



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

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NEWS RELEASE

FOR RELEASE November 23, 2009

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

The City's receipts totaled \$1,344,804 for the year ended June 30, 2009. The receipts included \$179,293 in property tax, \$119,941 from tax increment financing, \$422,771 from charges for service, \$214,104 from operating grants, contributions and restricted interest, \$96,838 from local option sales tax, \$1,857 from unrestricted interest on investments and \$310,000 from loan proceeds.

Disbursements for the year totaled \$1,379,642, and included \$427,284 for public works, \$288,562 for culture and recreation and \$256,522 for debt service. Also, disbursements for business type activities totaled \$191,038.

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/index.html>.

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

JUNE 30, 2009

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City of Armstrong

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Marvin Dailey	Mayor	Jan 2010
Brian Fuller	Council Member	Resigned Jun 2009
David Grussing (Appointed)	Council Member	Nov 2009
Jon Larsen	Council Member	Jan 2010
Paula Mart	Council Member	Jan 2010
Todd Eisenbacher	Council Member	Jan 2012
Donald Leach	Council Member	Jan 2012
Connie Thackery	Clerk/Treasurer	Indefinite
Kevin Sander	Attorney	Indefinite

City of Armstrong



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Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Armstrong, Iowa, as of and for the year ended June 30, 2009, 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 Armstrong's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe 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, 2008.

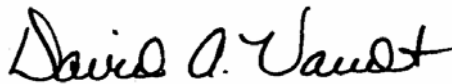
In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2008, as discussed in the preceding paragraph, the financial statements referred to above present 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 Armstrong as of June 30, 2009, 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.

While the City's General Fund has a cash balance of \$91,171 at June 30, 2009, the General Fund owes the Special Revenue, Revolving Loan Fund \$335,000 at June 30, 2009 (see Note 10), resulting in a net deficit of \$243,829. The comparable net deficit at June 30, 2005 was \$228,736. The net deficit increased \$15,093 during the four year period since the City was last audited for the year ended June 30, 2005. The net deficit is approximately 62% of the City's General Fund receipts of \$392,053 during the year ended June 30, 2009. The City stated it would repay the Special Revenue, Revolving Loan Fund through a repayment plan to be developed.

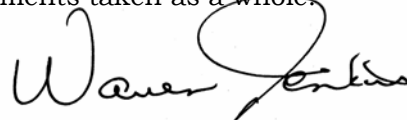
In accordance with Government Auditing Standards, we have also issued our report dated October 23, 2009 on our consideration of the City of Armstrong's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 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 Armstrong's basic financial statements. Other supplementary information included in Schedules 1 through 3 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, 2008, 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

October 23, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Armstrong 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, 2009. 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.

2009 FINANCIAL HIGHLIGHTS

- The cash basis net assets of the City's government activities decreased approximately \$17,000, due primarily to disbursements exceeding receipts in the Special Revenue, Local Option Sales Tax and Revolving Loan Funds.
- The cash basis net assets of the City's business type activities decreased approximately \$18,000, due primarily to disbursements exceeding receipts in the Enterprise, Water Fund.

USING THIS ANNUAL REPORT

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

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

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

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

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

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

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

BASIS OF ACCOUNTING

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

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

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

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

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

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

Fund Financial Statements

The City has two kinds of funds:

1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax, Revolving Loan, Employee Benefits, Local Option Sales Tax and Urban Renewal Tax Increment, 3) the Debt Service Fund and 4) 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 two Enterprise Funds to provide separate information for the Water and Sewer Funds, considered to be major funds of the City.

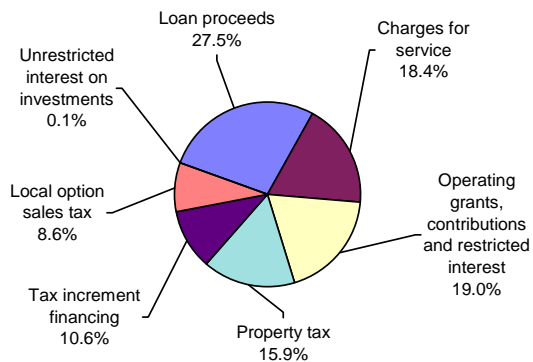
The required financial statement for proprietary funds is a statement of cash receipts, disbursements and changes in cash balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

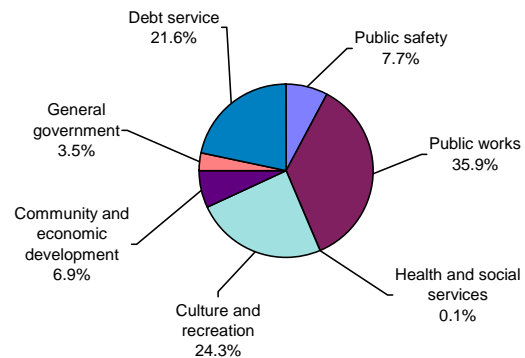
Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased from \$154,722 at June 30, 2008 to \$137,549 at June 30, 2009. The analysis that follows focuses on the changes in cash basis net assets of governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities (Expressed in Thousands)	
	Year ended June 30, 2009
Receipts:	
Program receipts:	
Charges for service	\$ 207
Operating grants, contributions and restricted interest	214
General receipts:	
Property tax	179
Tax increment financing	120
Local option sales tax	97
Unrestricted interest on investments	1
Loan proceeds	310
Total receipts	1,128
Disbursements:	
Public safety	91
Public works	427
Health and social services	1
Culture and recreation	289
Community and economic development	82
General government	42
Debt service	257
Total disbursements	1,189
Decrease in cash basis net assets before transfers	(61)
Transfers, net	44
Change in cash basis net assets	(17)
Cash basis net assets beginning of year	155
Cash basis net assets end of year	\$ 138

