notes to Financial Statements
June 30, 2010

Bank Loans

Annual debt service requirements to maturity for bank loans are as follows:

Year Ending	Bank Midwest		Corn Belt Power		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
June 30, 2011	\$ 4,743	123	14,098	1,834	18,841	1,957
2012	-	-	15,828	1,553	15,828	1,553
2013	-	-	16,309	1,072	16,309	1,072
2014	-	-	16,805	575	16,805	575
2015	-	-	10,038	101	10,038	101
Total	\$ 4,743	123	73,079	5,135	77,822	5,258

On September 25, 2001, the City entered into a loan agreement with Bank Midwest totaling \$100,000, at 5.50% per annum interest, to be used for the City's portion of a fire truck. During the year ended June 30, 2010, \$9,630, including interest was paid under this agreement. The Community Fire Association is making the payments on this bank loan.

On December 30, 2004, the City entered into a loan agreement with Corn Belt Power Cooperative totaling \$150,000, at 3.00% per annum interest, to be used for the community center. During the year ended June 30, 2010, \$17,381, including interest, was paid under this agreement.

(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 contributions to IPERS for the year ended June 30, 2010 was \$14,852 equal to the required contributions for the year.

City of Wall Lake, Iowa
Notes to Financial Statements
June 30, 2010

(5) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation 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 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	<u>\$ 280</u>

(6) 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	\$ 10,000
	Electric	50,000
	Natural Gas	<u>10,000</u>
		<u>70,000</u>
Deb Service	Special Revenue:	
	TIF	<u>17,158</u>
Total		<u>\$ 87,158</u>

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

(7) Risk Management

The City is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 634 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and

City of Wall Lake, Iowa

Notes to Financial Statements

June 30, 2010

protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 200 percent of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-ending operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The City's property and casualty contributions to the risk pool are recorded as expenditures from its operating funds at the time of payment to the risk pool. The City's annual contributions to the Pool for the year ended June 30, 2010 were \$40,354.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000 per claim and \$10,000,000 in aggregate per year. For members requiring specific coverage from \$3,000,000 to \$10,000,000, such excess coverage is also insured. Property and automobile physical damage risks are retained by the Pool up to \$150,000 each occurrence, each location, with excess coverage reinsured by The Travelers Insurance Company.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event a series of casualty claims exhausts total member's equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. As of June 30, 2010, settled claims have not exceeded the risk pool or reinsurance coverage since the Pool's inception.

City of Wall Lake, Iowa

Notes to Financial Statements

June 30, 2010

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all casualty claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their casualty capital contributions. If a member withdraws after the sixth year, the member is refunded 100 percent of its casualty capital contributions. However, the refund is reduced by an amount equal to the annual casualty operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

The City also carries commercial insurance purchased from other insurers for coverage associated with workers compensation in the amount of \$1,000,000. The City assumes liability for any deductibles, and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(8) Deficit Balances

The Debt Service Fund had a deficit fund balance of \$2,250 at June 30, 2010. The deficit balance is a result of omitting bond payments from the budget of prior years. The deficit should be eliminated by increasing the debt service levy.

The Enterprise, Solid Waste Fund had a deficit balance of \$63,845. The deficit balance is a result of insufficient rates. The City will review current rates and consider rate increases to eliminate the deficit.

(9) Construction Commitments

The City has committed to an electric line distribution project for approximately \$175,000.

(10) Subsequent Events

The City has evaluated subsequent events through May 25, 2011, the date the financial statements were available to be issued.

