

CITY OF PELLA, IOWA

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

June 30, 2009

CITY OF PELLA, IOWA
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CITY OF PELLA, IOWA

CITY OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Darrell D. Dobernecker	Mayor	January, 2012
Mark De Jong	Council Member/ Mayor Pro Tem	January, 2010
Tony Bokhoven	Council Member	January, 2012
James Mueller	Council Member	January, 2012
Richard Savery	Council Member	January, 2012
Bruce Schiebout	Council Member	January, 2010
Dan Vander Beek	Council Member	January, 2010
Mike Nardini	City Administrator/Finance Director	Indefinite
Bob Stuyvesant	Attorney	January, 2010
Ronda Brown	City Clerk	January, 2010

Independent Auditor's Report

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

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of the City of Pella, 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 Pella's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of the City of Pella at June 30, 2009, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Governmental Auditing Standards*, we have also issued our report dated December 11, 2009 on our consideration of the City of Pella'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, Budgetary Comparison Information and Schedule of Funding Progress for the Retiree Health Plan on pages 5 through 12 and 54 through 57 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 Pella's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the seven years ended June 30, 2008 (which are not presented herein) and expressed unqualified opinions on those 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, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Van Maanen, Sietstra & Meyer, PC

Van Maanen, Sietstra & Meyer, PC
Certified Public Accountants

December 11, 2009

CITY OF PELLA, IOWA

MANAGEMENT DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2009

The City of Pella 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.

2009 FINANCIAL HIGHLIGHTS

- The assets of the City of Pella exceeded its liabilities at the close of the fiscal year by \$90,154,759 (net assets).
- The assets of the City's governmental activities exceeded liabilities by \$34,664,500.
- Assets of business type activities exceeded liabilities by \$55,490,259.
- The revenues of the governmental activities exceeded expenses by \$1,730,896.
- Within the City's business-type activities, expenses exceeded revenues by \$139,983. The City policy is to set rates that fund operation expenses and debt service requirements of business-type activities. In addition, rates are established to fund capital improvements either through pay-as-you go financing or through debt issues.
- At June 30, 2009, the general fund had an unrestricted fund balance of \$1,797,942 or working capital of nearly 41% of annual expenditures.

OVERVIEW OF THE FINANCIAL STATEMENTS

The City's basic financial statements consist of government-wide financial statements, fund financial statements, and notes to the financial statements. This discussion and analysis is intended to serve as an introduction to the basic financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances in a manner similar to private-sector business. The paragraphs below provide a brief description of the government-wide financial statements.

The statement of net assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The statement of activities presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the changes occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods such as uncollected taxes and earned but unused vacation leave.

The government-wide financial statements are divided into two categories:

Governmental activities - This category consists of services provided by the City that are principally supported by taxes and intergovernmental revenues. Basic City services such as police, fire, public works, planning, parks, the library, and general administration are governmental activities.

Business type activities - These activities are supported primarily by user fees. The services provided by the City in this category, include water, sewer, sanitation services, and electrical utilities.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City uses fund accounting to ensure compliance with legal requirements for financial transactions and reporting. All of the City's funds can be divided into two categories: governmental funds and proprietary funds.

Governmental funds are used to account for essentially the same functions reported as governmental in the government-wide financial statements. However unlike the government-wide financial statements, government fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on the balance of resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financial requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the City's near term financial decision. Both the governmental fund balance sheet and governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains four individual major governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, special revenue TIF-Pella Business Corridor fund, debt service fund, and capital project fund, all of which are considered to be major funds. Data from the other eighteen governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

The City adopts an annual appropriated budget for its general, debt service, capital projects, and special revenue funds. A budgetary comparison schedule has been provided for these funds to demonstrate compliance with this budget.

Proprietary funds can be categorized into two groups, enterprise funds and internal service funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its electric, water, sewer, and environmental services utilities. Internal Service funds are accounting devices used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for its health insurance program.

The financial statements of the proprietary funds provide the same type of information as the government-wide financial statements, only in more detail.

Notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets as noted earlier, may serve as a useful indicator of a government's financial position when observed over time. In the case of the City, assets exceeded liabilities by \$90,154,759 at the close of the most recent fiscal year. As noted in footnote #20, an adjustment was made to correct the Walter Scott Unit 4 operating and capital expenses which were based on estimates instead of actual expenditures and an energy cost adjustment accrual was created to accrue the revenue or expense in the proper month to match expenditures with revenues. The beginning fund balance for the Electric fund increased by \$24,211.

