



**OFFICE OF AUDITOR OF STATE**  
**STATE OF IOWA**

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Auditor of State

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Des Moines, Iowa 50319-0004

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**NEWS RELEASE**

FOR RELEASE

February 22, 2012

Contact: Andy Nielsen  
515/281-5834

Auditor of State David A. Vaudt today released an audit report on the City of State Center, Iowa.

The City's receipts totaled \$3,408,401 for the year ended June 30, 2011. The receipts included \$176,507 in property tax, \$201,234 from tax increment financing, \$2,436,909 from charges for service, \$375,887 from operating grants, contributions and restricted interest, \$10,752 from capital grants, contributions and restricted interest, \$132,840 from local option sales tax, \$24,522 from unrestricted interest on investments and \$49,750 from other general receipts.

Disbursements for the year totaled \$3,356,761, and included \$288,203 for capital projects, \$225,489 for public works and \$215,340 for debt service. Also, disbursements for business type activities totaled \$2,098,900.

A copy of the audit report is available for review in the City Clerk's Office, in the Office of Auditor of State and on the Auditor of State's web site at <http://auditor.iowa.gov/reports/1121-0615-B00F.pdf>.

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

**JUNE 30, 2011**

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**City of State Center**

**Officials**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Harlan Quick	Mayor	Jan 2012
Jon Mustaine	Council Member	Jan 2012
Craig Pfantz	Council Member	Jan 2012
Steve Lively	Council Member	Jan 2014
Dick Postel	Council Member	Jan 2014
Mike Riemenschneider	Council Member	Jan 2014
Lori Martin	Clerk	Indefinite
Curt Ward	Attorney	Indefinite

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David A. Vaudt, CPA  
Auditor of State

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 State Center, 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. These financial statements are the responsibility of the City of State Center's management. Our responsibility is to express opinions on these financial statements based on our audit.

Except as discussed in the following paragraph, 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. Also, as permitted by the Code of Iowa, the accounting records of the City have not been audited for all prior years. Accordingly, we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2010.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2010, as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of State Center as of June 30, 2011, and the respective changes in its 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 January 27, 2012 on our consideration of the City of State Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the 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 7 through 12 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 State Center's basic financial statements. Other supplementary information included in Schedules 1 through 4 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2010, as discussed in the third paragraph, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



DAVID A. VAUDT, CPA  
Auditor of State



WARREN G. JENKINS, CPA  
Chief Deputy Auditor of State

January 27, 2012

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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The City of State Center 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.

Because the City is not required to be audited annually, much of the information is not easily comparable to prior years. Comparative data has been provided if available.

### 2011 FINANCIAL HIGHLIGHTS

- The cash basis net assets of the City's governmental activities decreased approximately \$44,000 due, in part, to increased capital projects disbursements in fiscal year 2011.
- The cash basis net assets of the City's business type activities increased approximately \$96,000 due to the increase in utility rates in fiscal year 2011.

### USING THIS ANNUAL REPORT

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

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

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

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

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

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

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

### BASIS OF ACCOUNTING

The City maintains its financial records on the basis of cash receipts and disbursements, and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and operational results of 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 that helps answer this question.

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

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

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

### *Fund Financial Statements*

The City has two kinds of funds:

1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Urban Renewal Tax Increment, 3) the Debt Service Fund, 4) the Capital Projects Fund and 5) the Permanent Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

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

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

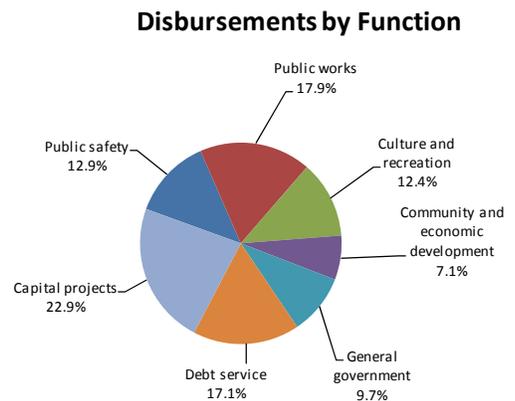
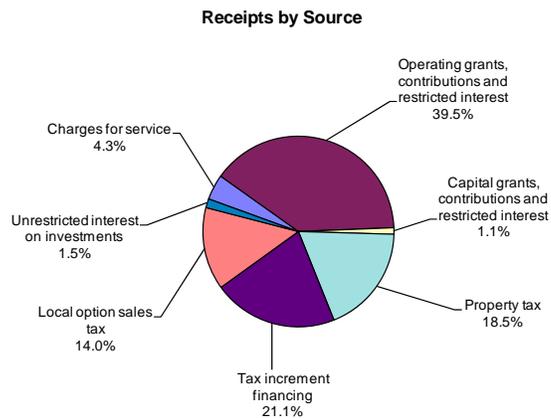
The required financial statement for proprietary funds is a statement of cash receipts, disbursements and changes in cash balances.

## **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased from a year ago, decreasing from \$2,802,013 to \$2,757,570. 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
<b>Receipts:</b>	
Program receipts:	
Charges for service	\$ 41,022
Operating grants, contributions and restricted interest	375,887
Capital grants, contributions and restricted interest	10,752
General receipts:	
Property tax	176,507
Tax increment financing	201,234
Local option sales tax	132,840
Unrestricted interest on investments	13,882
Total receipts	<u>952,124</u>
<b>Disbursements:</b>	
Public safety	162,576
Public works	225,489
Culture and recreation	155,825
Community and economic development	89,106
General government	121,322
Debt service	215,340
Capital projects	288,203
Total disbursements	<u>1,257,861</u>
Change in cash basis net assets before transfers	(305,737)
Transfers, net	<u>261,294</u>
Change in cash basis net assets	(44,443)
Cash basis net assets beginning of year	<u>2,802,013</u>
Cash basis net assets end of year	<u>\$ 2,757,570</u>



The cash basis net assets of the City's governmental funds decreased primarily due to an increase in capital projects disbursements in fiscal year 2011.