Required Supplementary Information

City of Wall Lake, 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	\$ 143,869	-
Tax increment financing	64,050	-
Local option sales tax	51,567	-
Licenses and permits	2,308	-
Use of money and property	45,250	3,486
Intergovernmental	154,179	-
Charges for service	34,746	1,931,075
Miscellaneous	<u>310,316</u>	<u>-</u>
Total receipts	<u>806,285</u>	<u>1,934,561</u>
Disbursements:		
Public safety	94,590	-
Public works	132,331	-
Health and social services	4,700	-
Culture and recreation	313,836	-
Community and economic development	139,451	-
General government	111,696	-
Debt Service	53,685	-
Business type activities	<u>-</u>	<u>2,069,313</u>
Total disbursements	<u>850,289</u>	<u>2,069,313</u>
Excess (deficiency) of receipts over (under) disbursements	<u>(44,004)</u>	<u>(134,752)</u>
Other financing sources	<u>71,000</u>	<u>(70,000)</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements	26,996	(204,752)
Balances beginning of year	<u>93,213</u>	<u>1,073,841</u>
Balances end of year	<u>\$ 120,209</u>	<u>869,089</u>

See accompanying independent auditor's report.

<u>Net</u>	<u>Budgeted Amounts</u>		<u>Final to Net Variance</u>
	<u>Original</u>	<u>Final</u>	
143,869	143,432	143,432	437
64,050	70,743	70,743	(6,693)
51,567	50,000	50,000	1,567
2,308	-	-	2,308
48,736	-	-	48,736
154,179	82,000	82,000	72,179
1,965,821	2,556,500	2,556,500	(590,679)
<u>310,316</u>	<u>-</u>	<u>-</u>	<u>310,316</u>
<u>2,740,846</u>	<u>2,902,675</u>	<u>2,902,675</u>	<u>(161,829)</u>
94,590	45,500	45,500	(49,090)
132,331	142,000	142,000	9,669
4,700	3,000	3,000	(1,700)
313,836	150,000	150,000	(163,836)
139,451	73,108	73,108	(66,343)
111,696	38,500	38,500	(73,196)
53,685	40,016	40,016	(13,669)
<u>2,069,313</u>	<u>2,635,000</u>	<u>2,635,000</u>	<u>565,687</u>
<u>2,919,602</u>	<u>3,127,124</u>	<u>3,127,124</u>	<u>207,522</u>
<u>(178,756)</u>	<u>(224,449)</u>	<u>(224,449)</u>	<u>45,693</u>
<u>1,000</u>	<u>-</u>	<u>-</u>	<u>1,000</u>
(177,756)	(224,449)	(224,449)	46,693
<u>1,167,054</u>	<u>403,488</u>	<u>403,488</u>	<u>763,566</u>
<u>989,298</u>	<u>179,039</u>	<u>179,039</u>	<u>810,259</u>

City of Wall Lake, 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 ended June 30, 2010, disbursements exceeded the amounts budgeted in the public safety, health and social services, culture and recreation, community and economic development, general government and debt service functions.

Other Supplementary Information

City of Wall Lake, Iowa

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

As of and for the year ended June 30, 2010

	<u>Special Revenue</u>	
	<u>Road Use</u>	<u>TIF</u>
Receipts:		
Property tax	\$ -	-
Tax increment financing	-	64,050
Intergovernmental	<u>79,639</u>	-
Total receipts	<u>79,639</u>	<u>64,050</u>
Disbursements:		
Public works	51,668	-
Community and economic development	-	46,892
Debt Service	<u>-</u>	<u>-</u>
Total disbursements	<u>51,668</u>	<u>46,892</u>
Excess (deficiency) of receipts over (under) disbursements	<u>27,971</u>	<u>17,158</u>
Other financing sources (uses)		
Operating transfers in	-	-
Operating transfers out	<u>-</u>	<u>(17,158)</u>
Total other financing sources (uses)	<u>-</u>	<u>(17,158)</u>
Net change in cash balances	27,971	-
Cash balances beginning of year	<u>167</u>	<u>-</u>
Cash balances end of year	<u>\$ 28,138</u>	<u>-</u>
Cash Basis Fund Balances		
Reserved:		
Debt service	-	-
Unreserved:		
Special revenue funds	\$ 28,138	-
Permanent fund	<u>-</u>	<u>-</u>
Total cash basis fund balances	<u>\$ 28,138</u>	<u>-</u>

See accompanying independent auditor's report.

