

CITY OF POCAHONTAS, IOWA

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

AS OF AND FOR THE YEAR ENDED JUNE 30, 2011

City of Pocahontas, Iowa

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City of Pocahontas, Iowa

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City of Pocahontas, Iowa

Officials

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

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

Certified Public Accountants

714 14th Avenue North
Fort Dodge, IA 50501-7098
Phone 515.955.4805 • Fax 515.955.4673

Lowell W. Cornwell, C.P.A.
lwcornwell@frontiernet.net

Christine R. Frideres, C.P.A.
crfrideres@frontiernet.net

Jerilyn J. Maher, C.P.A.
jjmaher@frontiernet.net

Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Pocahontas, Iowa, as of and for the year ended June 30, 2011, which collectively comprise the City's primary government basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Pocahontas' management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

The financial statements do not include financial data for the City's legally separate component unit, the Pocahontas Community Hospital. Accounting principles generally accepted in the United States of America require the financial data for this component unit to be reported with the financial data of the City's primary government unless the City also issues financial statements for the financial reporting entity that include the financial data for its component units. The City has not issued such reporting entity financial statements. Because of this departure from accounting principles generally accepted in the United States of America, the receipts, disbursements and net assets of the business type activities would have increased by \$8,991,257, \$8,477,387 and \$8,233,101.

In our opinion, because of the omission of the blended component unit as discussed above, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the cash basis financial position of the business type activities.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, each major fund and the aggregate remaining fund information for the primary government of the City of Pocahontas, Iowa as of June 30, 2011, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated October 26, 2011 on our consideration of the City of Pocahontas' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 10 and 30 through 32 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Pocahontas' primary government's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the primary government's financial statements for the eight years ended June 30, 2010 (which are not presented herein) and expressed unqualified opinions on those financial statements, except for our opinions on the business type activities which were adverse due to the omission of the City's component unit, which were prepared in conformity with an other comprehensive basis of accounting. Other supplementary information included in Schedules 1 through 6, 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

October 26, 2011

Management's Discussion and Analysis

The City of Pocahontas provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2011. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2011 Financial Highlights

- Total receipts decreased 2.68%, or approximately \$150,227 from fiscal 2010 to fiscal 2011. Governmental Funds revenues decreased \$474,970 while Proprietary Funds revenues increased \$324,743 from the previous year.
- Total disbursements decreased 4.52% or approximately \$243,511 in fiscal 2011 from fiscal 2010. Governmental Fund expenditures decreased \$458,064 and Proprietary Funds expenditures increased \$214,553 from the previous year.
- The City's total cash basis net assets increased 14.63%, or approximately \$306,800 from June 30, 2010 to June 30, 2011. Of this amount, the assets of the governmental activities increased \$269,464 and the assets of the business type activities increased \$37,336.

Using this Annual Report

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

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

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

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

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

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

Other Supplementary Information provides detailed information about the non-major governmental funds. These financial statements include only the statements of the primary government. The City's component unit's financial statements can be obtained from the Pocahontas Community Hospital.

Basis of Accounting

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

Reporting the City's Financial Activities

Government-wide Financial Statement

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

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

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

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

Fund Financial Statements

The City has two kinds of funds:

- 1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Urban Renewal Tax

Increment, 3) the Debt Service Fund, 4) and the Capital Projects Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

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

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

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

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

Government-wide Financial Analysis

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from a year ago, increasing from \$1.014 million to \$1.284 million. The analysis that follows focuses on the changes in cash basis net assets of governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities

	Year ended June 30	
	2011	2010
Receipts and Transfers		
Program Receipts:		
Charges for service	\$ 290,426	\$ 275,003
Operating Grants, contributions and restricted interest	\$ 744,727	\$ 944,204
Capital grants, contributions and restricted interest	\$ 106,669	\$ 345,836
General receipts:		
Property tax	\$ 841,506	\$ 789,526
Local Option Sales Tax	\$ 111,698	\$ 139,361
Unrestricted interest on investments	\$ 9,188	\$ 10,338
Other general receipts	\$ 44,913	\$ 96,589
Transfers, net	\$ 258,320	\$ 281,560
Total receipts and transfers	\$ 2,407,447	\$ 2,882,417

Disbursements:		
Public Safety	\$ 267,040	\$ 255,329
Public Works	\$ 637,173	\$ 471,823
Culture and Recreation	\$ 203,491	\$ 212,045
Community and Economic Development	\$ 276,744	\$ 749,291
General Government	\$ 252,285	\$ 257,534
Debt Service	\$ 197,367	\$ 199,405
Capital Projects	\$ 303,883	\$ 450,620
Total Disbursements	\$ 2,137,983	\$ 2,596,047
Increase in cash basis net assets	\$ 269,464	\$ 286,370
Cash Basis net assets beginning of year	\$ 1,014,089	\$ 727,719
Cash basis net assets end of year	\$ 1,283,553	\$ 1,014,089

The City's total receipts for governmental activities decreased 16.48%, or \$474,970. The total cost of all programs and services decreased \$458,064, or 17.64%, with no new programs added this year. The largest revenue increase was in Property Tax Collections, which increased 7.18% or approximately \$51,980 because of the increased property values and new construction.

Property tax collections increased 7.18%, or approximately \$51,980. Tax collections are expected to increase at a steady pace in the future in the area of 1% to 5% growth per year.

The cost of all governmental activities this year was \$2.138 million compared to \$2.596 million last year. The largest change was in Community and Economic Development which decreased 63.07%, or \$472,547. Other program increases generally reflected increases in the cost of salaries, health insurance and other benefits.

Changes in Cash Basis Net Assets of Business Type Activities

	Year ended June 30,	
	2011	2010
Receipts and Transfers		
Program Receipts:		
Charges for service:		
Electric	\$ 2,216,655	\$ 1,923,392
Water	\$ 411,559	\$ 403,468
Sewer	\$ 383,069	\$ 355,265
Telecommunications (Internet)	\$ 9,750	\$ 7,695
Capital grants, contributions and restricted interest	\$ 0	\$ 0
Miscellaneous	\$ 26,103	\$ 32,573

Bond proceeds	\$ 0	\$ 0
Total receipts and transfers	\$ 3,047,136	\$ 2,722,393
Disbursements:		
Electric	\$ 1,939,533	\$ 1,780,418
Water	\$ 392,636	\$ 416,577
Sewer	\$ 395,113	\$ 305,269
Telecommunications (Internet)	\$ 950	\$ 1,343
Miscellaneous	\$ 23,248	\$ 10,800
Transfers	\$ 258,320	\$ 281,560
Total Disbursements	\$ 3,009,800	\$ 2,795,247
Increase in cash basis net assets	\$ 37,336	\$ (72,854)
Cash Basis net assets beginning of year	\$ 776,746	\$ 849,600
Cash Basis net assets end of year	\$ 814,082	\$ 776,746

Total business type activities receipts for the fiscal year were \$3.047 million compared to \$2.722 million last year. The increase was due primarily to the increased receipts from electric revenues. The cash balance increased by approximately \$37,336 from the prior year. Total disbursements for the fiscal year increased to \$3.010 million compared to \$2.795 million last year.

