

**CITY OF IOWA FALLS, IOWA**  
**INDEPENDENT AUDITOR'S REPORTS**  
**BASIC FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF FINDINGS**  
**YEAR ENDED JUNE 30, 2011**

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**City of Iowa Falls, Iowa**

**List of Principal Officials**

**June 30, 2011**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Jerrold Welden	Mayor	Jan 2012
Mark Messa	Mayor Pro-tem	Jan 2014
Jody Anderson	Council Member	Jan 2012
David Hempe	Council Member	Jan 2014
Kurt Knudson	Council Member	Jan 2012
Bruce Thies	Council Member	Jan 2012
Brian Weuve	City Manager	July 2011
Jon Kies	City Clerk/Finance Director	July 2011
Clark McNeal	Attorney	July 2011
Ron Kuhfus	Police Chief	July 2011
Rick Gustin	Fire Chief	Indefinite
Terry Tikovitsch	Library Director	Indefinite
Brian Lorenzen	Parks & Recreation Director	Indefinite
Bruce Jeffries	Streets/Sanitation Superintendent	Indefinite
Jason Etnyre	Building & Zoning Director	Indefinite
Scott Peden	Water/Wastewater Superintendent	Indefinite
Jolene Liekweg	Deputy City Clerk	July 2011
Steve Howard	Hospital Board of Trustees, Chairperson	Jan 2012
Diana Ruhl	Hospital Board of Trustees, Secretary	Jan 2012
Mike Stensland	Hospital Board of Trustees	Jan 2012
Amanda Wood	Hospital Board of Trustees	Jan 2014
Francis Fritz	Hospital Board of Trustees	Jan 2014

# Cornwell, Frideres, Maher & Associates, P.L.C.

## Certified Public Accountants

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### 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, the Airport Authority, a discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Iowa Falls, Iowa, as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Iowa Falls' management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Hospital Fund, an Enterprise Fund or the Ellsworth Municipal Hospital Foundation, a discretely presented component unit. Those financial statements were audited by other independent auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Hospital Fund and the Ellsworth Municipal Hospital Foundation is based solely upon the report of the other independent auditors.

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 and the report of the other auditors provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, the Airport Authority discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Iowa Falls at June 30, 2011, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated January 9, 2012 on our consideration of the City of Iowa Falls' 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, Budgetary Comparison Information and the Schedule of Funding Progress for the Retiree Health Plan on pages 4 through 15 and 72 through 76 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 Iowa Falls' 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 seven years ended June 30, 2010 (which are not presented herein) and expressed unqualified opinions on those financial statements. Other auditors 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, 2003 (none of which is presented herein) and expressed an unqualified opinion on those financial statements. Other supplementary information included in Schedules 1 through 4, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

*Cornwell, Frideres, Maher & Associates, P.L.C.*

Cornwell, Frideres, Maher & Associates, P.L.C.

Certified Public Accountants

January 9, 2012

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**CITY OF IOWA FALLS, IOWA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE YEAR ENDED JUNE 30, 2011**

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The City of Iowa Falls 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, 2011. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

**2011 FINANCIAL HIGHLIGHTS**

- Revenues of the City's governmental activities decreased by 13%, or approximately \$669,000, from fiscal year 2010 to fiscal year 2011. Property tax increased approximately \$131,209 while revenues from tax increment financing decreased approximately \$809,418.
- Program expenses of the City's governmental activities decreased 6%, or approximately \$289,000, from fiscal year 2010 to fiscal year 2011. Capital project and public safety expenses decreased approximately \$219,000 and \$118,000, respectively.
- The City's net assets decreased by 1%, or approximately \$544,000 from June 30, 2010 to June 30, 2011. Of this amount, the net assets of the governmental activities decreased approximately \$510,000 and the net assets of the business type activities decreased approximately \$34,000.

**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.

Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of the City of Iowa Falls as a whole and present 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 of Iowa Falls' operations in more detail than the government-wide statements 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, as well as presenting the Schedule of Funding Progress for the Retiree Health Plan.

Other Supplementary Information provides detailed information about the nonmajor governmental funds.

## **REPORTING THE CITY'S FINANCIAL ACTIVITIES**

### Government-wide Financial Statements

One of the most important questions asked about the City's finances is, "Is the City as a whole better or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information which helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting and the economic resources measurement focus, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account, regardless of when cash is received or paid.

The Statement of Net Assets presents all of the City's assets and liabilities, with the difference between the two reported as "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 presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods.

The Statement of Net Assets and the Statement of Activities report three kinds of activities:

- Governmental activities include public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business type activities include water, wastewater, hospital and the City's sanitation department. These activities are financed primarily by user charges.
- The Component Unit includes the activities of the City's Municipal Airport Authority and the Ellsworth Municipal Hospital Foundation. The City is financially accountable for the Airport and the Foundation although they are legally separate from the City.

## *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. Governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Tax Increment Financing, Economic Development Loans, Local Option Sales Tax, Road Use and Payroll Tax Levy, 3) the Capital Project Fund and 4) the Debt Service Fund. These funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund financial statements provide a detailed, short-term view of the City's general governmental 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 statements for governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

2) Proprietary funds account for the City's Enterprise Funds. These funds report services for which the City charges customers for the service it provides. Proprietary funds are reported in the same way all activities are reported in the Statement of Net Assets and the Statement of Activities. The major difference between the proprietary funds and the business type activities included in the government-wide statements is the detail and additional information, such as cash flows, provided in the proprietary fund statements. The Enterprise Funds include the Water, Wastewater, Hospital and Sanitation Funds, each considered to be a major fund of the City. The City is responsible for ensuring the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong.

The financial statements required for proprietary funds include a statement of net assets, a statement of revenues, expenses and changes in fund net assets and a statement of cash flows.

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

## **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

As noted earlier, net assets may serve as a useful indicator of a government's financial position. The analysis that follows focuses on the changes in the net assets for governmental and business type activities.

	Net Assets at Year-end					
	Governmental Activities		Business Type Activities		Total	
	2011	2010	2011	2010	2011	2010
Current and other assets	\$ 7,662,543	7,786,495	13,251,230	13,578,579	20,913,773	21,365,074
Capital assets	13,541,876	13,927,909	15,349,508	15,056,156	28,891,384	28,984,065
Total assets	21,204,419	21,714,404	28,600,738	28,634,735	49,805,157	50,349,139
Long-term liabilities	2,144,118	2,385,000	5,217,214	5,878,728	7,361,332	8,263,728
Other liabilities	2,927,429	2,857,520	1,999,878	2,266,448	4,927,307	5,123,968
Total liabilities	5,071,547	5,242,520	7,217,092	8,145,176	12,288,639	13,387,696
Net assets:						
Invested in capital assets, net						
of related debt	11,631,876	11,542,909	9,927,058	9,177,428	21,558,934	20,720,337
Restricted	3,454,078	3,322,153	2,322,555	2,576,275	5,776,633	5,898,428
Unrestricted	1,046,918	1,606,822	9,134,033	8,735,856	10,180,951	10,342,678
Total net assets	\$ 16,132,872	16,471,884	21,383,646	20,489,559	37,516,518	36,961,443

Net assets of governmental activities decreased approximately \$339,000, or 2%, from fiscal year 2010. Net assets of business type activities increased approximately \$894,000, or 4% over fiscal year 2010. The largest portion of the City's net assets is invested in capital assets, (e.g., land, infrastructure, buildings and equipment), less related debt. The debt related to the investment in capital assets is liquidated with resources other than capital assets. Restricted net assets represent resources subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. Unrestricted net assets, the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, legislation or other legal requirements, is approximately \$1,047,000 at the end of this year.

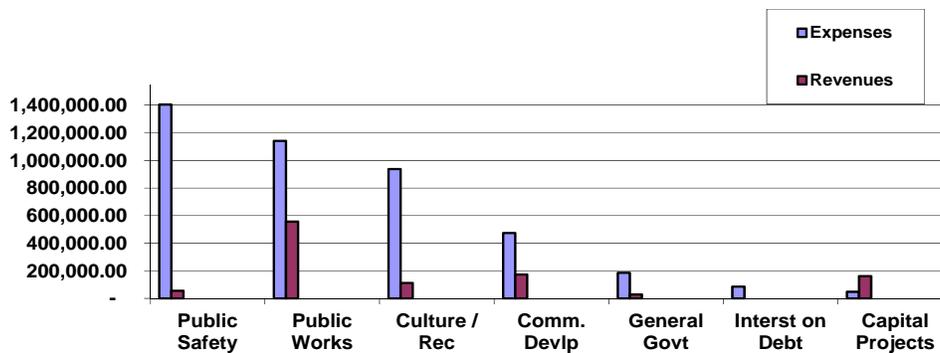
	Changes in Net Assets for the Year Ended June 30,					
	Governmental Activities		Business Type Activities		Total	
	2011	2010	2011	2010	2011	2010
Program revenues:						
Charges for services	\$183,858	195,613	20,774,166	21,676,335	20,958,024	21,871,948
Operating grants & contributions	567,757	531,141	-	-	567,757	531,141
Capital grants & contributions	334,887	99,398	985,907	-	1,320,794	99,398
General revenues:						
Property tax levied for:						
General purposes	1,899,680	1,733,894	-	-	1,899,680	1,733,894
Debt service	95,495	130,072	-	-	95,495	130,072
Tax increment financing	441,646	1,251,064	-	-	441,646	1,251,064
Local option sales tax	556,495	498,354	-	-	556,495	498,354
Hotel/motel tax	84,137	102,898	-	-	84,137	102,898
Investment earnings	61,743	68,155	145,831	434,841	207,574	502,996
Miscellaneous	201,601	502,310	563,458	161,274	765,059	663,584
Gain on sale of fixed assets	-	-	5	110	5	110
Total revenues	4,427,299	5,112,899	22,469,367	22,272,560	26,896,666	27,385,459
Program expenses:						
Public safety	1,404,151	1,522,065	-	-	1,404,151	1,522,065
Public works	1,141,002	1,244,532	-	-	1,141,002	1,244,532
Culture and recreation	937,495	961,703	-	-	937,495	961,703
Community and economic development	473,567	301,994	-	-	473,567	301,994
General government	185,291	163,415	-	-	185,291	163,415
Interest on long-term debt	85,249	103,009	-	-	85,249	103,009
Other debt costs	3,903	3,903	-	-	3,903	3,903
Capital projects	47,943	267,292	-	-	47,943	267,292
Water	-	-	814,836	582,640	814,836	582,640
Wastewater	-	-	1,047,682	752,741	1,047,682	752,741
Hospital	-	-	19,378,054	19,367,710	19,378,054	19,367,710
Sanitation	-	-	728,058	729,746	728,058	729,746
Total expenses	4,278,601	4,567,913	21,968,630	21,432,837	26,247,231	26,000,750
Increase (decrease) in net						
assets before transfers	148,698	544,986	500,737	839,723	649,435	1,384,709
Transfers	(487,710)	41,379	393,350	(70,397)	(94,360)	(29,018)
Increase (decrease) in net assets	(339,012)	586,365	894,087	769,326	555,075	1,355,691
Net assets beginning of year	16,471,884	15,885,519	20,489,559	19,720,233	36,961,443	35,605,752
Net assets end of year	\$16,132,872	16,471,884	21,383,646	20,489,559	37,516,518	36,961,443

The City of Iowa Falls' net assets of governmental activities decreased approximately \$339,000 during the year. Revenues for governmental activities decreased approximately \$686,000 from the prior year, with tax increment financing decreasing approximately \$809,000 due to collecting less tax increment financing enabling the City to collect more General Fund property taxes. The City increased property tax rates for fiscal year 2011 approximately 6%. This increase raised the City's property tax revenue approximately \$131,000 in fiscal year 2011.

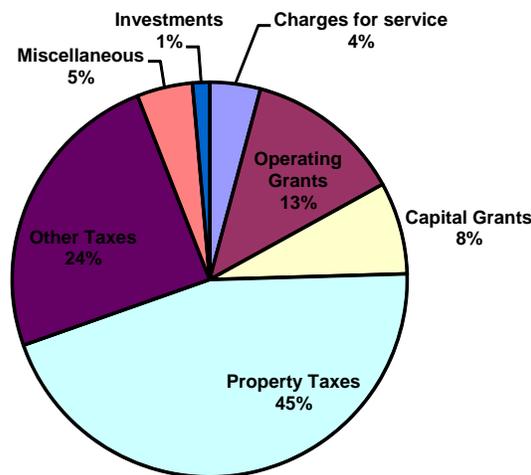
The cost of all governmental activities this year was approximately \$4.3 million compared to approximately \$4.6 million last year. However, as shown on the Statement of Activities on pages 20 and 21, the amount taxpayers ultimately financed for these activities was only \$3.2 million because some of the cost was paid by those directly benefited from the programs (\$184,000) or by other governments and organizations which subsidized certain programs with grants and contributions (\$903,000).

Below are specific graphs which provide comparisons of the governmental activities revenues and functional expenses.

**Expenses and Program Revenues – Governmental Activities**



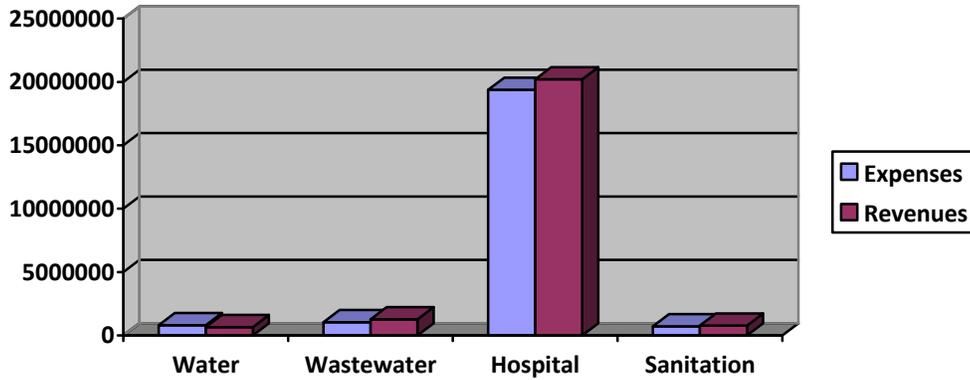
**Revenue Sources – Governmental Activities**



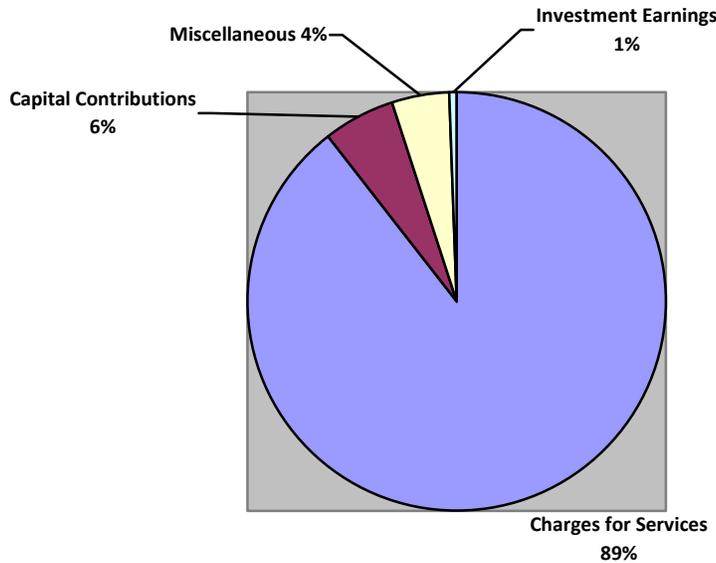
The City of Iowa Falls' net assets for business type activities increased approximately \$894,000 during the year. Revenues for business type activities increased approximately \$653,000 while total expenses were approximately \$536,000 higher than the prior fiscal year.

