

CITY OF OSSIAN
FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
June 30, 2010

HAGEN & KALLEVANG, P.C.
Certified Public Accountants

CITY OF OSSIAN

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CITY OF OSSIAN

OFFICIALS

Name	Title (Before January 2010)	Term Expires
Howard Brechtel	Mayor	January 2010
Lois Franzen Marvin (Mike) Meyer Thomas Bushman Chuck Covell Ivan Franzen	Council Member Council Member Council Member Council Member Council Member	January 2010 January 2010 January 2012 January 2012 January 2012
Joyce Bakewell	City Clerk	Appointed
Lee Wilmarth	City Attorney	Appointed
(After January 2010)		
Chuck Covell	Mayor	January 2012
Thomas Bushman Ivan Franzen Dan Langreck Marvin (Mike) Meyer Ryan Becker	Council Member Council Member Council Member Council Member Council Member	January 2012 January 2012 January 2012 January 2013 January 2014
Joyce Bakewell	City Clerk	Appointed
Lee Wilmarth	City Attorney	Appointed

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Members of the City Council
City of Ossian, Iowa

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Ossian, Iowa, as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Ossian'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, as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Ossian as of June 30, 2010, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated November 12, 2010 on our consideration of the City'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 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 10 and 24 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 have not expressed an opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the year ended June 30, 2006 (which is not presented herein) and expressed qualified opinions on those financial statements due to not being able to verify the distribution by fund of the total balance at July 1, 2005 which were prepared in conformity with an other comprehensive basis of accounting. 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 unless noted as unaudited 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.

Hagen + Kallewang, P.C.

November 12, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

2010 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities decreased 20.88%, or approximately \$134,500, from fiscal year 2009 to fiscal year 2010. The decrease in receipts were due in large part to intergovernmental revenue in the amount of \$126,400; other city taxes \$ 6,700; miscellaneous \$10,100; all others of \$2,300 except for an increase in property tax \$11,000.
- Disbursements of the City's governmental activities decreased 1.95%, or approximately \$13,000, in fiscal year 2010 from fiscal year 2009. The following functions had decreased disbursements: Public Works \$10,000; Community & Economic Development \$66,600; The following fund had increase: Public Safety \$1,500; Culture & Recreation \$4,600; and General Government \$2,000, and Debit Service \$55,500.
- The City's total cash basis net assets decreased 25.32%, or approximately \$79,800, from June 30, 2009 to June 30, 2010. Of this amount, the assets of the governmental activities decreased approximately \$76,200 and the assets of the business type activities decreased approximately \$3,600.

USING THIS ANNUAL REPORT

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

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

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

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

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

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

Other Supplementary Information provides detailed information about the nonmajor governmental funds and the City's indebtedness.

BASIS OF ACCOUNTING

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

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information which helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

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

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

Fund Financial Statements

The City has two kinds of funds:

1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Local Option Sales Tax, 3) the Debt Service Fund, 4) the Capital Projects Fund and 5) 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 two Enterprise Funds to provide separate information for the Water and Sewer Funds, considered to be major funds of the City. The required financial statement for proprietary funds is a statement of cash receipts, disbursements and changes in cash balances.

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased from a year ago, decreasing from approximately \$76,200 to approximately \$111,390. The analysis that follows focuses on the changes in cash basis net assets of governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities

	Year ended June 30,						
	2010	2009	2008	2007	2006	2005	2004
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Receipts:							
Program receipts:							
Charges for service	\$ 78,981	\$ 68,237	\$ 70,940	\$ 65,110	\$ 72,202	\$ 57,329	\$ 59,388
Operating grants, contributions and restricted interest	108,023	231,905	103,532	92,771	90,615	89,296	87,066
Capital grants, contributions and restricted interest	2,000	-	-	-	-	-	-
General receipts:							
Property tax	234,885	219,332	203,280	197,873	190,319	183,036	170,599
Local option sales tax	81,958	95,226	84,157	95,884	72,341	84,839	71,480
Unrestricted interest on investments	1,691	5,041	7,098	6,015	2,982	3,651	3,570
Other general receipts	2,087	24,429	4,105	4,644	8,354	5,856	3,712
Total receipts	509,625	644,170	473,112	462,297	436,813	424,007	395,815
Disbursements:							
Public safety	29,600	28,100	28,100	28,100	28,100	26,124	26,372
Public works	259,988	270,011	183,246	206,417	175,627	167,720	153,840
Health and social services	-	-	-	-	-	-	-
Culture and recreation	55,472	50,893	53,231	47,799	52,494	44,969	51,873
Community and economic development	64,552	131,112	16,411	-	-	-	-
General government	60,979	58,954	57,869	61,766	52,900	51,759	51,599
Debt service	183,128	127,668	197,078	80,895	180,178	158,879	108,560
Capital projects	-	-	-	-	-	-	8,897
Total disbursements	653,719	666,738	535,935	424,977	489,299	449,451	401,141
Change in cash basis net assets before transfers	(144,094)	(22,568)	(62,823)	37,320	(52,486)	(25,444)	(5,326)
Transfers, net	67,896	-	126,579	(10,000)	59,341	46,878	1,844
Change in cash basis net assets	(76,198)	(22,568)	63,756	27,320	6,855	21,434	(3,482)
Cash basis net assets beginning of year	187,588	210,156	146,400	119,080	112,225	90,791	94,273
Cash basis net assets end of year	\$ 111,390	\$ 187,588	\$ 210,156	\$ 146,400	\$ 119,080	\$ 112,225	\$ 90,791

The City's total receipts for governmental activities decreased 20.88%, or approximately \$134,500. The total cost of all programs and services decreased approximately \$13,000, or 1.95%, with no new programs added this year. The significant decrease in receipts was seen in the Intergovernmental area of \$126,400 and was primarily the result of a housing rehab project that was expended but some of the proceeds did not arrive until after June 30, 2010. The largest decrease in expenses was in the community and economic development function of \$65,000 where the city was finishing up a housing rehab project.