Individual Major Governmental Fund Analysis

As the City of Pocahontas completed the year, its governmental funds reported a combined fund balance of \$1,283,553, an increase of \$269,464 above last year's total of \$1,014,089. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance increased \$31,349 from the prior year to \$246,893. The majority of this increase was due to careful planning and watching general fund expenditures. City staff would like to continue to grow the cash balance of the general fund in the coming years.
- The three City Revolving Loan Funds cash balances increased to \$479,431 from the prior year of \$208,353. This fund received a large repayment from the school district loan that caused a significant jump in the cash basis.
- The Capital Improvement and Equipment Funds cash balances decreased to \$246,347 from the prior year of \$335,982. The City purchased a new street sweeper as well as two new pick-ups which brought down the total cash basis.

Individual Major Business Type Fund Analysis

- The Water Fund cash balance decreased \$18,040 to \$169,328, due primarily to increased costs of production and increased debt payments. A three year tiered rate increase was adopted in June 2011 to grow the Water Fund.
- The Electric Fund cash balance increased \$135,122 to \$620,094. This balance will continue to grow as the rate increase enacted in 2009 will help increase electric revenues. The City has substantial growth in electric sales in FY 2011 which resulted in more than anticipated electric revenues.
- The Sewer Fund cash balance decreased \$77,117 to \$(14,809). Over the course of FY 2011 the Sewer Fund made substantial investments into new equipment in the sewer plant and collection system which resulted in a negative balance. The City adopted a three year tiered rate increase in June 2011 which will help increase the Sewer Fund in the coming years.

Budgetary Highlights

Over the course of the year, the City amended its budget one time. The amendment increased revenues by \$497,108 and increased expenditures by \$844,388. The City had sufficient cash balances to absorb the additional costs estimated under the budget amendment.

The City’s receipts were \$27,525 over budgeted expectations. This was primarily due to the City receiving more electric revenue than anticipated. Actual interest income, intergovernmental, and miscellaneous revenue greatly exceeded estimated amount.

The City’s total expenditures were \$599,980 under budgeted expectations. Most individual programs were under budget with the exception of our proprietary funds.

Debt Administration

At June 30, 2011 the City had \$2,989,374 in bonds and other long-term debt outstanding, compared to \$3,490,921 last year, as shown below.

Outstanding Debt At Year-End			
June 30			
	<u>2011</u>		<u>2010</u>
General obligation bonds	\$ 225,000	\$	405,000
Revenue Bonds	\$ 1,706,701	\$	1,935,701
Promissory Notes	\$ 1,057,673	\$	1,150,220
Total	\$ 2,989,374	\$	3,490,921

Annual payments on the general obligation bonds, revenue bonds, and promissory notes decreased the outstanding amounts. The Constitution of the State of Iowa limits the

amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$225,000 is significantly below its constitutional debt limit of \$3.0 million.

Economic Factors and Next Year's Budget and Rates

The elected and appointed officials and citizens of Pocahontas considered many factors when setting the fiscal year 2011 budget, tax rates, and fees charged for various City activities. One of those factors is the economy. The unemployment in the county now stands at 5.6%. This compares with the State's unemployment rate of 6.0% and the national rate of 9.1%. Inflation was at 3.56% from June 2010 to June 2011.

Economic conditions in Pocahontas and the surrounding area remain stable. Local Option Sales Tax Revenues dropped considerably this past year which represents a drop in overall spending in Pocahontas. However, many local companies are hiring and are actually having a difficult time recruiting employees. Pocahontas has benefited from strong performance in the agricultural and manufacturing sectors. While economic crisis has struck much of the country, Pocahontas has weathered the storm quite well. The strong farm economy, boosted by high commodity prices, benefits the local economy. The City will continue to work with local businesses and residents to expand housing and employment opportunities in Pocahontas.

These indicators were taken into account when adopting the budget for fiscal year 2011. Total revenues of \$5.196 million decreased \$81,987 from the previous year primarily due to fewer incoming federal grant monies. Property tax revenue increased \$32,885 even though the City's overall levy actually decreased slightly. Total expenditures of \$4.889 million, excluding transfers, decreased approximately \$220,271 from the previous year. The City has added no major new programs or initiatives to the FY 2011 budget.

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

Contacting the City's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Robert Donahoo, City Administrator, or Joan DeWall, City Clerk, 23 West Elm Avenue, Pocahontas, IA 50574.

Basic Financial Statements

City of Pocahontas, Iowa

Statement of Activities and Net Assets - Cash Basis

As of and for the year ended June 30, 2011

	<u>Disbursements</u>	<u>Program Receipts</u>		
		<u>Charges for Service</u>	<u>Operating Grants, Contributions, and Restricted Interest</u>	<u>Capital Grants, Contributions, and Restricted Interest</u>
Functions/Programs:				
Governmental activities:				
Public safety	\$ 267,040	5,327	5,097	-
Public works	637,173	243,750	252,144	106,669
Culture and recreation	203,491	33,416	17,694	-
Community and economic development	276,744	2,318	424,929	-
General government	252,285	5,615	3,863	-
Debt service	197,367	-	41,000	-
Capital projects	<u>303,883</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total governmental activities	<u>2,137,983</u>	<u>290,426</u>	<u>744,727</u>	<u>106,669</u>
Business type activities:				
Water	392,636	411,559	-	-
Electric	1,939,533	2,216,655	-	-
Sewer	395,113	383,069	-	-
Other non-major	<u>24,198</u>	<u>24,569</u>	<u>-</u>	<u>-</u>
Total business type activities	<u>2,751,480</u>	<u>3,035,852</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 4,889,463</u>	<u>3,326,278</u>	<u>744,727</u>	<u>106,669</u>