Below are graphs showing the business-type activities revenue and expense comparisons.

**Expenses and Revenues – Business-Type Activities**



**Revenue Sources – Business-Type Activities**



## **INDIVIDUAL MAJOR FUND ANALYSIS**

### **Governmental Fund Highlights**

As the City of Iowa Falls completed the year, its governmental funds reported a combined fund balance of \$4,548,054, which is less than the \$4,927,280 total fund balance at June 30, 2010. The following are the major reasons for the changes in fund balances of the major governmental funds from the prior year.

The General Fund increased its fund balance for general operations during 2011 by \$396,337. Revenues increased 17% over the prior year to \$1,650,914 and expenditures decreased 1% to \$1,739,320. The increase in revenues is mainly due to increased property tax and other taxes of \$175,497 and \$19,942, respectively.

The Special Revenue, Tax Increment Financing Revenues Fund accounts for revenue from the tax authorized by ordinance in the urban renewal district which is used to pay the principal and interest on indebtedness incurred for urban renewal redevelopment projects. This fund ended the fiscal year 2011 with a \$(497,845) deficit balance compared to the prior year ending balance of \$82,455 (as restated). This deficit balance resulted from the restatement of the prior year beginning balance due to combining the Tax Increment Capital Project Fund balance of \$115,004 with the Capital Projects Fund instead of the Tax Increment Financing Revenues Fund in order to properly account for the capital projects funded by the tax increment revenues, and due to a decrease on \$809,418 in Tax Increment Financing revenues from last year. The deficit balance will be eliminated by December 1, 2011.

The Special Revenue, Economic Development Loans Fund accounts for economic development loans made to businesses operating in the City and to other City funds. This fund ended fiscal year 2011 with a \$1,589,853 balance compared to the prior year ending balance of \$1,469,980. The increase is primarily due to repayment of loans and no new loans issued in 2011.

The Special Revenue, Local Option Sales Tax Fund accounts for revenue from the tax authorized by referendum and used for capital improvements, equipment and community programs and services. This fund ended fiscal year 2011 with a \$1,057,159 balance compared to the prior year ending balance of \$1,014,734. Local option sales tax revenue increased \$58,141 in fiscal year 2011.

The Special Revenue, Road Use Tax Fund accounts for the road use tax allocation from the State of Iowa to be used for road construction and maintenance. This fund ended fiscal year 2011 with a \$254,862 balance compared to \$138,096. Road use tax revenue increased 13% in fiscal year 2011 and expenses decreased 5%.

The Special Revenue, Payroll Tax Levy Fund is used to account for the property tax levied to finance the payment of employee benefits. This fund ended fiscal year 2011 with a \$94,023 balance compared to the prior year ending balance of \$64,179. Expense decreased 8% from the prior year.

The Capital Project Fund ended fiscal year 2011 with a \$505,756 balance compared to the prior year ending balance of \$786,392 (as restated). The 2010 ending fund balance of \$671,388 was increased by \$115,004 to \$768,392 as a result of combining the Tax Increment Capital Project Fund balance with the Capital Projects Fund instead of the Tax Increment Financing Revenues Fund in order to properly account for the capital projects funded by the tax increment revenues. The decrease is due to expenses increasing 132% mainly due to the Ellis Avenue construction project.

The debt service fund balance ended fiscal year 2011 with a \$125,086 balance compared to the prior year ending balance of \$121,604. Property tax revenue decreased \$35,894 and principal and interest payments decreased by \$107,960.

### **Proprietary Fund Highlights**

The Enterprise, Water Fund, which accounts for the operation and maintenance of the City's water system, ended fiscal year 2011 with a \$3,650,507 net asset balance compared to the prior year ending balance of \$3,845,220. Expenses increased 38% from prior year. This increase was due primarily to an increase in repairs and maintenance costs during 2011.

The Enterprise, Wastewater Fund, which accounts for the operation and maintenance of the City's wastewater treatment and sanitary sewer system, ended fiscal year 2011 with a \$4,933,919 net asset balance compared to the prior year ending net asset balance of \$4,725,692. The increase is primarily due to the \$455,790 tax increment financing transferred in to help fund the South Interceptor Sewer Extension project.

The Enterprise, Hospital Fund, which accounts for the operation and maintenance of the Ellsworth Municipal Hospital, ended fiscal year 2011 with a \$12,324,750 net asset balance compared to the prior year ending net asset balance of \$11,495,220. The increase is primarily due to increase in contributed capital and net gain in the hospital's affiliated organizations.

The Enterprise, Sanitation Fund, which accounts for the operation and maintenance of the City's solid waste collection system, ended fiscal year 2011 with a \$474,470 net asset balance compared to the prior year ending net asset balance of \$423,427. Revenues and expenditures remained consistent with prior year.

### **BUDGETARY HIGHLIGHTS**

Over the course of the year, the City of Iowa Falls amended its budget two times. The first amendment was done in May 2011 and the second amendment was made in June 2011. These amendments were needed to increase spending authority due to capital projects that were not originally budgeted for and additional workman's compensation insurance premiums.

The City's receipts were \$1,619,148 less than budgeted receipts, a variance of 6%. The most significant variance resulted from the Hospital closing its mental health facility which was \$1,079,365.

Total disbursements were \$8,056,361 less than budgeted. Actual disbursements for capital projects and business type activities were \$5,460,714 and \$2,284,754, respectively, less than budgeted. This was primarily due to some capital projects that were budgeted did not take place.

## **CAPITAL ASSET AND DEBT ADMINISTRATION**

The City's capital assets include land, buildings and improvements, equipment, streets, sewer systems, and other infrastructure. Capital assets for governmental activities totaled \$13,541,876 (net of accumulated depreciation) at June 30, 2011. Capital assets for business type activities totaled \$15,349,508 (net of accumulated depreciation/amortization) at June 30, 2011. See Note 4 to the financial statements for more information about the City's capital assets.

The major capital outlays for governmental activities during the year included renovation to the Maintenance Building and the Ellis Avenue street project.

For business type activities, major additions included the South Sewer Interceptor Extension, the River Interceptor and the Elk Run projects.

Construction in progress at June 30, 2011 for governmental activities consists primarily of street projects and parks and recreation projects.

### **Long-Term Debt**

At June 30, 2011, the City had \$1,910,000 outstanding general obligation bonds and notes for governmental activities. Total outstanding revenue notes for business type activities was \$5,233,974 at June 30, 2011.

Currently, the City does not maintain a rating on its general obligation debt.

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to five percent (5%) of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt is significantly below its constitutional debt limit of approximately \$12 million. Additional information on the City's long-term debt is presented in Note 5 to the financial statements.

## ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

City revenue sources affected by economic activity such as local option sales tax, building permit fees, hotel/motel tax, and road use tax showed slight increases or decreases from the prior year. As the national economy continues to weaken or slow down, the change in these revenues may impact the city in the near-term to provide services from these funds.

### Selected Revenues

	2011	2010	Change
Local Option Tax	555,198	498,354	56,844
Hotel/Motel Tax	84,137	102,898	(18,761)
Road Use Tax	501,394	481,653	19,741
Building Permits	16,352	7,165	9.187

### Property taxes

The City continues to enjoy growth in the valuation of taxable property, although that growth has slowed significantly over the past three years. The 2011-2012 budget raised the overall property tax levy by \$.80 to a rate of \$15.05 / \$1,000 of property valuation.

This increase can be attributed mainly to the fact that the City's TIF certification increased. By increasing the TIF certification this decreases the amount of valuation that the rest of the levies can levy against therefore increasing the overall levy.

### Tax Levy Rate Comparison

	2011-12	2010-11
General Levy	8.10	8.10
Aviation Levy	0.27	0.27
Emergency Levy	0.27	0.27
Debt Service Levy	0.63	0.61
Trust and Agency Levy	5.05	4.31
Tort Liability	0.73	0.69
<b>Total</b>	<b>15.05</b>	<b>14.25</b>

### Utility rates.

Rates charged the citizens of Iowa Falls by the water, wastewater and sanitation utilities were increased for FY 2011-2012. Rates will continue to be reviewed periodically to be sure that all costs associated with providing utility services to the citizens are covered. Increases may be necessary to cover increasing operating costs for each of the three utilities and to prepare for future infrastructure improvements that are needed.

## **CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This financial report is designed to present our citizens, taxpayers, customers, investors, and creditors with a general overview of the City's finances and operating activities. If you have any questions or require additional information, please contact the City Clerk / Finance Officer, 315 Stevens Street, Iowa Falls, Iowa, 50126.

## **Basic Financial Statements**

City of Iowa Falls, Iowa  
Statement of Net Assets  
June 30, 2011

	Primary Government		
	Governmental Activities	Business- Type Activities	Total
<b>Assets</b>			
Cash	\$ 4,674,425	7,304,829	11,979,254
Receivables:			
Property tax:			
Delinquent	22,157	-	22,157
Succeeding year	1,890,911	-	1,890,911
Tax increment financing:			
Succeeding year	767,501	-	767,501
Economic development loans	109,409	-	109,409
Customer accounts and unbilled usage (net of allowances for uncollectibles of 2,100,000)	-	2,925,968	2,925,968
Accounts	11,294	85,133	96,427
Accrued interest	3,010	19,824	22,834
Unconditional promises to give	-	-	-
Estimated third-party payor settlements	-	189,000	189,000
Due from other governments	86,427	-	86,427
Due from other funds	(22,490)	22,490	-
Inventories	-	396,217	396,217
Prepaid expenses	107,212	155,990	263,202
Restricted assets:			
Cash	-	1,386,876	1,386,876
Investment in affiliated organizations	-	685,564	685,564
Investments	-	-	-
Capital assets (net of accumulated depreciation)	13,541,876	15,349,508	28,891,384
Bond issuance costs	12,687	79,339	92,026
<b>Total assets</b>	<u>21,204,419</u>	<u>28,600,738</u>	<u>49,805,157</u>
<b>Liabilities</b>			
Accounts payable	166,348	480,773	647,121
Due to Ellsworth Municipal Hospital	-	-	-
Accrued interest payable	5,740	-	5,740
Salaries and benefits payable	96,929	644,890	741,819
Deferred Revenue:			
Succeeding year property tax	1,890,911	-	1,890,911
Succeeding year tax increment financing	767,501	-	767,501

Exhibit A

Component Units	
Airport Authority	Ellsworth Municipal Hospital Foundation
17,875	59,825
427	-
34,192	-
-	-
-	-
-	-
69	-
12	13,771
-	2,000
-	-
-	-
-	-
-	-
3,130	-
-	-
-	-
-	640,805
1,619,516	-
-	-
<u>1,675,221</u>	<u>716,401</u>

1,471	-
-	31,348
-	-
-	-
34,192	-
-	-

City of Iowa Falls, Iowa  
Statement of Net Assets  
June 30, 2011

	Primary Government		
	Governmental Activities	Business- Type Activities	Total
<b>Liabilities (continued)</b>			
Liabilities payable from restricted assets:			
Revenue bonds/notes payable	-	864,213	864,213
Accrued and matured interest payable	-	10,002	10,002
Long-term liabilities:			
Portion due or payable within one year:			
General obligation bonds/notes	500,000	-	500,000
Compensated absences	165,922	630,759	796,681
Portion due or payable after one year:			
General obligation bonds/notes	1,410,000	-	1,410,000
Revenue bonds/notes payable	-	4,558,237	4,558,237
Net OPEB Liability	68,196	28,218	96,414
<b>Total liabilities</b>	5,071,547	7,217,092	12,288,639
<b>Net Assets</b>			
Invested in capital assets, net of related debt	11,631,876	9,927,058	21,558,934
Restricted for:			
Local option sales tax	1,057,159	-	1,057,159
Economic development loans	1,589,853	-	1,589,853
Carnegie library	681,980	-	681,980
Debt service	125,086	-	125,086
Revenue bond retirement	-	452,750	452,750
Water improvement	-	243,674	243,674
Wastewater replacement	-	382,000	382,000
Capital improvements by donors	-	935,679	935,679
Bond indentures	-	308,452	308,452
Temporarily restricted	-	-	-
Unrestricted	1,046,918	9,134,033	10,180,951
<b>Total net assets</b>	\$ 16,132,872	21,383,646	37,516,518

See notes to financial statements.

Exhibit A

Component Units	
<u>Airport Authority</u>	<u>Ellsworth Municipal Hospital Foundation</u>
-	-
-	-
-	-
-	-
-	-
-	-
-	-
<u>35,663</u>	<u>31,348</u>
1,619,516	-
-	-
-	-
-	-
-	-
-	-
-	-
-	-
-	460,273
<u>20,042</u>	<u>224,780</u>
<u><u>1,639,558</u></u>	<u><u>685,053</u></u>

City of Iowa Falls, Iowa  
Statement of Activities  
Year ended June 30, 2011

		Program Revenues		
	<u>Expenses</u>	<u>Charges for</u>	<u>Operating</u>	<u>Capital</u>
<b>Functions/Programs:</b>		<u>Service</u>	<u>Grants,</u>	<u>Grants,</u>
<b>Primary Government:</b>			<u>Contributions</u>	<u>Contributions</u>
			<u>and Restricted</u>	<u>and Restricted</u>
			<u>Interest</u>	<u>Interest</u>
Governmental activities:				
Public safety	\$ 1,404,151	35,836	19,473	-
Public works	1,141,002	36,195	520,192	-
Culture and recreation	937,495	83,976	28,092	-
Community and economic development	473,567	-	-	172,996
General government	185,291	27,851	-	-
Interest on long-term debt	85,249	-	-	-
Other debt costs	3,903	-	-	-
Capital projects	47,943	-	-	161,891
Total governmental activities	4,278,601	183,858	567,757	334,887
Business type activities:				
Water	814,836	588,599	-	-
Wastewater	1,047,682	770,738	-	-
Hospital	19,378,054	18,652,917	-	530,117
Sanitation	728,058	761,912	-	-
Total business type activities	21,968,630	20,774,166	-	530,117
<b>Total primary government</b>	<b>\$ 26,247,231</b>	<b>20,958,024</b>	<b>567,757</b>	<b>865,004</b>
<b>Component Units:</b>				
Airport authority	230,592	-	-	-
Ellsworth Municipal Hospital Foundation	618,992	-	-	195,394
<b>Total component units</b>	<b>\$ 849,584</b>	<b>-</b>	<b>-</b>	<b>195,394</b>
<b>General Revenues:</b>				
Property and other city tax levied for:				
General purposes				
Debt service				
Tax increment financing				
Local option sales tax				
Hotel/motel tax				
Unrestricted investment earnings				
Miscellaneous				
Transfers				
Gain (loss) on disposal of fixed assets				
Total general revenues				
Change in net assets				
Net assets beginning of year				
Net assets end of year				

See notes to financial statements.