The most significant portion of the city's net assets (82.02%) are reflected in capital assets such as land, buildings, infrastructure, machinery, and equipment less any related outstanding debt used to acquire those assets. These capital assets are used to provide services to the citizens and are not available for future spending.

CITY OF PELLA'S NET ASSETS

	Governmental Activities		Business Type Activities		Total	
	June 30,		June 30,		June 30,	
	2009	2008	2009	2008	2009	2008
Current and other assets	\$ 8,961,023	8,698,021	16,559,744	15,764,406	25,520,767	24,462,427
Capital assets	38,720,737	39,162,174	63,602,154	65,948,696	102,322,891	105,110,870
Total assets	47,681,760	47,860,195	80,161,898	81,713,102	127,843,658	129,573,297
Current Liabilities	7,025,245	7,002,134	4,763,140	4,261,568	11,788,385	11,263,702
Long-term liabilities	5,992,015	7,904,457	19,908,499	21,845,503	25,900,514	29,749,960
Total Liabilities	13,017,260	14,906,591	24,671,639	26,107,071	37,688,899	41,013,662
Net assets:						
Invested in capital assets, net of related debt	31,991,838	31,457,680	41,953,592	42,408,099	73,945,430	73,865,779
Restricted assets	966,588	1,021,035	4,363,689	4,513,654	5,330,277	5,534,689
Unrestricted assets	1,706,074	454,889	9,172,978	8,684,278	10,879,052	9,139,167
Total net assets	\$ 34,664,500	32,933,604	55,490,259	55,606,031	90,154,759	88,539,635

A portion of the City's net assets (5.91%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of net assets or the unrestricted net assets of \$10,879,052 may be used to meet the City's ongoing obligations to citizens and creditors.

Analysis of Changes in Net Assets

	Governmental Activities		Business Type Activities		Total	
	June 30,		June 30,		June 30,	
	2009	2008	2009	2008	2009	2008
Revenues						
Charges for service	\$ 626,315	586,183	20,081,720	20,676,351	20,708,035	21,262,534
Operating grants, contributions	935,164	1,054,914	-	-	935,164	1,054,914
Capital grants, contributions	340,930	103,920	41,187	403,997	382,117	507,917
Property taxes	3,420,082	2,863,107	-	-	3,420,082	2,863,107
Local option taxes	1,180,851	875,711	-	-	1,180,851	875,711
TIF	1,616,632	2,022,553	-	-	1,616,632	2,022,553
Other Taxes	400,928	516,806	-	-	400,928	516,806
Grants & contributions	45,421	38,193	-	-	45,421	38,193
Payment in lieu of taxes	431,129	481,051	-	-	431,129	481,051
Investment earnings	77,396	117,652	331,396	593,106	408,792	710,758
Miscellaneous	4,425	-	106,594	173,366	111,019	173,366
Gain on sale of assets	122,764	(754)	19,085	(9,405)	141,849	(10,159)
Contributions to permanent fund	-	-	-	-	-	-
Transfers	(30,277)	231,331	30,277	(231,331)	-	-
Total revenues	9,171,760	8,890,667	20,610,259	21,606,084	29,782,019	30,496,751
Expenses						
General government	659,759	561,931	-	-	659,759	561,931
Public Safety	1,628,535	1,635,338	-	-	1,628,535	1,635,338
Public Works	1,758,000	1,670,679	-	-	1,758,000	1,670,679
Culture & Recreation	2,185,179	1,982,008	-	-	2,185,179	1,982,008
Community & Economic Development	505,436	463,659	-	-	505,436	463,659
Facilities & Acquisition	419,333	(85,446)	-	-	419,333	(85,446)
Long-term debt and interest cost	284,622	540,852	-	-	284,622	540,852
Water			1,881,752	1,897,882	1,881,752	1,897,882
Wastewater			2,032,407	2,037,893	2,032,407	2,037,893
Sanitation			505,176	500,331	505,176	500,331
Electric			16,330,907	16,104,407	16,330,907	16,104,407
Internal Service					-	-
Total expenses	7,440,864	6,769,021	20,750,242	20,540,513	28,191,106	27,309,534
Change in net assets	\$ 1,730,896	2,121,646	(139,983)	1,065,571	1,590,913	3,187,217

FINANCIAL ANALYSIS OF THE FUND FINANCIAL STATEMENTS

Governmental funds provide information on near-term inflows, outflows, and balances of available resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balances serve as a useful measure of a government's net resources available at the end of the fiscal year.

