

CITY OF GILBERT, 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 Gilbert, Iowa

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January 2010)		
Jonathan C. Popp	Mayor	Jan 2010
Lynn Henn	Mayor Pro Tem	Jan 2010
Teri Gallahan	Council Member	Jan 2010
Sharon Anderson	Council Member	Jan 2012
Jamie Miller	Council Member	Jan 2012
Chad Cook	Council Member	Jan 2012
Susan Gens	Clerk	Indefinite
Franklin J. Feilmeyer	Attorney	Indefinite
(After January 2010)		
Jonathan C. Popp	Mayor	Jan 2012
Sharon Anderson	Mayor Pro Tem	Jan 2012
Jamie Miller	Council Member	Jan 2012
Lynn Henn	Council Member	Jan 2012
Katie Jerkins	Council Member	Jan 2014
Teri Gallahan	Council Member	Jan 2014
Susan Gens	Clerk	June 2011
Franklin J. Feilmeyer	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 Gilbert, 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 Gilbert'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, each major fund and the aggregate remaining fund information for the City of Gilbert 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 February 7, 2011 on our consideration of the City of Gilbert'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 21 through 23 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 Gilbert's basic financial statements. Other supplementary information included in Schedule 1, 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

February 7, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Gilbert 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 3.012% or \$14,900, due primarily to an overall decrease in disbursements.
- The cash basis net assets of the City's business type activities decreased by 8.622% or \$42,849, due primarily to an overall increase in disbursements.

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 water, sewer and storm sewer 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, Local Option Sales Tax and Employee Benefits. 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.

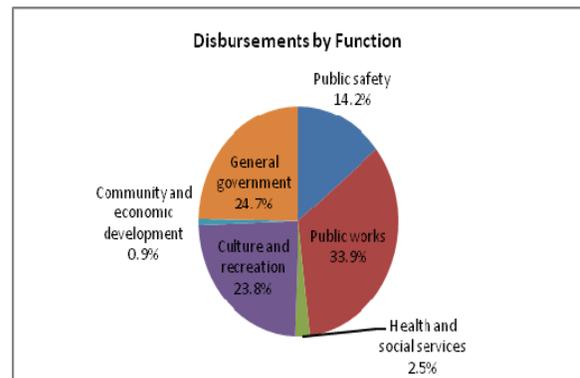
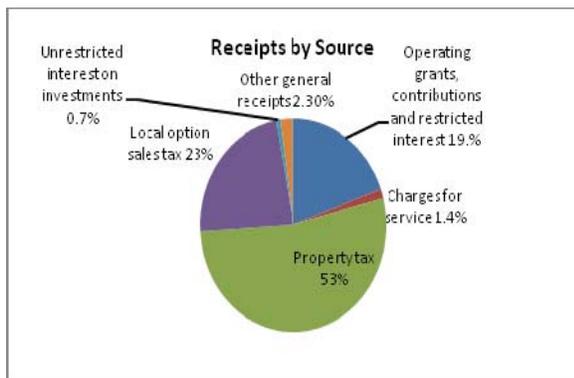
2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains three Enterprise Funds to provide separate information for the water, sewer, and storm sewer operations, considered to be major funds of the City.

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City’s cash balance for governmental activities increased from a year ago, increasing from \$494,699 at June 30, 2009 to \$509,599 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	\$ 6,772
Operating grants, contributions and restricted interest	92,556
General receipts:	
Property tax	250,573
Local option sales tax	108,463
Unrestricted interest on investments	3,413
Other general receipts	<u>10,613</u>
Total receipts	472,390
Disbursements:	
Public safety	64,853
Public works	155,134
Health and social services	11,213
Culture and recreation	108,848
Community and economic development	4,340
General government	<u>113,102</u>
Total disbursements	457,490
Increase in cash basis net assets	14,900
Cash basis net assets beginning of year	<u>494,699</u>
Cash basis net assets end of year	509,599



Changes in Cash Basis Net Assets of Business Type Activities

	<u>Year ended June 30, 2010</u>
Receipts:	
Program receipts:	
Charges for service:	
Water	\$ 157,019
Sewer	68,827
Storm sewer	10,943
Miscellaneous:	
Water	361
Sewer	5,700
Storm sewer	50
General receipts:	
Unrestricted interest on investments	9,548
Total receipts	<u>252,448</u>
Disbursements:	
Water	113,709
Sewer	134,084
Storm sewer	47,504
Total disbursements	<u>295,297</u>
Decrease in cash basis net assets	(42,849)
Cash basis net assets beginning of year	<u>539,815</u>
Cash basis net assets end of year	<u>\$ 496,966</u>

Total business type activities cash balance decreased 8.622%, or \$42,849, decreasing from \$539,815 at June 30, 2009 to \$496,966 at June 30, 2010. The decrease is due to an increase in disbursements.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Gilbert completed the year, its governmental funds reported a combined fund balance of \$509,599, an increase of \$14,900 from last year's total of \$494,699. 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 \$106,677 from June 30, 2009 to \$383,594 at June 30, 2010, which is primarily due to a cash transfer of \$139,385 from the Local Option Sales Tax Fund.