Net (Expense) Revenue and Changes in Net Assets

Primary Government			Component Unit	
Governmental Activities	Business Type Activities	Total	Airport Authority	Ellsworth Municipal Hospital Foundation
(1,348,842)	-	(1,348,842)	-	-
(584,615)	-	(584,615)	-	-
(825,427)	-	(825,427)	-	-
(300,571)	-	(300,571)	-	-
(157,440)	-	(157,440)	-	-
(85,249)	-	(85,249)	-	-
(3,903)	-	(3,903)	-	-
113,948	-	113,948	-	-
<u>(3,192,099)</u>	<u>-</u>	<u>(3,192,099)</u>	<u>-</u>	<u>-</u>
-	(226,237)	(226,237)	-	-
-	(276,944)	(276,944)	-	-
-	(195,020)	(195,020)	-	-
-	33,854	33,854	-	-
-	(664,347)	(664,347)	-	-
<u>(3,192,099)</u>	<u>(664,347)</u>	<u>(3,856,446)</u>	<u>-</u>	<u>-</u>
-	-	-	(230,592)	-
-	-	-	-	(423,598)
-	-	-	<u>(230,592)</u>	<u>(423,598)</u>
1,899,680	-	1,899,680	38,289	-
95,495	-	95,495	-	-
441,646	-	441,646	-	-
556,495	-	556,495	-	-
84,137	-	84,137	-	-
61,743	145,831	207,574	127	25,813
201,601	1,019,248	1,220,849	35,410	-
(487,710)	393,350	(94,360)	94,360	-
-	5	5	-	-
<u>2,853,087</u>	<u>1,558,434</u>	<u>4,411,521</u>	<u>168,186</u>	<u>25,813</u>
(339,012)	894,087	555,075	(62,406)	(397,785)
<u>16,471,884</u>	<u>20,489,559</u>	<u>36,961,443</u>	<u>1,701,964</u>	<u>1,082,838</u>
<u>\$ 16,132,872</u>	<u>21,383,646</u>	<u>37,516,518</u>	<u>1,639,558</u>	<u>685,053</u>

City of Iowa Falls, Iowa  
Balance Sheet  
Governmental Funds  
June 30, 2011

		Special Revenue		
	<u>General</u>	<u>Tax Increment Financing Revenues</u>	<u>Economic Development Loans</u>	<u>Local Option Sales Tax</u>
<b>Assets</b>				
Cash	\$ 570,550	(323,155)	1,527,878	997,280
Receivables:				
Property tax:				
Delinquent	13,937	-	-	-
Succeeding year	1,120,855	-	-	-
Tax increment financing:				
Succeeding year	-	767,501	-	-
Economic development loans	-	-	109,409	-
Accounts	2,758	-	-	-
Accrued interest	379	-	1,015	661
Due from other governments	964	-	-	44,758
Interfund receivable	-	-	60,960	14,460
Prepaid expenditures	83,945	-	-	-
<b>Total assets</b>	<b>\$ 1,793,388</b>	<b>444,346</b>	<b>1,699,262</b>	<b>1,057,159</b>
<b>Liabilities and Fund Balances</b>				
Liabilities:				
Accounts payable	\$ 38,693	20,537	-	-
Salaries and benefits payable	83,186	-	-	-
Deferred revenue:	-	-	-	-
Succeeding year property tax	1,120,855	-	-	-
Succeeding year tax increment financing	-	767,501	-	-
Other	-	70,704	109,409	-
Interfund payable	-	83,449	-	-
Total liabilities	1,242,734	942,191	109,409	-

Exhibit C

<u>Road Use Tax</u>	<u>Payroll Tax Levy</u>	<u>Capital Projects</u>	<u>Debt Service</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
212,142	88,397	598,704	124,033	878,596	4,674,425
-	6,822	-	971	427	22,157
-	638,789	-	97,075	34,192	1,890,911
-	-	-	-	-	767,501
-	-	-	-	-	109,409
8,535	-	-	-	-	11,293
-	-	292	82	581	3,010
40,704	-	-	-	-	86,426
-	-	-	-	-	75,420
<u>23,267</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>107,212</u>
<u>284,648</u>	<u>734,008</u>	<u>598,996</u>	<u>222,161</u>	<u>913,796</u>	<u>7,747,764</u>
16,043	1,196	78,780	-	11,098	166,347
13,743	-	-	-	-	96,929
-	638,789	-	97,075	34,192	1,890,911
-	-	-	-	-	767,501
-	-	-	-	-	180,113
-	-	14,460	-	-	97,909
<u>29,786</u>	<u>639,985</u>	<u>93,240</u>	<u>97,075</u>	<u>45,290</u>	<u>3,199,710</u>

City of Iowa Falls, Iowa  
Balance Sheet  
Governmental Funds  
June 30, 2011

		Special Revenue		
	General	Tax Increment Financing Revenues	Economic Development Loans	Local Option Sales Tax
<b>Liabilities and Fund Balances (continued)</b>				
Fund balances:				
Nonspendable:				
Prepaid expenditures	83,945	-	-	-
Advances to other funds	-	-	60,960	14,460
Restricted for:				
Debt service	-	-	-	-
Streets	-	-	-	-
Employee benefits	-	-	-	-
Capital improvements or other city purpose	-	-	-	1,042,699
Economic development	-	-	1,528,893	-
Library gifts and memorials	82,146	-	-	-
Park gifts and memorials	30,004	-	-	-
Fire department	32,733	-	-	-
Police department	6,557	-	-	-
Capital improvements and equipment	-	-	-	-
Carnegie library	-	-	-	-
Other purposes	-	-	-	-
Unassigned	315,269	(497,845)	-	-
Total fund balances	550,654	(497,845)	1,589,853	1,057,159
 <b>Total liabilities and fund balances</b>	<b>\$ 1,793,388</b>	<b>444,346</b>	<b>1,699,262</b>	<b>1,057,159</b>

See notes to financial statements.

Exhibit C

<u>Road Use Tax</u>	<u>Payroll Tax Levy</u>	<u>Capital Projects</u>	<u>Debt Service</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
-	-	-	-	-	83,945
-	-	-	-	-	75,420
-	-	-	125,086	-	125,086
254,862	-	-	-	-	254,862
-	94,023	-	-	-	94,023
-	-	-	-	-	1,042,699
-	-	-	-	-	1,528,893
-	-	-	-	-	82,146
-	-	-	-	-	30,004
-	-	-	-	-	32,733
-	-	-	-	-	6,557
-	-	505,756	-	-	505,756
-	-	-	-	681,980	681,980
-	-	-	-	186,526	186,526
-	-	-	-	-	(182,576)
<u>254,862</u>	<u>94,023</u>	<u>505,756</u>	<u>125,086</u>	<u>868,506</u>	<u>4,548,054</u>
<u>284,648</u>	<u>734,008</u>	<u>598,996</u>	<u>222,161</u>	<u>913,796</u>	<u>7,747,764</u>

Reconciliation of the Balance Sheet -  
Governmental Funds to the Statement of Net Assets

June 30, 2011

**Total governmental fund balances (page 25)** \$ 4,548,054

*Amounts reported for governmental activities in the  
Statement of Net assets are different because:*

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds. The cost of assets is \$24,697,773 and the accumulated depreciation is \$11,155,897 13,541,876

Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the governmental funds. 180,113

Long-term liabilities, including bonds/notes payable, compensated absences payable, other postemployment benefits payable, and accrued interest payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. (2,149,858)

Other long-term assets are not available to pay current period debt and, therefore, are not included in the governmental funds 12,687

**Net assets of governmental activities (page 21)** \$ 16,132,872

See notes to financial statements.

City of Iowa Falls, Iowa  
Statement of Revenues, Expenditures and Changes in Fund Balances  
and Changes in Fund Balances (Deficit)  
Governmental Funds  
Year Ended June 30, 2011

		Special	
		Tax	Economic
		Increment	Development
	<u>General</u>	<u>Financing</u>	<u>Loans</u>
		<u>Revenues</u>	<u>Loans</u>
Revenues:			
Property tax	\$ 1,207,263	-	-
Tax increment financing	-	441,646	-
Other city tax	66,055	-	-
Licenses and permits	46,799	-	-
Use of money and property	5,416	-	24,675
Intergovernmental	47,565	52,567	-
Charges for service	85,584	-	-
Miscellaneous	192,232	-	9,175
Total revenues	1,650,914	494,213	33,850
Expenditures:			
Operating:			
Public safety	958,256	-	-
Public works	48,512	83,503	-
Culture and recreation	569,237	92,541	-
Community and economic development	(918)	196,505	-
General government	164,034	-	-
Debt service	199	-	-
Capital projects	-	-	-
Total expenditures	1,739,320	372,549	-
Excess (deficiency) of revenues over (under) expenditures	(88,406)	121,664	33,850
	(88,406)	121,664	33,850
Other financing sources (uses):			
Operating transfers in	275,565	9,299	86,023
Operating transfers out	(32,842)	(711,263)	-
Total other financing sources (uses)	242,723	(701,964)	86,023
Net change in fund balances	154,317	(580,300)	119,873
Fund balances beginning of year (as restated)	396,337	82,455	1,469,980
Fund balances (deficit) end of year	\$ 550,654	(497,845)	1,589,853

See notes to financial statements.

Exhibit E

Revenue						
Local Option Sales Tax	Road Use Tax	Payroll Tax Levy	Capital Projects	Debt Service	Nonmajor Governmental Funds	Total
-	-	591,747	-	92,613	37,023	1,928,646
-	-	-	-	-	-	441,646
556,495	-	20,249	-	2,882	85,404	731,085
-	-	-	-	-	-	46,799
10,741	-	-	6,710	3,842	9,549	60,933
-	520,192	-	243,533	-	-	863,857
-	-	-	-	-	-	85,584
925	40,325	-	1,472	-	-	244,129
<u>568,161</u>	<u>560,517</u>	<u>611,996</u>	<u>251,715</u>	<u>99,337</u>	<u>131,976</u>	<u>4,402,679</u>
-	-	322,939	-	-	-	1,281,195
-	461,142	117,262	-	-	-	710,419
-	-	120,493	-	-	-	782,271
-	-	11,725	-	-	78,714	286,026
-	-	20,782	-	-	-	184,816
-	-	-	-	561,533	-	561,732
-	-	-	487,736	-	-	487,736
-	461,142	593,201	487,736	561,533	78,714	4,294,195
568,161	99,375	18,795	(236,021)	(462,196)	53,262	108,484
568,161	99,375	18,795	(236,021)	(462,196)	53,262	108,484
214,361	17,391	11,049	307,916	465,678	-	1,387,282
(740,097)	-	-	(352,531)	-	(38,259)	(1,874,992)
(525,736)	17,391	11,049	(44,615)	465,678	(38,259)	(487,710)
42,425	116,766	29,844	(280,636)	3,482	15,003	(379,226)
1,014,734	138,096	64,179	786,392	121,604	853,503	4,927,280
<u>1,057,159</u>	<u>254,862</u>	<u>94,023</u>	<u>505,756</u>	<u>125,086</u>	<u>868,506</u>	<u>4,548,054</u>

Reconciliation of the Statement of Revenues, Expenditures and  
Changes in Fund Balances -  
Governmental Funds to the Statement of Activities

Year ended June 30, 2011

**Net change in fund balances - Total governmental funds (page 28)** \$ (379,226)

*Amounts reported for governmental activities in the Statement of Activities are different because:*

Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets. Capital outlay expenditures exceeded depreciation expense in the current year as follows:

Expenditures for capital assets	564,057	
Depreciation expense	<u>(950,090)</u>	(386,033)

Because some revenues will not be collected for several months after the City's year end, they are not considered available revenues and are deferred in the governmental funds as follows:

Other	<u>(14,169)</u>	(14,169)
-------	-----------------	----------

Proceeds from issuing long-term liabilities provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.

Current year debt repayment is as follows:

Principal repayments	475,000	
Amortize bond issuance costs	<u>(3,903)</u>	471,097

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds, as follows:

Compensated absences	2,946	
Other postemployment benefits	(34,911)	
Accrued interest on long-term debt	<u>1,284</u>	<u>(30,681)</u>

**Change in net assets of governmental activities (page 21)** \$ (339,012)

City of Iowa Falls, Iowa

Statement of Net Assets

Proprietary Funds

June 30, 2011

	<u>Water</u>	<u>Wastewater</u>
<b>Assets</b>		
Current assets:		
Cash	\$ 1,371,125	570,233
Receivables (net of allowance for uncollectibles):		
Customer accounts and unbilled usage	94,226	90,112
Accrued interest	992	860
Estimated third-party payor settlements	-	-
Other	-	-
Interfund receivable	11,245	11,245
Inventories	24,256	-
Prepaid expenses	17,127	13,002
Noncurrent assets:		
Restricted assets:		
Cash:		
Revenue debt service reserve account	109,500	343,250
Water improvement account	243,674	-
Wastewater replacement account	-	382,000
Investment in affiliated organizations	-	-
Capital assets (net of accumulated depreciation)	2,708,930	6,427,301
Bond issuance costs	16,970	54,579
<b>Total assets</b>	<u>4,598,045</u>	<u>7,892,582</u>

Exhibit G

<u>Enterprise</u>		
<u>Hospital</u>	<u>Sanitation</u>	<u>Total</u>
5,045,097	318,374	7,304,829
2,641,775	99,855	2,925,968
17,760	212	19,824
189,000	-	189,000
85,133	-	85,133
-	-	22,490
371,961	-	396,217
101,935	23,926	155,990
308,452	-	761,202
		243,674
-	-	382,000
685,564	-	685,564
6,127,605	85,672	15,349,508
7,790	-	79,339
<u>15,582,072</u>	<u>528,039</u>	<u>28,600,738</u>

City of Iowa Falls, Iowa

Statement of Net Assets

Proprietary Funds

June 30, 2011

	<u>Water</u>	<u>Wastewater</u>
<b>Liabilities</b>		
Current liabilities:		
Accounts payable	13,720	15,246
Salaries and benefits payable	8,523	9,546
Compensated absences	18,700	21,652
Current liabilities payable from restricted assets:		
Revenue bonds/notes payable	105,000	275,000
Accrued and matured interest payable	2,189	7,813
Noncurrent liabilities:		
Revenue bonds/notes payable	790,000	2,620,000
Net OPEB liability	9,406	9,406
<b>Total liabilities</b>	<u>947,538</u>	<u>2,958,663</u>
<b>Net Assets</b>		
Invested in capital assets net of related debt	1,813,930	3,532,301
Restricted for:		
Revenue bond retirement	109,500	343,250
Water improvement	243,674	-
Wastewater replacement	-	382,000
Capital improvements by donors	-	-
Bond indentures	-	-
Unrestricted	<u>1,483,403</u>	<u>676,368</u>
<b>Total net assets</b>	<u>\$ 3,650,507</u>	<u>4,933,919</u>

See notes to financial statements.