The City' saw an increase in the taxable property valuation from 17,412,294 to 18,208,453. The resulting 796,159 increase in value resulted in increased property tax revenue of approximately \$11,000. However the tax levy saw a decrease from \$12.6355 in FY2009 to \$12.53332 in FY2010. Based on increases in the taxable valuation, property tax receipts are budgeted to increase an additional \$13,000 next year.

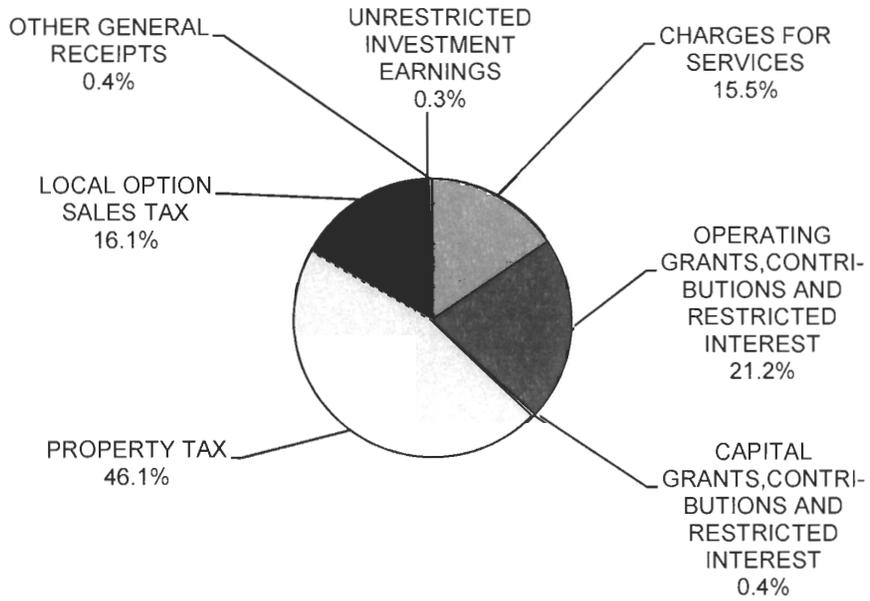
The cost of all governmental activities this year was approximately \$653,700 compared to approximately \$666,700 last year. However, as shown in the Statement of Activities and Net Assets on pages 10, the amount taxpayers ultimately financed for these activities was about \$464,715 because some of the cost was paid by those directly benefited from the programs (\$79,000) or by other governments and organizations which subsidized certain programs with grants, contributions and restricted interest (\$110,000). Overall, the City's governmental activities program receipts, including intergovernmental aid and fees for service, decreased in fiscal year 2010 from approximately \$300,100 to approximately \$189,000, principally due to a housing rehab grant coming to a close. The City paid for the remaining "public benefit" portion of governmental activities (\$388,000) with taxes (some of which could only be used for certain programs) and other receipts, such as interest and other general receipts.

Changes in Cash Basis Net Assets of Business Type Activities

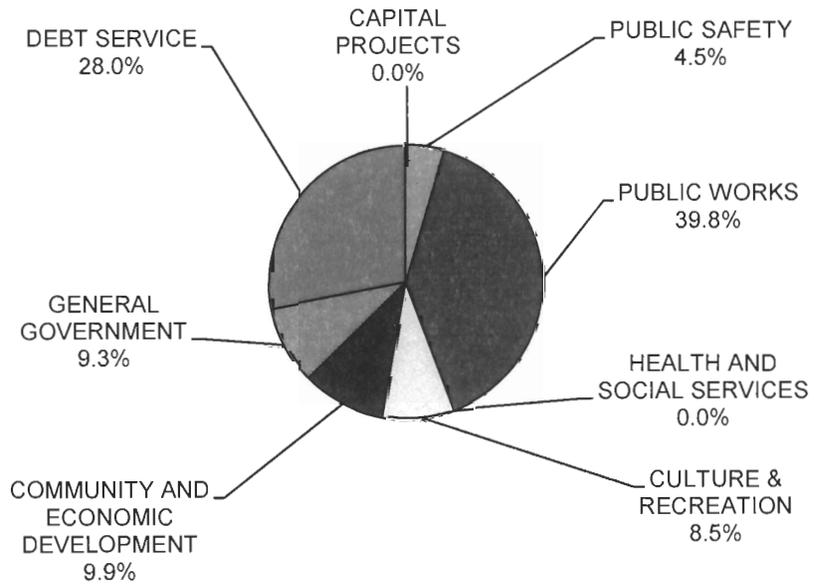
	Year ended June 30,						
	2010	2009	2008	2007	2006	2005	2004
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Receipts:							
Program receipts:							
Charges for services	\$ 242,342	\$ 274,426	\$ 275,430	\$ 250,630	\$ 224,402	\$ 208,493	\$ 199,219
General receipts:							
Unrestricted interest on investments	382	490	490	453	540	161	310
Bond proceeds	-	-	-	244,315	585,684	-	-
Total receipts	242,724	274,916	275,920	495,398	810,626	208,654	199,529
Disbursements:							
Operations	178,416	275,004	343,354	274,997	689,352	184,013	169,586
Total disbursements	178,416	275,004	343,354	274,997	689,352	184,013	169,586
Change in cash basis net assets before transfers	64,308	(88)	(67,434)	220,401	121,274	24,641	29,943
Transfers, net	(67,896)	-	(126,579)	10,000	(59,341)	(46,878)	(1,844)
Change in cash basis net assets	(3,588)	(88)	(194,013)	230,401	61,933	(22,237)	28,099
Cash basis net assets beginning of year	123,448	123,536	317,549	87,148	25,216	47,453	19,354
Cash basis net assets end of year	\$ 119,860	\$ 123,448	\$ 123,536	\$ 317,549	\$ 87,149	\$ 25,216	\$ 47,453