The cost of all governmental activities this year was \$1,257,861. However, as shown in the Statement of Activities and Net Assets on pages 14-15, the amount taxpayers ultimately financed for these activities was only \$830,200 because some of the cost was paid by those directly benefited from the programs (\$41,022) or by other governments and organizations which subsidized certain programs with grants, contributions and restricted interest (\$386,639). The City paid for the remaining "public benefit" portion of governmental activities with \$524,463 of tax (some of which could only be used for certain programs) and other receipts, such as interest and transfers from enterprise funds.

<u>Changes in Cash Basis Net Assets of Business Type Activities</u>	
	<u>Year ended June 30, 2011</u>
Receipts:	
Program receipts:	
Charges for service:	
Water	\$ 169,440
Electric	1,995,213
Sewer	201,176
Storm water	30,058
General receipts:	
Unrestricted interest on investments	10,640
Sale of capital assets	49,750
Total receipts	<u>2,456,277</u>
Disbursements:	
Water	158,640
Electric	1,797,073
Sewer	133,207
Storm water	9,980
Total disbursements	<u>2,098,900</u>
Change in cash basis net assets before transfers	357,377
Transfers, net	<u>(261,294)</u>
Change in cash basis net assets	96,083
Cash basis net assets beginning of year	<u>1,769,764</u>
Cash basis net assets end of year	<u>\$ 1,865,847</u>

Total business type activities cash basis net assets increased from a year ago, from \$1,769,764 to \$1,865,847. The overall increase is a result of the City collecting increased utility fees during fiscal year 2011.

## **INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS**

As the City of State Center completed the year, its governmental funds reported a combined fund balance of \$2,757,570, a decrease of approximately \$44,000 from last year's total of \$2,802,013. 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 \$51,339 from the prior year to a year-end balance of \$573,339. This increase is primarily due to a decrease in General Fund disbursements and a large rebate for insulation at the new public works facility not received in the prior year.
- The Special Revenue, Urban Renewal Tax Increment Fund cash balance increased \$65,986 to a balance of \$236,887 at fiscal year-end. This increase was primarily attributable to the City receiving more in tax increment financing than disbursed during the fiscal year.
- The Debt Service Fund cash balance increased \$12,944 to a balance of \$555,534 at fiscal year-end. This increase was primarily attributable to the collection of special assessments and interest.
- The Capital Projects Fund cash balance decreased \$197,423 to a deficit balance of \$221,214 at fiscal year-end. This decrease was primarily attributable to project work being performed in anticipation of receipts.
- The Permanent, Ira D. Kauffman Charitable Community Trust Fund cash balance decreased \$4,538 to \$1,446,775 during the fiscal year due, in part, to the Trust having lower than anticipated investment earnings.

## **INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS**

- The Enterprise, Water Fund cash balance increased \$5,573 to a year-end balance of \$362,020. This increase was due primarily to an increase in water collections as a result of a rate increase.
- The Enterprise, Electric Fund cash balance increased \$125,304 to a year-end balance of \$1,370,997. The increase was due to a rate increase and receipts outpacing disbursements during the fiscal year.

## **BUDGETARY HIGHLIGHTS**

Over the course of the year, the City did not amend its budget.

The City's receipts were \$958,397 less than budgeted. This was due, in part, to the City budgeting for various grants which were not received during the fiscal year.

Total disbursements were \$2,479,943 less than budgeted. This was primarily due to the City budgeting for a City Hall and sanitary sewer project which were delayed. In addition, the City budgeted for a housing rehabilitation grant project which was not approved.

## DEBT ADMINISTRATION

At June 30, 2011, the City had \$1,160,000 in notes outstanding, compared to \$1,470,000 last year, as shown below.

	Outstanding Debt at Year-End	
	June 30,	
	2011	2010
General obligation notes	\$ 960,000	1,130,000
Revenue notes	200,000	340,000
Total	\$ 1,160,000	1,470,000

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 is \$960,000, below its constitutional debt limit of approximately \$2,839,000.

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

The City of State Center's elected and appointed officials and citizens considered many factors when setting the fiscal year 2012 budget, tax rates and fees charged for various City activities. The City's fiscal year 2012 assessed value has increased approximately \$830,000 from the fiscal year 2011 level.

The fiscal year 2012 budget contains total receipts of \$4,043,612 and disbursements of \$5,468,856. This budget is somewhat lower than the fiscal year 2011 budget, which contained total receipts of \$4,336,561 and disbursements of \$5,801,929. The fiscal year 2012 budget includes decreased intergovernmental receipts. The City budgeted \$1,645,262 of capital projects for fiscal year 2012, which includes projects for street improvements, sanitary sewer improvements and building renovation projects.

The fiscal year 2012 levy is \$7.77171 per \$1,000 of taxable valuation, a decrease from \$7.80021 per \$1,000 of taxable valuation in fiscal year 2011. The debt service levy decreased from \$.35411 per \$1,000 of taxable valuation in fiscal year 2011 to \$.33276 per \$1,000 of taxable valuation in fiscal year 2012.

These parameters were taken into account when adopting the budget for fiscal year 2012.

## CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Lori Martin, City Clerk, P.O. Box 668, State Center, IA 50247-0668.