Exhibit G

Enterprise		
<u>Hospital</u>	<u>Sanitation</u>	<u>Total</u>
436,744	15,063	480,773
614,869	11,952	644,890
573,259	17,148	630,759
-		
484,213	-	864,213
-	-	10,002
1,148,237	-	4,558,237
-	9,406	28,218
<u>3,257,322</u>	<u>53,569</u>	<u>7,217,092</u>
4,495,155	85,672	9,927,058
-	-	452,750
-	-	243,674
		382,000
935,679	-	935,679
308,452	-	308,452
<u>6,585,464</u>	<u>388,798</u>	<u>9,134,033</u>
<u>12,324,750</u>	<u>474,470</u>	<u>21,383,646</u>

City of Iowa Falls, Iowa

Statement of Revenues, Expenses and Changes in Fund Net Assets

Proprietary Funds

Year ended June 30, 2011

	<u>Water</u>	<u>Wastewater</u>
Operating revenues:		
Charges for service	\$ 588,599	770,738
Miscellaneous	<u>52,865</u>	<u>28,681</u>
Total operating revenues	<u>641,464</u>	<u>799,419</u>
Operating expenses:		
Business type activities	<u>784,775</u>	<u>945,696</u>
Total operating expenses	<u>784,775</u>	<u>945,696</u>
Operating income (loss)	<u>(143,311)</u>	<u>(146,277)</u>
Non-operating revenues (expenses):		
Interest income	19,432	17,556
Interest expense	(30,061)	(101,986)
Contributed capital	-	-
Share of net gain/loss of hospital's affiliated organizations	-	-
Gain/(Loss) on disposal of capital assets	<u>-</u>	<u>-</u>
Total non-operating revenues (expenses)	<u>(10,629)</u>	<u>(84,430)</u>
Excess (deficiency) receipts over disbursements	(153,940)	(230,707)
Operating transfer in	46	491,056
Operating transfer out	<u>(40,819)</u>	<u>(52,122)</u>
Change in net assets	(194,713)	208,227
Net assets beginning of year	<u>3,845,220</u>	<u>4,725,692</u>
Net assets end of year	<u>\$ 3,650,507</u>	<u>4,933,919</u>

See notes to financial statements.

Enterprise		
<u>Hospital</u>	<u>Sanitation</u>	<u>Total</u>
18,652,917	761,912	20,774,166
<u>659,642</u>	<u>19,071</u>	<u>760,259</u>
<u>19,312,559</u>	<u>780,983</u>	<u>21,534,425</u>
<u>19,300,974</u>	<u>728,058</u>	<u>21,759,503</u>
<u>19,300,974</u>	<u>728,058</u>	<u>21,759,503</u>
<u>11,585</u>	<u>52,925</u>	<u>(225,078)</u>
105,914	2,929	145,831
(77,080)	-	(209,127)
530,117	-	530,117
258,989	-	258,989
<u>5</u>	<u>-</u>	<u>5</u>
<u>817,945</u>	<u>2,929</u>	<u>725,815</u>
829,530	55,854	500,737
-	1,257	492,359
<u>-</u>	<u>(6,068)</u>	<u>(99,009)</u>
829,530	51,043	894,087
<u>11,495,220</u>	<u>423,427</u>	<u>20,489,559</u>
<u>12,324,750</u>	<u>474,470</u>	<u>21,383,646</u>

City of Iowa Falls, Iowa

Statement of Cash Flows

Proprietary Funds

Year ended June 30, 2011

	<u>Water</u>	<u>Wastewater</u>
Cash flows from operating activities:		
Cash received from customers and users	\$ 643,660	812,502
Cash received from other revenues	-	-
Cash paid to suppliers and employees	<u>(680,652)</u>	<u>(696,460)</u>
Net cash provided by (used for) operating activities	<u>(36,992)</u>	<u>116,042</u>
Cash flows from noncapital financing activities:		
Net Transfers	<u>(32,665)</u>	<u>447,042</u>
Net cash provided by (used for) noncapital financing activities	<u>(32,665)</u>	<u>447,042</u>
Cash flows from capital and related financing activities:		
Proceeds from sale of property and equipment	-	-
Acquisition of capital assets	(60,528)	(641,918)
Principal paid on long-term debt	(100,000)	(270,000)
Proceeds from, issuance of long-term debt	-	-
Interest paid on long-term debt	(30,181)	(102,323)
Capital contribution	-	-
Net cash used for capital and related financing activities	<u>(190,709)</u>	<u>(1,014,241)</u>
Cash flows from investing activities:		
Interest on investments	23,431	20,523
Increase in investment in affiliated organizations	-	-
Net cash provided by investing activities	<u>23,431</u>	<u>20,523</u>
Net increase (decrease) in cash and cash equivalents	(236,935)	(430,634)
Cash and cash equivalents beginning of year	<u>1,961,234</u>	<u>1,726,117</u>
Cash and cash equivalents end of year	<u>\$ 1,724,299</u>	<u>1,295,483</u>

Exhibit I

Enterprise		
<u>Hospital</u>	<u>Sanitation</u>	<u>Total</u>
18,000,294	767,201	20,223,657
660,044	-	660,044
<u>(18,462,724)</u>	<u>(701,687)</u>	<u>(20,541,523)</u>
<u>197,614</u>	<u>65,514</u>	<u>342,178</u>
-	(4,811)	409,566
<u>-</u>	<u>(4,811)</u>	<u>409,566</u>
5	-	5
(954,035)	-	(1,656,481)
(430,395)	-	(800,395)
344,117	-	344,117
(77,080)	-	(209,584)
<u>530,117</u>	<u>-</u>	<u>530,117</u>
<u>(587,271)</u>	<u>-</u>	<u>(1,792,221)</u>
105,897	3,364	153,215
<u>165,322</u>	<u>-</u>	<u>165,322</u>
<u>271,219</u>	<u>3,364</u>	<u>318,537</u>
(118,438)	64,067	(721,940)
<u>5,471,987</u>	<u>254,307</u>	<u>9,413,645</u>
<u>5,353,549</u>	<u>318,374</u>	<u>8,691,705</u>

City of Iowa Falls, Iowa

Statement of Cash Flows

Proprietary Funds

Year ended June 30, 2011

	<u>Water</u>	<u>Wastewater</u>
<b>Reconciliation of operating income to net cash provided by operating activities:</b>		
Operating income (loss)	\$ (143,311)	(146,277)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization expense	128,380	265,795
Provision for bad debt	-	-
Increase in receivables	2,197	13,083
(Increase) decrease in inventories, at cost	(2,013)	-
(Increase) decrease in prepaid expenses	(725)	(888)
Increase (decrease) in accounts payable	(25,649)	(19,273)
(Decrease) accrued expenses	-	-
Increase (decrease) in salaries payable	568	660
Increase in compensated absences	(1,254)	(1,873)
Increase (decrease) in compensated absences	4,815	4,815
Increase (decrease) in third-party payor settlement	-	-
Net cash provided by operating activities	<u>\$ (36,992)</u>	<u>116,042</u>
<b>Reconciliation of cash and cash equivalents at year end to specific assets included on the Statement of Net Assets:</b>		
Current assets:		
Cash	\$ 1,371,125	570,233
Restricted assets:		
Cash:		
Revenue debt service reserve account	109,500	343,250
Water improvement account	243,674	-
Wastewater replacement account	-	382,000
Cash and cash equivalents at year end	<u>\$ 1,724,299</u>	<u>1,295,483</u>

See notes to financial statements.

Exhibit I

Enterprise		
<u>Hospital</u>	<u>Sanitation</u>	<u>Total</u>
11,585	52,925	(225,078)
953,321	23,703	1,371,199
1,208,706	-	1,208,706
(1,302,927)	(13,781)	(1,301,428)
3,393	-	1,380
(48,166)	(2,474)	(52,253)
(42,306)	(6,466)	(93,694)
(27,992)	-	(27,992)
-	1,717	2,945
-	5,075	1,948
-	4,815	14,445
(558,000)	-	(558,000)
<u>197,614</u>	<u>65,514</u>	<u>342,178</u>
5,045,097	318,374	7,304,829
308,452	-	761,202
-	-	243,674
-	-	382,000
<u>5,353,549</u>	<u>318,374</u>	<u>8,691,705</u>

City of Iowa Falls, Iowa

Notes to Financial Statements

June 30, 2011

**(1) Summary of Significant Accounting Policies**

The City of Iowa Falls is a political subdivision of the State of Iowa located in Hardin County. It was first incorporated in 1869 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council-Manager form of government with the Mayor and Council Members elected on a non-partisan basis. The City of Iowa Falls provides numerous services to citizens, including public safety, public works, culture and recreation, community and economic development and general government services. It also operates the airport and provides water, sewer and sanitation utilities.

The financial statements of the City of Iowa Falls have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board.

**A. Reporting Entity**

For financial reporting purposes, the City of Iowa Falls 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.

Based on the foregoing criteria, the Ellsworth Municipal Hospital is considered to be part of the primary government and, therefore, the financial information is included in the City's financial statements. The financial activities of the Hospital are reflected in this report as an Enterprise Fund.

City of Iowa Falls, Iowa

Notes to Financial Statements

June 30, 2011

These financial statements present the City of Iowa Falls (the primary government) and its component unit. The component unit discussed below is included in the City's reporting entity because of the significance of its operational or financial relationship with the City.

Discretely Presented Component Units

The Iowa Falls Municipal Airport Authority (Authority) was established pursuant to Chapter 330A of the Code of Iowa to operate the City's airport facility. The Authority is governed by a five member board appointed by the Iowa Falls City Council. The board members serve at the pleasure of the City Council. The City annually provides significant operating subsidies to the Authority. In accordance with criteria set by the Governmental Accounting Standards Board, the Authority meets the definition of a component unit which should be discretely presented.

The Ellsworth Municipal Hospital Foundation (the Foundation) is a legally separate, tax-exempt component unit of the Hospital. It is organized under the provisions of the Internal Revenue Service Code Section 501(c)(3). The Foundation's financial statements have been included as a discretely presented component unit. The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the Hospital in support of its operations and programs. The Hospital does not appoint a voting majority to of the Foundation's Board of Trustees or in any way impose its will over the Foundation. However, the Foundation is included as a discretely presented component unit due to the nature of the significance of its relationship to the Hospital. Complete financial statements for this foundation can be obtained from it's respective administrative office in Iowa Falls, Iowa.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Hardin County Assessor's Conference Board, Region Six Planning Commission, Region Six Housing Authority, Hardin County Sanitary Solid Waste Disposal Commission, Hardin County Emergency Management Commission, Hardin County E911 Service Board, Mid Iowa Drug Task Force and the NE Iowa Hazardous Materials Response Group.

City of Iowa Falls, Iowa

Notes to Financial Statements

June 30, 2011

B. Basis of Presentation

Government-wide Financial Statements – The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the primary government and its component unit. For the most part, the effect of interfund activity has been removed from these statements. 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 Net Assets presents the City's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories.

*Invested in capital assets, net of related debt* consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

*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 that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues 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 and contributions restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

City of Iowa Falls, Iowa

Notes to Financial Statements

June 30, 2011

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

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax revenues and other revenues 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 expenditures, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Tax Increment Financing Revenues Fund is used to account for revenues from the tax authorized by ordinance in the urban renewal district and used to pay the principal and interest on the general obligation capital loan notes and other indebtedness incurred for urban renewal projects.

The Economic Development Loans Fund is used to account for economic development loans made to businesses operating in the City and to other City funds.

The Local Option Sales Tax Fund is used to account for the revenues from the tax authorized by referendum and used for capital improvements, equipment and community programs and services.

The Road Use Tax Fund is used to account for the road use tax allocation from the State of Iowa to be used for road construction and maintenance.

The Payroll Tax Levy Fund is used to account for the property tax levied to finance the payment of employee benefit.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities and other capital assets.

The Debt Service Fund is used to account for property tax and other revenues to be used for the payment of interest and principal on the City's general long-term debt.

City of Iowa Falls, Iowa

Notes to Financial Statements

June 30, 2011

The City reports the following major Proprietary Funds:

Enterprise:

The Water Fund is used to account for the operation and maintenance of the City's water system.

The Wastewater Fund is used to account for the operation and maintenance of the City's wastewater treatment and sanitary sewer system.

The Hospital Fund is used to account for the operation and maintenance of Ellsworth Municipal Hospital.

The Sanitation Fund is used to account for the operation and maintenance of the City's garbage and landfill system.

C. Measurement Focus and Basis of Accounting

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days after year end.

Property tax, local option sales tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest are considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the City.

City of Iowa Falls, Iowa

Notes to Financial Statements

June 30, 2011

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgements and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt are reported as other financing sources.

When an expenditure is incurred in governmental funds which can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the expenditure toward restricted fund balance and then to less-restrictive classifications – committed, assigned and then unassigned fund balances.

Under terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted 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 revenues.

The proprietary funds of the City apply all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's Enterprise Funds is charges to customers for sales and services. Operating expenses for Enterprise Funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The City maintains its financial records on the cash basis. The financial statements of the City are prepared by making memorandum adjusting entries to the cash basis financial records.

City of Iowa Falls, Iowa

Notes to Financial Statements

June 30, 2011

D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the financial statements:

Cash and Cash Equivalents – The cash balances of most City funds are pooled and invested in interest-bearing cash accounts or certificates of deposit. Interest on the pooled cash investments is recognized as revenue when earned and allocated to the funds on a systematic basis, or as provided by law. Cash investments are separately held by the Hospital Fund, for which interest is also recognized as revenue when earned. Investments consist of non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid (including restricted assets) are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, have a maturity date no longer than three months.