The Road Use Tax Fund cash balance decreased \$40,503 from June 30, 2009 to \$75,778 at June 30, 2010. The decrease was attributable to an increase in total operating disbursements, primarily due to a street project and new development project.

- The Local Option Sales Tax Fund cash balance decreased \$46,874 to \$45,718 at June 30, 2010. The decrease is primarily due to a cash transfer to the General Fund and a decrease in Local Option Sales Tax revenue received.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance increased \$45,020 to a June 30, 2010 year-end balance of \$183,345. This increase is attributable to a decrease in total operating disbursements, primarily due to a prior year meter interface project.
- The Sewer Fund cash balance decreased \$51,358 to a June 30, 2010 year-end balance of \$275,059. The decrease was attributable to an increase in total operating disbursements, primarily due to a sewer project/new development project.
- The Storm Sewer Fund cash balance decreased \$36,511 to a June 30, 2010 year-end balance of \$38,562. The decrease was attributable to an increase in total operating disbursements, primarily due to a new development project.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget once. The amendment was approved February 22, 2010 and resulted in an increased in budgeted disbursements of \$128,709 related to non-budgeted disbursements for street projects in public works and new development projects in sewer and storm sewer.

DEBT ADMINISTRATION

At June 30, 2010, the City had \$0 in bonds and other long-term debt outstanding, compared to \$0 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 did not have any outstanding general obligation debt. The City's constitutional debt limit is \$2,588,924 at June 30, 2010.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City of Gilbert'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 FY2011 budget contains total receipts of \$951,611; however, mid-year analysis shows a decrease in total receipts of 8.32% or approximately \$79,187. The FY2011 budget contains total disbursements of \$845,925; however, mid-year analysis shows an increase in total disbursements of 1.54%, or \$13,022, with additional increases expected prior to year-end due to the August 2010 Flood Disaster costs. A FY2011 budget amendment will be essential.

These parameters were taken into account when adopting the budget for FY2011.

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 Susan Gens, City Clerk/Treasurer, 119 Main Street, Gilbert, Iowa 50105.

Basic Financial Statements

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

		Program Receipts	
	Charges for	Operating Grants, Contributions, and Restricted	Capital Grants, Contributions, and Restricted
<u>Disbursements</u>	<u>Service</u>	<u>Interest</u>	<u>Interest</u>
Functions/Programs:			
Governmental activities:			
Public safety	\$ 64,853	4,247	-
Public works	155,134	-	91,556
Health and social services	11,213	-	-
Culture and recreation	108,848	2,525	1,000
Community and economic development	4,340	-	-
General government	113,102	-	-
Total governmental activities	457,490	6,772	92,556
Business type activities:			
Water	113,709	157,019	-
Sewer	134,084	68,827	-
Storm Sewer	47,504	10,943	-
Total business type activities	295,297	236,789	-
Total	\$ 752,787	243,561	92,556

General Receipts:

Property and other city tax levied for:
 General purposes
Local option sales tax
Unrestricted interest on investments
Miscellaneous
Total general receipts and transfers
Change in cash basis net assets
Cash basis net assets beginning of year
Cash basis net assets end of year

Cash Basis Net Assets

Restricted:
 Expendable:
 Streets
 Parks
 Other purposes
Unrestricted

Total cash basis net assets

See notes to financial statements.

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

Governmental Activities	Business Type Activities	Total
(60,606)	-	(60,606)
(63,578)	-	(63,578)
(11,213)	-	(11,213)
(105,323)	-	(105,323)
(4,340)	-	(4,340)
<u>(113,102)</u>	<u>-</u>	<u>(113,102)</u>
<u>(358,162)</u>	<u>-</u>	<u>(358,162)</u>
-	43,310	43,310
-	(65,257)	(65,257)
<u>-</u>	<u>(36,561)</u>	<u>(36,561)</u>
<u>-</u>	<u>(58,508)</u>	<u>(58,508)</u>
<u>(358,162)</u>	<u>(58,508)</u>	<u>(416,670)</u>
250,573	-	250,573
108,463	-	108,463
3,413	9,548	12,961
<u>10,613</u>	<u>6,111</u>	<u>16,724</u>
<u>373,062</u>	<u>15,659</u>	<u>388,721</u>
14,900	(42,849)	(27,949)
<u>494,699</u>	<u>539,815</u>	<u>1,034,514</u>
<u>\$ 509,599</u>	<u>496,966</u>	<u>1,006,565</u>
\$ 75,778	-	75,778
12,500		
50,227	-	50,227
<u>371,094</u>	<u>496,966</u>	<u>868,060</u>
<u>\$ 509,599</u>	<u>496,966</u>	<u>1,006,565</u>