<hr/> Net (Disbursements) Receipts and Changes in Cash Basis Net Assets <hr/>		
Governmental Activities	Business Type Activities	Total
(256,616)	-	(256,616)
(34,610)	-	(34,610)
(152,381)	-	(152,381)
150,503	-	150,503
(242,807)	-	(242,807)
(156,367)	-	(156,367)
<u>(303,883)</u>	<u>-</u>	<u>(303,883)</u>
<u>(996,161)</u>	<u>-</u>	<u>(996,161)</u>
-	18,923	18,923
-	277,122	277,122
-	(12,044)	(12,044)
<u>-</u>	<u>371</u>	<u>371</u>
<u>-</u>	<u>284,372</u>	<u>284,372</u>
<u>(996,161)</u>	<u>284,372</u>	<u>(711,789)</u>

(continued)

Statement of Activities and Net Assets - Cash Basis

As of and for the year ended June 30, 2011

	Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
	Governmental Activities	Business Type Activities	Total
General Receipts:			
Property and other city taxes levied for:			
General purposes	\$ 557,093	-	557,093
Debt service	135,345	-	135,345
Tax increment financing	149,068	-	149,068
Local options sales tax	111,698	-	111,698
Unrestricted interest on investments	9,188	11,284	20,472
Miscellaneous	44,913	-	44,913
Transfers	258,320	(258,320)	-
Total general receipts and transfers	<u>1,265,625</u>	<u>(247,036)</u>	<u>1,018,589</u>
Change in cash basis net assets	269,464	37,336	306,800
Cash basis net assets beginning of year	<u>1,014,089</u>	<u>776,746</u>	<u>1,790,835</u>
Cash basis net assets end of year	<u><u>1,283,553</u></u>	<u><u>814,082</u></u>	<u><u>2,097,635</u></u>
Cash Basis Net Assets			
Restricted:			
Nonexpendable:			
Culture and recreation	150,000	-	150,000
Expendable:			
Hotel/Motel	27,065	-	27,065
Streets	177,093	-	177,093
Debt service	(15,865)	115,670	99,805
Other purposes	1,146,083	458,540	1,604,623
Unrestricted	<u>(200,823)</u>	<u>239,872</u>	<u>39,049</u>
Total cash basis net assets	<u><u>\$ 1,283,553</u></u>	<u><u>814,082</u></u>	<u><u>2,097,635</u></u>

See notes to financial statements.

City of Pocahontas, Iowa
Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Governmental Funds
As of and for the year ended June 30, 2011

Exhibit B

	<u>General</u>	Other Nonmajor Governmental <u>Funds</u>	<u>Total</u>
Receipts:			
Property tax	\$ 331,234	326,940	658,174
Tax increment financing	-	149,068	149,068
Other city tax	9,183	116,713	125,896
Licenses and permits	1,210	-	1,210
Use of money and property	74,040	429,190	503,230
Intergovernmental	40,223	298,021	338,244
Charges for service	258,819	-	258,819
Special assessments	-	5,417	5,417
Miscellaneous	39,941	69,128	109,069
Total receipts	754,650	1,394,477	2,149,127
Disbursements:			
Operating:			
Public safety	214,621	52,419	267,040
Public works	227,212	409,961	637,173
Culture and recreation	179,017	24,474	203,491
Community and economic development	65,272	211,472	276,744
General government	212,102	40,183	252,285
Debt service	-	197,367	197,367
Capital projects	-	303,883	303,883
Total disbursements	898,224	1,239,759	2,137,983
Excess (deficiency) of receipts over (under) disbursements	(143,574)	154,718	11,144
Other financing sources (uses):			
Operating transfers in	210,000	113,397	323,397
Operating transfers out	(35,077)	(30,000)	(65,077)
Total other financing sources (uses)	174,923	83,397	258,320
Net change in cash balances	31,349	238,115	269,464
Cash balances beginning of year	215,544	798,545	1,014,089
Cash balances end of year	\$ 246,893	1,036,660	1,283,553
Cash Basis Fund Balances			
Nonspendable - Permanent funds	-	150,000	150,000
Restricted:			
Debt service	\$ -	(15,865)	(15,865)
Hotel/Motel	27,065	-	27,065
Streets	-	177,093	177,093
Other purposes	-	1,146,083	1,146,083
Unassigned	219,828	(420,651)	(200,823)
Total cash basis fund balances	\$ 246,893	1,036,660	1,283,553

See notes to financial statements.

City of Pocahontas, Iowa

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

As of and for the year ended June 30, 2011

	Enterprise Funds		
	Water	Electric	Sewer
Operating receipts:			
Use of money and property	\$ 3,600	-	-
Charges for service	405,039	2,182,419	358,507
Miscellaneous	2,920	34,236	24,562
Total operating receipts	<u>411,559</u>	<u>2,216,655</u>	<u>383,069</u>
Operating disbursements:			
Business type activities	<u>249,809</u>	<u>1,669,198</u>	<u>209,828</u>
Total operating disbursements	<u>249,809</u>	<u>1,669,198</u>	<u>209,828</u>
Excess (deficiency) of operating receipts over (under) operating disbursements	<u>161,750</u>	<u>547,457</u>	<u>173,241</u>
Non-operating receipts (disbursements):			
Interest on investments	10,037	-	1,247
Debt service	(111,812)	(242,000)	(67,816)
Capital projects	<u>(31,015)</u>	<u>(28,335)</u>	<u>(117,469)</u>
Total non-operating receipts (disbursements)	<u>(132,790)</u>	<u>(270,335)</u>	<u>(184,038)</u>
Excess (deficiency) of receipts over (under) disbursements	28,960	277,122	(10,797)
Operating transfers out	<u>(47,000)</u>	<u>(142,000)</u>	<u>(66,320)</u>
Net change in cash balances	(18,040)	135,122	(77,117)
Cash balances beginning of year	<u>187,368</u>	<u>484,972</u>	<u>62,308</u>
Cash balances end of year	<u>\$ 169,328</u>	<u>620,094</u>	<u>(14,809)</u>
Cash Basis Fund Balances			
Restricted for debt service	\$ -	115,670	-
Restricted for capital improvements	162,250	150,000	22,381
Restricted for capital equipment	44,700	28,019	51,190
Unrestricted	<u>(37,622)</u>	<u>326,405</u>	<u>(88,380)</u>
Total cash basis fund balances	<u>\$ 169,328</u>	<u>620,094</u>	<u>(14,809)</u>

See notes to financial statements.