Property Tax Receivable, Including Tax Increment Financing – Property tax, including tax increment financing, in governmental funds is accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date the tax asking is certified by the City to the County Board of Supervisors. Current year property tax and tax increment financing revenue receivable represent taxes collected by the County but not remitted to the City at June 30, 2011 and unpaid taxes. The succeeding year property tax and tax increment financing revenues receivable represent taxes certified by the City to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the City is required to certify its budget to the County Auditor by March 15 of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax and tax increment financing revenues receivable have been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

City of Iowa Falls, Iowa

Notes to Financial Statements

June 30, 2011

Property tax and tax increment financing revenues recognized in these funds become due and collectible in September and March of the current fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2009 assessed property valuations; is for the tax accrual period July 1, 2010 through June 30, 2011 and reflects tax asking contained in the budget certified to the County Board of Supervisors in March, 2010.

Customer Accounts and Unbilled Usage – Accounts receivable are recorded in the Enterprise Funds at the time the service is billed. Unbilled usage for service consumed between periodic scheduled billing dates is estimated and is recognized as revenue in the period in which the service is provided.

Due from and Due to Other Funds – During the course of its operations, the City has numerous transactions between funds. To the extent certain transactions between funds had not been paid or received as of June 30, 2011, balances of interfund amounts receivable or payable have been recorded in the fund financial statements.

Due From Other Governments – Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories – Inventories are valued at cost using the first-in/ first out method. Inventories in the Enterprise Funds consist of materials and supplies. Inventories are recorded as expenses when consumed rather than when purchased.

Restricted Assets – Funds set aside for payment of Enterprise Fund revenue bonds/ notes are classified as restricted assets since their use is restricted by applicable bond/note indentures.

City of Iowa Falls, Iowa

Notes to Financial Statements

June 30, 2011

Capital Assets – Capital assets, which include property, equipment and vehicles, and infrastructure assets (e.g. roads, bridges, curbs, gutters, sidewalks, and similar items which are immovable and of value only to the government) are reported in the applicable governmental or business type activities columns in the government-wide Statement of Net Assets and in the Proprietary Funds Statement of Net Assets. Capital assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair not adding to the value of the asset or materially extend asset lives are not capitalized. Reportable capital assets are defined by the City as assets with initial, individual costs in excess of the following thresholds and estimated useful lives in excess of two years.

<u>Asset Class</u>	<u>Amount</u>
Land, buildings and improvements	\$ 1,000
Equipment and vehicles	1,000
Infrastructure	25,000

Capital assets of the City is depreciated using the straight line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives (In Years)</u>
Buildings	40-50 years
Improvements other than buildings	20-50 years
Vehicles	10-15 years
Equipment	3-30 years
Infrastructure	15-20 years

City of Iowa Falls, Iowa

Notes to Financial Statements

June 30, 2011

Bond Issuance Costs – Bond issuance costs associated with general obligation and revenue bonds are deferred and amortized over the term of the bonds using the bond outstanding method which approximates the interest method.

Deferred Revenue – Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds, the succeeding year property tax receivable, as well as delinquent property tax receivable and other receivables not collected within sixty days after year end.

Deferred revenue on the Statement of Net Assets consists of succeeding year property tax and tax increment financing revenues receivable that will not be recognized as revenue until the year for which it is levied.

Compensated Absences – City employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental fund financial statements only for employees that have resigned or retired. The compensated absences liability has been computed on rates of pay in effect at June 30, 2011. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund.

Long-Term Liabilities – In the government-wide and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental or business type activities column in the Statement of Net Assets and the proprietary fund Statement of Net Assets.

City of Iowa Falls, Iowa

Notes to Financial Statements

June 30, 2011

In the governmental fund financial statements, the face amount of debt issued is reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Equity – In the governmental fund financial statements, fund balances are classified as follows:

Nonspendable – Amounts which cannot be spent either because they are in a nonspendable form or because they are legally or contractually required to be maintained intact.

Restricted – Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Committed – Amounts which can be used only for specific purposes pursuant to constraints formally imposed by the City Council through ordinance or resolution approved prior to year end. Those committed amounts cannot be used for any other purpose unless the City Council removes or changes the specified use by taking the same action it employed to commit those amounts.

Unassigned – All amounts not included in other spendable classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

City of Iowa Falls, Iowa  
Notes to Financial Statements

June 30, 2011

**(2) Cash**

The City's deposits in banks at June 30, 2011 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

The City had no investments meeting the disclosure requirements of Governmental Accounting Standard Board Statement No. 3, as amended by Statement No. 40.

**(3) Allowances or Collection Losses**

Allowances have been made for estimated collection losses on the following receivable amounts:

	Gross Receivables	Allowance For Collection Losses	Net Receivables
Customer accounts, Hospital Fund	\$ <u>4,707,775</u>	<u>2,066,000</u>	<u>2,641,775</u>

City of Iowa Falls, Iowa

Notes to Financial Statements

June 30, 2011

**(4) Capital Assets**

Capital assets activity for the year ended June 30, 2011 was as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
<b><u>Primary Government</u></b>				
<b>Governmental activities:</b>				
Capital assets not being depreciated:				
Land	\$ 885,920	-	-	885,920
Construction in progress - infrastructure	91,089	361,559	(161,610)	291,038
Construction in progress - other	<u>99,627</u>	<u>87,983</u>	<u>-</u>	<u>187,610</u>
Total capital assets not being depreciated	<u>1,076,636</u>	<u>449,542</u>	<u>(161,610)</u>	<u>1,364,568</u>
Capital assets being depreciated:				
Buildings	5,870,406	-	-	5,870,406
Improvements other than buildings	3,202,062			3,202,062
Equipment and vehicles	3,206,256	114,515	(84,787)	3,235,984
Infrastructure, street network	<u>10,863,143</u>	<u>161,610</u>	<u>-</u>	<u>11,024,753</u>
Total capital assets being depreciated	<u>23,141,867</u>	<u>276,125</u>	<u>(84,787)</u>	<u>23,333,205</u>
Less accumulated depreciation for:				
Buildings	1,201,499	118,817		1,320,316
Improvements other than buildings	1,648,255	163,005		1,811,260
Equipment and vehicles	2,200,736	227,217	(84,787)	2,343,166
Infrastructure, street network	<u>5,240,104</u>	<u>441,051</u>	<u>-</u>	<u>5,681,155</u>
Total accumulated depreciation	<u>10,290,594</u>	<u>950,090</u>	<u>(84,787)</u>	<u>11,155,897</u>
Total capital assets being depreciated, net	<u>12,851,273</u>	<u>(673,965)</u>	<u>-</u>	<u>12,177,308</u>
Governmental activities capital assets, net	<u>\$ 13,927,909</u>	<u>(224,423)</u>	<u>(161,610)</u>	<u>13,541,876</u>

City of Iowa Falls, Iowa  
Notes to Financial Statements

June 30, 2011

<b><u>Business type activities</u></b>	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Capital assets not being depreciated:				
Land	\$ 733,257	-	-	733,257
Construction in progress	<u>2,523,885</u>	<u>1,150,625</u>	<u>(3,233,940)</u>	<u>440,570</u>
Total capital assets not being depreciated	<u>3,257,142</u>	<u>1,150,625</u>	<u>(3,233,940)</u>	<u>1,173,827</u>
Capital assets being depreciated:				
Buildings	5,704,861	117,503	-	5,822,364
Improvements other than buildings	796,060	-	-	796,060
Equipment and vehicles	12,195,892	556,622	(116,535)	12,635,979
Infrastructure, water and sewer network	<u>10,198,645</u>	<u>3,065,669</u>	<u>-</u>	<u>13,264,314</u>
Total capital assets being depreciated	<u>28,895,458</u>	<u>3,739,794</u>	<u>(116,535)</u>	<u>32,518,717</u>
Less accumulated depreciation for:				
Buildings	3,317,272	162,834	-	3,480,106
Improvements other than buildings	808,035	40,943	-	848,978
Equipment and vehicles	8,213,518	862,088	(116,535)	8,959,071
Infrastructure, water and sewer network	<u>4,757,619</u>	<u>297,262</u>	<u>-</u>	<u>5,054,881</u>
Total accumulated depreciation	<u>17,096,444</u>	<u>1,363,127</u>	<u>(116,535)</u>	<u>18,343,036</u>
Total capital assets being depreciated, net	<u>11,799,014</u>	<u>2,376,667</u>	<u>-</u>	<u>14,175,681</u>
Business type activities capital assets, net	<u>\$ 15,056,156</u>	<u>3,527,292</u>	<u>(3,233,940)</u>	<u>15,349,508</u>

Depreciation expense was charged to functions of the primary government as follows:

Governmental activities:	
Public safety	\$ 161,597
Public works	526,204
Culture and recreation	234,756
General government	<u>27,533</u>
Total depreciation expense – governmental activities	<u>\$ 950,090</u>

City of Iowa Falls, Iowa

Notes to Financial Statements

June 30, 2011

Business type activities:	
Water	\$ 126,364
Wastewater	261,728
Hospital	951,332
Sanitation	<u>23,703</u>
Total depreciation expense – business type activities	<u>\$ 1,363,127</u>

<b><u>Discretely presented component unit</u></b>	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Capital assets not being depreciated:				
Land	\$ 684,822	-	-	684,822
Construction in progress	<u>4,486</u>	<u>90,187</u>	-	<u>94,673</u>
Total capital assets not being depreciated	<u>689,308</u>	<u>90,187</u>	-	<u>779,495</u>
Capital assets being depreciated:				
Buildings	546,368	-	-	546,368
Improvements other than buildings	80,574	-	-	80,574
Equipment and vehicles	189,137	-	(4,756)	184,381
Infrastructure, runway network	<u>1,499,408</u>	-	-	<u>1,499,408</u>
Total capital assets being depreciated	<u>2,315,487</u>	-	<u>(4,756)</u>	<u>2,310,731</u>
Less accumulated depreciation for:				
Buildings	186,333	21,863	-	208,196
Improvements other than buildings	68,803	5,238	-	74,041
Equipment and vehicles	117,621	30,803	(4,756)	143,668
Infrastructure, runway network	<u>989,856</u>	<u>54,949</u>	-	<u>1,044,805</u>
Total accumulated depreciation	<u>1,362,613</u>	<u>112,853</u>	<u>(4,756)</u>	<u>1,470,710</u>
Total capital assets being depreciated, net	<u>952,874</u>	<u>(112,853)</u>	-	<u>840,021</u>
Business type activities capital assets, net	<u>\$ 1,642,182</u>	<u>(22,666)</u>	-	<u>1,619,516</u>

Total depreciation expense - discretely presented component unit \$ 112,853

City of Iowa Falls, Iowa

Notes to Financial Statements

June 30, 2011

**(5) Long-Term Liabilities**

A summary of changes in long-term liabilities for the year ended June 30, 2011 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year	Due Within One Year
Governmental activities:					
General obligation bonds/notes:					
General and corporate purpose	\$ 2,385,000	---	475,000	1,910,000	500,000
Compensated absences	168,868	165,922	168,868	165,922	165,922
Net OPEB liability	<u>33,285</u>	<u>34,911</u>	<u>---</u>	<u>68,196</u>	<u>---</u>
Total	<u>\$ 2,587,153</u>	<u>200,833</u>	<u>643,868</u>	<u>2,144,118</u>	<u>665,922</u>

	Balance Beginning of Year	Increases	Decreases	Balance End of Year	Due Within One Year
Business type activities:					
Revenue bonds/notes:					
Water	\$ 995,000	---	100,000	895,000	105,000
Wastewater	3,165,000	---	270,000	2,895,000	275,000
Hospital	1,718,728	111,917	386,671	1,443,974	407,676
Capital lease	---	232,200	43,724	188,476	76,537
Compensated absences	695,597	630,759	695,597	630,759	630,759
Net OPEB liability	<u>13,773</u>	<u>14,445</u>	<u>---</u>	<u>28,218</u>	<u>---</u>
Total	<u>\$ 6,588,098</u>	<u>989,321</u>	<u>1,495,992</u>	<u>6,081,427</u>	<u>1,494,972</u>

The government-wide Statement of Activities includes \$864,213 of the long-term liabilities due within one year for business type activities in “liabilities payable from restricted assets.”

City of Iowa Falls, Iowa  
Notes to Financial Statements

June 30, 2011

Bonded Debt

General obligation bonds/notes:

Five issues of unmatured general obligation bonds/notes, totaling \$1,910,000, are outstanding at June 30, 2011. General obligation bonds/notes bear interest with rates ranging from 2.70% to 4.15% and mature in varying annual amounts ranging from \$20,000 to \$210,000, with the final maturities due in the year ending June 30, 2017.

Revenue bonds/notes:

Seven issues of unmatured revenue bonds/notes, totaling \$5,233,974, are outstanding at June 30, 2011. These bonds/notes bear interest at rates of 1.45% to 6.073% and mature in varying annual amounts ranging from \$9,633 to \$300,000, with the final maturities due in the year ending June 30, 2024.

The City has pledged future wastewater customer revenues, net of specified operating expenses, to repay \$3,430,000 in sewer revenue notes issued in December 2009. Proceeds from the notes provided financing for the construction of improvements to the wastewater treatment plant. The notes are payable solely from wastewater customer net revenues and are payable through 2024. Annual principal and interest payments on the notes are expected to require less than 90 percent of net revenues. The total principal and interest remaining to be paid on the notes is \$3,577,860. For the current year, principal and interest paid and total customer net revenues were \$367,805 and \$119,518 respectively.

The City has pledged future water customer revenues, net of specified operating expenses, to repay \$1,095,000 in water revenue notes issued in December 2009. Proceeds from the notes provided financing for the construction of improvements to the water plant and transmission system. The notes are payable solely from water customer net revenues and are payable through 2019. Annual principal and interest payments on the notes are expected to require less than 90 percent of net revenues. The total principal and interest remaining to be paid on the notes is \$1,029,823. For the current year, principal and interest paid and total customer net revenues were \$127,716 and \$(14,931) respectively.

City of Iowa Falls, Iowa

Notes to Financial Statements

June 30, 2011

The resolutions providing for the issuance of the revenue bonds/notes include the following provisions:

- (a) The bonds/notes will only be redeemed from the future earnings of the enterprise activity and the bond/note holders hold a lien on the future earnings of the funds.
- (b) Sufficient monthly transfers shall be made to separate water, wastewater and hospital bond and interest sinking accounts for the purpose of making the bond/note principal and interest payments when due.
- (c) Additional monthly transfers shall be made to separate water, wastewater and hospital debt service reserve accounts until specific minimum balances have been accumulated. These accounts are restricted for the purpose of paying bond/note principal and interest payments due when insufficient money is available in the sinking accounts.
- (d) Additional monthly transfers of \$2,000 to the wastewater improvement and replacement accounts shall be made until specific minimum balances have been accumulated. These accounts are restricted for the purpose of paying for any additional improvements, extensions or repairs to the system.
- (e) User rates shall be established at a level which produces and maintains net revenues at a level not less than 110% of the amount of principal and interest on the bonds/notes falling due in the same year.

During the year ended June 30, 2011, the City was not in compliance with the wastewater and water revenue bond/note provisions.