Receipts by Source



Disbursements by Function



Changes in Cash Basis Net Assets of Business Type Activities (Expressed in Thousands)	
	Year ended June 30, 2009
Receipts:	
Program receipts:	
Charges for service:	
Water	\$ 116
Sewer	100
General receipts:	
Unrestricted interest on investments	1
Total receipts	<u>217</u>
Disbursements:	
Water	138
Sewer	53
Total disbursements	<u>191</u>
Increase in cash basis net assets before transfers	26
Transfers, net	<u>(44)</u>
Change in cash basis net assets	(18)
Cash basis net assets beginning of year	<u>113</u>
Cash basis net assets end of year	<u>\$ 95</u>

Total business type activities cash basis net assets decreased from a year ago, decreasing from \$112,489 at June 30, 2008 to \$94,824 at June 30, 2009. The decrease is due to primarily to disbursements exceeding receipts in the Enterprise, Water Fund.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Armstrong completed the year, its governmental funds reported a combined fund balance of \$137,549, a decrease of \$17,173 below last year's total of \$154,722. 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 \$27,876 over the prior year to a year-end balance of \$91,171. This was partially due to receiving \$210,000 in loan proceeds during fiscal year 2009.
- The Special Revenue, Road Use Tax Fund cash balance decreased \$19,268 to \$2,143 during the fiscal year. This change was attributable to disbursements exceeding road use tax allocations received.
- The Special Revenue, Revolving Loan Fund cash balance decreased \$23,356 to \$24,811 during the fiscal year. This change was attributable to additional loans to the General Fund.
- The Special Revenue, Employee Benefits Fund cash balance decreased \$4,711 to \$16,625 during the fiscal year. This change was attributable to disbursements exceeding receipts.
- The Special Revenue, Local Option Sales Tax Fund cash balance decreased \$58,573 to \$17,196 during the fiscal year, primarily due to a decrease in receipts due to a County wide vote.

- The Special Revenue, Urban Renewal Tax Increment Fund cash balance increased \$60,859 to a deficit of \$14,397 during the fiscal year. This change was attributable to tax increment financing receipts exceeding disbursements and transfers out.
- The Debt Service Fund cash balance remained zero during the fiscal year, as disbursements for debt payments were equal to tax receipts and transfers in during the year.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Enterprise, Water Fund cash balance decreased \$21,006 from the prior year to a year-end balance of \$54,014, due primarily to disbursements exceeding receipts.
- The Enterprise, Sewer Fund cash balance increased \$3,341 to \$40,810, due primarily to receipts exceeding disbursements.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget once. The amendment was approved on May 4, 2009 and resulted in an increase in receipts and disbursements related to debt issuance. Disbursements also increased relating to increased costs associated with the storm sewer project, the municipal pool project and the purchase of a new police car. Additional adjustments were made to reduce other city taxes as a result of the loss of local option sales tax receipts.

The City’s receipts were \$41,221 less than budgeted. This was primarily due to the City receiving less miscellaneous, use of money and property and local option sales tax receipts than anticipated, even after the amendment.

Even with the budget amendment, total disbursements were \$70,073 more than the amended budget. However, actual disbursements for the community and economic development and public works functions were \$89,029 and \$22,716, respectively, less than the amended budget. This was primarily due to the City amending the budget for more than actual disbursements.

The City exceeded the amounts budgeted after the amendment in the culture and recreation, debt service and business type activities functions for the year ended June 30, 2009 due to operating loan payments not being budgeted for along with general increased operation costs.

DEBT ADMINISTRATION

At June 30, 2009, the City had \$998,000 in notes and other long-term debt outstanding, compared to \$896,500 last year, as shown below.

	Outstanding Debt at Year-End	
	June 30,	
	2009	2008
General obligation bonds	\$ 601,000	682,500
Revenue notes	187,000	214,000
Loan agreement	210,000	-
Total	\$ 998,000	896,500

Debt increased as a result of the City entering into a loan agreement for the storm sewer and municipal pool projects.

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 \$811,000 is significantly below its constitutional debt limit of approximately \$1,600,000.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City of Armstrong's elected and appointed officials and citizens considered many factors when setting the fiscal year 2010 budget, tax rates and fees charged for various City activities. The City's fiscal year 2010 assessed taxable valuation increased approximately 2.6%, or approximately \$444,000, over the fiscal year 2009 level.

The fiscal year 2010 budget includes total receipts of \$1,361,986 and disbursements of \$1,221,902.

The fiscal year 2010 levy is \$10.84337 per \$1,000 of taxable valuation, which is a slight increase from fiscal year 2009.

These parameters were taken into account when adopting the budget for 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 questions about this report or need additional financial information, contact Connie Thackery, City Clerk, 101 Main Street, City of Armstrong, Iowa 50514-0229.