Schedule 1

<u>Debt Service</u>	<u>Permanent Cemetery Perpetual Care</u>	<u>Total</u>
15,130	-	15,130
-	-	64,050
-	-	<u>79,639</u>
<u>15,130</u>	<u>-</u>	<u>158,819</u>
-	-	51,668
-	-	46,892
<u>34,538</u>	<u>-</u>	<u>34,538</u>
<u>34,538</u>	<u>-</u>	<u>133,098</u>
<u>(19,408)</u>	<u>-</u>	<u>25,721</u>
17,158	-	17,158
-	-	<u>(17,158)</u>
<u>17,158</u>	<u>-</u>	<u>-</u>
(2,250)	-	25,721
<u>-</u>	<u>71,000</u>	<u>71,167</u>
<u>(2,250)</u>	<u>71,000</u>	<u>96,888</u>
(2,250)	-	(2,250)
-	-	28,138
<u>-</u>	<u>71,000</u>	<u>71,000</u>
<u>(2,250)</u>	<u>71,000</u>	<u>96,888</u>

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

As of and for the year ended June 30, 2010

	Enterprise Funds			
	Water	Sewer	Solid Waste	Total
Operating receipts:				
Charges for service	\$ 117,700	\$ 57,332	70,443	245,475
Total operating receipts	<u>117,700</u>	<u>57,332</u>	<u>70,443</u>	<u>245,475</u>
Operating disbursements:				
Business type activities	<u>162,125</u>	<u>55,788</u>	<u>91,375</u>	<u>309,288</u>
Excess (deficiency) of operating receipts over (under) operating disbursements	<u>(44,425)</u>	<u>1,544</u>	<u>(20,932)</u>	<u>(63,813)</u>
Non-operating receipts (disbursements):				
Interest on investments	<u>850</u>	<u>-</u>	<u>-</u>	<u>850</u>
Net non-operating receipts (disbursements)	<u>850</u>	<u>-</u>	<u>-</u>	<u>850</u>
Excess (deficiency) of receipts over (under) disbursements	<u>(43,575)</u>	<u>1,544</u>	<u>(20,932)</u>	<u>(62,963)</u>
Operating transfers out	(10,000)	-	-	(10,000)
Net change in cash balances	(53,575)	1,544	(20,932)	(72,963)
Cash balances beginning of year	<u>252,757</u>	<u>40,782</u>	<u>(42,913)</u>	<u>250,626</u>
Cash balances end of year	<u>\$ 199,182</u>	<u>\$ 42,326</u>	<u>(63,845)</u>	<u>177,663</u>
Cash Basis Fund Balances				
Unreserved	<u>199,182</u>	<u>42,326</u>	<u>(63,845)</u>	<u>177,663</u>
Total cash basis fund balances	<u>\$ 199,182</u>	<u>\$ 42,326</u>	<u>(63,845)</u>	<u>177,663</u>

See notes to financial statements.

City of Wall Lake, 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:			
Street improvement notes	Jun 28, 2000	5.75 %	\$ 130,000
Corporate purpose and refunding bonds	Mar 01, 2006	3.50-4.25	870,000
Total			
Revenue notes:			
Electric	Mar 15, 2009	2.00-4.00 %	\$ 695,000
Bank loans:			
Fire truck	Sept 25, 2001	5.50 %	\$ 100,000
Community center	Dec 30, 2004	3.00	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>
16,398	-	16,398	-	760	-
<u>550,000</u>	<u>-</u>	<u>115,000</u>	<u>435,000</u>	<u>21,620</u>	<u>-</u>
<u>566,398</u>	<u>-</u>	<u>131,398</u>	<u>435,000</u>	<u>22,380</u>	<u>-</u>
<u>695,000</u>	<u>-</u>	<u>60,000</u>	<u>635,000</u>	<u>25,706</u>	<u>-</u>
13,440	-	8,697	4,743	933	-
<u>88,024</u>	<u>-</u>	<u>14,945</u>	<u>73,079</u>	<u>2,436</u>	<u>-</u>
<u>101,464</u>	<u>-</u>	<u>23,642</u>	<u>77,822</u>	<u>3,369</u>	<u>-</u>