City of Iowa Falls, Iowa

Notes to Financial Statements

June 30, 2011

Details of bond/notes payable at June 30, 2011 are as follows:

	<u>Date of Issue</u>	<u>Interest Rate</u>	<u>Final Due Date</u>	<u>Annual Payments</u>	<u>Amount Originally Issued</u>	<u>Outstanding June 30, 2011</u>
Governmental activities:						
General obligation bonds/notes:						
Corporate purpose	Oct 1, 2003	1.40-4.00%	Jun 1, 2014	60,000-80,000	700,000	\$ 235,000
Corporate purpose	Oct 1, 2004	2.00-4.00%	Jun 1, 2017	65,000-90,000	900,000	495,000
Corporate purpose	Oct 15, 2006	3.90-4.15%	Jun 1, 2017	20,000-90,000	640,000	410,000
Corporate purpose	Mar 15, 2008	2.35-3.20%	Jun 1, 2014	170,000-210,000	1,340,000	610,000
Essential corporate purpose	Dec 15, 2002	2.40-4.00%	Jun 1, 2013	60,000-80,000	700,000	<u>160,000</u>
Total governmental activities						<u>\$ 1,910,000</u>
Business type activities:						
Revenue bonds/notes:						
Wastewater revenue capital loan notes,						
series 2009	Dec 8, 2009	1.10-4.125%	Jun 1, 2024	160,000-300,000	3,430,000	\$ 2,895,000
Water revenue capital loan notes,						
series 2009	Dec 8, 2009	1.05-3.625%	Jun 1, 2019	100,000-125,000	1,095,000	\$ 895,000
Hospital revenue bond,						
series 1998	Nov 1, 1998	5.00%	Jun 1, 2015	187,000-266,000	3,000,000	991,614
Hospital revenue note	Jul 18, 2008	6.073%	Jun 1, 2016	11,000-22,000	72,345	9,633
Hospital revenue note	Apr 1, 2010	5.150%	Apr 1, 2015	33,600	147,690	116,487
Hospital revenue note	Dec 1, 2010	5.050%	Dec 1, 2013	17000-36000	111,917	94,453
Hospital USDA Loan	Jun 30, 2009	2.49%	Jun 1, 2017	40,000-96,000	412,037	<u>231,787</u>
Total business type activities						<u>\$ 5,233,974</u>

City of Iowa Falls, Iowa  
Notes to Financial Statements

June 30, 2011

A summary of the annual bond/note principal and interest requirements to maturity by type of bond/note is as follows:

Year Ending <u>June 30,</u>	General Obligation		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 500,000	68,885	568,885
2013	520,000	51,938	571,938
2014	455,000	33,603	488,603
2015	140,000	17,323	157,323
2016	145,000	11,864	156,864
2017	<u>150,000</u>	<u>6,090</u>	<u>156,090</u>
	<u>\$ 1,910,000</u>	<u>189,703</u>	<u>2,099,703</u>

Year Ending <u>June 30,</u>	Revenue			<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	
2012	\$ 790,584	182,319	972,903	1,541,788
2013	822,031	155,543	977,574	1,549,512
2014	728,008	126,960	854,968	1,343,571
2015	658,351	100,717	759,068	916,391
2016	410,000	89,052	499,052	655,916
2017-2021	1,220,000	251,191	1,471,191	1,627,281
2022-2024	<u>605,000</u>	<u>50,287</u>	<u>655,287</u>	<u>655,287</u>
	<u>\$ 5,233,974</u>	<u>956,069</u>	<u>6,190,043</u>	<u>8,289,746</u>

As of June 30, 2011, the general obligation debt issued by the City did not exceed its legal debt margin computed as follows:

Actual valuation	\$ 248,532,668
Debt limit – 5% of total actual valuation	12,426,633
Debt applicable to debt limit:	
General obligation bonded debt outstanding	<u>1,910,000</u>
Legal debt margin	<u>\$ 10,516,633</u>

City of Iowa Falls, Iowa

Notes to Financial Statements

June 30, 2011

**(6) Leases**

The Hospital leases certain equipment and a building under noncancelable long-term lease agreements. One lease has been recorded as a capitalized lease and the others as operating leases. Total lease expense for the year ended June 30, 2011, for all operating leases was \$391,118. The capitalized leased asset consists of:

Major Movable Equipment	\$ 234,243
Less accumulated amortization (included as depreciation and amortization on the accompanying financial statements)	<u>(38,676)</u>
	<u>\$ 195,567</u>

Minimum future lease payments for the capital and operating leases area as follows:

Year Ending	Capital	Operating
<u>June 30,</u>	<u>Leases</u>	<u>Leases</u>
2012	\$ 80,592	295,516
2013	80,592	229,187
2014	33,580	162,272
2015	-	123,389
2016	-	95,388
2017-2021	-	476,940
2022-2025	-	286,164
Total minimum lease payments	194,764	<u>\$ 1,668,856</u>
Less interest	<u>(6,288)</u>	
Present value of minimum lease payments	<u>\$ 188,476</u>	

City of Iowa Falls, Iowa  
Notes to Financial Statements

June 30, 2011

**(7) Interfund Transfers**

The detail of interfund transfers for the year ended June 30, 2011 is as follows:

<u>Transfer To</u>	<u>Transfer From</u>	<u>Amount</u>
General	Special Revenue:	
	Emergency	\$ 38,259
	Local Option Sales Tax	139,520
	Enterprise:	
	Water	39,596
	Wastewater	52,122
	Sanitation	<u>6,068</u>
		<u>275,565</u>
Special Revenue		
Road Use	General	<u>17,391</u>
TIF	Capital Projects	<u>9,299</u>
Payroll Tax Levy	General	<u>11,049</u>
Economic Development		
Loans	Capital Projects	38,787
	Special Revenue:	
	Local Option Sales Tax	<u>47,236</u>
		<u>86,023</u>
Local Option Sales Tax	Capital Projects	214,258
	General	<u>103</u>
		<u>214,361</u>
Debt Service	Special Revenue:	
	TIF	195,770
	Local Option Sales Tax	<u>269,908</u>
		<u>465,678</u>

City of Iowa Falls, Iowa  
Notes to Financial Statements

June 30, 2011

Capital Projects	Special Revenue:	
	TIF	24,484
	Local Option Sales Tax	<u>283,432</u>
		<u>307,916</u>
Component Unit – Airport	General	4,173
	Capital Projects	<u>90,187</u>
		<u>94,360</u>
Enterprise: Water	General	<u>46</u>
Enterprise: Sanitation	General	34
	Enterprise: Water	<u>1,223</u>
		<u>1,257</u>
Enterprise: Wastewater	General	46
	Special Revenue: TIF	<u>491,010</u>
		<u>491,056</u>
Total		\$ <u><u>1,974,001</u></u>

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

City of Iowa Falls, Iowa  
Notes to Financial Statements

June 30, 2011

**(8) Interfund Assets/Liabilities**

Interfund Receivable/Payable:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Special Revenue: Economic Development Loans	Special Revenue: Tax Increment Financing Revenues	\$ 60,960
Enterprise: Water	Special Revenue: Tax Increment Financing Revenues	11,245
Wastewater	Special Revenue: Tax Increment Financial Revenues	<u>11,245</u>
		<u>83,450</u>
Special Revenue: Tax Increment Financing Revenues Capital Projects		<u>14,460</u>
Total		<u>\$ 97,910</u>

These balances result from interfund loans or advances to finance projects. Repayments will be made from future revenues.

**(9) Economic Development Loans Receivable**

The City has two long-term loans receivable totaling \$109,409 as of June 30, 2011 due from businesses located in Iowa Falls. The loans were financed with the proceeds of two U.S. Department of Housing and Urban Development Action Grants and one Community Development Block Grant.

The first loan of \$34,000 as of June 30, 2011 requires annual interest payments of 3%. The principle amount due each year is reviewed annually. The loan is secured by assignment contract and mortgage.

The second loan of \$75,409 as of June 30, 2011 requires monthly payments of \$966, including interest at 3% until September 1, 2018. The loan is secured by assignment contract and mortgage.

City of Iowa Falls, Iowa

Notes to Financial Statements

June 30, 2011

**(10) 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 4.5% of their annual covered salary and the City is required to contribute 6.95% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2011, 2010 and 2009 were \$124,089, \$120,406 and \$114,588, respectively, equal to the required contributions for each year.

**(11) Other Post-Employment Benefits (OPEB)**

Plan description – The City operates a single-employer retiree benefit plan which provides medical/prescription drug benefits for retirees and their spouses. There are 41 active and 2 retired members in the plan. Participants must be age 55 or older at retirement.

The City provides for a voluntary early retirement program. Qualification requires 15 years of consecutive employment with the City. The plan provides for payment of 20% of unused sick leave, plus 100% of the employee's unused vacation, plus the payment of one year of single health insurance coverage. The unused sick leave and unused vacation is not included in the valuation. The one year of paid health insurance is included in the valuation.

City of Iowa Falls, Iowa

Notes to Financial Statements

June 30, 2011

The medical/prescription drug benefits are provided through a fully-insured plan with Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefit as active employees, which results in an implicit rate subsidy and an OPEB liability.

Funding Policy – The contribution requirements of plan members are established and may be amended by the City. The City currently finances the retiree benefit plan on a pay-as-you-go basis.

Annual OPEB Cost and Net OPEB Obligation – The City’s annual OPEB cost is calculated based on the annual required contribution (ARC) of the City, an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of funding which, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

The following table shows the components of the City’s annual OPEB cost for the year ended June 30, 2011, the amount actually contributed to the plan and changes in the City’s net OPEB obligation:

Annual required contribution	\$ 53,523
Interest on net OPEB obligation	1,176
Adjustment to annual required contribution	<u>3,441</u>
Annual OPEB cost	51,258
Contributions made	<u>1,902</u>
Increase in net OPEB obligation	49,356
Net OPEB obligation beginning of year	<u>47,058</u>
Net OPEB obligation end of year	\$ <u>96,414</u>

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2009. The end of year net OPEB obligation was calculated using the alternative measurement method by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2011.

For the year ended June 30, 2011, the City contributed \$1,902 to the medical plan. Plan members eligible for benefits contributed \$0, or 0% of the premium costs.

City of Iowa Falls, Iowa

Notes to Financial Statements

June 30, 2011

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan and the net OPEB obligation are summarized as follows:

Year Ended <u>June 30,</u>	Annual <u>OPEB Cost</u>	Percentage of Annual OPEB <u>Cost Contributed</u>	Net OPEB <u>Obligation</u>
2011	\$ 49,605	5%	\$ 47,058
2011	51,258	3%	96,414

Funded Status and Funding Progress – As of July 1, 2009, the most recent actuarial valuation date for the period July 1, 2009 through June 30, 2010, the actuarial accrued liability was \$408,600, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$408,600. The covered payroll (annual payroll of active employees covered by the plan was approximately \$1,590,000 and the ratio of the UAAL to covered payroll was 26%. As of June 30, 2011, there were no trust fund assets.

Actuarial Methods and Assumptions – Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumption about future employment, mortality and the health care cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress, presented as Required Supplementary Information in the section following the Notes to Financial Statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the plan as understood by the employer and the plan members and includes the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

City of Iowa Falls, Iowa

Notes to Financial Statements

June 30, 2011

As of the July 1, 2009 actuarial valuation date, the Frozen Entry Age Actuarial Cost Method was used. A method, under which the excess of the Actuarial Present Value of Projected Benefits of the group included in an Actuarial Valuation, over the sum of the Actuarial Value of Assets plus the Unfunded Frozen Actuarial Accrued Liability, is allocated on a level basis over the earnings or service of the group between the valuation date and the assumed exit. This allocation is performed for the group as a whole, not a sum of individual allocations. The Frozen Actuarial Accrued Liability is determined using the Entry Age Actuarial Cost Method. The portion of this Actuarial Present Value allocated to a valuation year is called the Normal Cost. Pay-as-you-go is the method of financing. There is no vesting of OPEB benefits before retirement and only after retirement if plan benefits are elected and continued. Actuarial Gains/ (Losses) will reduce (increase) Normal costs and the Unfunded Actuarial Liability. This is a Closed Group Method that uses the Level Dollar Cost Method (benefits are not related to salary). The actuarial assumptions include a 2.5% discount rate based on the City's funding policy. The health cost trend rate is 6% per year.

Mortality rates are from the 94 Group Annuity Mortality Table Projected to 2000 (2/3 Female, 1/3 Male). Annual retirement and termination probabilities were developed from the retirement probabilities from the IPERS Actuarial Report and applying the termination factors used in the IPERS Actuarial Report.

Projected claim costs of the medical plan are \$883 per month for retirees less than age 65. The UAAL is being amortized on a 30 year level dollar funding of the Actuarial Unfunded Liabilities. The actual plan funding method is pay-as-you-go which amortizes last year's loss into next year's normal cost.

**(12) Industrial Development Revenue Bonds**

The City has issued a total of \$1,300,000 of industrial development revenue bonds under the provisions of Chapter 419 of the Code of Iowa, of which \$1,187,094 is outstanding at June 30, 2011. The bonds and related interest are payable solely from the rents payable by tenants of the properties constructed, and the bond principal and interest do not constitute liabilities of the City.

City of Iowa Falls, Iowa

Notes to Financial Statements

June 30, 2011

**(13) Related Party Transactions**

The City had business transactions between the City and City officials totaling \$32,593 during the year ended June 30, 2011.

**(14) Joint Financing Agreement**

The City is a member of the Hardin County Solid Waste Disposal Commission. The Hardin County Solid Waste Disposal Commission entered into a 28E agreement with the Butler County Solid Waste Commission and the Wright County Area Landfill Authority which established the Rural Iowa Waste Management Association (Association).

**(15) Risk Management**

The City of Iowa Falls and the Ellsworth Municipal Hospital are 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.

**(16) Hospital Related Organizations**

Master Affiliation Agreement

The Hospital entered into a Master Affiliation Agreement with Mercy Medical Center – North Iowa to provide hospital, physician, and other health care services in Iowa Falls and the North Central Iowa region under the name of Ellsworth Municipal Hospital. As a part of this Master Affiliation Agreement, the Hospital entered into a professional services agreement with Mercy Medical Center – North Iowa whereby Mercy Medical Center – North Iowa provides professional medical services for the Hospital. Amounts paid to Mercy Medical Center – North Iowa for the provision of these services amounted to \$2,567,476 for the year ended June 30, 2011.

City of Iowa Falls, Iowa

Notes to Financial Statements

June 30, 2011

Management Services Agreement

The Hospital entered into a contractual arrangement with Medical Center – North Iowa under which Medical Center – North Iowa provides an administrator, director of nursing, management consultation, and other services to Ellsworth Municipal Hospital. The arrangement does not alter the authority or responsibility of the Board of Trustees of Ellsworth Municipal Hospital. Expenses for the administrative and management services received were \$658,350 for the years ended June 30, 2011.