Basic Financial Statements

City of Armstrong

Statement of Activities and Net Assets – Cash Basis

As of and for the year ended June 30, 2009

	Disbursements	Program Receipts	
		Charges for Service	Operating Grants, Contributions and Restricted Interest
Functions/Programs:			
Governmental activities:			
Public safety	\$ 90,779	2,528	1,948
Public works	427,284	72,404	110,005
Health and social services	1,067	-	-
Culture and recreation	288,562	64,917	78,306
Community and economic development	82,287	59,021	1,462
General government	42,103	7,882	-
Debt service	256,522	-	-
Capital projects	-	-	22,383
Total governmental activities	1,188,604	206,752	214,104
Business type activities:			
Water	137,571	115,706	-
Sewer	53,467	100,313	-
Total business type activities	191,038	216,019	-
Total	\$ 1,379,642	422,771	214,104
General Receipts:			
Property and other city tax levied for:			
General purposes			
Tax increment financing			
Debt service			
Local option sales tax			
Unrestricted interest on investments			
Loan proceeds			
Transfers			
Total general receipts and transfers			
Change in net assets			
Net assets beginning of year			
Net assets end of year			
Cash Basis Net Assets			
Restricted:			
Streets			
Local option sales tax			
Debt service			
Other purposes			
Unrestricted			
Total cash basis net assets			

See notes to financial statements.

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
Governmental Activities	Business Type Activities	Total
(86,303)	-	(86,303)
(244,875)	-	(244,875)
(1,067)	-	(1,067)
(145,339)	-	(145,339)
(21,804)	-	(21,804)
(34,221)	-	(34,221)
(256,522)	-	(256,522)
22,383	-	22,383
(767,748)	-	(767,748)
-	62,239	62,239
-	(37,258)	(37,258)
-	24,981	24,981
(767,748)	24,981	(742,767)
150,381	-	150,381
119,941	-	119,941
28,912	-	28,912
96,838	-	96,838
965	892	1,857
310,000	-	310,000
43,538	(43,538)	-
750,575	(42,646)	707,929
(17,173)	(17,665)	(34,838)
154,722	112,489	267,211
\$ 137,549	94,824	232,373
\$ 2,143	-	2,143
17,196	-	17,196
-	35,025	35,025
41,436	-	41,436
76,774	59,799	136,573
\$ 137,549	94,824	232,373

City of Armstrong

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

As of and for the year ended June 30, 2009

	General	Road Use Tax	Revolving Loan
Receipts:			
Property tax and other city tax	\$ 132,863	-	-
Tax increment financing	-	-	-
Local option sales tax	-	-	-
Licenses and permits	7,664	-	-
Use of money and property	3,840	-	59,021
Intergovernmental	56,982	81,227	-
Charges for service	105,059	-	-
Special assessments	-	-	-
Miscellaneous	85,645	-	-
Total receipts	392,053	81,227	59,021
Disbursements:			
Operating:			
Public safety	80,069	-	-
Public works	105,993	100,495	-
Health and social services	1,067	-	-
Culture and recreation	279,719	-	-
Community and economic development	6,339	-	58,828
General government	40,135	-	-
Debt service	100,712	-	-
Total disbursements	614,034	100,495	58,828
Excess (deficiency) of receipts over (under) disbursements	(221,981)	(19,268)	193
Other financing sources (uses):			
Loan proceeds	210,000	-	-
Operating transfers in	42,931	-	10,000
Operating transfers out	(3,074)	-	(33,549)
Total other financing sources (uses)	249,857	-	(23,549)
Net change in cash balances	27,876	(19,268)	(23,356)
Cash balances beginning of year	63,295	21,411	48,167
Cash balances end of year	\$ 91,171	2,143	24,811
Cash Basis Fund Balances			
Unreserved:			
General fund	\$ 91,171	-	-
Special revenue funds	-	2,143	24,811
Total cash basis fund balances	\$ 91,171	2,143	24,811

See notes to financial statements.

Special Revenue					
Employee Benefits	Local Option Sales Tax	Urban Renewal Tax Increment	Debt Service	Nonmajor	Total
12,978	-	-	28,912	4,540	179,293
-	-	119,941	-	-	119,941
-	96,838	-	-	-	96,838
-	-	-	-	-	7,664
-	-	-	-	-	62,861
-	-	-	-	-	138,209
-	-	-	-	-	105,059
-	-	-	-	22,383	22,383
-	-	-	-	-	85,645
12,978	96,838	119,941	28,912	26,923	817,893
10,710	-	-	-	-	90,779
1,187	219,609	-	-	-	427,284
-	-	-	-	-	1,067
3,824	5,019	-	-	-	288,562
-	15,498	1,622	-	-	82,287
1,968	-	-	-	-	42,103
-	-	-	155,810	-	256,522
17,689	240,126	1,622	155,810	-	1,188,604
(4,711)	(143,288)	118,319	(126,898)	26,923	(370,711)
-	100,000	-	-	-	310,000
-	-	-	126,898	-	179,829
-	(15,285)	(57,460)	-	(26,923)	(136,291)
-	84,715	(57,460)	126,898	(26,923)	353,538
(4,711)	(58,573)	60,859	-	-	(17,173)
21,336	75,769	(75,256)	-	-	154,722
16,625	17,196	(14,397)	-	-	137,549
-	-	-	-	-	91,171
16,625	17,196	(14,397)	-	-	46,378
16,625	17,196	(14,397)	-	-	137,549

City of Armstrong

City of Armstrong

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

As of and for the year ended June 30, 2009

	Enterprise		
	Water	Sewer	Total
Operating receipts:			
Charges for service	\$ 115,706	100,313	216,019
Operating disbursements:			
Business type activities	137,571	53,467	191,038
Excess (deficiency) of operating receipts over (under) operating disbursements	(21,865)	46,846	24,981
Non-operating receipts:			
Interest on investments	859	33	892
Excess (deficiency) of receipts over disbursements	(21,006)	46,879	25,873
Transfers:			
Operating transfers out	-	(43,538)	(43,538)
Net change in cash balances	(21,006)	3,341	(17,665)
Cash balances beginning of year	75,020	37,469	112,489
Cash balances end of year	\$ 54,014	40,810	94,824
Cash Basis Fund Balances			
Reserved for debt service	\$ -	35,025	35,025
Unreserved	54,014	5,785	59,799
Total cash basis fund balances	\$ 54,014	40,810	94,824

See notes to financial statements.