Exhibit C

<u>Other Nonmajor</u>	<u>Total</u>
4,850	8,450
19,719	2,965,684
-	61,718
<u>24,569</u>	<u>3,035,852</u>
<u>24,198</u>	<u>2,153,033</u>
<u>24,198</u>	<u>2,153,033</u>
<u>371</u>	<u>882,819</u>
-	11,284
-	(421,628)
-	(176,819)
<u>-</u>	<u>(587,163)</u>
371	295,656
<u>(3,000)</u>	<u>(258,320)</u>
(2,629)	37,336
<u>42,098</u>	<u>776,746</u>
<u>39,469</u>	<u>814,082</u>
-	115,670
-	334,631
-	123,909
<u>39,469</u>	<u>239,872</u>
<u>39,469</u>	<u>814,082</u>

City of Pocahontas, Iowa

Notes to Financial Statements

June 30, 2011

(1) Summary of Significant Accounting Policies

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

A. Reporting Entity

For financial reporting purposes, the City of Pocahontas has included only the primary government of the City of Pocahontas, which consists of all funds, organizations, institutions, agencies, departments, and offices that comprise the City's primary government. The financial statements do not include financial data for the City's legally separate component unit, the Pocahontas Community Hospital, which U.S. generally accepted accounting principles require to be reported with the financial data of the City's primary government. The audited financial statements of the Pocahontas Community Hospital can be obtained at their business office.

Jointly Governed Organizations

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

City of Pocahontas, Iowa

Notes to Financial Statements

June 30, 2011

B. Basis of Presentation

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

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in the following categories/components:

Nonexpendable restricted net assets are subject to externally imposed stipulations which require them to be maintained permanently by the City, including the City's Permanent Funds.

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

Unrestricted net assets consist of net assets not meeting the definition of the preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

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

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

City of Pocahontas, Iowa

Notes to Financial Statements

June 30, 2011

The City reports the following major governmental funds:

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

The City reports the following major proprietary funds:

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

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

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

C. Measurement Focus and Basis of Accounting

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

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

City of Pocahontas, Iowa

Notes to Financial Statements

June 30, 2011

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

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

D. Governmental Cash Basis Fund Balances

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Nonspendable – Amounts which cannot be spent 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.

Assigned – Amounts the Council intends to use for specific purposes.

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. During the year ended June 30, 2011, disbursements exceeded the amounts budgeted in the business type activities function.

City of Pocahontas, 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 has no investments at June 30, 2011. During the year, the City deposited excess funds in certificates of deposit.

City of Pocahontas, Iowa

Notes to Financial Statements

June 30, 2011

(3) Bonds Payable

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

Year Ending	General		Revenue Bonds		Total	
	Obligation Bonds					
June 30,	Principal	Interest	Principal	Interest	Principal	Interest
2012	\$ 125,000	9,538	232,000	52,986	357,000	62,524
2013	50,000	4,350	131,000	44,241	181,000	48,591
2014	50,000	2,200	135,000	40,311	185,000	42,511
2015	---	---	139,000	36,261	139,000	36,261
2016	---	---	143,000	32,091	143,000	32,091
2017-2021	---	---	620,701	96,903	620,701	96,903
2022-2024	---	---	306,000	18,540	306,000	18,540
Total	\$ 225,000	16,088	1,706,701	321,333	1,931,701	337,421

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

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

City of Pocahontas, Iowa

Notes to Financial Statements

June 30, 2011

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

Revenue Bonds

The City has pledged future water customer receipts, net of specified operating disbursements, to repay \$1,418,582 in water revenue notes issued in April 2004. Proceeds from the notes provided financing for water improvements. The notes are payable through 2024. Annual principal and interest payments on the notes are expected to require less than 90 percent of net receipts. The total principal and interest remaining to be paid on the notes is \$1,409,290. For the current year, principal and interest paid and total customer net receipts were \$108,750 and \$161,750, respectively.

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay \$1,200,000 in sewer revenue notes issued in July 2004. Proceeds from the notes provided financing for the construction of improvements to the sewer treatment plant. The notes are payable solely from sewer customer net receipts and are payable through 2019. Annual principal and interest payments on the notes are expected to require less than 90 percent of net receipts. The total principal and interest remaining to be paid on the notes is \$508,809. For the current year, principal and interest paid and total customer net receipts were \$67,021 and \$173,241, respectively.

City of Pocahontas, Iowa

Notes to Financial Statements

June 30, 2011

The City has pledged future electric customer receipts, net of specified operating disbursements, to repay \$900,000 in electric revenue notes issued in April 2002. Proceeds from the notes provided financing for electric system improvements. The notes are payable solely from electric customer net receipts and are payable through 2012. Annual principal and interest payments on the notes are expected to require less than 75 percent of net receipts. The total principal and interest remaining to be paid on the notes is \$109,935. For the current year, principal and interest paid and total customer net receipts were \$114,765 and \$547,457, respectively.

(4) Promissory Notes

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

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

Year ending <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>
2012	\$ 96,821	29,963
2013	101,475	25,310
2014	106,352	20,433
2015	111,463	15,321
2016	116,821	9,964
2017	<u>121,802</u>	<u>4,349</u>
	\$ 654,734	105,340
	=====	=====

City of Pocahontas, Iowa

Notes to Financial Statements

June 30, 2011

The City also entered into a loan agreement for \$402,939 with the United States Department of Agriculture secured by the portfolio of investments derived from the proceeds of this loan award. This agreement carries an interest rate of 1%, with interest only paid for the first three years. This loan has a due date of 2-1-2039.

Future payments are due as follows:

<u>Year Ending</u> <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>
2012	\$ 4,341	1,338
2013	13,109	3,926
2014	13,240	3,794
2015	13,374	3,661
2016	13,508	3,527
2017-2021	69,604	15,572
2022-2026	73,171	12,004
2027-2031	76,921	8,255
2032-2036	80,862	4,313
2037-2039	<u>44,809</u>	<u>618</u>
Total	\$ 402,939	57,008
	=====	=====

(5) Pension and Retirement Benefits

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

City of Pocahontas, Iowa
Notes to Financial Statements
June 30, 2011

Most regular plan members are required to contribute 4.50% 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 \$60,507, \$51,738 and \$47,143, respectively, equal to the required contributions for each year.

(6) Other Postemployment Benefits (OPEB)

Plan Description – The City of Pocahontas operates a single-employer health benefit plan which provides medical/prescription drug benefits for employees and retirees and their spouses. There are 17 active and 0 retired members in the plan. The city will pay 100% of premiums for single coverage and up to the amount of the single premium rate for family coverage. Participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees.

Funding Policy – The contribution requirements of plan members are established and may be amended by the City. The City currently finances the benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the City and plan members are \$332 for single coverage and \$829 for family coverage. The same monthly premiums apply to retirees. For the year ended June 30, 2011, the City contributed \$85,756 and plan members eligible for benefits contributed \$15,217 to the plan.