Due to Affiliated Organization

As of June 30, 2011, the Hospital records reflect a due to Medical Center – North Iowa of \$254,129 for the various services and distributions related to these agreements.

**(17) Construction Commitments**

As of June 30, 2011 the City had the following commitments with respect to capital projects that have been approved by the Council:

The Ellis Avenue (including water main and sewer improvements) project will be approximately \$5,900,000 which will be paid from issuance of bonds, special assessments and restricted cash on hand. As of June 30, 2011, \$291,000 has been spent on this project.

The Airport runway extension project will be approximately \$1,000,000 and will be paid from funds received by the Federal Aviation Agency and 5% from local option sales tax. As of June 30, 2011, \$95,000 has been spent on this project.

The Trail project will be approximately \$442,000 and paid by grants and local sources. As of June 30, 2011, \$157,000 has been spent on this project.

City of Iowa Falls, Iowa

Notes to Financial Statements

June 30, 2011

**(18) Contingencies**

Litigations, Claims, and Other Disputes

The Hospital is subject to the usual contingencies in the normal course of operations and relating to the performance of its tasks under its various programs. In the opinion of management, the ultimate settlement of litigations, claims, and disputes in process will not be material to the financial position of the hospital.

Malpractice Insurance

The Hospital has malpractice insurance coverage to provide protection for professional liability losses on a claims-made basis subject to a limit of \$1 million per claim and an aggregate limit of \$3 million. Should the claims-made policy not be renewed or replaced with equivalent insurance, claims based on occurrences during its term, but reported subsequently, will be uninsured.

Healthcare Legislation and Regulation

The healthcare industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government healthcare program participation requirements, reimbursement for patient services and Medicare and Medicaid fraud and abuse. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers. Violation of these laws and regulations could result in expulsion from government healthcare programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed.

The City has one outstanding lawsuit against them. As of the date of the audit report, City officials do not anticipate any judgment against the City.

City of Iowa Falls, Iowa

Notes to Financial Statements

June 30, 2011

**(19) Restatement of Beginning Fund Balances**

The beginning balances of five governmental funds were restated to correctly reflect the beginning balances after combining the TIF Capital Project Fund with the Capital Projects Fund and after combining the Police Designated Fund and the Volunteer Fire Department Fund with the General Fund.

	Tax Increment Financing Revenues	Capital Projects	General	Police Designated	Volunteer Fire Department
Balance as originally stated	\$ 197,459	\$ 671,388	\$ 369,817	\$ 6,901	\$ 19,619
Adjustment	(115,004)	115,004	26,520	(6,901)	(19,619)
Restated Beginning Balance	\$ 82,455	\$ 786,392	\$ 396,337	\$ -	\$ -

**(20) Deficit Balance**

The Tax Increment Financing Revenues Fund had a deficit fund balance of \$497,845 at June 30, 2011. This deficit will be eliminated upon certification of debt with the county auditor in December 2011 and collection of property taxes in future years.

**(21) Subsequent Events**

The City has evaluated subsequent events through January 9, 2012, the date which the financial statements were available to be issued.

In September 2011, the City issued \$4,200,000 of General Obligation Capital loan notes and \$800,000 Capital Loan Anticipation project notes to help fund the Ellis Avenue project.

**Required Supplementary Information**

City of Iowa Falls, Iowa  
 Budgetary Comparison Schedule of  
 Receipts/Revenues, Disbursements/Expenses and Changes in Balances/Net Assets -  
 Budget and Actual  
 All Governmental Funds and Proprietary Funds and the Airport Authority  
 Discretely Presented Component Unit  
 Required Supplementary Information  
 Year ended June 30, 2011

	Funds Budgeted on Cash Basis - Actual			
	Governmental	Proprietary Fund Type - Enterprise	Component Unit - Airport	Total
	<u>Fund Types</u>	<u>(excluding Hospital)</u>	<u>Authority</u>	<u>Total</u>
<b>Receipts/Revenues:</b>				
Property tax	\$ 1,929,136	-	36,992	1,966,128
Tax increment financing	442,448	-	-	442,448
Other city tax	729,788	-	1,267	731,055
Licenses and permits	40,234	-	-	40,234
Use of money and property	106,586	45,187	160	151,933
Intergovernmental	895,853	-	-	895,853
Charges for service	148,005	2,199,256	-	2,347,261
Miscellaneous	143,680	24,109	36,069	203,858
Total receipts/revenues	<u>4,435,730</u>	<u>2,268,552</u>	<u>74,488</u>	<u>6,778,770</u>
<b>Disbursements/Expenses:</b>				
Public safety	1,334,869	-	-	1,334,869
Public works	621,901	-	78,909	700,810
Culture and recreation	698,057	-	-	698,057
Community and economic development	237,314	-	-	237,314
General government	224,608	-	-	224,608
Debt service	561,533	-	-	561,533
Capital projects	1,189,565	-	-	1,189,565
Business type activities	-	2,827,961	-	2,827,961
Total disbursements/expenses	<u>4,867,847</u>	<u>2,827,961</u>	<u>78,909</u>	<u>7,774,717</u>
Excess (deficiency) of receipts/revenues over (under) disbursements/expenses	(432,117)	(559,409)	(4,421)	(995,947)
Other financing sources, net	<u>39,921</u>	<u>(44,094)</u>	<u>4,173</u>	<u>-</u>
Excess (deficiency) of receipts/revenues and other and other financing uses	(392,196)	(603,503)	(248)	(995,947)
Balances/net assets beginning of year	<u>5,066,621</u>	<u>3,941,659</u>	<u>18,123</u>	<u>9,026,403</u>
Balances/net assets end of year	<u>\$ 4,674,425</u>	<u>3,338,156</u>	<u>17,875</u>	<u>8,030,456</u>

See accompanying independent auditor's report.

Funds Budgeted  
on GAAP Basis

<u>- Actual</u>				
Proprietary				
<u>Fund Type</u>	Total	<u>Budgeted Amounts</u>		Final to
<u>Hospital</u>	<u>Actual</u>	<u>Original</u>	<u>Final</u>	<u>Actual</u>
				<u>Variance</u>
-	1,966,128	1,970,152	1,970,152	(4,024)
-	442,448	464,554	464,554	(22,106)
-	731,055	600,618	730,618	437
-	40,234	43,500	45,205	(4,971)
-	151,933	152,750	177,050	(25,117)
-	895,853	959,760	1,266,760	(370,907)
19,677,467	22,024,728	23,393,031	23,801,334	(1,776,606)
530,117	733,975	100,204	149,829	584,146
<u>20,207,584</u>	<u>26,986,354</u>	<u>27,684,569</u>	<u>28,605,502</u>	<u>(1,619,148)</u>
-	1,334,869	1,328,976	1,431,129	96,260
-	700,810	750,948	784,430	83,620
-	698,057	737,853	780,086	82,029
-	237,314	264,235	272,735	35,421
-	224,608	187,793	237,920	13,312
-	561,533	561,284	561,784	251
-	1,189,565	6,650,279	6,650,279	5,460,714
19,378,054	22,206,015	23,482,269	24,490,769	2,284,754
<u>19,378,054</u>	<u>27,152,771</u>	<u>33,963,637</u>	<u>35,209,132</u>	<u>8,056,361</u>
829,530	(166,417)	(6,279,068)	(6,603,630)	6,437,213
-	-	3,444,257	3,794,257	(3,794,257)
829,530	(166,417)	(2,834,811)	(2,809,373)	2,642,956
<u>11,495,220</u>	<u>20,521,623</u>	<u>16,387,855</u>	<u>18,204,633</u>	<u>2,316,990</u>
<u>12,324,750</u>	<u>20,355,206</u>	<u>13,553,044</u>	<u>15,395,260</u>	<u>4,959,946</u>

City of Iowa Falls, Iowa  
 Budget to GAAP Reconciliation  
 Required Supplementary Information  
 Year ended June 30, 2011

	Governmental Funds			Proprietary Funds Enterprise (Excluding Hospital)		
	Cash Basis	Accrual Adjust- ments	Modified Accrual Basis	Cash Basis	Accrual Adjust- ments	Accrual Basis
Revenues	\$ 4,435,730	(33,051)	4,402,679	2,268,552	(6,769)	2,261,783
Expenditures	<u>(4,867,847)</u>	<u>573,652</u>	<u>(4,294,195)</u>	<u>(2,827,961)</u>	<u>237,385</u>	<u>(2,590,576)</u>
Net	(432,117)	540,601	108,484	(559,409)	230,616	(328,793)
Other financing sources (uses)	39,921	(527,631)	(487,710)	(44,094)	437,444	393,350
Beginning fund balances	<u>5,066,621</u>	<u>(412,676)</u>	<u>4,927,280</u>	<u>3,941,659</u>	<u>5,052,680</u>	<u>8,994,339</u>
Ending fund balances	<u>\$ 4,674,425</u>	<u>(126,371)</u>	<u>4,548,054</u>	<u>3,338,156</u>	<u>5,720,740</u>	<u>9,058,896</u>

	Discretely Presented Airport Authority Component Unit		
	Cash Basis	Accrual Adjust- ments	Accrual Basis
Revenues	\$ 74,488	(662)	73,826
Expenses	<u>(78,909)</u>	<u>(151,683)</u>	<u>(230,592)</u>
Net	(4,421)	(152,345)	(156,766)
Other financing sources (uses)	4,173		94,360
Beginning fund balance	<u>-</u>	<u>1,701,964</u>	<u>1,701,964</u>
Ending fund balance	<u>\$ (248)</u>	<u>1,549,619</u>	<u>1,639,558</u>

See accompanying independent auditor's report.

City of Iowa Falls, Iowa

Notes to Required Supplementary Information – Budgetary Reporting

Year ended June 30, 2011

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 following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures. Encumbrances are not recognized on the cash basis budget and appropriations lapse at year end.

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 Fund and Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not at the fund or fund type level. During the year, two budget amendments increased budgeted disbursements by \$1,245,495 and revenues by \$920,933. The budget amendments are reflected in the final budgeted amounts.

The City of Iowa Falls prepares its budget on the cash basis except for hospital operations which are budgeted in accordance with U.S. generally accepted accounting principles. The Budgetary Comparison Schedule is a comparison of the cash basis receipts and disbursements and revenues and expenses of the Hospital Fund with the budget adopted and amended by the City Council.

City of Iowa Falls, Iowa

Schedule of Funding Progress for the  
Retiree Health Plan  
(In Thousands)  
Required Supplementary Information

<u>Year Ended June 30,</u>	<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) (b)</u>	<u>Unfunded AAL (UAAL) (b - a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll (b-a/c)</u>
2010	July 1, 2009	-	\$ 401	\$ 401	0%	\$ 1,600	25%
2011	July 1, 2009	-	409	409	0%	1,590	26%

See note 11 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB cost, net OPEB obligation, funded status and funding progress.

See accompanying independent auditor's report.

## **Other Supplementary Information**

City of Iowa Falls, Iowa  
Combining Balance Sheet  
Nonmajor Governmental Funds

June 30, 2011

	<u>Hotel Motel Tax</u>	<u>Emergency</u>	<u>Self- Insurance</u>
<b>Assets</b>			
Cash	\$ 185,324	-	3,597
Receivables:			
Property tax:			
Delinquent	-	427	-
Succeeding year	-	34,192	-
Accrued interest	<u>123</u>	<u>-</u>	<u>-</u>
<b>Total assets</b>	<u><u>185,447</u></u>	<u><u>34,619</u></u>	<u><u>3,597</u></u>
<b>Liabilities and Fund Balances</b>			
Liabilities:			
Accounts payable	2,945	-	-
Deferred revenue:			
Succeeding year property tax	<u>-</u>	<u>34,192</u>	<u>-</u>
Total liabilities	<u><u>2,945</u></u>	<u><u>34,192</u></u>	<u><u>-</u></u>
Fund balances:			
Restricted for:			
Carnegie library	-	-	-
Other purposes	<u>182,502</u>	<u>427</u>	<u>3,597</u>
Total fund balances	<u><u>182,502</u></u>	<u><u>427</u></u>	<u><u>3,597</u></u>
<b>Total liabilities and fund balances</b>	<u><u>\$ 185,447</u></u>	<u><u>34,619</u></u>	<u><u>3,597</u></u>

See accompanying independent auditor's report.

Schedule 1

<u>Carnegie- Ellsworth Endowment</u>	<u>Carnegie- Ellsworth Maintenance</u>	<u>Total</u>
559,654	130,021	878,596
-	-	427
-	-	34,192
-	458	581
<u>559,654</u>	<u>130,479</u>	<u>913,796</u>
-	8,153	11,098
-	-	34,192
-	8,153	45,290
559,654	122,326	681,980
-	-	186,526
<u>559,654</u>	<u>122,326</u>	<u>868,506</u>
<u>559,654</u>	<u>130,479</u>	<u>913,796</u>

City of Iowa Falls, Iowa

Combining Schedule of Revenues, Expenditures and  
Changes in Fund Balances

Nonmajor Governmental Funds

Year ended June 30, 2011

	Special		
	Hotel/Motel Tax	Emergency	Self- Insurance
Revenues:			
Property tax	-	37,023	-
Other city tax	\$ 84,137	1,267	-
Use of money and property	1,713	-	-
Total revenues	<u>85,850</u>	<u>38,290</u>	<u>-</u>
Expenditures:			
Operating:			
Community and economic development	37,023	-	-
Total expenditures	<u>37,023</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues over (under) expenditures	<u>48,827</u>	<u>38,290</u>	<u>-</u>
Other financing sources (uses):			
Transfers out	<u>-</u>	<u>(38,259)</u>	<u>-</u>
Excess (deficiency) of revenues and other financing sources (uses) over expenditures and other financing uses	48,827	31	-
Fund balances beginning of year	<u>133,675</u>	<u>396</u>	<u>3,597</u>
Fund balances end of year	<u>\$ 182,502</u>	<u>427</u>	<u>3,597</u>

See accompanying independent auditor's report.