Total business type activities receipts for the fiscal year were approximately \$242,700 compared to approximately \$274,900 last year. This decrease in revenue, \$32,200 was primarily due to two insurance claims for lightening damage to equipment; totaling \$27,600 in FY2009. Total disbursements for the fiscal year decreased 35.1%. The cash balance decreased in FY2010 by \$3,600 due to repairs made to the City's sewage lift stations.

Receipts by Source



Disbursements by Function



INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Ossian completed the year, its governmental funds reported a combined fund balance of \$111,390, a decrease of \$76,198 below last year's total of \$187,588. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance decreased \$53,813 from the prior year to \$12,936. Approximately \$45,000 of this decrease was due to a housing rehab program that resulted with the expenditures occurring during the fiscal year but the grant money was not received by June 30, 2010. The remaining decrease was a planned decrease in reserves as shown on the certified budget.
- The Special Revenue, Road Use Tax Fund cash balance decreased \$26,826 to \$24,351 during the fiscal year. This decrease was a result of planned spending of reserve funds for street maintenance projects.
- The Special Revenue, Local Option Tax Fund cash balance increased by \$5,611 to \$53,268 during the fiscal year. This increase was a result of holding back revenues for future needs.
- The Debt Service Fund cash balance increased \$243 to \$56,583 during the fiscal year. This increase was due to receiving more tax receipts than budgeted for.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Enterprise, Water Fund cash balance increased \$19,812 to \$95,668, due primarily to increase reserves for future improvements to the system.
- The Enterprise, Sewer Fund cash balance decreased \$23,400 to \$24,192, due primarily to an increased need for repairs and maintenance to the system.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget once. The amendment was approved on May 3, 2010 and resulted in an increase in operating disbursements of \$103,265 which were attributed to vehicle repairs, engineering, park equipment, street maintenance and sewer equipment repairs. The City had sufficient cash balances to absorb these additional costs.

The City's receipts were \$44,043 less than budgeted. This was primarily due to the City not receiving approximately \$45,000 of housing rehab funds prior to June 30, 2010.

With the budget amendments, total disbursements were \$82,396 less than the amended budget. Actual disbursements for the public safety, public works, culture and recreation, general government and business type activities functions were \$.00, \$33,179, \$16,550, \$18,277 and \$91,838, respectively, less than the amended budget. This was primarily due to over-estimating some expenses while other expenses did not occur as planned.

The City exceeded the amounts budgeted in the community and economic development function; \$9,552, due to unanticipated housing rehab project expenses. The debt service function exceeded the amounts budgeted; \$61,896, due to the fact the city clerk does not transfer water and sewer debt payments to the debt service function; it is paid directly from the enterprise funds.

DEBT ADMINISTRATION

At June 30, 2010, the City had \$462,491 in bonds and other long-term debt outstanding, compared to \$622,838 last year, as shown below.

	Outstanding Debt at Year-End						
	Year ended June 30,						
	2010	2009	2008	2007	2006	2005	2004
General obligation notes		(Unaudited)	(Unaudited)	(Unaudited)		(Unaudited)	(Unaudited)
1997 Street Improvement	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 14,348
1999 Utility Improvements	-	70,000	140,000	205,000	265,000	325,000	380,000
2001 Sewer Extension	-	-	-	-	21,237	42,621	64,054
2003 Water/Sewer Extension	-	-	-	-	4,717	23,080	39,559
2005 Water Improvements	322,000	381,000	438,000	494,000	548,000	-	-
Winn Co Shop-Loan Agreement	-	-	10,000	20,000	30,000	40,000	-
2007 Sewer Improvements	140,491	171,838	201,805	230,000	-	-	-
Revenue bonds							
Sewer	-	-	-	-	-	-	25,000
Total	\$ 462,491	\$ 622,838	\$ 789,805	\$ 949,000	\$ 868,954	\$ 430,701	\$ 522,961

There was no additional debt added to the City's indebtedness during FY2010.

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 \$462,491 is significantly below its constitutional debt limit of \$1,746,665.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City of Ossian's elected and appointed officials and citizens considered many factors when setting the fiscal year 2011 budget, tax rates and fees charged for various City activities.

The City will receive a slight increase in property tax dollars due to an increase in the valuations but the tax levy of \$12.53 remains the same. With no other revenue increases anticipated the disbursements budgeted are for normal and routine expenditures along with an allowance in the budget to handle unexpected repair and maintenance. There have been no extra projects budgeted for FY2011.

It is possible the City's budgeted cash balance could decrease approximately \$4,500 by the close of fiscal year 2011.

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 Joyce Bakewell, City Clerk, 123 West Main Street, Ossian, Iowa 52161-0295.