## **Basic Financial Statements**

City of State Center

Statement of Activities and Net Assets – Cash Basis

As of and for the year ended June 30, 2011

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
<b>Functions/Programs:</b>				
Governmental activities:				
Public safety	\$ 162,576	2,499	41,558	-
Public works	225,489	16,098	133,103	10,752
Culture and recreation	155,825	12,005	170,717	-
Community and economic development	89,106	-	30,359	-
General government	121,322	10,420	150	-
Debt service	215,340	-	-	-
Capital projects	288,203	-	-	-
Total governmental activities	1,257,861	41,022	375,887	10,752
Business type activities:				
Water	158,640	169,440	-	-
Electric	1,797,073	1,995,213	-	-
Sewer	133,207	201,176	-	-
Storm water	9,980	30,058	-	-
Total business type activities	2,098,900	2,395,887	-	-
Total	\$ 3,356,761	2,436,909	375,887	10,752
<b>General Receipts and Transfers:</b>				
Property and other city tax levied for:				
General purposes				
Debt service				
Tax increment financing				
Local option sales tax				
Unrestricted interest on investments				
Sale of capital assets				
Transfers				
Total general receipts and transfers				
Change in cash basis net assets				
Cash basis net assets beginning of year				
Cash basis net assets end of year				
<b>Cash Basis Net Assets</b>				
Restricted:				
Nonexpendable:				
Ira D. Kauffman Charitable Community Trust				
Expendable:				
Streets				
Urban renewal				
Debt service				
Library				
Other purposes				
Unrestricted				
<b>Total cash basis net assets</b>				

See notes to financial statements.

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
Governmental Activities	Business Type Activities	Total
(118,519)	-	(118,519)
(65,536)	-	(65,536)
26,897	-	26,897
(58,747)	-	(58,747)
(110,752)	-	(110,752)
(215,340)	-	(215,340)
(288,203)	-	(288,203)
(830,200)	-	(830,200)
-	10,800	10,800
-	198,140	198,140
-	67,969	67,969
-	20,078	20,078
-	296,987	296,987
(830,200)	296,987	(533,213)
165,980	-	165,980
10,527	-	10,527
201,234	-	201,234
132,840	-	132,840
13,882	10,640	24,522
-	49,750	49,750
261,294	(261,294)	-
785,757	(200,904)	584,853
(44,443)	96,083	51,640
2,802,013	1,769,764	4,571,777
\$ 2,757,570	1,865,847	4,623,417
\$ 1,008,423	-	1,008,423
124,029	-	124,029
236,887	-	236,887
555,534	159,890	715,424
376,120	-	376,120
480,572	-	480,572
(23,995)	1,705,957	1,681,962
\$ 2,757,570	1,865,847	4,623,417

**Exhibit B**

## City of State Center

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

As of and for the year ended June 30, 2011

	Special Revenue			
	General	Urban Renewal Tax Increment	Debt Service	Capital Projects
Receipts:				
Property tax	\$ 165,980	-	10,527	-
Tax increment financing	-	201,234	-	-
Other city tax	-	-	-	-
Licenses and permits	9,931	-	-	-
Use of money and property	19,933	-	2,263	-
Intergovernmental	16,859	-	-	-
Charges for service	23,916	-	-	-
Special assessments	-	-	10,752	-
Miscellaneous	201,596	-	-	-
Total receipts	438,215	201,234	23,542	-
Disbursements:				
Operating:				
Public safety	162,576	-	-	-
Public works	114,425	-	-	-
Culture and recreation	155,825	-	-	-
Community and economic development	-	54,331	-	-
General government	121,322	-	-	-
Debt service	-	-	215,340	-
Capital projects	-	-	-	288,203
Total disbursements	554,148	54,331	215,340	288,203
Excess (deficiency) of receipts over (under) disbursements	(115,933)	146,903	(191,798)	(288,203)
Other financing sources (uses):				
Operating transfers in	167,272	-	204,742	90,780
Operating transfers out	-	(80,917)	-	-
Total other financing sources (uses)	167,272	(80,917)	204,742	90,780
Net change in cash balances	51,339	65,986	12,944	(197,423)
Cash balances beginning of year	522,000	170,901	542,590	(23,791)
Cash balances end of year	\$ 573,339	236,887	555,534	(221,214)
<b>Cash Basis Fund Balances</b>				
Nonspendable - Kaufmann Trust	\$ -	-	-	-
Restricted for:				
Urban renewal purposes	-	236,887	-	-
Debt service	-	-	555,534	-
Streets	-	-	-	-
Library	376,120	-	-	-
Other purposes	-	-	-	-
Unassigned	197,219	-	-	(221,214)
Total cash basis fund balances	\$ 573,339	236,887	555,534	(221,214)

See notes to financial statements.

<u>Permanent</u>		
Ira D. Kauffman		
<u>Charitable</u>		
<u>Community</u>		
<u>Trust</u>	<u>Nonmajor</u>	<u>Total</u>
-	-	176,507
-	-	201,234
-	132,840	132,840
-	-	9,931
7,237	122	29,555
-	125,934	142,793
-	-	23,916
-	-	10,752
23,000	-	224,596
<u>30,237</u>	<u>258,896</u>	<u>952,124</u>
-	-	162,576
-	111,064	225,489
-	-	155,825
34,775	-	89,106
-	-	121,322
-	-	215,340
-	-	288,203
<u>34,775</u>	<u>111,064</u>	<u>1,257,861</u>
<u>(4,538)</u>	<u>147,832</u>	<u>(305,737)</u>
-	-	462,794
-	(120,583)	(201,500)
-	(120,583)	261,294
<u>(4,538)</u>	<u>27,249</u>	<u>(44,443)</u>
<u>1,451,313</u>	<u>139,000</u>	<u>2,802,013</u>
<u>1,446,775</u>	<u>166,249</u>	<u>2,757,570</u>
1,008,423	-	1,008,423
-	-	236,887
-	-	555,534
-	124,029	124,029
-	-	376,120
438,352	42,220	480,572
-	-	(23,995)
<u>1,446,775</u>	<u>166,249</u>	<u>2,757,570</u>