(7) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation and comp time hours for subsequent use or for payment upon termination, retirement or death. Sick leave hours accumulate and are paid only when used. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned compensated absences payable to employees at June 30, 2011, primarily relating to the General Fund, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation and comp time	\$ <u>50,000</u>

This liability has been computed based on rates of pay in effect at June 30, 2011.

City of Pocahontas, Iowa

Notes to Financial Statements

June 30, 2011

(8) 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	Enterprise:	
	Water	\$ 45,000
	Sewer	45,000
	Electric	117,000
	Internet	<u>3,000</u>
		<u>210,000</u>
Debt Service	Enterprise:	
	Sewer	<u>20,820</u>
Capital Projects:		
Capital Improvements	General	<u>5,000</u>
Capital Equipment	General	30,077
	Enterprise:	
	Water	1,000
	Sewer	500
	Electric	2,500
	Special Revenue:	
	Road Use	<u>30,000</u>
		<u>64,077</u>
Special Revenue:		
Industrial Development	Enterprise:	
	Water	1,000
	Electric	<u>22,500</u>
		<u>23,500</u>
Total		\$ <u>323,397</u>

City of Pocahontas, Iowa

Notes to Financial Statements

June 30, 2011

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

(9) Related Party Transactions

The City had business transactions between the City and City officials totaling \$84,142 during the year ended June 30, 2011.

(10) Risk Management

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

(11) Deficit Balances

The Special Revenue, Industrial Development Revenue Fund had a deficit balance of \$420,651 at June 30, 2011. This deficit will be eliminated upon repayment of loans, interfund transfers, and sale of property.

The Debt Service Fund had a deficit balance of \$15,865 at June 30, 2011. This deficit will be eliminated upon collection of property taxes.

The Enterprise Fund, Sewer Operating Account had a deficit balance of \$88,380 at June 30, 2011. This deficit should be eliminated with a rate increase.

The Enterprise Fund, Water Operating Account had a deficit balance of \$37,622 at June 30, 2011. This deficit should be eliminated with a rate increase.

City of Pocahontas, Iowa

Notes to Financial Statements

June 30, 2011

(12) Economic Development Loans Receivable

The City has various long-term loans receivable totaling \$1,035,350 as of June 30, 2011 due from various business in Pocahontas. The loans were financed with the proceeds from various grant agreements, matching contribution from the City and repayments from the businesses. Interest rates on these loans vary from 0% - 4.5% with monthly payments varying from \$221 to \$1,520.

(13) Construction Commitments

The city signed a contract in June 2011 for a storm sewer project for approximately \$292,000. The project cost will be split with the school district and the rest will be paid from general obligation bonds.

(14) Subsequent Events

The City has evaluated subsequent events through October 26, 2011, the date the financial statements were available to be issued.

The City signed a contract in July 2011 for a sewer plant project for approximately \$333,000 to be paid back with a State Revolving Fund loan.

The City approved an interim construction loan for \$1.3 million for various projects.

Required Supplementary Information

City of Pocahontas, Iowa
 Budgetary Comparison Schedule
 of Receipts, Disbursements, and Changes in Balances -
 Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Funds

Required Supplementary Information

Year ended June 30, 2011

	Governmental Funds <u>Actual</u>	Proprietary Funds <u>Actual</u>
Receipts:		
Property tax	\$ 658,174	-
Tax increment financing collections	149,068	-
Other city tax	125,896	-
Licenses and permits	1,210	-
Use of money and property	503,230	19,734
Intergovernmental	338,244	-
Charges for service	258,819	2,965,684
Special assessments	5,417	-
Miscellaneous	109,069	61,718
Total receipts	<u>2,149,127</u>	<u>3,047,136</u>
Disbursements:		
Public safety	267,040	-
Public works	637,173	-
Culture and recreation	203,491	-
Community and economic development	276,744	-
General government	252,285	-
Debt service	197,367	-
Capital projects	303,883	-
Business type activities	-	2,751,480
Total disbursements	<u>2,137,983</u>	<u>2,751,480</u>
Excess (deficiency) of receipts over (under) disbursements	11,144	295,656
Other financing sources (uses), net	<u>258,320</u>	<u>(258,320)</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	269,464	37,336
Balances beginning of year	<u>1,014,089</u>	<u>776,746</u>
Balances end of year	<u>\$ 1,283,553</u>	<u>814,082</u>
See accompanying independent auditor's report.		

<u>Total</u>	<u>Budgeted Amounts</u>		<u>Final to Total Variance</u>
	<u>Original</u>	<u>Final</u>	
658,174	655,135	655,135	3,039
149,068	137,600	145,000	4,068
125,896	181,954	207,154	(81,258)
1,210	5,075	5,625	(4,415)
522,964	56,500	76,570	446,394
338,244	403,646	403,646	(65,402)
3,224,503	3,166,000	3,392,150	(167,647)
5,417	-	-	5,417
<u>170,787</u>	<u>65,720</u>	<u>283,458</u>	<u>(112,671)</u>
<u>5,196,263</u>	<u>4,671,630</u>	<u>5,168,738</u>	<u>27,525</u>
267,040	262,682	296,800	29,760
637,173	607,883	797,783	160,610
203,491	206,176	215,222	11,731
276,744	246,255	283,042	6,298
252,285	293,580	323,255	70,970
197,367	203,780	203,780	6,413
303,883	612,000	819,500	515,617
<u>2,751,480</u>	<u>2,212,699</u>	<u>2,550,061</u>	<u>(201,419)</u>
<u>4,889,463</u>	<u>4,645,055</u>	<u>5,489,443</u>	<u>599,980</u>
306,800	26,575	(320,705)	627,505
<u>-</u>	<u>-</u>	<u>162,825</u>	<u>(162,825)</u>
306,800	26,575	(157,880)	464,680
<u>1,790,835</u>	<u>1,833,865</u>	<u>1,833,865</u>	<u>(43,030)</u>
<u>2,097,635</u>	<u>1,860,440</u>	<u>1,675,985</u>	<u>421,650</u>

City of Pocahontas, Iowa

Notes to Required Supplementary Information – Budgetary Reporting

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 on the cash basis following required public notice and hearing for all funds except Internal Service Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Fund, the Permanent Fund and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$844,388, increased budgeted revenues by \$497,108 and increased budgeted other financing sources by \$162,825. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2011, disbursements exceeded the amounts budgeted in the business type activities function.