BASIC FINANCIAL STATEMENTS

CITY OF OSSIAN

STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS

As of and for the year ended June 30, 2010

Functions/Programs:	Program Receipts				Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
	Disbursements	Charges for Services	Operating Grants, Contributions, and Restricted Interest	Capital Grants, Contributions, and Restricted Interest	Governmental Activities	Business Type Activities	Total
Governmental activities:							
Public safety	\$ (29,600)	\$ -	\$ -	\$ -	\$ (29,600)	\$ -	\$ (29,600)
Public works	(259,988)	66,121	79,126	-	(114,741)	-	(114,741)
Culture and recreation	(55,472)	7,227	16,990	2,000	(29,255)	-	(29,255)
Community and economic development	(64,552)	-	11,907	-	(52,645)	-	(52,645)
General government	(60,979)	5,633	-	-	(55,346)	-	(55,346)
Debt service	(183,128)	-	-	-	(183,128)	-	(183,128)
Total governmental activities	(653,719)	78,981	108,023	2,000	(464,715)	-	(464,715)
Business type activities:							
Water	(78,775)	138,635	-	-	-	59,860	59,860
Sewer	(99,641)	103,707	-	-	-	4,066	4,066
Total business type activities	(178,416)	242,342	-	-	-	63,926	63,926
Total	\$ (832,135)	\$ 321,323	\$ 108,023	\$ 2,000	(464,715)	63,926	(400,789)
General Receipts and Transfers:							
Property and other City tax levied for							
General purposes					184,642	-	184,642
Debt service					50,243	-	50,243
Local option sales tax					81,958	-	81,958
Unrestricted interest on investments					1,691	382	2,073
Miscellaneous					2,087	-	2,087
Transfers					67,896	(67,896)	-
Total general receipts and transfers					388,517	(67,514)	321,003
Change in cash basis net assets					(76,198)	(3,588)	(79,786)
Cash basis net assets beginning of year					187,588	123,448	311,036
Cash basis net assets end of year					\$ 111,390	\$ 119,860	\$ 231,250
Cash Basis Net Assets							
Restricted:							
Nonexpendable							
Permanent fund					\$ 11,893	\$ -	\$ 11,893
Expendable							
Streets					24,351	-	24,351
Debt service					3,422	-	3,422
Other purposes					58,788	-	58,788
Unrestricted					12,936	119,860	132,796
Total cash basis net assets					\$ 111,390	\$ 119,860	\$ 231,250

See notes to financial statements.

CITY OF OSSIAN

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
GOVERNMENT FUNDS

As of and for the year ended June 30, 2010

	General	Road Use Tax	Local Option Sales Tax	Debt Service	Other Nonmajor Governmental Funds	Total
Receipts:						
Property tax	\$ 169,672	\$ -	\$ -	\$ 49,276	\$ 11,433	\$ 230,381
Other city tax	5,399	-	81,958	967	225	88,549
Licenses and permits	2,020	-	-	-	-	2,020
Use of money and property	5,586	-	-	-	-	5,586
Intergovernmental	26,369	79,126	-	-	-	105,495
Charges for service	63,310	-	-	-	-	63,310
Special assessments	-	-	-	-	-	-
Miscellaneous	11,381	-	-	-	2,903	14,284
Total receipts	283,737	79,126	81,958	50,243	14,561	509,625
Disbursements:						
Operating						
Public safety	29,600	-	-	-	-	29,600
Public works	150,382	98,341	-	-	11,265	259,988
Health and social services	-	-	-	-	-	-
Culture and recreation	55,054	-	-	-	418	55,472
Community and economic development	64,552	-	-	-	-	64,552
General government	57,979	-	-	-	3,000	60,979
Debt service	-	-	-	183,128	-	183,128
Capital projects	-	-	-	-	-	-
Total disbursements	357,567	98,341	-	183,128	14,683	653,719
Excess of receipts over (under) disbursements	(73,830)	(19,215)	81,958	(132,885)	(122)	(144,094)
Other financing sources (uses):						
Operating transfers in	20,017	-	-	133,128	3,726	156,871
Operating transfers out	-	(7,611)	(76,347)	-	(5,017)	(88,975)
Total other financing sources (uses)	20,017	(7,611)	(76,347)	133,128	(1,291)	67,896
Net change in cash balances	(53,813)	(26,826)	5,611	243	(1,413)	(76,198)
Cash balances beginning of year	66,749	51,177	47,657	3,179	18,826	187,588
Cash balances end of year	\$ 12,936	\$ 24,351	\$ 53,268	\$ 3,422	\$ 17,413	\$ 111,390
Cash Basis Fund Balances						
Reserved for debt service	\$ -	\$ -	\$ -	\$ 3,422	\$ -	\$ 3,422
Reserved for permanent fund	-	-	-	-	11,893	11,893
Unreserved:						
General fund	12,936	-	-	-	-	12,936
Special revenue funds	-	24,351	53,268	-	5,520	83,139
Total cash basis fund balances	\$ 12,936	\$ 24,351	\$ 53,268	\$ 3,422	\$ 17,413	\$ 111,390

See notes to financial statements.

CITY OF OSSIAN

RECONCILIATION OF THE STATEMENT OF CASH
 RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES
 TO THE STATEMENT OF ACTIVITIES AND NET ASSETS -
 GOVERNMENTAL FUNDS

As of and for the year ended June 30, 2010

Total governmental funds cash balances (page 11)	\$	111,390
None		
Amounts reported for governmental activities in the Statement of Activities and Net Assets are different because:		
Not applicable		<u>-</u>
Cash basis net assets of governmental activities (page 10)	\$	<u>111,390</u>
Net change in cash balances (page 11)	\$	(76,198)
Amounts reported for governmental activities in the Statement of Activities and Net Assets are different because:		
Not applicable		<u>-</u>
Change in cash balance of governmental activities (page 10)	\$	<u>(76,198)</u>

See notes to financial statements.