**Exhibit C**

## City of State Center

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

As of and for the year ended June 30, 2011

	Enterprise			Total
	Water	Electric	Nonmajor	
Operating receipts:				
Charges for service	\$ 169,440	1,981,143	231,234	2,381,817
Miscellaneous	-	14,070	-	14,070
Total operating receipts	169,440	1,995,213	231,234	2,395,887
Operating disbursements:				
Business type activities	137,423	1,508,757	111,010	1,757,190
Excess of operating receipts over operating disbursements	32,017	486,456	120,224	638,697
Non-operating receipts (disbursements):				
Sale of capital assets	-	49,750	-	49,750
Interest on investments	4,319	6,321	-	10,640
Debt service	(11,910)	(132,130)	(12,620)	(156,660)
Capital projects	(9,307)	(156,186)	(19,557)	(185,050)
Total non-operating receipts (disbursements)	(16,898)	(232,245)	(32,177)	(281,320)
Excess of receipts over disbursements	15,119	254,211	88,047	357,377
Operating transfers out	(9,546)	(128,907)	(122,841)	(261,294)
Net change in cash balances	5,573	125,304	(34,794)	96,083
Cash balances beginning of year	356,447	1,245,693	167,624	1,769,764
Cash balances end of year	\$ 362,020	1,370,997	132,830	1,865,847
<b>Cash Basis Fund Balances</b>				
Restricted for debt service	\$ 11,465	131,250	17,175	159,890
Unrestricted	350,555	1,239,747	115,655	1,705,957
Total cash basis fund balances	\$ 362,020	1,370,997	132,830	1,865,847

See notes to financial statements.

City of State Center

Notes to Financial Statements

June 30, 2011

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

The City of State Center is a political subdivision of the State of Iowa located in Marshall County. It was first incorporated in 1867 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, storm water and electric utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of State Center 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.

These financial statements present the City of State Center and its blended 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.

Blended Component Unit

The Ira D. Kauffman Charitable Community Trust has been incorporated under the provisions of the Iowa Nonprofit Corporation Act to operate exclusively for the benefit of the City of State Center. In accordance with criteria set by the Governmental Accounting Standards Board, the Trust meets the definition of a component unit which should be blended. The financial activity of the component unit has been blended as a Permanent Fund of the City.

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: Marshall County Assessor's Conference Board, Marshall County Emergency Management Commission and Marshall County Joint E911 Service Board.

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 service.

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

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

Expendable restricted net assets result when constraints placed on net 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 and enterprise funds are aggregated and reported as nonmajor governmental or enterprise funds.

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 Special Revenue, Urban Renewal Tax Increment Fund is used to account for tax increment financing collections and the repayment of tax increment financing indebtedness.

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

The Capital Projects Fund is utilized to account for all resources used in the acquisition and construction of capital facilities, with the exception of those financed through Enterprise Funds.

The Permanent, Ira D. Kauffman Charitable Community Trust Fund is used to account for contributions and disbursements from the trust which are used for the betterment of the City.

The City reports the following major proprietary funds:

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

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

C. Measurement Focus and Basis of Accounting

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

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

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.

Unassigned – All amounts not included in the preceding 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 amount budgeted in the capital projects function.

**(2) Cash and Pooled Investments**

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.

At June 30, 2011, the City had the following investments:

Type	Carrying Amount	Fair Value	Maturity
Mutual Funds	\$ 1,626,762	1,557,236	N/A

Interest rate risk – The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the City. The Ira D. Kauffman Charitable Community Trust, a blended component unit of the City, does not have a formal policy limiting investment maturities as a means of managing exposure to interest rate risk.

Credit risk – The City's investments in mutual funds are unrated.

Concentration of credit risk – The City and the Ira D. Kauffman Charitable Community Trust place no limits on the amount that may be invested in any one issuer. However, the City's policy does require the City to diversify its investments to eliminate the risk of loss resulting from the over concentration of assets in a specific maturity, issuer or class of securities.

### (3) Notes Payable

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

Year Ending June 30,	General Obligation Notes		Revenue Notes		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2012	\$ 180,000	38,840	150,000	9,890	330,000	48,730
2013	185,000	31,760	25,000	2,473	210,000	34,233
2014	185,000	24,195	25,000	1,255	210,000	25,450
2015	95,000	16,323	-	-	95,000	16,323
2016	60,000	12,808	-	-	60,000	12,808
2017-2020	255,000	27,174	-	-	255,000	27,174
Total	\$ 960,000	151,100	200,000	13,618	1,160,000	164,718

#### Revenue Notes

The City has pledged future electric customer receipts, net of specified operating disbursements, to repay \$1,040,000 of electric revenue refunding notes issued in January 2002. Proceeds from the notes provided financing for the refunding of the 1995 Electric Notes. 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 28 percent of net receipts. The total principal and interest remaining to be paid on the notes is \$131,250. For the current year, principal and interest paid and total customer net receipts were \$132,130 and \$486,456, respectively.

The City has pledged future water customer receipts, net of specified operating disbursements, to repay \$85,000 of water revenue notes issued in October 2004. Proceeds from the notes provided financing for the construction and improvements to the water system. The notes are payable solely from water customer net receipts and are payable through 2014. Annual principal and interest payments on the notes are expected to require less than 38% of net receipts. The total principal and interest remaining to be paid on the notes is \$32,965. For the current year, principal and interest paid and total customer net receipts were \$11,910 and \$32,017, respectively.

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay \$115,000 of sewer revenue notes issued in October 2004. Proceeds from the notes provided financing for the construction of improvements to the sewer system. The notes are payable solely from sewer customer net receipts and are payable through 2014. Annual principal and interest payments on the notes are expected to require less than 14% of net receipts. The total principal and interest remaining to be paid on the notes is \$49,403. For the current year, principal and interest paid and total customer net receipts were \$12,620 and \$95,522, respectively.