Other Supplementary Information

City of Pocahontas, Iowa

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

As of and for the year ended June 30, 2011

	Special Revenue					
	Road <u>Use</u>	Employee <u>Benefits</u>	Local Option Sales <u>Tax</u>	Tax Increment <u>Fund (TIF)</u>	Revolving <u>Loan Fund</u>	REDG Revolving <u>Loan Fund</u>
Receipts:						
Property tax	\$ -	193,496	-	-	-	-
Tax increment financing	-	-	-	149,068	-	-
Other city tax	-	3,114	111,698	-	-	-
Use of money and property	-	-	-	-	40,605	258,807
Intergovernmental	174,468	-	-	-	-	-
Special assessments	-	-	-	-	-	-
Miscellaneous	100	1,500	-	-	-	-
Total receipts	<u>174,568</u>	<u>198,110</u>	<u>111,698</u>	<u>149,068</u>	<u>40,605</u>	<u>258,807</u>
Disbursements:						
Operating:						
Public safety	-	52,419	-	-	-	-
Public works	162,445	47,765	199,751	-	-	-
Culture and recreation	-	24,474	-	-	-	-
Community and economic development	-	14,465	-	61,517	35,028	48,857
General government	-	40,183	-	-	-	-
Debt Service	-	-	-	-	-	-
Capital projects	-	-	-	-	-	-
Total disbursements	<u>162,445</u>	<u>179,306</u>	<u>199,751</u>	<u>61,517</u>	<u>35,028</u>	<u>48,857</u>
Excess (deficiency) of receipts over (under) disbursements	<u>12,123</u>	<u>18,804</u>	<u>(88,053)</u>	<u>87,551</u>	<u>5,577</u>	<u>209,950</u>

					<u>Capital Projects</u>		
<u>Intermediary</u>	<u>Industrial</u>			<u>"Charlotte</u>		<u>Capital</u>	<u>Capital</u>
<u>Relending</u>	<u>Development</u>	<u>I-Jobs</u>	<u>"Irma Elbert</u>	<u>Lenore Zech</u>	<u>Debt</u>	<u>Improvement</u>	<u>Equipment</u>
<u>Loan Fund</u>	<u>Revenue Fund</u>	<u>Revenue</u>	<u>Bequest"</u>	<u>Bequest"</u>	<u>Service</u>		
-	-	-	-	-	133,444	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	1,901	-	-
62,213	63,304	-	1,800	-	-	2,461	-
-	-	10,470	-	-	-	111,859	1,224
-	2,318	-	-	-	-	3,099	-
-	-	-	-	-	41,000	19,350	7,178
<u>62,213</u>	<u>65,622</u>	<u>10,470</u>	<u>1,800</u>	<u>-</u>	<u>176,345</u>	<u>136,769</u>	<u>8,402</u>
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
6,662	44,943	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	197,367	-	-
-	-	-	-	-	-	158,545	145,338
<u>6,662</u>	<u>44,943</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>197,367</u>	<u>158,545</u>	<u>145,338</u>
<u>55,551</u>	<u>20,679</u>	<u>10,470</u>	<u>1,800</u>	<u>-</u>	<u>(21,022)</u>	<u>(21,776)</u>	<u>(136,936)</u>

(continued)

City of Pocahontas, Iowa

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

As of and for the year ended June 30, 2011

	Special Revenue					
	Road <u>Use</u>	Employee <u>Benefits</u>	Local Option Sales <u>Tax</u>	Tax Increment <u>Fund (TIF)</u>	Revolving <u>Loan Fund</u>	REDG Revolving <u>Loan Fund</u>
Other financing sources (uses):						
Operating transfers in	-	-	-	-	-	-
Operating transfers out	<u>(30,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	<u>(30,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in cash balances	(17,877)	18,804	(88,053)	87,551	5,577	209,950
Cash balances beginning of year	<u>194,970</u>	<u>99,108</u>	<u>244,178</u>	<u>28,472</u>	<u>51,099</u>	<u>39,625</u>
Cash balances end of year	<u>\$ 177,093</u>	<u>117,912</u>	<u>156,125</u>	<u>116,023</u>	<u>56,676</u>	<u>249,575</u>
Cash Basis Fund Balances						
Nonspendable - Permanent funds	-	-	-	-	-	-
Restricted:						
Debt service	-	-	-	-	-	-
Streets	177,093	-	-	-	-	-
Other purposes	-	117,912	156,125	116,023	56,676	249,575
Unassigned	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total cash basis fund balances	<u>\$ 177,093</u>	<u>117,912</u>	<u>156,125</u>	<u>116,023</u>	<u>56,676</u>	<u>249,575</u>

See accompanying independent auditor's report.

					<u>Capital Projects</u>		
<u>Intermediary</u> <u>Relending</u> <u>Loan Fund</u>	<u>Industrial</u> <u>Development</u> <u>Revenue Fund</u>	<u>I-Jobs</u> <u>Revenue</u>	<u>"Irma Elbert</u> <u>Bequest"</u>	<u>"Charlotte</u> <u>Lenore Zech</u> <u>Bequest"</u>	<u>Debt</u> <u>Service</u>	<u>Capital</u> <u>Improvement</u>	<u>Capital</u> <u>Equipment</u>
-	23,500	-	-	-	20,820	5,000	64,077
-	-	-	-	-	-	-	-
-	<u>23,500</u>	-	-	-	<u>20,820</u>	<u>5,000</u>	<u>64,077</u>
55,551	44,179	10,470	1,800	-	(202)	(16,776)	(72,859)
<u>117,629</u>	<u>(464,830)</u>	<u>8,604</u>	<u>5,117</u>	<u>4,254</u>	<u>(15,663)</u>	<u>89,277</u>	<u>246,705</u>
<u>173,180</u>	<u>(420,651)</u>	<u>19,074</u>	<u>6,917</u>	<u>4,254</u>	<u>(15,865)</u>	<u>72,501</u>	<u>173,846</u>
-	-	-	-	-	-	-	-
-	-	-	-	-	(15,865)	-	-
173,180	-	19,074	6,917	4,254	-	72,501	173,846
-	<u>(420,651)</u>	-	-	-	-	-	-
<u>173,180</u>	<u>(420,651)</u>	<u>19,074</u>	<u>6,917</u>	<u>4,254</u>	<u>(15,865)</u>	<u>72,501</u>	<u>173,846</u>

(continued)