City of Armstrong

Notes to Financial Statements

June 30, 2009

(1) Summary of Significant Accounting Policies

The City of Armstrong is a political subdivision of the State of Iowa located in Emmett County. It was first incorporated in 1893 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 and sewer utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Armstrong has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City. The City has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations

The City participates in 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: Emmet County Assessor's Conference Board, Emmet County Emergency Management Commission and Emmet 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 two categories:

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 category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

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

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

The City reports the following major governmental funds:

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

Special Revenue:

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

The Revolving Loan Fund is used to account for receipts and disbursements for revolving loans made to qualifying businesses.

The Employee Benefits Fund is used to account for special tax levy collections used for employee benefits.

The Local Option Sales Tax Fund is used to account for the collection and use of the local option sales tax.

The 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 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 wastewater treatment and sanitary sewer system.

C. Measurement Focus and Basis of Accounting

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

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

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

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2009, disbursements exceeded the amounts budgeted in the culture and recreation, debt service and business type activities functions.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2009 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

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

(3) Notes and Loans Payable

Annual debt service requirements to maturity for general obligation notes, capital revenue notes and a loan agreement are as follows:

Year Ending June 30,	General Obligation Notes		Sewer Revenue Capital Loan Notes		Loan Agreement		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2010	\$ 92,500	28,674	28,000	5,610	51,699	7,891	172,199	42,175
2011	98,500	24,071	29,000	4,770	49,301	10,290	176,801	39,131
2012	60,000	19,055	30,000	3,900	52,505	7,085	142,505	30,040
2013	40,000	15,805	32,000	3,000	56,495	3,683	128,495	22,488
2014	20,000	13,855	33,000	2,040	-	-	53,000	15,895
2015 - 2019	130,000	52,438	35,000	1,050	-	-	165,000	53,488
2020 - 2024	160,000	21,950	-	-	-	-	160,000	21,950
Total	\$ 601,000	175,848	187,000	20,370	210,000	28,949	998,000	225,167

Revenue Notes

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay \$455,000 of sewer revenue capital loan notes issued in June 1995. Proceeds from the notes provided financing for the construction of improvements and extensions to the municipal sanitary sewer system. The notes are payable solely from sewer customer receipts and are payable through 2015. Annual principal and interest payments on the notes are expected to require less than 72 percent of net receipts. The total principal and interest remaining to be paid on notes is \$207,370. For the current year, principal and interest paid and total customer net receipts were \$33,420 and \$46,879, respectively.

The resolution providing for the issuance of the sewer revenue capital loan notes issued under a loan agreement between the City of Armstrong, the Iowa Finance Authority, the Iowa Department of Natural Resources and Wells Fargo, N. A. 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 sewer revenue note sinking account within the Enterprise Funds for the purpose of making the note principal and interest payments when due.
- (c) Additional monthly transfers shall be made to a reserve account until a specific minimum balance has been accumulated. This account is restricted for the purpose of paying, any additional improvements, extensions or repairs to the system.
- (d) User rates shall be established at a level which produces and maintains net receipts at a level not less than 100% of the amount of principal and interest on the notes falling due in the same year.

Loan Agreements

On October 23, 2008, the City entered into a loan agreement with a bank to borrow \$100,000 to cover storm sewer costs. The loan bears interest at 6.25% per annum and matured on December 1, 2008. The City paid principal of \$100,000 and interest of \$712 on December 1, 2008 from loan proceeds received on December 1, 2008.

On December 1, 2008, the City entered into a loan agreement to borrow \$210,000 to finance construction costs for a municipal pool project and storm sewer project. The loan bears interest at 6.50% per annum and matures on July 1, 2012. The City will begin making scheduled annual principal and interest payments on July 1, 2009. The loan will be repaid from future collections of pledges towards the municipal pool project and local option sales tax receipts for the storm sewer project.

(4) 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 4.10% of their annual covered salary and the City is required to contribute 6.35% 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 contribution to IPERS for the year ended June 30, 2009 was \$8,171, equal to the required contribution for the year.

(5) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation leave for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation payable to employees at June 30, 2009, primarily relating to the General Fund, is \$3,800.

This liability have been computed based on rates of pay in effect at June 30, 2009.

(6) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2009 is as follows:

Transfer to	Transfer from	Amount
General	Special Revenue:	
	Revolving Loan	\$ 33,549
	Local Option Sales Tax	4,842
	Emergency	4,540
		<u>42,931</u>
Debt Service	General	3,074
	Special Revenue:	
	Local Option Sales Tax	10,443
	Urban Renewal Tax Increment	57,460
	Capital Projects	22,383
	Enterprise:	
	Sewer	33,538
		<u>126,898</u>
Special Revenue:	Enterprise:	
Revolving Loan	Sewer	10,000
		<u>10,000</u>
Total		<u>\$ 179,829</u>

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

(7) Risk Management

The City is a member of the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 577 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provided capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 200 percent of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The City's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The City's contributions to the Pool for the year ended June 30, 2009 were \$20,862.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000 per claim and \$10,000,000 in aggregate per year. For members requiring specific coverage from \$3,000,000 to \$10,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$100,000 each occurrence, each location, with excess coverage reinsured by The Travelers Insurance Company.