The resolution providing for the issuance of the electric refunding revenue notes includes 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 sinking account for the purpose of making the note principal and interest payments when due.

- (c) An electric reserve account shall be created into which there shall be set apart and paid from legally available funds of the City the amount of \$104,000. All money credited to the electric reserve account shall be used for the payment of principal and interest on the notes whenever the funds on deposit in the electric sinking account are insufficient.
- (d) An electric improvement account shall also be created. Net revenues remaining after first making the required payments into the electric sinking and electric reserve accounts and after the electric reserve account contains the required balance shall be transferred to this account in the amount of \$2,500 each month until \$150,000 has been accumulated. This account is restricted for the purpose of making note and interest payments which the other accounts might be unable to make and/or paying for the costs of improvements and extensions to the electric system.

The resolution providing for the issuance of the water and sewer revenue notes includes 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 separate sinking accounts for the purpose of making the note principal and interest payments when due.
- (c) Reserve accounts shall be created for each into which there shall be set apart and paid from legally available funds of the City a sum equal to the lesser of (1) the maximum amount of principal and interest coming due on the notes in any succeeding fiscal year, (2) 125% of the average amount of principal and interest coming due on the outstanding notes in any succeeding fiscal year or (3) 10% of the principal amount of the notes then outstanding, calculated to be \$8,500 and \$11,500, respectively.

The City has not established the reserve or sinking accounts for the electric, water and sewer revenue notes as required by the note resolutions.

#### **(4) Development Agreement**

The City has entered into a development agreement with the State Center Development Association to assist in an urban renewal project. The City agreed to pay the developer a maximum of \$480,000 in exchange for development of commercial property located in the urban renewal area. The annual payments were originally \$20,000 and were subsequently amended to \$21,053 and are to be made semi-annually on June 1 and December 1, beginning June 1, 2006, and continuing for a total of twelve years, or until such date the maximum of \$480,000 has been paid.

In addition to the payments, the City agreed to rebate to the developer on each December 1 and June 1, beginning December 1, 2007 and continuing through June 1, 2019, the incremental property tax received by the City with respect to the incremental valuation of the property. Rebates are limited to a maximum of \$225,000.

During the year ended June 30, 2011, the City paid the developer \$42,105 for the development of property and \$11,920 in property tax rebates. The outstanding balance on the development agreement at June 30, 2011 was \$443,379.

**(5) Pension and Retirement Benefits**

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

Most 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 year ended June 30, 2011 was \$34,572, equal to the required contribution.

**(6) Other Postemployment Benefits (OPEB)**

Plan Description - The City operates a single-employer health benefit plan which provides medical/prescription drug benefits for employees and retirees and their spouses. There are 11 active and no retired members in the plan. Retired 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 would 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 \$389 for single coverage and \$703 for family coverage. The same monthly premiums would apply to retirees. For the year ended June 30, 2011, the City contributed 100% of premiums, or \$85,462, to the plan.

**(7) Compensated Absences**

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

Type of Benefit	Amount
Vacation	\$ 21,600
Compensatory time	8,000
Sick leave	<u>61,900</u>
Total	<u>\$ 91,500</u>

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

**(8) Interfund Transfers**

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

Transfer to	Transfer from	Amount
General	Special Revenue:	
	Road Use Tax	\$ 500
	Local Option Sales Tax	120,083
	Enterprise:	
	Water	875
	Electric	45,439
	Sewer	375
	<u>167,272</u>	
Debt Service	Special Revenue:	
	Urban Renewal Tax Increment	80,917
	Enterprise:	
	Water	8,671
	Electric	38,078
	Sewer	77,076
	<u>204,742</u>	
Capital Projects	Enterprise:	
	Electric	45,390
	Storm Water	45,390
	<u>90,780</u>	
Total		<u>\$ 462,794</u>

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

**(9) J. G. Gutekunst Trust**

In 1971, the City received land from the J. G. Gutekunst estate. This bequest is to be used as a park and the site of a public library. In addition, the City receives semi-annual distributions of net income from the J. G. Gutekunst Trust. According to the last will and testament of J. G. Gutekunst, the distributions are for the purpose of maintaining and improving the bequeathed property and for improving any public library located on the premises given to the City of State Center.

Distributions are credited to the General Fund, Library Account. The Library received \$145,000 from this Trust during the year ended June 30, 2011.

**(10) Ira D. Kauffman Community Trust**

According to the provisions of the last will and testament of Ira D. Kauffman, the City received \$81,622 in fiscal year 1997 and \$975,471 in fiscal year 1998. The proceeds were deposited into the Permanent, Ira D. Kauffman Charitable Community Trust Fund and are to be used for a public purpose which will benefit the residents of the City of State Center. The balance of this account at June 30, 2011 totaled \$1,446,775.

**(11) Related Party Transactions**

The City had business transactions between the City and City officials totaling \$60,278 during the year ended June 30, 2011.

**(12) Risk Management**

The City is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in the fiscal year ended June 30, 2011.

The City assumes liability for claims up to the individual deductible limitations of \$5,000 single or \$10,000 family plan for the City's health insurance. The employee is responsible for the first 10% of the deductible. The City's reimbursement to employees for the year ended June 30, 2011 for claims against their individual deductibles was \$19,450.

**(13) Construction Commitment**

The City entered into contracts for alley reconstruction and street resurfacing totaling approximately \$214,000. As of June 30, 2011, approximately \$208,000 had been paid on the contracts. The remaining \$6,000 will be paid as work on the project progresses.

**(14) Litigation**

The City is subject to pending litigation seeking compensatory damages. The probability of loss, if any, is not known at this time. The City intends to vigorously defend against this litigation.