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

As of and for the year ended June 30, 2011

	Permanent			<u>Total</u>
	<u>"Jean Wallace Perry Memorial"</u>	<u>"Charlotte Lenore Zech Bequest"</u>	<u>"Irma Elbert Bequest"</u>	
Receipts:				
Property tax	\$ -	-	-	326,940
Tax increment financing collections	-	-	-	149,068
Other city tax	-	-	-	116,713
Use of money and property	-	-	-	429,190
Intergovernmental	-	-	-	298,021
Special assessments	-	-	-	5,417
Miscellaneous	-	-	-	69,128
Total receipts	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,394,477</u>
Disbursements:				
Operating:				
Public safety	-	-	-	52,419
Public works	-	-	-	409,961
Culture and recreation	-	-	-	24,474
Community and economic development	-	-	-	211,472
General government	-	-	-	40,183
Debt Service	-	-	-	197,367
Capital projects	-	-	-	303,883
Total disbursements	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,239,759</u>
Excess (deficiency) of receipts over (under) disbursements	<u>-</u>	<u>-</u>	<u>-</u>	<u>154,718</u>

(continued)

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

As of and for the year ended June 30, 2011

	Permanent			
	"Jean Wallace Perry <u>Memorial"</u>	"Charlotte Lenore Zech <u>Bequest"</u>	"Irma Elbert <u>Bequest"</u>	<u>Total</u>
Other financing sources (uses):				
Operating transfers in	-	-	-	113,397
Operating transfers out	-	-	-	(30,000)
Total other financing sources (uses)	-	-	-	83,397
Net change in cash balances	-	-	-	238,115
Cash balances beginning of year	\$ 2,500	87,500	60,000	798,545
Cash balances end of year	\$ 2,500	\$ 87,500	\$ 60,000	\$ 1,036,660
Cash Basis Fund Balances				
Nonspendable - Permanent funds	2,500	87,500	60,000	150,000
Restricted:				
Debt service	-	-	-	(15,865)
Streets	-	-	-	177,093
Other purposes	-	-	-	1,146,083
Unassigned	-	-	-	(420,651)
Total cash basis fund balances	\$ 2,500	87,500	60,000	1,036,660

See accompanying independent auditor's report.

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

As of and for the year ended June 30, 2011

	Enterprise Funds			
	Meter Deposits	Clinic	Internet	Total
Operating receipts:				
Use of money and property	\$ -	4,850	-	4,850
Charges for service	<u>9,969</u>	<u>-</u>	<u>9,750</u>	<u>19,719</u>
Total operating receipts	<u>9,969</u>	<u>4,850</u>	<u>9,750</u>	<u>24,569</u>
Operating disbursements:				
Business type activities	<u>7,876</u>	<u>15,372</u>	<u>950</u>	<u>24,198</u>
Total operating disbursements	<u>7,876</u>	<u>15,372</u>	<u>950</u>	<u>24,198</u>
Excess of operating receipts over operating disbursements	<u>2,093</u>	<u>(10,522)</u>	<u>8,800</u>	<u>371</u>
Operating transfers in (out)	<u>-</u>	<u>-</u>	<u>(3,000)</u>	<u>(3,000)</u>
Net change in cash balances	2,093	(10,522)	5,800	(2,629)
Cash balances beginning of year	<u>14,460</u>	<u>10,522</u>	<u>17,116</u>	<u>42,098</u>
Cash balances end of year	<u>\$ 16,553</u>	<u>-</u>	<u>22,916</u>	<u>39,469</u>
Cash Basis Fund Balances				
Unrestricted				
Total cash basis fund balances	<u>\$ 16,553</u>	<u>-</u>	<u>22,916</u>	<u>39,469</u>

See notes to financial statements.

City of Pocahontas, Iowa

Schedule of Indebtedness

Year ended June 30, 2011

<u>Obligation</u>	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount Originally Issued</u>
General obligation bonds: G.O. refunding bonds Series 2001	Nov 1, 2001	3.00-4.40%	\$ 1,715,000
Revenue bonds:			
Electric	Apr 15, 2002	2.75-4.70%	\$ 900,000
Water	Apr 6, 2004	3.00%	1,418,582
Sewer	Jul 7, 2004	3.00%	1,200,000
Promissory note:			
Electric	Feb 8, 2006	4.75%	\$ 1,000,000
United States Department of Agriculture	Feb 1, 2008	1.00%	402,939

See accompanying independent auditor's report.

Schedule 3

<u>Balance Beginning of Year</u>	<u>Issued During Year</u>	<u>Redeemed During Year</u>	<u>Balance End of Year</u>	<u>Interest Paid</u>	<u>Interest Due and Unpaid</u>
\$ 405,000	-	180,000	225,000	16,917	-
210,000	-	105,000	105,000	9,765	-
1,225,000	-	72,000	1,153,000	36,750	-
500,701	-	52,000	448,701	15,021	-
<u>\$ 1,935,701</u>	<u>-</u>	<u>229,000</u>	<u>1,706,701</u>	<u>61,536</u>	<u>-</u>
747,281	-	92,547	654,734	34,237	-
402,939	-	-	402,939	4,029	-
<u>1,150,220</u>	<u>-</u>	<u>92,547</u>	<u>1,057,673</u>	<u>38,266</u>	<u>-</u>

Bond Maturities- General Obligation Bonds

June 30, 2011

Year Ending <u>June 30,</u>	General Obligation	
	Refunding Bonds Series 2001	
	Issued November 1, 2001	
	Interest	
	<u>Rates</u>	<u>Amount</u>
2012	4.15 %	\$ 125,000
2013	4.30	50,000
2014	4.40	50,000
Total		<u>\$ 225,000</u>

See accompanying independent auditor's report.

Bond Maturities - Revenue Bonds

June 30, 2011

		Electric Revenue Bonds		Sewer Revenue Bonds	
		Series 2002		Series 2004	
		Issued April 15, 2002		Issued July 7, 2004	
Year Ending	Interest			Interest	
<u>June 30,</u>	<u>Rates</u>	<u>Amount</u>		<u>Rates</u>	<u>Amount</u>
2012	4.70 %	\$ 105,000		3.00 %	\$ 53,000
2013		-		3.00	55,000
2014		-		3.00	57,000
2015		-		3.00	58,000
2016		-		3.00	60,000
2017		-		3.00	62,000
2018		-		3.00	64,000
2019		-		3.00	39,701
Total		<u>\$ 105,000</u>			<u>\$ 448,701</u>

		Water Revenue Bonds		
		Series 2004		
		Issued April 23, 2004		
Year Ending	Interest			Total
<u>June 30,</u>	<u>Rates</u>	<u>Amount</u>		
2012	3.00 %	\$ 74,000		232,000
2013	3.00	76,000		131,000
2014	3.00	78,000		135,000
2015	3.00	81,000		139,000
2016	3.00	83,000		143,000
2017	3.00	86,000		148,000
2018	3.00	88,000		152,000
2019	3.00	91,000		130,701
2020	3.00	94,000		94,000
2021	3.00	96,000		96,000
2022	3.00	99,000		99,000
2023	3.00	102,000		102,000
2024	3.00	105,000		105,000
Total		<u>\$ 1,153,000</u>		<u>1,706,701</u>

See accompanying independent auditor's report.