The Pool's intergovernmental contract with its members provides in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event a series of casualty claims exhaust total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. As of June 30, 2009, settled claims have not exceeded the risk pool or reinsurance coverage since the Pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all casualty claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of a membership may receive a partial refund of their casualty capital contributions. If a member withdraws after the sixth year, the member is refunded 100 percent of its casualty capital contributions. However the refund is reduced by an amount equal to the annual casualty operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

The City also carries commercial insurance purchased from other insurers for coverage associated with workers compensation in the amount of \$138,000. The City assumes liability for any deductibles, and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(8) Deficit Balance

The Special Revenue, Urban Renewal Tax Increment Fund had a deficit balance of \$14,397 at June 30, 2009. The deficit balance was a result of project costs incurred prior to the availability of funds. The deficit will be eliminated upon receipt of tax increment financing.

(9) Revolving Loan Fund

The City has established a Special Revenue, Revolving Loan Fund to provide financial assistance to new and expanding businesses. Initial funding for this program was provided through a grant from the Iowa Department of Economic Development. Upon receipt of loan payments from the businesses, the funds remain in the Special Revenue, Revolving Loan Fund for subsequent loans to other businesses.

Loans by the Revolving Loan Fund are as follow:

Loaned to	Date of Loan	Original Loan Amount	Interest Rate	Term of Loan	Balance June 30, 2009
915/Gochanour	May 2007	\$ 30,000	3.5%	5 Years	\$ 14,092
Armstrong Liquor Store/Jeff Kelly	June 2002	11,848	3.5%	5 Years	340
Brad & Eric Eisenbacher	May 2009	30,000	3.5%	5 Years	30,000
Carol Slifka	October 2008	3,325	3.5%	5 Years	2,848
Custom Collision Center	May 2004	15,000	3.5%	5 Years	8,311
Dale's Rec/Rick Dale	November 2006	2,800	3.5%	3 Years	407
Drey's Diner	September 2004	38,675	3.5%	5 Years	2,565
Family Market	August 2004	19,600	3.5%	5 Years	18,096
Flower & More/ A. Russel	October 2006	20,000	3.5%	5 Years	9,769
Kozy Korner Kafe/Gail Anderson	March 2004	4,774	3.5%	5 Years	2,129
Kris Quastad	October 2005	3,375	3.5%	4 Years	3,178
McGregor Tax Service	October 2005	17,500	3.5%	5 Years	5,574
MD Cleaning	December 2008	12,078	3.5%	5 Years	9,050
North Iowa Insurance/Jerry Block	November 2003	26,972	3.5%	5 Years	489
Rezac Chiropractic/Cory Rezac	February 2008	26,700	3.5%	5 Years	14,818
Total					<u>\$ 121,666</u>

(10) Interfund Loans

At June 30, 2009, the Special Revenue, Revolving Loan Fund has loaned \$335,000 to the General Fund and \$35,000 to the Enterprise, Sewer Fund. The loans bear no interest.

(11) Subsequent Event

On July 6, 2009, the City approved a loan of \$27,000 from the Special Revenue, Revolving Loan Fund to Dan and Dawn Decker.

City of Armstrong

Required Supplementary Information

City of Armstrong
 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, 2009

	Governmental Funds Actual	Proprietary Funds Actual	Total
Receipts:			
Property tax	\$ 179,293	-	179,293
Tax increment financing	119,941	-	119,941
Local option sales tax	96,838	-	96,838
Licenses and permits	7,664	-	7,664
Use of money and property	62,861	892	63,753
Intergovernmental	138,209	-	138,209
Charges for service	105,059	216,019	321,078
Special assessments	22,383	-	22,383
Miscellaneous	85,645	-	85,645
Total receipts	<u>817,893</u>	<u>216,911</u>	<u>1,034,804</u>
Disbursements:			
Public safety	90,779	-	90,779
Public works	427,284	-	427,284
Health and social services	1,067	-	1,067
Culture and recreation	288,562	-	288,562
Community and economic development	82,287	-	82,287
General government	42,103	-	42,103
Debt service	256,522	-	256,522
Business type activities	-	191,038	191,038
Total disbursements	<u>1,188,604</u>	<u>191,038</u>	<u>1,379,642</u>
Excess (deficiency) of receipts over (under) disbursements	(370,711)	25,873	(344,838)
Other financing sources (uses), net	<u>353,538</u>	<u>(43,538)</u>	<u>310,000</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(17,173)	(17,665)	(34,838)
Balances beginning of year	<u>154,722</u>	<u>112,489</u>	<u>267,211</u>
Balances end of year	<u>\$ 137,549</u>	<u>94,824</u>	<u>232,373</u>

See accompanying independent auditor's report.

Budgeted Amounts		Final to
Original	Final	Total
		Variance
175,503	175,503	3,790
130,000	130,000	(10,059)
185,494	112,572	(15,734)
1,500	1,500	6,164
83,500	83,500	(19,747)
93,450	93,450	44,759
303,000	303,000	18,078
22,800	22,800	(417)
125,000	153,700	(68,055)
<u>1,120,247</u>	<u>1,076,025</u>	<u>(41,221)</u>
80,360	92,860	2,081
232,500	450,000	22,716
1,067	1,067	-
126,400	275,000	(13,562)
151,316	171,316	89,029
44,450	44,450	2,347
93,871	104,876	(151,646)
170,000	170,000	(21,038)
<u>899,964</u>	<u>1,309,569</u>	<u>(70,073)</u>
220,283	(233,544)	(111,294)
-	210,000	100,000
220,283	(23,544)	(11,294)
119,338	119,338	147,873
<u>339,621</u>	<u>95,794</u>	<u>136,579</u>

City of Armstrong

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2009

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. 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 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 \$409,605. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2009, disbursements exceeded the amounts budgeted in the culture and recreation, debt service and business type activities functions.