**(15) Deficit Balance**

The Capital Projects Fund had a deficit balance of \$221,214 at June 30, 2011. The deficit will be eliminated through federal and state grants and local option sales tax.

**(16) Subsequent Events**

In September 2011, the City entered into an engineering contract to prepare plans for a new sewer system. The sewer system will be paid from a combination of Community Development Block Grant (CDBG) resources and a State Revolving Fund loan.

In November 2011, the City entered into a construction contract totaling \$701,500 for a City Hall project. The project will be paid from grants and existing resources.

**City of State Center**

**Required Supplementary Information**

City of State Center  
 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 Actual	Proprietary Funds Actual	Less Funds not Required to be Budgeted
<b>Receipts:</b>			
Property tax	\$ 176,507	-	-
Tax increment financing	201,234	-	-
Other city tax	132,840	-	-
Licenses and permits	9,931	-	-
Use of money and property	29,555	10,640	7,237
Intergovernmental	142,793	-	-
Charges for service	23,916	2,445,637	-
Special assessments	10,752	-	-
Miscellaneous	224,596	-	23,000
Total receipts	952,124	2,456,277	30,237
<b>Disbursements:</b>			
Public safety	162,576	-	-
Public works	225,489	-	-
Health and social services	-	-	-
Culture and recreation	155,825	-	-
Community and economic development	89,106	-	34,775
General government	121,322	-	-
Debt service	215,340	-	-
Capital projects	288,203	-	-
Business type activities	-	2,098,900	-
Total disbursements	1,257,861	2,098,900	34,775
Excess (deficiency) of receipts over (under) disbursements	(305,737)	357,377	(4,538)
Other financing sources (uses)	261,294	(261,294)	-
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(44,443)	96,083	(4,538)
Balances beginning of year	2,802,013	1,769,764	1,451,313
Balances end of year	\$ 2,757,570	1,865,847	1,446,775

See accompanying independent auditor's report.

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Total	Budgeted Amounts Original/Final	Final to Net Variance
176,507	176,337	170
201,234	206,000	(4,766)
132,840	118,261	14,579
9,931	4,075	5,856
32,958	39,650	(6,692)
142,793	1,282,358	(1,139,565)
2,469,553	2,339,430	130,123
10,752	11,000	(248)
201,596	159,450	42,146
<u>3,378,164</u>	<u>4,336,561</u>	<u>(958,397)</u>
162,576	183,945	21,369
225,489	577,636	352,147
-	800	800
155,825	491,740	335,915
54,331	314,122	259,791
121,322	138,443	17,121
215,340	215,340	-
288,203	-	(288,203)
2,098,900	3,879,903	1,781,003
<u>3,321,986</u>	<u>5,801,929</u>	<u>2,479,943</u>
56,178	(1,465,368)	1,521,546
-	882,000	(882,000)
56,178	(583,368)	639,546
3,120,464	4,068,477	(948,013)
<u>3,176,642</u>	<u>3,485,109</u>	<u>(308,467)</u>

City of State Center

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 the blended component unit. 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 ended June 30, 2011, disbursements exceeded the amount budgeted in the capital projects function.

**Other Supplementary Information**

**Schedule 1**

## City of State Center

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			Total
	Road Use Tax	Local Option Sales Tax	Housing Rehabilitation Program	
Receipts:				
Other city tax	\$ -	132,840	-	132,840
Use of money and property	-	-	122	122
Intergovernmental	125,934	-	-	125,934
Total receipts	125,934	132,840	122	258,896
Disbursements:				
Operating:				
Public works	111,064	-	-	111,064
Excess of receipts over disbursements	14,870	132,840	122	147,832
Other financing uses:				
Operating transfers out	(500)	(120,083)	-	(120,583)
Net change in cash balances	14,370	12,757	122	27,249
Cash balances beginning of year	109,659	2,412	26,929	139,000
Cash balances end of year	\$ 124,029	15,169	27,051	166,249
<b>Cash Basis Fund Balances</b>				
Restricted for:				
Streets	\$ 124,029	-	-	124,029
Other purposes	-	15,169	27,051	42,220
Total cash basis fund balances	\$ 124,029	15,169	27,051	166,249

See accompanying independent auditor's report.

## City of State Center

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

As of and for the year ended June 30, 2011

	Enterprise		Total
	Sewer	Storm Water	
Operating receipts:			
Charges for service	\$ 201,176	30,058	231,234
Operating disbursements:			
Business type activities	105,654	5,356	111,010
Exces of operating receipts over operating disbursements	95,522	24,702	120,224
Non-operating disbursements:			
Debt service	(12,620)	-	(12,620)
Capital projects	(14,933)	(4,624)	(19,557)
Total non-operating disbursements	(27,553)	(4,624)	(32,177)
Excess of receipts over disbursements	67,969	20,078	88,047
Operating transfers out	(77,451)	(45,390)	(122,841)
Net change in cash balances	(9,482)	(25,312)	(34,794)
Cash balances beginning of year	87,024	80,600	167,624
Cash balances end of year	\$ 77,542	55,288	132,830
<b>Cash Basis Fund Balances</b>			
Restricted for debt service	\$ 17,175	-	17,175
Unrestricted	60,367	55,288	115,655
Total cash basis fund balances	\$ 77,542	55,288	132,830

See accompanying independent auditor's report.

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City of State Center  
Schedule of Indebtedness  
Year ended June 30, 2011

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation notes:			
Corporate purpose	May 1, 1999	4.85-5.00%	\$ 1,000,000
Corporate purpose and refunding	May 1, 2008	3.20-4.20	960,000
Total			
Revenue notes:			
Electric refunding	Jan 1, 2002	5.00%	\$ 1,040,000
Water	Oct 15, 2004	4.70-5.05	85,000
Sewer	Oct 15, 2004	4.65-5.00	115,000
Total			

See accompanying independent auditor's report.