City of Pocahontas, Iowa

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

For the Last Nine Years

	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Receipts:				
Property tax	\$ 658,174	625,289	612,206	578,796
Tax increment financing collections	149,068	152,318	154,619	98,695
Other city tax	125,896	158,312	154,096	129,935
Licenses and permits	1,210	1,625	1,675	1,425
Use of money and property	503,230	336,879	366,456	306,949
Intergovernmental	338,244	935,842	419,799	1,037,160
Charges for service	258,819	241,916	259,374	261,607
Special assessments	5,417	5,281	7,514	12,616
Miscellaneous	<u>109,069</u>	<u>98,395</u>	<u>105,673</u>	<u>93,906</u>
 Total	 <u>\$ 2,149,127</u>	 <u>2,555,857</u>	 <u>2,081,412</u>	 <u>2,521,089</u>
Disbursements:				
Operating:				
Public safety	\$ 267,040	255,329	247,291	243,031
Public works	637,173	471,823	603,095	566,239
Culture and recreation	203,491	212,045	259,503	188,648
Community and economic development	276,744	749,291	876,815	1,233,174
General government	252,285	257,534	242,584	249,901
Debt service	197,367	199,405	195,905	212,467
Capital projects	<u>303,883</u>	<u>450,620</u>	<u>197,178</u>	<u>165,423</u>
 Total	 <u>\$ 2,137,983</u>	 <u>2,596,047</u>	 <u>2,622,371</u>	 <u>2,858,883</u>

See accompanying independent auditor's report.

<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
578,775	592,328	569,770	582,771	555,410
60,937	51,243	16,831	5,506	-
141,821	111,680	173,693	57,090	9,604
2,717	2,290	2,005	5,978	2,065
132,945	138,368	70,116	79,805	79,939
264,837	413,845	349,556	217,340	216,267
223,168	198,951	208,711	197,975	193,299
6,489	10,446	13,873	23,054	4,699
<u>137,713</u>	<u>179,061</u>	<u>80,092</u>	<u>57,168</u>	<u>86,519</u>
<u>1,549,402</u>	<u>1,698,212</u>	<u>1,484,647</u>	<u>1,226,687</u>	<u>1,147,802</u>
236,813	226,559	245,152	235,853	249,267
471,068	452,681	345,215	330,161	368,997
181,058	174,088	188,266	172,439	151,623
473,909	637,418	350,567	537,037	15,591
226,240	240,394	236,556	215,623	226,590
224,068	224,455	219,784	225,130	217,100
<u>48,605</u>	<u>45,882</u>	<u>286,398</u>	<u>34,135</u>	<u>88,181</u>
<u>1,861,761</u>	<u>2,001,477</u>	<u>1,871,938</u>	<u>1,750,378</u>	<u>1,317,349</u>

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

Certified Public Accountants

714 14th Avenue North
Fort Dodge, IA 50501-7098
Phone 515.955.4805 • Fax 515.955.4673

Lowell W. Cornwell, C.P.A.
lwcornwell@frontiernet.net

Christine R. Frideres, C.P.A.
crfrideres@frontiernet.net

Jerilyn J. Maher, C.P.A.
jjmaher@frontiernet.net

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

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Pocahontas, Iowa, as of and for the year ended June 30, 2011, which collectively comprise the primary government's basic financial statements listed in the table of contents, and have issued our report thereon dated October 26, 2011. Our report expressed unqualified opinions on the financial statements, except for the business type activities, which was adverse due to the omission of the City's component unit, which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Pocahontas' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Pocahontas' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Pocahontas' internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City of Pocahontas' financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings as items I-A-11 and I-B-11. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Pocahontas' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters which 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 of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The City of Pocahontas' 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 Pocahontas' responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Pocahontas and other parties to whom the City of Pocahontas may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Pocahontas during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

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

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

October 26, 2011

City of Pocahontas, Iowa

Schedule of Findings

Year ended June 30, 2011

Part I: Findings Related to the Financial Statements:

SIGNIFICANT DEFICIENCIES:

I-A-11 Segregation of Duties - Community Center - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the same person writes checks, signs checks, posts receipts and disbursements and reconciles the bank account.

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

Response – We will investigate possible alternatives.

Conclusion – Response accepted.

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

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

City of Pocahontas, Iowa

Schedule of Findings

Year ended June 30, 2011

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

Response – Management feels that committing the resources necessary to remain current on GAAP and GASB reporting requirements and corresponding footnote disclosures would lack benefit in relation to the cost, but will continue evaluating on a going forward basis.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

Part II: Other Findings Related to Statutory Reporting:

II-A-11 Certified Budget – Disbursements during the year ended June 30, 2011 exceeded the amounts budgeted in the business type activities function. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

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

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

Conclusion – Response accepted.

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.

City of Pocahontas, Iowa

Schedule of Findings

Year ended June 30, 2011

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>
Gus Holzmueller – Council Member Owner of Pocahontas Ford	2 trucks & auto repairs	\$ 56,107
Brian Stover – Council Member Owner of Stover Construction	Repairs	27,495
Ray Krips – Airport Commissioner Owner of Ray Krips Construction	Airport project	<u>540</u> <u>84,142</u>

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

II-E-11 Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage is reviewed annually to insure that coverage is adequate for current operations.

II-F-11 Deposits and Investments - No instances of non-compliance with the deposit and investments provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.

II-G-11 Revenue Bonds and Notes – No instances of non-compliance with the revenue bond and note resolutions were noted.

II-H-11 Telecommunications Services – No instances of non-compliance with Chapter 388.10 of the Code of Iowa were noted.

City of Pocahontas, Iowa

Schedule of Findings

Year ended June 30, 2011

II-I-11 Deficit Balances – There were several deficit balances noted as of June 30, 2011.

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

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

Conclusion – Response accepted.

II-J-11 Tax Increment Financing (TIF) – The City has certified debt for projects that were paid from services other than TIF financing. Also, City officials were unable to determine if there was excess cash on hand as the county auditor does not prepare a reconciliation of TIF remittances with the amount of debt certified.

Recommendation – The City should decertify the TIF debt that was previously certified for ineligible projects on or before December 1, 2011. In addition, the City should work with the county auditor to determine if there are excess cash balances on hand. A copy of this report should be filed with the county auditor.

Response – We have consulted TIF legal counsel and will follow the above recommendations.

Conclusion – Response accepted.