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

		Special Revenue	
	General	Road Use Tax	Local Option Tax
Receipts:			
Property tax	\$ 216,352	-	-
Other city tax	-	-	108,463
Licenses and permits	6,574	-	-
Use of money and property	3,413	-	-
Intergovernmental	1,000	91,556	-
Charges for service	2,525	-	-
Miscellaneous	8,285	-	-
Total receipts	238,149	91,556	108,463
Disbursements:			
Operating:			
Public safety	62,507	-	-
Public works	10,364	132,059	-
Health and social services	261	-	10,952
Culture and recreation	96,188	-	5,000
Community and economic development	4,340	-	-
General government	97,197	-	-
Total disbursements	270,857	132,059	15,952
Excess (deficiency) of receipts over (under) disbursements	(32,708)	(40,503)	92,511
Other financing sources (uses):			
Operating transfers in	139,385	-	-
Operating transfers out	-	-	(139,385)
Total other financing sources (uses)	139,385	-	(139,385)
Net change in cash balances	106,677	(40,503)	(46,874)
Cash balances beginning of year	276,917	116,281	92,592
Cash balances end of year	\$ 383,594	75,778	45,718
Cash Basis Fund Balances			
Unreserved:			
General fund	383,594	-	-
Special revenue funds	-	75,778	45,718
Total cash basis fund balances	\$ 383,594	75,778	45,718

See notes to financial statements.

Exhibit B

<u>Nonmajor</u>	<u>Total</u>
34,222	250,574
-	108,463
-	6,574
-	3,413
-	92,556
-	2,525
-	8,285
<u>34,222</u>	<u>472,390</u>
2,346	64,853
12,711	155,134
-	11,213
7,660	108,848
-	4,340
<u>15,905</u>	<u>113,102</u>
<u>38,622</u>	<u>457,490</u>
<u>(4,400)</u>	<u>14,900</u>
-	139,385
<u>-</u>	<u>(139,385)</u>
<u>-</u>	<u>-</u>
(4,400)	14,900
<u>8,909</u>	<u>494,699</u>
<u>4,509</u>	<u>509,599</u>
-	383,594
<u>4,509</u>	<u>126,005</u>
<u>4,509</u>	<u>509,599</u>

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 Utility	Sewer Utility	Storm Sewer Utility	Total
Operating receipts:				
Charges for service	\$ 157,019	68,827	10,943	236,789
Miscellaneous	<u>361</u>	<u>5,700</u>	<u>50</u>	<u>6,111</u>
Total operating receipts	<u>157,380</u>	<u>74,527</u>	<u>10,993</u>	<u>242,900</u>
Operating disbursements:				
Business type activities	<u>113,709</u>	<u>134,084</u>	<u>47,504</u>	<u>295,297</u>
Total operating disbursements	<u>113,709</u>	<u>134,084</u>	<u>47,504</u>	<u>295,297</u>
Excess of operating receipts over operating disbursements	<u>43,671</u>	<u>(59,557)</u>	<u>(36,511)</u>	<u>(52,397)</u>
Non-operating receipts (disbursements):				
Interest on investments	<u>1,349</u>	<u>8,199</u>	<u>-</u>	<u>9,548</u>
Total non-operating receipts (disbursements)	<u>1,349</u>	<u>8,199</u>	<u>-</u>	<u>9,548</u>
Excess (deficiency) of receipts over (under) disbursements	<u>45,020</u>	<u>(51,358)</u>	<u>(36,511)</u>	<u>(42,849)</u>
Net change in cash balances	45,020	(51,358)	(36,511)	(42,849)
Cash balances beginning of year	<u>138,325</u>	<u>326,417</u>	<u>75,073</u>	<u>539,815</u>
Cash balances end of year	<u>\$ 183,345</u>	<u>275,059</u>	<u>38,562</u>	<u>496,966</u>
Cash Basis Fund Balances				
Unreserved	<u>183,345</u>	<u>275,059</u>	<u>38,562</u>	<u>496,966</u>
Total cash basis fund balances	<u>\$ 183,345</u>	<u>275,059</u>	<u>38,562</u>	<u>496,966</u>

See notes to financial statements.