CITY OF OSSIAN

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	Sewer	Total
Operating receipts:			
Charges for service	\$ 136,621	\$ 103,707	\$ 240,328
Miscellaneous	2,014	-	2,014
Total operating receipts	<u>138,635</u>	<u>103,707</u>	<u>242,342</u>
Operating disbursements:			
Governmental activities:			
Business type activities - operating	<u>78,775</u>	<u>99,641</u>	<u>178,416</u>
Excess of operating receipts over (under) operating disbursements	<u>59,860</u>	<u>4,066</u>	<u>63,926</u>
Non-operating receipts (disbursements):			
Interest on investments	<u>382</u>	<u>-</u>	<u>382</u>
Total non-operating receipts (disbursements)	<u>382</u>	<u>-</u>	<u>382</u>
Excess receipts over disbursements	60,242	4,066	64,308
Operating transfers in	-	-	-
Operating transfers out	<u>(40,430)</u>	<u>(27,466)</u>	<u>(67,896)</u>
Net change in cash balances	19,812	(23,400)	(3,588)
Cash balances beginning of year	<u>75,856</u>	<u>47,592</u>	<u>123,448</u>
Cash balances end of year	<u>\$ 95,668</u>	<u>\$ 24,192</u>	<u>\$ 119,860</u>
Cash Basis Fund Balance			
Reserved for debt service	\$ -	\$ -	\$ -
Unreserved			
Enterprise funds	<u>95,668</u>	<u>24,192</u>	<u>119,860</u>
Total cash basis fund balances	<u>\$ 95,668</u>	<u>\$ 24,192</u>	<u>\$ 119,860</u>

See notes to financial statements.

CITY OF OSSIAN

RECONCILIATION OF THE STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
TO THE STATEMENT OF ACTIVITIES AND NET ASSETS -
PROPRIETARY FUNDS

As of and for the year ended June 30, 2010

Total enterprise funds cash balances (page 13)	\$ 119,860
Amounts reported for business type activities in the Statement of Activities and Net Assets are different because:	
Not applicable	-
Cash basis net assets of business type activities (page 10)	\$ 119,860
Net change in cash balances (page 13)	\$ (3,588)
Amounts reported for business type activities in the Statement of Activities and Net Assets are different because:	
Not applicable	-
Change in cash balance of business type activities (page 10)	\$ (3,588)

See notes to financial statements.

CITY OF OSSIAN

NOTES TO FINANCIAL STATEMENTS

Year ended June 30, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Ossian is a political subdivision of the State of Iowa located in Winneshiek County. It was first incorporated in 1855 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, culture and recreation, community and economic development and general government services. The City also provides water and sewer utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, City of Ossian 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 also participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Winneshiek County Emergency Management Commission, Winneshiek County Joint E911 Service Board, Winneshiek Economic Development Board, and Winneshiek County Assessors Conference Board.

B. Basis of Presentation

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

CITY OF OSSIAN

NOTES TO FINANCIAL STATEMENTS

Year ended June 30, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Basis of Presentation (continued)

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 do not meet the definition of the preceding category. 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 .

The City reports the following major governmental funds:

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

Special Revenue:

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

The Local Option Sales Tax is used to account for the additional sales tax assessed on taxable purchases voted in by local citizens.

The Debt Service Fund is utilized to account for the payment of interest and principal on the City's general long-term debt.

CITY OF OSSIAN
NOTES TO FINANCIAL STATEMENTS

Year ended June 30, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Basis of Presentation (continued)

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.

C. Measurement Focus and Basis of Accounting

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

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

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

D. Budgets and Budgetary Accounting

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

NOTE 2 - CASH AND POOLED INVESTMENTS

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

CITY OF OSSIAN
NOTES TO FINANCIAL STATEMENTS

Year ended June 30, 2010

NOTE 2 - CASH AND POOLED INVESTMENTS (continued)

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.

Even though allowed by statute the City's investment policy only allows the following: Interest bearing savings, money market, and checking accounts at any bank, savings and loan association or credit union in the State of Iowa.

Interest rate risk – The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operation maturities shall be consistent with the needs and use of the City.

NOTE 3 - BONDS AND NOTES PAYABLE

Annual debt service requirements to maturity for the City's debt are as follows:

Year Ending June 30,	General Obligation Bonds and Notes	
	Principal	Interest
2011	\$ 93,789	\$ 15,684
2012	97,298	12,345
2013	99,877	8,877
2014	103,527	5,305
2015	68,000	2,040
	<u>\$ 462,491</u>	<u>\$ 44,251</u>

The Code of Iowa requires principal and interest on general obligation debt be paid from the Debt Service Fund.

NOTE 4 - LEASES

The City leases antenna space on the water tower, a base station and transmission lines to an entity. The lease income is \$300 per year per entity and can be terminated by either party with sixty day written notice.

The City leases approximately 2 acres of land to Farmers Union Coop to store grain. The annual lease income is \$500 per year but is negotiable every year. The lessee needs to notify the City 30 days prior to the end of the annual lease if it intends to rent the land for the upcoming year.

CITY OF OSSIAN

NOTES TO FINANCIAL STATEMENTS

Year ended June 30, 2010

NOTE 4 - LEASES (continued)

The City leases a copier for library operations at \$25 per month. The lease term is monthly.