Other Supplementary Information

City of Armstrong

City of Armstrong

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

As of and for the year ended June 30, 2009

	Special Revenue Emergency	Capital Projects	Total
Receipts:			
Property tax	\$ 4,540	-	4,540
Special assessments	-	22,383	22,383
Total receipts	4,540	22,383	26,923
Disbursements:			
None	-	-	-
Excess of receipts over disbursements	4,540	22,383	26,923
Other financing uses:			
Operating transfers out	(4,540)	(22,383)	(26,923)
Net change in cash balances	-	-	-
Cash balances beginning of year	-	-	-
Cash balances end of year	\$ -	-	-

See accompanying independent auditor's report.

City of Armstrong
Schedule of Indebtedness
Year ended June 30, 2009

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation notes:			
Essential corporate purpose	Dec 3, 2001	4.60%	\$ 160,000
Essential corporate purpose	Jan 15, 2003	2.5-4.65	200,000
Essential corporate purpose	Feb 15, 2004	6.15	160,000
Essential corporate purpose	Jan 3, 2008	4.1-5.3	400,000
Essential corporate purpose	Mar 7, 2008	4.00	29,000
Total			
Sewer revenue capital loan notes:			
Sewer improvements	Jun 21, 1995	3.00-4.54%	\$ 455,000
Loan agreements:			
Storm sewer	Oct 23, 2008	6.25	\$ 100,000
Construction	Dec 1, 2008	6.50%	210,000
Total			

See accompanying independent auditor's report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
73,500	-	17,500	56,000	3,385
100,000	-	20,000	80,000	4,380
80,000	-	25,000	55,000	4,920
400,000	-	10,000	390,000	26,444
29,000	-	9,000	20,000	1,443
<u>\$ 682,500</u>	<u>-</u>	<u>81,500</u>	<u>601,000</u>	<u>40,572</u>
214,000	-	27,000	187,000	6,420
-	100,000	100,000	-	712
-	210,000	-	210,000	-
<u>\$ -</u>	<u>310,000</u>	<u>100,000</u>	<u>210,000</u>	<u>712</u>

City of Armstrong
 Note and Loan Agreement Maturities
 June 30, 2009

General Obligation Capital Loan Notes								
Year Ending June 30,	Essential Corporate Purpose Issued Dec 3, 2001		Essential Corporate Purpose Issued Jan 15, 2003		Essential Corporate Purpose Issued Feb 15, 2004		Essential Corporate Purpose Issued Jan 3, 2008	
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount
2010	4.60%	\$ 17,500	4.25%	\$ 20,000	6.15%	\$ 25,000	5.25%	\$ 20,000
2011	4.60	18,500	4.40	20,000	6.15	30,000	5.20	20,000
2012	4.60	20,000	4.50	20,000	-	-	5.15	20,000
2013	-	-	4.65	20,000	-	-	5.10	20,000
2014	-	-	-	-	-	-	5.00	20,000
2015	-	-	-	-	-	-	5.00	25,000
2016	-	-	-	-	-	-	5.00	25,000
2017	-	-	-	-	-	-	4.10	25,000
2018	-	-	-	-	-	-	4.15	25,000
2019	-	-	-	-	-	-	4.20	30,000
2020	-	-	-	-	-	-	4.25	30,000
2021	-	-	-	-	-	-	4.35	30,000
2022	-	-	-	-	-	-	4.40	30,000
2023	-	-	-	-	-	-	4.45	35,000
2024	-	-	-	-	-	-	4.50	35,000
Total		<u>\$ 56,000</u>		<u>\$ 80,000</u>		<u>\$ 55,000</u>		<u>\$ 390,000</u>

See accompanying independent auditor's report.

<u>Essential Corporate Purpose</u> <u>Issued Mar 7, 2008</u>			<u>Sewer Revenue</u> <u>Capital Loan Notes</u> <u>Sewer Improvements</u> <u>Issued June 21, 1995</u>		<u>Loan Agreement</u> <u>Construction</u> <u>Issued Dec 1, 2008</u>	
Interest			Interest		Interest	
Rates	Amount	Total	Rates	Amount	Rates	Amount
4.00%	\$ 10,000	92,500	3.00%	\$ 28,000	6.50%	\$ 51,699
4.00	10,000	98,500	3.00	29,000	6.50	49,301
	-	60,000	3.00	30,000	6.50	52,505
	-	40,000	3.00	32,000	6.50	56,495
	-	20,000	3.00	33,000		-
	-	25,000	3.00	35,000		-
	-	25,000		-		-
	-	25,000		-		-
	-	25,000		-		-
	-	30,000		-		-
	-	30,000		-		-
	-	30,000		-		-
	-	30,000		-		-
	-	35,000		-		-
	-	35,000		-		-
	<u>\$ 20,000</u>	<u>\$ 601,000</u>		<u>\$ 187,000</u>		<u>\$ 210,000</u>

City of Armstrong



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

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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 Armstrong, Iowa, as of and for the year ended June 30, 2009, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated October 23, 2009. 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, 2008. Except as noted in the Independent Auditor's Report, we conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Armstrong'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 Armstrong's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Armstrong'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 would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies, including a deficiency we consider to be a material weakness.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Armstrong's ability to initiate, authorize, record, process or report financial data reliably in accordance with an other comprehensive basis of accounting such that there is more than a remote likelihood a misstatement of the City of Armstrong's financial statements that is more than inconsequential will not be prevented or detected by the City of Armstrong's internal control. We consider the deficiencies in internal control described in the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by the City of Armstrong's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe item (A) is a material weakness.