City of Gilbert, Iowa

Notes to Financial Statements

June 30, 2010

(1) Summary of Significant Accounting Policies

The City of Gilbert is a political subdivision of the State of Iowa located in Story County. It was first incorporated in 1904 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 storm sewer utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, City of Gilbert 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 a several jointly governed organizations that provides 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: Story County Assessor's Conference Board, Story County Emergency Management Commission, Story County joint E911 Service Board and the Westory Fire Agency.

City of Gilbert, 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.

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.

City of Gilbert, Iowa

Notes to Financial Statements

June 30, 2010

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

The City reports the following major governmental funds:

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

Special Revenue:

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

The Local Option Sales Tax Fund is used to account for local option sales tax received and its uses.

The City reports the following major proprietary funds:

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

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

The Enterprise, Storm Sewer Fund accounts for the operation and maintenance of the City's storm sewer system.

C. Measurement Focus and Basis of Accounting

The City of Gilbert 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 Gilbert, 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.

(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 improvements certificates of a drainage district.

City of Gilbert, Iowa

Notes to Financial Statements

June 30, 2010

(3) Pension and Retirement Benefits

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

Most regular plan members are required to contribute 4.30% of their annual salary and the City is required to contribute 6.65% of annual covered payroll. Contribution requirements are established by state statute. The City's contribution to IPERS for the year ended June 30, 2010 was \$9,479 equal to the required contributions for the year.

(4) Other Postemployment Benefits (OPEB)

Plan description – The City operates a single-employer health benefit plan which provides medical/prescription drug benefits for employees and retirees and their spouses. There are 3 active and no retired members in the plan. Participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with TruNorth. 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 \$793 for single coverage. There are no members with family coverage. The same monthly premiums apply to retirees. For the year ended June 30, 2010, the City contributed \$27,992 and plan members eligible for benefits contributed \$0 to the plan.

City of Gilbert, Iowa

Notes to Financial Statements

June 30, 2010

(5) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation time hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned 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>5,800</u>

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

(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	Special Revenue: Local Option Sales Tax	\$ <u>139,385</u>

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

(7) Industrial Development Bonds

The City has issued a total of \$3,100,000 of industrial development revenue bonds under the provisions of Chapter 419 of the Code of Iowa, of which \$2,064,212 is outstanding at June 31, 2010. The bonds and related interest are payable solely from rents payable by the tenants of the properties constructed and the bond and interest do not constitute liabilities of the City.

City of Gilbert, Iowa

Notes to Financial Statements

June 30, 2010

(8) Risk Management

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

(9) Resource Recovery Plant

The City has contracted with the City of Ames for the use and support of the Ames Solid Waste Reclamation, Recycling and Disposal System (Ames System). Under the contract terms, the City of Gilbert is responsible for a proportionate share, based on the City of Gilbert's population to the total population of all participating jurisdictions, of the Ames System's annual operating and debt service costs until June 30, 2014.

Payments under the contract are due on July 15th and December 15th of each year in equal amounts. During the year ended June 30, 2010, the City paid the Ames System \$10,364.

(10) Construction Commitments

The East Entrance Development project will be approximately 84,000 which will be paid from road use tax funds. As of June 30, 2010, \$72,000 has been spent on this project.

(11) Subsequent Events

The City has evaluated subsequent events through February 7, 2011, the date the financial statements were available to be issued.

The City obtained extensive flood damage in August 2010, the City estimates approximately \$200,000 in costs to repair the damages. These estimated costs will be funded 85% by FEMA.

Required Supplementary Information

City of Gilbert, 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	\$ 250,574	-
Other city tax	108,463	-
Licenses and permits	6,574	-
Use of money and property	3,413	-
Intergovernmental	92,556	-
Charges for service	2,525	236,789
Miscellaneous	8,285	15,659
Total receipts	<u>472,390</u>	<u>252,448</u>
Disbursements:		
Public safety	64,853	-
Public works	155,134	-
Health and social services	11,213	-
Culture and recreation	108,848	-
Community and economic development	4,340	-
General government	113,102	-
Business type activities	-	295,297
Total disbursements	<u>457,490</u>	<u>295,297</u>
Excess (deficiency) of receipts over (under) disbursements	14,900	(42,849)
Other financing sources, net	<u>-</u>	<u>-</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	14,900	(42,849)
Balances beginning of year	<u>494,699</u>	<u>539,815</u>
Balances end of year	<u>\$ 509,599</u>	<u>496,966</u>

See accompanying independent auditor's report.