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Balance Beginning of Year	Redeemed During Year	Balance End of Year	Interest Paid
335,000	80,000	255,000	16,345
795,000	90,000	705,000	28,995
<u>\$ 1,130,000</u>	<u>170,000</u>	<u>960,000</u>	<u>45,340</u>
245,000	120,000	125,000	12,130
40,000	10,000	30,000	1,910
55,000	10,000	45,000	2,620
<u>\$ 340,000</u>	<u>140,000</u>	<u>200,000</u>	<u>16,660</u>

City of State Center

Note Maturities

June 30, 2011

Year Ending June 30,	General Obligation					Total
	Corporate Purpose		Corporate Purpose and Refunding			
	Issued May 1, 1999		Issued May 1, 2008			
	Interest Rates	Amount	Interest Rates	Amount		
2012	4.85%	\$ 80,000	3.20%	\$ 100,000	180,000	
2013	4.90	85,000	3.40	100,000	185,000	
2014	5.00	90,000	3.55	95,000	185,000	
2015		-	3.70	95,000	95,000	
2016		-	3.85	60,000	60,000	
2017		-	4.00	60,000	60,000	
2018		-	4.10	60,000	60,000	
2019		-	4.15	65,000	65,000	
2020		-	4.20	70,000	70,000	
Total		<u>\$ 255,000</u>		<u>\$ 705,000</u>	<u>960,000</u>	

See accompanying independent auditor's report.



**City of State Center**



**OFFICE OF AUDITOR OF STATE**  
STATE OF IOWA

David A. Vaudt, CPA  
Auditor of State

State Capitol Building  
Des Moines, Iowa 50319-0004

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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, each major fund and the aggregate remaining fund information of the City of State Center, 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 27, 2012. Our report on the financial statements, which were prepared in conformity with an other comprehensive basis of accounting, expressed qualified opinions since we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2010. Except as noted in the Independent Auditor's Report, we conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the City of State Center is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City of State Center's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the City of State Center's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of State Center's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control over financial reporting we consider to be material weaknesses and other deficiencies we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of 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 State Center's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings as items (A) and (B) to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings as items (C) through (F) to be significant deficiencies.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of State Center's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters which are described in 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.

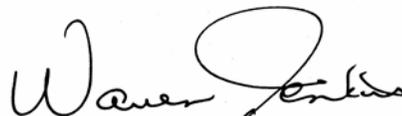
The City of State Center's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the City's responses, we did not audit the City of State Center's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of State Center and other parties to whom the City of State Center may report and is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of State Center 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.



DAVID A. VAUDT, CPA  
Auditor of State



WARREN G. JENKINS, CPA  
Chief Deputy Auditor of State

January 27, 2012

City of State Center  
 Schedule of Findings  
 Year ended June 30, 2011

**Findings Related to the Financial Statements:**

**INTERNAL CONTROL DEFICIENCIES:**

(A) Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Generally, one individual may have control over the following areas:

	Applicable Offices
(1) Receipts – collecting, depositing, journalizing, posting and reconciling.	City, Library, Rose Garden and Fire Department
(2) Disbursements – check writing, signing, posting and reconciling.	City, Library, Rose Garden and Fire Department
(3) Payroll – check preparation, signing and distribution.	City and Library
(4) Investments – custody and accounting functions.	City and Library
(5) Bank account reconciliations and control over petty cash.	City, Library, Rose Garden and Fire Department
(6) Accounting procedures manual.	Library, Rose Garden and Fire Department

In addition, an independent person does not enter payroll and utility rates and review and approval of rates is not documented.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials. Utility and payroll rates should be reviewed and approved by an independent person.

Responses –

City – The City will utilize available staff and elected officials to segregate duties as much as possible.

Library – The Library Board will review procedures to determine any changes.

Rose Garden – As a small volunteer board of five members, duties are divided among us. We will make more of an effort to have the finances double-checked by a person other than the secretary-treasurer to insure accuracy and accountability.

Fire Department – The fire department treasurer writes the checks for payment after they have been reviewed by the fire chief. In addition, the fire chief and assistant fire chief reconcile the accounts each month for further segregation of duties. Receipts and disbursements are reviewed by all fire and EMS members on a monthly basis at the regular monthly meeting and approved or questioned at this meeting.

City of State Center  
Schedule of Findings  
Year ended June 30, 2011

Conclusions –

City – Response accepted.

Library – Response accepted.

Rose Garden – Response accepted.

Fire Department – Response acknowledged. Evidence of review should be indicated by initials of the independent reviewer and the date of the review.

- (B) Reconciliation of Utility Billings, Collections and Delinquent Accounts – Utility billings, collections and delinquent accounts were not reconciled throughout the year.

Recommendation – Procedures should be established to reconcile utility billings, collections and delinquent accounts for each billing period. The Council or a Council designated independent person should review the reconciliations and monitor delinquencies.

Response – A new utility billing software is being purchased which should make this reconciliation possible. We will ask for a member of the council to review reconciliations on a monthly basis.

Conclusion – Response accepted.

- (C) Investments – The Kaufmann and Gutekunst mutual fund investments are maintained on a fair market value basis.

Recommendation – The Kaufmann and Gutekunst investments should be maintained on a cost basis for proper reporting.

Response – Gutekunst Trust will keep records on cost basis as well as fair market value. Kauffman Trust will keep records on cost basis.

Conclusion – Response accepted.

- (D) Fire Department and First Responders Receipts – The Fire Department and First Responders do not issue prenumbered receipts for collections.

Recommendation – Prenumbered receipts should be issued for all collections.

Response – Receipts are presently sent for donations received for both Fire and EMS by our EMS Captain which is another segregation of duty in place by the Department. All collections are recorded by the treasurer on an excel spreadsheet on the station computer which is reviewed by the fire chief and assistant fire chief.