The City's governmental funds reported a combined fund balance of \$2,498,904 at June 30, 2009. This was an increase of \$1,163,087 from the prior year and was due to accumulated undesignated local option tax receipts and prudent financial practices. A summary of each of the government major fund balances is as follows:

General Fund

The general fund's balance increased by a modest \$31,777 in Fiscal Year 2009. As a result, our fund balance increased to \$1,797,942 which represents approximately 41% of annual expenditures.

Debt Service Fund

The debt service fund's balance of \$6,073 can be utilized to offset future general obligation principal and interest payments. During the year the fund balance decreased by \$1,369, which was a planned drawdown of the fund balance.

Special Revenue TIF-Pella Business Corridor Fund

The Pella Business Corridor TIF Fund had a fund balance of \$186,442 at June 30, 2009. During the year the fund balance increased by \$615,570.

Capital Projects Funds

The capital project funds are comprised of one main fund and five smaller funds which are as follows:

Capital Facilities Fund had a fund balance of \$111,101 at June 30, 2009. General Fund capital improvement projects are funded out of this fund. Annually the General Fund transfers amounts to cover expenditures made in the Capital Facilities Fund. However, the fund balance is also available to supplement any capital purchases made by the General Fund.

Other Capital Facility Funds had a total fund balance of \$0 at June 30, 2009.

Proprietary Funds

The City's proprietary funds provide the same information found in the government-wide financial statements, but in more detail.

The combined net assets of the enterprise funds at June 30, 2009 totaled \$55,490,259 of which \$9,172,978 is unrestricted. Overall, net assets for the enterprise funds decreased by \$139,983.

The net assets of internal service funds, which is comprised of the City's health insurance trust fund decreased from \$527,037 to \$506,262. The reason for a majority of the decrease was due to higher than expected claims for the year.

BUDGETARY HIGHLIGHTS

The FY 09 budget was amended on December 2, 2008 for the following reasons:

- The FY 08-09 Budget contained estimated totals for the Electric Utility that were based on the FY 07-08 Budget. Estimated totals were used because a separate budget session is conducted for the utility after Council formally approves the regular city budget. The separate session is needed so Council can provide more attention to the Electric Utility and it also gives staff additional time to form estimates, which enhances the reliability of the budget numbers. Therefore, this amendment is simply adjusting the FY 08-09 Budget to include the electric budget that was approved by Council on July 1, 2008. This request contains revenue increases of \$5,272,127 and expenditure increases of \$6,457,672.
- Expenditures were increased \$30,266 for an increase in the Workman's Compensation Premium.
- Expenditures were increased \$12,000 for the increase in Road Salt prices.
- Expenditures were increased \$15,000 for Cleaning of the Digester Mixer.
- Expenditures were increased \$13,134 for Replacing the Digester Building Roof.
- Expenditures were increased \$115,500 for a New Airport Hanger.
- Expenditures were increased \$17,450 for Programmable Logic Controllers.
- Expenditures were increased \$22,054 for miscellaneous small capital projects.
- The remaining \$527,126 in expenditure increases were due to small projects and items previously budgeted in the FY 07-08 budget but the expenses were not incurred until FY 08-09.

None of the above variations are expected to have a significant effect on future services or liquidity.

CAPITAL ASSETS

Capital Assets

Major construction projects and associated expenses for the year included the following:

Governmental Activities

Purchase of a Pumper Truck for the Fire Department \$214,837

Purchase of a New Holland Tractor and Loader for the Airport \$145,298

New Airport Hanger \$116,828

Continued Construction of the new Adventure River at the outdoor aquatic center which began in FY 07/08 \$164,113

Water Fund

North Tower Painting \$73,147

Wastewater Fund

West 4th St Sewer Replacement \$37,943

Electric Fund

Construction cost for ownership share of Walter Scott 4 (WS 4) \$124,302
Bucket Elevator Repair \$128,484
Hospital Area Feeder \$177,162

Additional information concerning the City's capital assets can be found in the notes to the financial statements.