NOTE 5 - PENSION AND RETIREMENT BENEFITS

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

Most plan members are required to contribute 4.30% of their annual covered salary and the City is required to contribute 6.65% of annual covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2010, 2009, and 2008 were \$9,886, \$7,755, and \$6,873, respectively, equal to the required contributions for each year.

NOTE 6 - COMPENSATED ABSENCES

Any employee who terminated employment for any reason shall receive any vacation earned and not previously taken. No prorated vacation shall be earned for the year (anniversary date) in which termination occurs.

Upon resignation from the City, an employee's sick leave will be terminated and no reimbursement shall be given. Upon retirement the employee shall be reimbursed for the accumulated sick leave up to a maximum of 160 hours at the hourly rate the employee is earning at the time of retirement. Retirement is defined as age 55 or 30 years with IPERS for the benefit of being paid accumulated sick leave when leaving employment. The estate of an employee who dies shall receive payment for unused sick leave.

The accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned sick leave termination payments payable to employees at June 30, 2010, primarily relating to the General Fund is \$5,880.

The sick leave benefits for qualified employees has been calculated at the employee's regular hourly rate in effect at June 30, 2010.

CITY OF OSSIAN
NOTES TO FINANCIAL STATEMENTS

Year ended June 30, 2010

NOTE 7 - INTERFUND TRANSFERS

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

Transfer to	Amount	Transfer from	Amount
		Special Revenue:	
		Emergency	\$ 5,017
		Local Option Sales Tax	15,000
General	\$ 20,017		\$ 20,017
		Special Revenue:	
		Road Use	\$ 3,885
		Local Option Sales Tax	61,347
		Enterprise:	
		Water	40,430
		Sewer	27,466
Debt Service	\$ 133,128		\$ 133,128
		Special Revenue:	
I-Jobs	\$ 3,726	Road Use	\$ 3,726

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

NOTE 8 - RELATED PARTY TRANSACTIONS

The City had business transactions between the City and City employees and officials totaling \$205 during the year ended June 30, 2010.

NOTE 9 - HOSPICE FACILITY REVENUE BONDS

The City has issued a total of \$522,500 of hospice facility revenue bonds under the provisions of Chapter 419 of the Code of Iowa, of which \$503,719 is outstanding at June 30, 2010. The bonds and related interest are payable solely from operations of the hospice and the bond principal and interest do not constitute liabilities of the City.

NOTE 10 - 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 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.

CITY OF OSSIAN

NOTES TO FINANCIAL STATEMENTS

Year ended June 30, 2010

NOTE 10 - RISK MANAGEMENT (continued)

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 which are 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-end 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 disbursements 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 \$13,414.

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 reinsured. 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 that a series of casualty claims exhausts total members' 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.

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 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 capital contributions. If a member withdraws after the sixth year, the member is refunded 100 percent of its capital contributions. However, the refund is reduced by an amount equal to the annual 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 and employee blanket bond. 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.

CITY OF OSSIAN
NOTES TO FINANCIAL STATEMENTS

Year ended June 30, 2010

NOTE 11 - DEFICIT BALANCE

The Special Revenue, I-Jobs fund had a deficit balance of \$4,539 at June 30, 2010. The deficit balance was a result of project costs incurred prior to availability of funds. The deficit will be eliminated upon receipt of grant funds.

NOTE 12 - SUBSEQUENT EVENTS

Management has evaluated subsequent events through November 12, 2010, the date on which the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF OSSIAN

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	Proprietary	Less Funds	Total	Budgeted Amounts		Final to
	Funds	Funds	Not Required		Original	Final	Total
	Actual	Actual	to be Budgeted				Variance
Receipts:							
Property tax	\$ 230,381	\$ -	\$ -	\$ 230,381	\$ 229,238	\$ 229,238	\$ 1,143
Other city tax	88,549	-	-	88,549	86,669	86,669	1,880
Licenses and permits	2,020	-	-	2,020	2,450	2,450	(430)
Use of money and property	5,586	382	-	5,968	3,300	3,300	2,668
Intergovernmental	105,495	-	-	105,495	141,455	156,620	(51,125)
Charges for service	63,310	240,328	-	303,638	305,100	305,100	(1,462)
Special assessments	-	-	-	-	-	-	-
Miscellaneous	14,284	2,014	375	15,923	5,740	12,640	3,283
Total receipts	<u>509,625</u>	<u>242,724</u>	<u>375</u>	<u>751,974</u>	<u>773,952</u>	<u>796,017</u>	<u>(44,043)</u>
Disbursements:							
Public safety	29,600	-	-	29,600	29,600	29,600	-
Public works	259,988	-	-	259,988	224,902	293,167	(33,179)
Health and social services	-	-	-	-	-	-	-
Culture and recreation	55,472	-	-	55,472	57,022	72,022	(16,550)
Community and economic development	64,552	-	-	64,552	55,000	55,000	9,552
General government	60,979	-	-	60,979	79,256	79,256	(18,277)
Debt service	183,128	-	-	183,128	115,232	115,232	67,896
Business type activities	-	178,416	-	178,416	250,254	270,254	(91,838)
Total disbursements	<u>653,719</u>	<u>178,416</u>	<u>-</u>	<u>832,135</u>	<u>811,266</u>	<u>914,531</u>	<u>(82,396)</u>
Excess of receipts over (under) disbursements	(144,094)	64,308	375	(80,161)	(37,314)	(118,514)	38,353
Other financing sources, net	67,896	(67,896)	-	-	-	-	-
Excess of receipts and other financing sources over (under) disbursements and other financing uses	(76,198)	(3,588)	375	(80,161)	(37,314)	(118,514)	38,353
Balances beginning of year	<u>187,588</u>	<u>123,448</u>	<u>11,519</u>	<u>299,517</u>	<u>230,941</u>	<u>311,036</u>	<u>(11,519)</u>
Balances end of year	<u>\$ 111,390</u>	<u>\$ 119,860</u>	<u>\$ 11,894</u>	<u>\$ 219,356</u>	<u>\$ 193,627</u>	<u>\$ 192,522</u>	<u>\$ 26,834</u>

See accompanying independent auditor's report.