Bond and Note Maturities

June 30, 2010

Year Ending June 30,	<u>General Obligation Bonds</u>		<u>Revenue Notes</u>		<u>Total</u>
	Corporate Purpose and Refunding Bonds		Electric		
	Issued Mar 1, 2006		Issued Mar 15, 2009		
	Interest		Interest		
	<u>Rates</u>	<u>Amount</u>	<u>Rates</u>	<u>Amount</u>	
2011	3.75 %	\$ 70,000	2.00 %	\$ 65,000	135,000
2012	3.85	70,000	2.50	65,000	135,000
2013	3.95	70,000	2.50	65,000	135,000
2014	4.05	75,000	3.00	70,000	145,000
2015	4.15	75,000	3.00	70,000	145,000
2016	4.25	75,000	3.50	70,000	145,000
2017		-	3.50	75,000	75,000
2018		-	4.00	75,000	75,000
2019		-	4.00	80,000	80,000
Total		<u>\$ 435,000</u>		<u>\$ 635,000</u>	<u>1,070,000</u>

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 Wall Lake, Iowa, as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements listed in the table of contents and have issued our report thereon dated May 25, 2011. Our report on the financial statements, which were prepared in conformity with an other comprehensive basis of accounting, expressed qualified opinions since we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2009. Except as noted in the Independent Auditor's Report, we conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Wall Lake'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 Wall Lake's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Wall Lake's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, we identified 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 a material misstatement of the City of Wall Lake's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency described in Part I of the accompanying Schedule of Findings as items I-A-10, I-B-10, I-C-10 and I-D-10 to be a material weaknesses.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Wall Lake'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 Wall Lake'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 Wall Lake'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 Wall Lake and other parties to whom the City of Wall Lake 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 Wall Lake 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

May 25, 2011

City of Wall Lake, Iowa

Schedule of Findings

Year ended June 30, 2010

Part I: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

SIGNIFICANT 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. We noted that certain functions are not entirely segregated, such as preparing receipts and posting utility billing.

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

Response – We feel we are doing the best we can with the limited personnel we have.

Conclusion – Response acknowledged.

I-B-10 Reconciliation of Utility Billings, Collections and Delinquencies – Utility billings, collections and delinquent accounts were not reconciled throughout the year and a delinquent accounts listing was not prepared. Also, utility collections were not reconciled to deposits.

Recommendation – A listing of delinquent accounts should be prepared on a monthly basis. Procedures should be established to reconcile utility billings, collections and delinquencies for each billing period and to reconcile collections to deposits. The Council or a Council-designated independent person should review the reconciliations and monitor delinquencies.

Response – A new billing system has been implemented and delinquency reports are now printed monthly. We will start reconciling the utility billings, collections and delinquencies for each billing period and to reconcile collections to deposits.

Conclusion – Response accepted.

City of Wall Lake, Iowa

Schedule of Findings

Year ended June 30, 2010

I-C-10 Authorized Signatures on Disbursements – For two transactions there was only one authorized signature instead of the required two signatures.

Recommendation – The City should make sure there are two authorized signatures on all checks.

Response – We will make sure two authorized signatures are on all checks.

Conclusion – Responses accepted.

I-D-10 Records of Accounts – The City maintains separate bank accounts for the swimming pool, community center, library building, economic development, parks and recreation, and the Wall Lake Wellness Room. The financial transactions and the resulting balances were not entirely included in the City’s accounting records and were not included in the City’s annual budget or monthly financial reports. However, those financial transactions and the resulting balances are included in these financial statements.