Conclusion – Response acknowledged. Controls could be further strengthened by using prenumbered receipts.

- (E) Information Systems – The City does not have written policies for password privacy, usage of the internet and a disaster recovery plan.

In addition, the City does not require back up tapes be stored off site.

City of State Center

Schedule of Findings

Year ended June 30, 2011

Recommendation – The City should develop written policies addressing the above items in order to improve the City’s control over computer-based systems. Back up tapes should be stored off site.

Response – We will develop and implement written policies to address internet usage, password privacy and a disaster recovery plan. We are upgrading our server and will be better able to create backup copies which can be stored off site.

Conclusion – Response accepted.

(F) Transfers – One transfer was not approved by the City Council.

Recommendation – The City Council should approve all transfers between funds.

Response – We will have all future transfers approved by Council.

Conclusion – Response accepted.

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

City of State Center  
 Schedule of Findings  
 Year ended June 30, 2011

**Other Findings Related to Required Statutory Reporting:**

- (1) Certified Budget – Disbursements during the year ended June 30, 2011 exceeded the amount budgeted in the capital projects function. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

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

Response – We will budget all future capital projects in accordance with Chapter 384.18 of the Code of Iowa.

Conclusion – Response accepted.

- (2) Questionable Disbursements – No disbursements we believe may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 were noted.
- (3) Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- (4) Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Jim Eckhardt, Fire Chief, owner of Eckhardt Enterprises	Insurance	\$ 59,896
Jeff Robinson, employee, owner of JR Lawn Services	Mowing	362
Mike Riemenschneider, Council Member, owner of Pack Rats Palace	Ear plugs	20

In accordance with Chapter 362.5(8) of the Code of Iowa, the transaction for insurance does not represent a conflict of interest since the Fire Chief is a volunteer fire fighter. In accordance with Chapter 362.5(3)(j) of the Code of Iowa, the transactions with the Council Member and employee do not appear to represent conflicts of interest since total transactions with each individual were less than \$1,500 during the fiscal year.

- (5) 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 ensure the coverage is adequate for current operations.

City of State Center

Schedule of Findings

Year ended June 30, 2011

- (6) Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.

Although minutes of Council proceedings were published, they were not always published within fifteen days as required by Chapter 372.13(6) of the Code of Iowa.

Recommendation – The City should publish minutes as required.

Response – We will strive to publish minutes as required by Chapter 372.13(6) of the Code of Iowa.

Conclusion – Response accepted.

- (7) Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa were noted, except the City has not adopted a written investment policy in accordance with Chapter 12B.10B of the Code of Iowa.

Recommendation – The Council should adopt an investment policy as required.

Response – The City will update its written investment policy in accordance with Chapter 12B.10B of the Code of Iowa.

Conclusion – Response accepted.

- (8) Revenue Notes – The provisions for the water, sewer and electric revenue notes require sufficient monthly transfers be made to separate water, sewer and revenue note sinking accounts for the purpose of making the bond principal and interest payments when due. In addition, reserve accounts are required to be established by the note provisions.

The City has not established the required sinking or reserve accounts as required by the water, sewer and electric revenue note provisions.

Recommendation – The City should establish the required sinking and reserve accounts and make sufficient monthly transfers to the accounts for the purpose of making the bond principal and interest payments when due.

Response – These revenue notes were established and accounts set up by a former clerk. In any future borrowings the proper accounts (sinking) will be established.

Conclusion – Response acknowledged. The City should establish the required accounts and make required monthly transfers for these notes.

- (9) Financial Condition – The Capital Projects Fund had a deficit balance of \$221,214 at June 30, 2011.

Recommendation – The City should investigate alternatives to eliminate this deficit in order to return the fund to a sound financial position.

City of State Center

Schedule of Findings

Year ended June 30, 2011

Response – Several of the capital projects span multiple fiscal years. As such, a portion of the financing will be recognized in the following year. We will look at alternatives, such as internal financing, to cover these deficits.

Conclusion – Response accepted.

- (10) Local Option Sales Tax – All local option sales tax (LOST) receipts are recorded in the Special Revenue, Local Option Sales Tax Fund. The ballot for the LOST funds requires the receipts to be used as follows: 50% for street replacement, 25% for public safety and 25% for general corporate purposes. All LOST receipts are transferred to the General Fund from the LOST Fund.

During the fiscal year, LOST receipts for street replacement purposes were budgeted in the General Fund for the 1<sup>st</sup> Avenue Paving Project. However, the disbursements were made from the Capital Projects Fund.

Recommendation – The City should document the collection, disbursement and balance of all LOST funds. Disbursement of these funds should be properly identified to document compliance with the LOST ballot referendum provisions.

Response – A corrective transfer will be made. In the future, disbursements will be properly identified.

Conclusion – Response accepted.

- (11) Excessive Balance – The Debt Service Fund cash balance at June 30, 2011 was \$555,534, or 258% of the total disbursements of \$215,340 for the year ended June 30, 2011.

Recommendation – The City should reduce the balance of the Debt Service Fund to a reasonable amount by redeeming callable debt, returning the excess amount to the Enterprise, Electric Fund or reducing transfers from other funds for debt service.

Response – We will evaluate the options that you have presented and take the appropriate action to resolve this issue.

Conclusion – Response accepted.

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City of State Center

Staff

This audit was performed by:

Ernest H. Ruben, Jr., CPA, Manager  
Lesley R. Geary, CPA, Senior Auditor II  
Ainslee M. Barnes, CPA, Staff Auditor  
Samuel M. Wagner, Auditor Intern

A handwritten signature in black ink that reads "Andrew E. Nielsen". The signature is written in a cursive style with a large initial "A" and "N".

Andrew E. Nielsen, CPA  
Deputy Auditor of State