Revenue		
<u>Carnegie- Ellsworth Endowment</u>	<u>Carnegie- Ellsworth Maintenance</u>	<u>Total</u>
-	-	37,023
-	-	85,404
-	7,836	9,549
-	7,836	131,976
-	41,691	78,714
-	41,691	78,714
-	(33,855)	53,262
-	-	(38,259)
-	(33,855)	15,003
559,654	156,181	853,503
559,654	122,326	868,506

City of Iowa Falls, Iowa

Bond and Note Maturities

June 30, 2011

General Obligation Bonds/Notes									
Year Ending June 30,	Corporate Purpose Issued Oct 1, 2003			Corporate Purpose Issued Oct 1, 2004		GO Refunding Capital Loan Notes Issued Mar 15, 2008			
	Interest			Interest		Interest			
	Rates	Amount		Rates	Amount	Rates	Amount		
2012	3.70 %	\$	75,000	3.35 %	\$	75,000	2.90 %	\$	195,000
2013	3.85		80,000	3.55		80,000	3.05		205,000
2014	4.00		80,000	3.70		80,000	3.20		210,000
2015			-	3.80		85,000			-
2016			-	3.90		85,000			-
2017			-	4.00		90,000			-
Total		\$	<u>235,000</u>		\$	<u>495,000</u>		\$	<u>610,000</u>

Revenue Bonds/Notes									
Year Ending June 30,	Wastewater Revenue Capital Loan Notes			Water Revenue Capital Loan Notes		Hospital Revenue Bond Series 1998 Issued Nov 1, 1998			
	Interest			Interest		Interest			
	Rates	Amount		Rates	Amount	Rates	Amount		
2012	1.75 %	\$	275,000	1.70 %	\$	105,000	5.00 %	\$	242,520
2013	2.20		280,000	2.15		105,000	5.00		252,933
2014	2.60		285,000	2.75		105,000	5.00		265,146
2015	3.00		290,000	2.75		110,000	5.00		231,015
2016	3.25		300,000	3.20		110,000			-
2017	3.45		160,000	3.40		115,000			-
2018	3.60		165,000	3.63		120,000			-
2019	3.75		170,000	3.63		125,000			-
2020	3.88		180,000			-			-
2021	4.00		185,000			-			-
2022	4.13		195,000			-			-
2023	4.13		200,000			-			-
2024	4.13		210,000			-			-
Total		\$	<u>2,895,000</u>		\$	<u>895,000</u>		\$	<u>991,614</u>

See accompanying independent auditor's report.



## Bond and Note Maturities

June 30, 2011

General Obligation Bonds/Notes			Revenue Bonds/Notes		
Year Ending June 30,		Total	Year Ending June 30,		Total
2012	\$	500,000	2012	\$	790,584
2013		520,000	2013		822,031
2014		455,000	2014		728,008
2015		140,000	2015		658,351
2016		145,000	2016		410,000
2017		150,000	2017		275,000
			2018		285,000
			2019		295,000
			2020		180,000
			2021		185,000
			2022		195,000
			2023		200,000
			2024		210,000
Total	\$	<u>1,910,000</u>	Total	\$	<u>5,233,974</u>

See accompanying independent auditor's report.

City of Iowa Falls, Iowa

Schedule of Revenues by Source and Expenditures by Function

All Governmental Funds

For the Last Nine Years

	2011	2010	2009
<b>Revenues:</b>			
Property tax	\$ 1,928,646	\$ 1,786,806	1,564,704
Tax increment financing revenue	441,646	1,251,064	2,149,640
Other city tax	731,085	709,606	788,128
Licenses and permits	46,799	44,259	84,228
Use of money and property	60,933	65,412	102,790
Intergovernmental	863,857	618,056	1,552,601
Charges for service	85,584	97,980	98,364
Miscellaneous	<u>244,129</u>	<u>549,903</u>	<u>244,965</u>
<b>Total</b>	<b><u>\$ 4,402,679</u></b>	<b><u>\$ 5,123,086</u></b>	<b><u>6,585,420</u></b>
<b>Expenditures:</b>			
<b>Operating:</b>			
Public safety	\$ 1,281,195	\$ 1,408,415	1,431,502
Public works	710,419	809,690	677,405
Culture and recreation	782,271	820,002	708,467
Community and economic development	286,026	301,995	197,772
General government	184,816	138,214	128,093
Debt service	561,732	669,493	868,687
Capital projects	<u>487,736</u>	<u>1,037,531</u>	<u>2,570,404</u>
<b>Total</b>	<b><u>\$ 4,294,195</u></b>	<b><u>\$ 5,185,340</u></b>	<b><u>6,582,330</u></b>

See accompanying independent auditor's report.

Schedule 4

2008	2007	2006	2005	2004	2003
1,494,982	1,400,514	1,362,623	1,435,121	1,545,978	1,428,398
1,917,546	1,811,571	1,286,764	1,142,363	885,271	781,318
713,382	754,511	666,026	605,179	567,995	582,462
72,499	62,128	52,250	86,381	60,721	41,528
199,157	243,822	217,700	156,051	82,696	95,151
1,184,468	776,088	819,551	761,667	955,757	1,394,722
119,465	146,950	137,101	136,768	133,319	146,660
<u>303,519</u>	<u>209,422</u>	<u>373,608</u>	<u>368,117</u>	<u>377,068</u>	<u>348,223</u>
<u>6,005,018</u>	<u>5,405,007</u>	<u>4,915,623</u>	<u>4,691,647</u>	<u>4,608,805</u>	<u>4,818,462</u>
1,296,586	1,315,999	1,234,754	1,207,781	1,052,954	1,092,281
597,857	650,685	565,837	443,900	432,051	436,786
671,157	705,734	578,525	618,940	561,258	668,445
99,582	153,248	136,666	116,335	201,158	438,733
152,263	116,442	123,957	175,021	321,840	335,867
2,193,492	845,465	800,951	775,946	753,665	697,591
<u>1,589,517</u>	<u>1,599,999</u>	<u>1,924,758</u>	<u>2,341,908</u>	<u>1,622,095</u>	<u>2,586,624</u>
<u>6,600,454</u>	<u>5,387,572</u>	<u>5,365,448</u>	<u>5,679,831</u>	<u>4,945,021</u>	<u>6,256,327</u>

# Cornwell, Frideres, Maher & Associates, P.L.C.

## Certified Public Accountants

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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, the Airport Authority discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Iowa Falls, Iowa, as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements listed in the table of contents and have issued our report thereon dated January 9, 2012. 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 Iowa Falls' 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 Iowa Falls' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Iowa Falls' internal control over financial reporting.

A deficiency in internal control exists when the design or operation of the 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 Iowa Fall's financial statements will not be prevented or detected and corrected on a timely basis.

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

schedule of findings that we consider to be significant deficiencies in internal control over financial reporting. We consider the deficiencies described in Part I of the accompanying Schedule of Findings as items I-A-11 and I-B-11 to be significant deficiencies.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Iowa Falls' 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, 2011 are based exclusively on knowledge obtained from procedures performed during our audit on the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The City of Iowa Falls' 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 Iowa Falls' 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 Iowa Falls and other parties to whom the City of Iowa Falls 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 Iowa Falls 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.*  
Cornwell, Frideres, Maher & Associates, P.L.C.  
Certified Public Accountants

January 9, 2012

City of Iowa Falls, Iowa

Schedule of Findings

Year ended June 30, 2011

**Part I: Findings Related to the Financial Statements:**

**INTERNAL CONTROL DEFICIENCIES:**

I-A-11 Preparation of Financial Statements – Management is responsible for establishing and maintaining internal controls over financial reporting and procedures related to the fair presentation of the financial statements in accordance with U.S. generally accepted accounting principles (GAAP). The City of Iowa Falls does not have an internal control system designed to provide for the preparation of the financial statements, including accompanying footnotes and statements of cash flows, as required by generally accepted accounting principles. The guidance in Statement of Auditing Standards No. 112, *Communicating Internal Control Related Matters Identified in and Audit*, requires us to communicate this matter to those charged with governance.

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

Recommendation – We realize that obtaining the expertise necessary to prepare the financial statements, including all necessary disclosures, in accordance with 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 time 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.

City of Iowa Falls, Iowa

Schedule of Findings

Year ended June 30, 2011

I-B-11 Utility Billing – During the audit, we identified one billing category that did not get updated when the billing rates changed on November 1, 2010. The correct rate was subsequently input into the billing system by the City so that the proper rate will be used going forward. It was also noted that the amount of water pumped from fiscal year 2011 to 2010 was consistent, but billed consumption decreased.

Recommendation – The City should implement procedures to ensure that rates being used to calculate all of the categories in the utility billing system are the rates that have been approved by ordinance and are updated to correspond to the effective date of the ordinance. Also, the City should investigate why billed consumption decreased while the amount of water pumped did not.

Response – We will revise our procedures to ensure all categories are updated in the future. We will review our utility system to see if the variance in amounts pumped versus amounts billed is due to a metering issue.

Conclusion – Response accepted.

**INSTANCES OF NON-COMPLIANCE**

No matters were noted.

City of Iowa Falls, Iowa

Schedule of Findings

Year ended June 30, 2011

**Part II: Other Findings Related to Statutory Reporting:**

II-A-11 Certified Budget – Disbursements during the year ended June 30, 2011 did not exceed the amounts budgeted.

II-B-11 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. However, it was noted that the fire department was paying for meals for their monthly meetings that may not meet the definition of public purpose. In order to meet the definition of public purpose, the benefits to the public should be clearly documented.

Recommendation – The Council should consider whether the fire department should set up a separate non-profit entity to legally separate the fund raising activities from the City.

Response – We will follow up on these recommendations.

Conclusion – No further procedures necessary.

II-C-11 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

II-D-11 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>
Lisa Brannick, Police dispatcher	Sewing	\$ 393
Rick Gustin, Fire Chief Owner of Iowa Falls Heating & A/C	Heating & air conditioning maintenance & supplies	9,645

City of Iowa Falls, Iowa

Schedule of Findings

Year ended June 30, 2011

DennisBarrick, Fireman Owner of Hardin County Tire	Tires and repairs for vehicles	12,477
Tyler Prochaska, Fireman Owner of Pro-Repair & Performance	Repairs	10,078

In accordance with Chapter 362.5(10) of the Code of Iowa, the transactions with the Police Dispatcher does not appear to represent a conflict of interest since the total transactions were less than \$1,500 during the fiscal year. The transactions with the Fire Chief and Firemen do not appear to represent conflicts of interest since they were entered into through competitive bidding in accordance with Chapter 362.5(4) of the Code of Iowa.

- II-E-11 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 the coverage is adequate for current operations.
- II-F-11 Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.
- II-G-11 Revenue Bonds and Notes – The City has not complied with all of the revenue bond and note provisions. The Wastewater and Water funds did not maintain net revenues of 110% of the amount of principal and interest on the bonds/notes falling due in 2011.

Recommendation – The City should evaluate the rates currently being charged to customers to see if increases need to be implemented in order to meet the 110% net revenue requirement.

Response - We are consulting with bond counsel, a bond consultant and staff to determine the rate increase needed to be in compliance with our bond covenants.

Conclusion – Response accepted.

City of Iowa Falls, Iowa

Schedule of Findings

Year ended June 30, 2011

II-H-11 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City’s investment policy were noted.

II-I-11 Financial Condition – The Tax Increment Financing Revenues Fund had a deficit balance of \$497,845 at June 30, 2011.

Recommendation – The City should investigate alternatives to return this fund to a sound financial position.

Response – See footnote #20 in notes to the financial statements for an explanation of how the City intends to eliminate this deficit.

Conclusion – Response accepted.

City of Iowa Falls, Iowa

Schedule of Findings

Year ended June 30, 2011

II-J-11 Other Information Required by Bond Resolution

Insurance – The following insurance policies were in force at June 30, 2011:

<u>Insurer</u>	<u>Description</u>	<u>Amount</u>	<u>Expiration Date</u>
Employer's Mutual	Property coverage	\$ 20,099,269	Apr 1, 2012
Employer's Mutual	Liability coverage:		
	General aggregate	2,000,000	Apr 1, 2012
	Products aggregate	2,000,000	Apr 1, 2012
	Personal injury	1,000,000	Apr 1, 2012
	Each occurrence	1,000,000	Apr 1, 2012
	Fire damage	1,000,000	Apr 1, 2012
	Medical expense	5,000	Apr 1, 2012
Employer's Mutual	Inland Marine:		
	Contractor's equipment	771,751	Apr 1, 2012
	Valuable papers	650,000	Apr 1, 2012
	Miscellaneous property	66,028	Apr 1, 2012
Employer's Mutual	Automobile coverage:		
	Liability	1,000,000	Apr 1, 2012
	Auto medical	5,000	Apr 1, 2012
	Uninsured motorist	50,000	Apr 1, 2012
	Underinsured motorist	50,000	Apr 1, 2012
	Comprehensive/collision	Lesser of cash value or cost of repair	Apr 1, 2012
Employer's Mutual	Worker's compensation:		
	Bodily injury by accident	500,000	Apr 1, 2012
	Bodily injury by disease	500,000	Apr 1, 2012
	Policy limit	500,000	Apr 1, 2012

City of Iowa Falls, Iowa

Schedule of Findings

Year ended June 30, 2011

Employer's Mutual	Umbrella:		
	Occurrence limit	3,000,000	Apr 1, 2012
	Personal & Advertising Limit	3,000,000	Apr 1, 2012
	Aggregate limit	3,000,000	Apr 1, 2012
Employer's Mutual	Linebacker:		
	Each loss	1,000,000	Apr 1, 2012
	Aggregate	1,000,000	Apr 1, 2012
	Insured's Deductible per Loss	3,000	Apr 1, 2012
Old Republic Insurance Company	Airport liability:		
	Completed Ops Agg Limit	1,000,000	Jul 1, 2011
	Personal injury and advertising	1,000,000	Jul 1, 2011
	Malpractice	1,000,000	Jul 1, 2011
	Each Occurrence	1,000,000	Jul 1, 2011
	Fire damage	50,000	Jul 1, 2011
	Medical expense limit	1,000	Jul 1, 2011
	Hangarkeepers-one aircraft	200,000	Jul 1, 2011
	Hangarkeepers-one occurrence	200,000	Jul 1, 2011
Darwin Select Insurance Company	Airport public officials		
	Professional Liability	1,000,000	Jul 1, 2011
	Employment Practices Liab.	1,000,000	Jul 1, 2011
	Policy Aggregate	1,000,000	Jul 1, 2011
	Supplementary Payments	50,000	Jul 1, 2011
	Supplementary Payments Agg.	50,000	Jul 1, 2011
Allied Insurance Company	Public employees' blanket bond	100,000	Continuous Until canceled
PMMIC	Pollution liability: Underground tanks	1,000,000	Nov 17, 2011

City of Iowa Falls, Iowa

Schedule of Findings

Year ended June 30, 2011

Statistical Information:

Description	Amount
Customers served at June 30, 2011 – Water	2,228
Customers served at June 30, 2011– Sewer	2,203

Water rates in effect at June 30, 2011:

Per month:

- First 1,000 gallons - \$3.93 minimum charge
- 1,001 to 20,000 gallons - \$3.14 per 1,000 gallons
- Over 20,000 gallons - \$2.71 per 1,000 gallons

Sewer rates in effect at June 30, 2011:

Minimum charge per month of \$5.90 plus \$4.49 per 1,000 gallons of water used

Users who contribute wastewater, the strength of which is greater than normal domestic wastewater, and users who contribute more than an average of fifty thousand gallons per day during the entire current billing period, are charged the following rates for the excess concentration:

Flow in excess of fifty thousand gallons per day	\$0.59 per 1000 gallons
Biochemical oxygen demand	\$0.19 per pound
Suspended solids	\$0.13 per pound
NH <sub>3</sub> -N	\$0.48 per pound