CITY OF OSSIAN

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 City had no Internal Service for the year ended June 30, 2010. 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, Special Revenue Funds, Debt Service Fund, 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, the budget was amended once to increase disbursements by \$103,265. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2010, disbursements exceeded the amounts budgeted in the community and economic event functions and debt service.

OTHER SUPPLEMENTARY INFORMATION

CITY OF OSSIAN

SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
NONMAJOR GOVERNMENTAL FUNDS

As of and for the year ended June 30, 2010

	Special Revenue			Library Building Trust	Permanent Cemetery Perpetual Care	Total
	Employee Benefits	Emergency	I - Jobs			
Receipts						
Property tax	\$ 6,493	\$ 4,940	\$ -	\$ -	\$ -	\$ 11,433
Other city tax	128	97	-	-	-	225
Miscellaneous	-	-	-	2,528	375	2,903
Total receipts	6,621	5,037	-	2,528	375	14,561
Disbursements						
Operating						
Public works	3,000	-	8,265	-	-	11,265
Culture and recreation	-	-	-	418	-	418
General government	3,000	-	-	-	-	3,000
Total disbursements	6,000	-	8,265	418	-	14,683
Excess of receipts over (under) disbursements	621	5,037	(8,265)	2,110	375	(122)
Other financing sources (uses)						
Operating transfers in	-	-	3,726	-	-	3,726
Operating transfers out	-	(5,017)	-	-	-	(5,017)
Total other financing sources (uses)	-	(5,017)	3,726	-	-	(1,291)
Net change in cash balances	621	20	(4,539)	2,110	375	(1,413)
Cash balances beginning of year	122	68	-	7,118	11,518	18,826
Cash balances end of year	\$ 743	\$ 88	\$ (4,539)	\$ 9,228	\$ 11,893	\$ 17,413
Cash Basis Fund Balances						
Reserved for permanent fund	\$ -	\$ -	\$ -	\$ -	\$ 11,893	\$ 11,893
Unreserved						
Special revenue funds	743	88	(4,539)	9,228	-	5,520
Total cash basis fund balances	\$ 743	\$ 88	\$ (4,539)	\$ 9,228	# \$ 11,893	\$ 17,413

CITY OF OSSIAN
SCHEDULE OF INDEBTEDNESS

Year ended June 30, 2010

Obligation	Date of Issue	Interest Rates	Amount Originally Issued	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
General Obligation Bonds								
Utility Improvement	March 1, 2000	4.90-5.55%	\$ 570,000	\$ 70,000	\$ -	\$ 70,000	\$ -	\$ 3,885
Water Improvement	July 22, 2005	3.00	600,000	381,000	-	59,000	322,000	11,430
Sewer Improvement	May 15, 2007	4.55	230,000	171,838	-	31,347	140,491	7,466
Total				\$ 622,838	\$ -	\$ 160,347	\$ 462,491	\$ 22,781

See accompanying independent auditor's report.

CITY OF OSSIAN

BOND AND NOTE MATURITIES

Year ended June 30, 2010

GENERAL OBLIGATION BONDS AND NOTES

Year Ending June 30,	Water Improvement Issued July 2005		Sewer Improvement Issued May 2007	
	Interest		Interest	
	Rates	Amount	Rates	Amount
2011	3.00%	61,000	4.55%	32,789
2012	3.00	63,000	4.55	34,298
2013	3.00	64,000	4.55	35,877
2014	3.00	66,000	4.55	37,527
2015	3.00	68,000	4.55	-
		<u>\$ 322,000</u>		<u>\$ 140,491</u>

See accompanying independent auditor's report.

CITY OF OSSIAN

SCHEDULE OF RECEIPTS BY SOURCE AND DISBURSEMENTS BY FUNCTION -
ALL GOVERNMENTAL FUNDS

For the Last Seven Years

	Years ended June 30,						
	2010	2009	2008	2007	2006	2005	2004
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Receipts							
Property tax	\$ 230,381	\$ 219,332	\$ 203,280	\$ 197,873	\$ 190,319	\$ 183,036	\$ 170,599
Other city tax	88,549	95,226	84,157	95,884	80,695	84,839	71,480
Licenses and permits	2,020	2,623	3,730	2,445	3,745	2,690	3,138
Use of money and property	5,586	5,041	7,098	6,015	6,037	3,651	3,570
Intergovernmental	105,495	231,905	100,784	87,202	88,098	89,296	85,543
Charges for service	63,310	65,614	64,518	59,958	59,516	54,639	54,642
Special assessments	-	-	2,241	2,707	1,948	1,063	1,608
Miscellaneous	14,284	24,429	7,304	10,213	6,455	4,793	5,235
Total	\$ 509,625	\$ 644,170	\$ 473,112	\$ 462,297	\$ 436,813	\$ 424,007	\$ 395,815
Disbursements							
Operating							
Public safety	29,600	28,100	28,100	28,100	28,100	26,124	26,372
Public works	259,988	270,011	183,246	206,417	165,627	167,720	153,840
Health and social services	-	-	-	-	-	-	-
Culture and recreation	55,472	50,893	53,231	47,799	52,494	44,969	51,873
Community and economic development	64,552	131,112	16,411	-	-	-	-
General government	60,979	58,954	57,869	61,766	52,900	51,759	51,599
Debt service	183,128	127,668	197,078	80,895	190,178	158,879	108,560
Capital projects	-	-	-	-	-	-	8,897
Total	\$ 653,719	\$ 666,738	\$ 535,935	\$ 424,977	\$ 489,299	\$ 449,451	\$ 401,141