Compliance and Other Matters

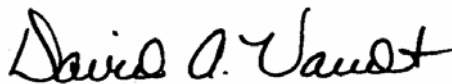
As part of obtaining reasonable assurance about whether the City of Armstrong's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and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

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2009 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.

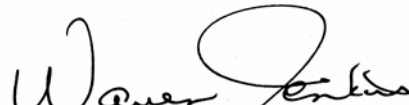
The City of Armstrong's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the City's responses, we did not audit the City of Armstrong's responses and, accordingly, we express no opinion on them.

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 Armstrong and other parties to whom the City of Armstrong may report. 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 Armstrong 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

October 23, 2009

City of Armstrong

Schedule of Findings

Year ended June 30, 2009

Findings Related to the Financial Statements:

SIGNIFICANT 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. When duties are properly segregated, the activities of one employee act as a check of those of another. One person had control over each of the following areas for the City:

- (1) Accounting system – performing all general accounting functions and having custody of assets.
- (2) Cash – preparing bank account reconciliations, initiating cash receipt and disbursement functions, handling and recording cash and control of petty cash.
- (3) Investments – detailed record keeping, custody of investments and reconciling earnings.
- (4) Long-term debt – recording and reconciling.
- (5) Receipts – opening mail, collecting, depositing, journalizing and posting.
- (6) Utility receipts – billing, collecting, depositing, posting and reconciling.
- (7) Disbursements – purchasing, check preparation, reconciling, access to credit cards and recording.
- (8) Payroll – preparing, recording, custody of warrants and distributing.
- (9) Information system (computer usage) – performing all general accounting functions and controlling all data and output.
- (10) Financial reporting – preparing, reconciling and distributing.

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.

Response – The City Clerk will consult with the City Council to help with internal control issues.

Conclusion – Response accepted.

(B) Credit Card – The City has a credit card for use by various employees while on City business. The City has not adopted a formal policy to regulate the use of the credit card and to establish procedures for the proper accounting of credit card charges.

Recommendation – The City should adopt a formal written policy regulating the use of the City's credit card. The policy, at a minimum, should address who controls the credit card, who is authorized to use the credit card and for what purposes, as well as the types of supporting documentation required to substantiate charges.

City of Armstrong

Schedule of Findings

Year ended June 30, 2009

Response – The City has had the credit card for about a year. It makes ordering from the computer much simpler. At this time, the City Clerk is the only one who uses it. The City Clerk also has used the card to confirm motel rooms when our maintenance person went to wastewater classes. The City Clerk will consult neighboring communities to inquire about sample policies.

Conclusion – Response accepted.

- (C) Information System – The following weaknesses in the City’s computer based system were noted:

The City does not have written policies for:

- (1) requiring the use of a user id or passwords.
- (2) password privacy and confidentiality.
- (3) requiring password changes every 60 - 90 days.
- (4) maintaining password history to prevent employees from using the same password.
- (5) ensuring only software licensed to the City is installed on computers.
- (6) personal usage of City equipment and software.
- (7) usage of the internet.

Also, the City does not have a written disaster recovery plan.

Recommendation – The City should develop written policies and procedures addressing the above items in order to improve the City’s control over computer based systems. Also, a written disaster recovery plan should be developed and should be tested periodically.

Response – The City Clerk will consult with other entities for sample policies and disaster recovery plans. The City Council will review and implement a policy and disaster recovery plan.

Conclusion – Response accepted.

- (D) Receipts – Prenumbered receipts were not issued for all collections from the City Community Center.

Recommendation – Prenumbered receipts should be issued at the time of collection to provide additional control over the proper collection and recording of all money. The receipts should be recorded and reconciled with timely, intact deposits and the reconciliation should be reviewed periodically by an independent person.

Response – The Community Center Manager was using a cash register and the roof leaked on the register and it does not work. The City Clerk will meet with the Community Center Manager and will implement a receipt program and will work to have the Manager reconcile deposits monthly with the treasurer.

Conclusion – Response accepted.

City of Armstrong

Schedule of Findings

Year ended June 30, 2009

- (E) Accounting Policies and Procedures Manual – The City does not have an accounting policies and procedures manual.

Recommendation – An accounting policies and procedures manual should be developed to provide the following benefits:

- (1) Aid in training additional or replacement personnel.
- (2) Help achieve uniformity in accounting and in application of policies and procedures.
- (3) Save supervisory time by recording decisions so they will not have to be made each time the same, or similar, situation arises.

Response – The City Clerk currently has an agreement with a City Clerk in another town that if anything would happen to either one, then the other would step in and manage until a replacement is hired. The City Clerk will work to write a procedure manual based on current practices and state time lines.

Conclusion – Response accepted.

- (F) Imprest Cash – Cash funds on hand at City Hall were not maintained on an imprest basis. The City also has not established a set petty cash amount and cash counts are currently not done.