<u>Net</u>	<u>Original</u>	<u>Final</u>	Final to Net <u>Variance</u>
250,574	248,819	248,819	1,755
108,463	109,979	116,500	(8,037)
6,574	7,000	7,000	(426)
3,413	27,000	21,000	(17,587)
92,556	84,882	92,648	(92)
239,314	254,065	254,050	(14,736)
23,944	2,100	9,000	14,944
<u>724,838</u>	<u>733,845</u>	<u>749,017</u>	<u>(24,179)</u>
64,853	66,588	67,315	2,462
155,134	118,720	155,528	394
11,213	10,940	11,545	332
108,848	122,112	119,292	10,444
4,340	8,000	8,000	3,660
113,102	109,500	120,709	7,607
295,297	233,005	315,185	19,888
<u>752,787</u>	<u>668,865</u>	<u>797,574</u>	<u>44,787</u>
(27,949)	64,980	(48,557)	20,608
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
(27,949)	64,980	(48,557)	20,608
1,034,514	970,535	1,032,223	2,291
<u>1,006,565</u>	<u>1,035,515</u>	<u>983,666</u>	<u>22,899</u>

City of Gilbert, 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 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, one budget amendment increased budgeted receipts by \$15,172 and budgeted disbursements by \$128,709. The budget amendments are reflected in the final budgeted amounts.

Other Supplementary Information

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances

As of and for the year ended June 30, 2010

	<u>Special Revenue</u>		
	<u>Employee</u>	<u>Community</u>	
	<u>Benefits</u>	<u>Disaster</u>	<u>Total</u>
Receipts:			
Property tax	\$ 34,222	-	34,222
Total receipts	<u>34,222</u>	<u>-</u>	<u>34,222</u>
Disbursements:			
Operating:			
Public safety	54	2,292	2,346
Public works	12,711	-	12,711
Culture and recreation	7,660	-	7,660
General government	15,905	-	15,905
Total disbursements	<u>36,330</u>	<u>2,292</u>	<u>38,622</u>
Excess (deficiency) of receipts over (under) disbursements	<u>(2,108)</u>	<u>(2,292)</u>	<u>(4,400)</u>
Net change in cash balances	(2,108)	(2,292)	(4,400)
Cash balances beginning of year	6,617	2,292	8,909
Cash balances end of year	<u>\$ 4,509</u>	<u>-</u>	<u>4,509</u>
Cash Basis Fund Balances			
Unreserved:			
Special revenue funds	4,509	-	4,509
Total cash basis fund balances	<u>\$ 4,509</u>	<u>-</u>	<u>4,509</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 Gilbert, 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 February 7, 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 June 30, 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 Gilbert'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 Gilbert's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Gilbert'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 Gilbert's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in Part I of the accompanying Schedule of Findings as item I-A-10 to be a material weakness.

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-B-10 to be a significant deficiency.

Compliance and Other Matters

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

February 7, 2011

City of Gilbert, 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. The cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal are all done by the same person.

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

Response – We continually review our procedures and have implemented a review and approval process by the Mayor and the Council of all revenue posting journals and all disbursements.

Conclusion - Response accepted.

I-B-10 Preparation of Financial Statements, Including Disclosures to 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 Gilbert does not have an internal control system designed to provide for the preparation of the financial statements, including the accompanying footnotes, as required by generally accepted accounting principles. The guidance in Statement of Auditing Standards No. 115, *Communicating Internal Control Related Matters Identified in an Audit* requires us to communicate this matter with those charged with governance.

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

City of Gilbert, Iowa

Schedule of Findings

Year ended June 30, 2010

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

Response – Management feels that committing the resources necessary to remain current on 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.

Part II: Other Findings Related to Statutory Reporting:

- II-A-10 Certified Budget – Disbursements during the year ended June 30, 2010 did not exceed the amounts budgeted.
- 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 – No business transactions between the City and City officials were noted.
- 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 the coverage is adequate for current operations.
- II-F-10 Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.

City of Gilbert, Iowa

Schedule of Findings

Year ended June 30, 2010

Chapter 372.13(6) of the Code of Iowa requires minutes of all Council proceedings to be published within 15 days. We noted one instance where the minutes of the proceedings were not published within fifteen days and one instance where the minutes did not get published.

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

Response – We will comply with the Code requirements. We will publish the minutes of all minutes within 15 days as required.

Conclusion - Response accepted.

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