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 Ossian, 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 November 12, 2010. Our report on the financial statements, which were prepared in conformity with an other comprehensive basis of accounting, expressed a qualified opinion 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 Ossian'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 an opinion on the effectiveness of the City of Ossian's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Ossian's 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 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 Ossian's financial statements will not be prevented or detected and corrected on a timely basis.

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 II of the accompanying Schedule of Findings as items II-A-10 and II-B-10 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Ossian'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 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 III 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 of Ossian. 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.

City of Ossian'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 Ossian'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 Ossian, and other parties to whom the City of Ossian 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 City of Ossian 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.

Hagen & Kallewang, P.C.

November 12, 2010

CITY OF OSSIAN

SCHEDULE OF FINDINGS

Year ended June 30, 2010

Part I: Summary of the Independent Auditor's Results

- a. A qualified opinion was issued on the financial statements since we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2009. The 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.
- b. Significant deficiencies in internal control over financial reporting were disclosed by the audit of the financial statements.
- c. The audit did not disclose any non-compliance which is material to the financial statements.
- d. The City received and expended less than \$500,000 in Federal Awards, therefore a Single Audit was not required.

Part II: Findings Related to the Financial Statements

Internal Control Deficiencies

II-A-10

Segregation of Duties - The City is not large enough to permit an adequate segregation of duties for an effective system of internal accounting control. The concentration of closely related duties and responsibilities such as recording and processing of cash receipts, preparing and signing checks, preparing journals and general financial information for ledger posting and analyzing financial information by a small staff makes it impossible to establish an adequate system of automatic internal checks on the accuracy and reliability of the financial statements. While we do recognize that the City is not large enough to permit a segregation of duties for an effective internal control structure, we believe that it is important that the Council be aware that this condition does exist.

Recommendation - We realize this condition will be difficult to improve on. However, we do believe it is important that Council be aware this condition does exist and make changes when appropriate and cost effective.

Response and Corrective Action Planned – Numerous reports are done to check and balance the financial activity. Over 1/3 of the utility bills collected are debited directly from their checking account which limits the amount of cash handled by the City Clerk.

Conclusion – Response accepted.

II-B-10

Preparation of Financial Statements – Reporting financial data reliably in accordance with the Governmental Accounting Standards Board (GASB) and the cash basis of accounting requires management to possess expertise in preparing year-end financial statements, including footnote disclosures. As is common in small entities, management has the ability to review the financial statements and footnote disclosures for errors, but they presently lack the training to prepare the year-end financial statements and footnote disclosures on their own. As such, management requested us to prepare the financial statements and related disclosures.

CITY OF OSSIAN
SCHEDULE OF FINDINGS
Year ended June 30, 2010

Part II: Findings Related to the Financial Statements (continued)

II-B-10 (continued)

Recommendation – We realize that obtaining the expertise necessary to prepare the financial statements, including all necessary disclosures, in accordance with GASB and the cash basis of accounting can be considered costly and ineffective. However, obtaining additional GASB and the cash basis of accounting knowledge through reading relevant accounting literature and attending continuing education courses should help management improve in their ability to prepare internally and take responsibility for reliable GASB and the cash basis of accounting financial statements.

Response and Corrective Action Planned – The City Clerk will try to be more aware of meetings and publications that may offer learning tools relevant to GASB and the cash basis of accounting financial statements.

Conclusion – Response accepted.

Instances of Non-Compliance

No matters were noted

Part III: Other Findings Related to Required Statutory Reporting

III-A-10

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

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

Response –The budget prepared by the City Clerk pays debt from the fund where the debt was created. When the auditor prepared the financial report transfers were made from various funds to the Debt Service Fund. These transfers caused the Debt Service Fund to go over budget. The City Clerk will take the Auditors recommendation in preparing future budgets to make transfers from the various funds to the Debt Service Fund to pay all General Obligation Debt. Unanticipated expenses in a housing rehab project came late in the fiscal year which caused the economic development function to go over budget. This is normally something that never happens. It is always the City's intent to end the fiscal year within the budget.

Conclusion – Response accepted.

III-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.

CITY OF OSSIAN
 SCHEDULE OF FINDINGS
 Year ended June 30, 2010

Part III: Other Findings Related to Required Statutory Reporting (continued)

III-C-10

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

III-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>
Thomas Bushman, Council Member Owner of Bushman Insurance & Real Estate Inc.	Insurance Premium	\$ 114
Dan Langreck, Council Member Part Owner of Chucks Service	Vehicle maintenance	\$ 91

In accordance with Chapter 362.5(10) of the Code of Iowa, the transactions with the City officials do not appear to represent a conflict of interest since total transactions with each official were less than \$1,500 during the fiscal year.

III-E-10

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

III-F-10

Council Minutes No transactions were found that we believe should have been approved in the Council minutes but were not.

III-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.

III-H-10

Revenue Bonds and Notes - At this time the City has no Revenue bonds or notes.