Recommendation – The cash funds at City Hall should be maintained on an imprest basis and replenished periodically by check after filing a claim with the petty cash vouchers or receipts attached. The City should establish a set amount of petty cash and counts should be done periodically to ensure accuracy of the fund.

Response – Currently, the City Clerk is maintaining \$65 in the cash box. The City Clerk does write a check to petty cash to cover disbursements with receipts. Main use of petty cash is postage, small purchases and car wash. The City Clerk will document the amount and keep a annual register of deposits and disbursements on a monthly basis.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

City of Armstrong
 Schedule of Findings
 Year ended June 30, 2009

Other Findings Related to Required Statutory Reporting:

- (1) Certified Budget – Disbursements during the year ended June 30, 2009 exceeded the amounts budgeted in the culture and recreation, debt service and business type activities functions. 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 accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – In the future, the City Clerk will do a more thorough job of consulting the Community Center treasurer for year to date disbursements. The City Clerk will also remind the Community Center of budgetary obligations. Budget amendments in the future will be sufficient so as not to cause functions to exceed the budget.

Conclusion – Response accepted.

- (2) Questionable Expenditures – A disbursement was noted that we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 because the public benefits to be derived have not been clearly documented. This disbursement is as follows:

Paid to	Purpose	Amount
Flowers and More	Flowers	\$ 30

According to the opinion, it is possible for certain disbursements to meet the test of serving a public purpose under certain circumstances, although such items will certainly be subject to a deserved close scrutiny. The line to be drawn between a proper and an improper purpose is very thin.

Response – We do not make a practice of using City funds for personal gifts or entertainment. Our Council Member was diagnosed with breast cancer. The City Clerk will work so it won't happen again.

Conclusion – Response accepted.

- (3) Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- (4) Business Transactions – No business transactions between the City and City officials were noted.
- (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 Armstrong

Schedule of Findings

Year ended June 30, 2009

- (6) Council Minutes – Except as noted below, no transactions were found that we believe should have been approved in the Council minutes but were not.

Certain transfers between funds were not approved in the Council minutes. The City made several temporary transfers and repayments to and from the Special Revenue, Revolving Loan Fund and other funds. All transfers were not approved by the City Council.

Recommendation – All transfers between funds should be approved and be included in the Council minutes. Transfers for temporary loans from the Special Revenue, Revolving Loan Fund should be authorized by the Council and included in the minutes. Any loan repaid by transfer should also be approved by the Council in the minutes.

Response – All transfers are discussed with the Council and Mayor at the time of transfer. All transfers in the future will be included in the minutes.

Conclusion – Response accepted.

- (7) Deposits and Investments – The City renewed a certificate of deposit (CD) at a rate less than the minimum approved rate.

Recommendation – The City should renew CD's at no less than the minimum approved rate.

Response – The City has investments at two banks and the City was unaware the one bank was not paying public rates or that they were required too. The City will make bank aware of the requirement and will advise them of where this information can be found. The City will seek reimbursements for the additional interest.

Conclusion – Response accepted.

- (8) Sewer Revenue Capital Loan Notes – No instances of non-compliance with the revenue note resolution were noted.

- (9) Financial Condition – The Special Revenue, Urban Renewal Tax Increment Fund had a deficit balance at June 30, 2009 of \$14,397. Additionally, the General Fund had a cash balance of \$91,171, but the City has borrowed \$335,000 from the Special Revenue, Revolving Loan Fund.

Recommendation – The City should continue to investigate alternatives to eliminate the deficit in order to return the Special Revenue, Urban Renewal Tax Increment Fund to a sound financial condition. The Council should also investigate alternatives for the General Fund to repay the \$335,000 loan from the Special Revenue, Revolving Loan Fund.

Response – The debt for the Special Revenue, Urban Renewal Tax Increment Fund has been certified to the County Auditor. This debt is in excess of maximum tax funds the City is currently requesting from the County. This deficit will be eliminated in fiscal year 2010. The General Fund will reimburse the Special Revenue, Revolving Loan Fund with a repayment plan.

Conclusion – Response accepted.

City of Armstrong

Schedule of Findings

Year ended June 30, 2009

- (10) City Code of Ordinances – The City Code of Ordinances has not been recodified in the last five years.

Recommendation – In accordance with Chapter 380.8 of the Code of Iowa, a Code of Ordinances must be compiled at least once every five years, unless a supplement to the Code of Ordinances is compiled at least annually. The City should compile the City ordinances as required.

Response – The City is currently working with the Northwest Iowa Planning and Development commission to update the Code of Ordinances. The City’s contract with Northwest Iowa Planning and Development states they will complete the Code of Ordinances by October 1, 2009. The City will strive to update any changes and compile them every five years from here on.

Conclusion – Response accepted.

- (11) Bank Loan – On October 23, 2008, the City entered into a bank loan for \$100,000 for storm sewer costs. However, the City did not comply with the provisions of Chapters 384.24A and 384.25 of the Code of Iowa which require certain authorization procedures to be followed, including publication of a notice of intended action and the time and place of the meeting.

Recommendation – The City should comply with Chapters 384.24A and 384.25 of the Code of Iowa when entering into loan agreements.

Response – A notice will be published and the Code of Iowa followed for future loans.

Conclusion – Response accepted.

City of Armstrong

Staff

This audit was performed by:

Pamela J. Bormann, CPA, Manager
Brett M. Zeller, Staff Auditor
Daryl L. Hart, Assistant Auditor
Gabriel M. Stafford, CPA, Assistant Auditor

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