Recommendation – Chapter 384.20 of the Code of Iowa states, in part, “A City shall keep accounts which show an accurate and detailed statement of all public funds collected, received or expended for any City’s purpose.” For better accountability, financial and budgetary control, the financial activity and balances of all City accounts should be included in the City’s accounting records and annual budget and should be reported to the Council on a monthly basis.

Response – We will include all of the transactions in the separate accounts on the City’s records.

Conclusion – Response accepted.

City of Wall Lake, Iowa

Schedule of Findings

Year ended June 30, 2010

- I-E-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 Wall Lake 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.

Recommendation – We realize that obtaining the expertise necessary 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 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.

City of Wall Lake, 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 public safety, health and social services, culture and recreation, community and economic development, general government and debt service activities functions. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual continuing appropriation.”

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

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

Conclusion – Response accepted.

II-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.

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>Transaction Description</u>	<u>Amount</u>
Rob Germann, Council Member, Owner Jamboree Foods	Community Center supplies	\$1,480
John Morrow, Council Member John D. Morrow, CPA	Accounting services	130

In accordance with Chapter 362.5(10) of the Code of Iowa, the transactions with the Council Members do not appear to represent conflicts of interest since total transactions with each individual were less than \$2,500 during the fiscal year.

City of Wall Lake, Iowa

Schedule of Findings

Year ended June 30, 2010

II- 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.

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 disbursements by fund and a summary of all receipts to be published. We noted that while the publications included the list of claims and their purpose, they did not include the disbursements by fund or summary of receipts.

Chapter 21 of the Code of Iowa requires proper documentation of closed sessions. The City did not always document the specific exemption under Chapter 21.5 when documenting the closed session meetings.

Recommendation – The City should publish disbursements by fund and a summary of all receipts as required by Chapter 372.13(6) of the Code of Iowa and to properly document all closed sessions by identifying the specific exemption under Chapter 21.5 of the Code.

Response – We will do this.

Conclusion – Response accepted.

II-G-10 Deposits and Investments - The City of Wall Lake could not provide a depository resolution or a written investment policy.

Recommendation – Chapter 12B.10B of the Code of Iowa states “Political Subdivisions shall approve written investment policies which incorporate the guidelines specified in section 12B.10, sections 12B.10A through 12B.10C, and any other provisions deemed necessary to adequately safeguard invested public funds.” The City should adopt a written investment policy and depository resolution to comply with the Code of Iowa and to implement added controls over City funds.

Response – We will locate our existing resolutions or will adopt a written investment policy and a depository resolution if there are no existing resolutions.

Conclusion – Response accepted.

City of Wall Lake, Iowa

Schedule of Findings

Year ended June 30, 2010

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

II-I-10 Payment of General Obligation Bonds – Certain general obligation bonds were paid from the General Fund, the Enterprise, Natural Gas and Enterprise, Water Fund. Chapter 384.4 of the Code of Iowa states, in part “Moneys pledged or available to service general obligation bonds, and received from sources other than property tax, must be deposited in the debt service fund.”

Recommendation – The City should transfer from the Enterprise, Natural Gas and Enterprise, Water Fund to the Debt Service Fund for future funding contributions. Payment of the bonds should then be disbursed from the Debt Service Fund.

Response – We will transfer in the future as recommended.

Conclusion – Response accepted.

II-J-10 Sales Tax – Sales tax on water services provided to non-residential commercial operations were not uniformly assessed.

Recommendation – The City should uniformly assess sales tax on water services Provided to non-residential commercial operations in accordance with section 701-26.72 of the Iowa Department of Revenue Administration Rules and Regulations..

Response – A new billing system has been implemented and the taxes are now being uniformly assessed.

Conclusion – Response accepted.

II-K10 Financial Condition – The Debt Service Fund and the Enterprise, Solid Waste Fund had deficit balances of \$2,250 and \$63,845, respectively at June 30, 2010.

Recommendation – The City should investigate alternatives to return these funds to a sound financial position.

Response – See footnote #8 in notes to the financial statements for an explanation of how the City intends to eliminate these deficits.

Conclusion – Response accepted.