DEBT ADMINISTRATION

At the close of fiscal year ended June 30, 2009, the City had bonds outstanding of \$28,589,000. The City maintains an A2 rating from Moody's Investor Services on all its general obligation debt and electric revenue debt.

State statutes limit the amount of general obligation debt an Iowa city may issue to five percent of the actual assessed valuation at January 1, 2007. The current general obligation debt limitation for the City is \$33,425,799 and at June 30, 2009 there was \$6,840,000 of outstanding general obligation debt. Therefore the city's available debt margin is \$26,585,799 or 79.54%.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City of Pella has felt the impact of the national recession with significant revenue decreases in the current fiscal year for our major utilities. The City will also continue to struggle with stagnant taxable property valuations in FY 10. This is due in large part to the state 'rollback' valuation system in which the taxable valuation of residential property is linked to agriculture property. As a result, allowable growth for residential property cannot exceed agricultural property. The problem lies in the fact that 73% of our property valuations are residential. Furthermore, agricultural property has been in a slump over the last decade. As a result, general fund taxable property valuations have been relatively stagnant over the last five years, which has resulted in a leveling off of property tax revenue.

Currently, the State of Iowa is experiencing significantly decreased revenue streams. It is likely that some of the State's budget problems will be passed along to local governments. One such example of this predicted for Fiscal Year 2010-11 is the Road Use Tax Fund (RUTF). This fund is comprised of sales tax dollars dedicated to local governments for improvements to streets. While the Iowa Department of Transportation (IDOT) originally predicted an allocation of \$89.50 to local governments for RUTF, they are now predicting those funds to drop to between \$88.50 and \$89.00 per capita. For Pella, this would result in an approximate \$10,000 loss from predicted revenues. The Iowa League of Cities cautions municipalities that these and other funding levels could continue to drop as the State investigates their financial situation.

Listed below is a brief summary of the City's property and utility rates as established in the Fiscal Year 2010 Budget:

Property Taxes

The City was able to maintain its property tax rate in Fiscal Year 2009 at \$10.20/\$1,000 of taxable valuation. In addition, there will be no change in the rate for Fiscal Year 2010.

Electric Rates

There has not been an electrical rate increase since 1996. However, the dilemma the City faces in future years is costs to meet the new clean air requirements by the Environmental Protection Agency. Therefore it is very likely that the City will need to increase rates to meet compliance standards in the future.

Water Rates

For Fiscal Year 2009 there was no increase in water rates. However, rates will increase as of March 1, 2010 to pay for source water improvements.

Waste Water Rates

For Fiscal Year 2009 there was no increase in waste water rates. However, rates will increase as of March 1, 2010 to fund the replacement of aging collection mains throughout the City and capital improvements needed at the wastewater plant.

Requests for Information

This financial report is designed to provide a general overview of the City's finances. Questions concerning any of the information provided in this report or request for additional information should be addressed to the City Administrator, 825 Broadway Street, Pella, Iowa 50219.

Financial Statements

CITY OF PELLA, IOWA
STATEMENT OF NET ASSETS
June 30, 2009

	Primary Government		
	Governmental Activities	Business Type Activities	Total
Assets			
Cash and pooled investments	\$ 3,104,829	8,371,467	11,476,296
Receivables:			
Property tax:			
Delinquent	17,556	-	17,556
Succeeding year	3,847,102	-	3,847,102
Tax increment financing:			
Delinquent	4,044	-	4,044
Succeeding year	937,005	-	937,005
Local option sales tax	186,022	-	186,022
Accounts (net of allowance for uncollectibles)	6,991	2,473,796	2,480,787
Accrued interest	16,130	85,988	102,118
Due from other governments	60,948	515	61,463
Inventories	-	968,367	968,367
Prepaid expenses	250	50,500	50,750
Restricted assets:			
Cash and pooled investments	780,146	4,363,689	5,143,835
Deferred charge (issuance costs)	-	178,954	178,954
Due from other funds		66,468	66,468
Capital assets(net of accumulated depreciation)	38,720,737	63,602,154	102,322,891
Total assets	47,681,760	80,161,898	127,843,658
Liabilities			
Excess of warrants over bank balance	\$ 187,987	-	187,987
Accounts payable and accrued liabilities	506,576	2,266,871	2,773,447
Salaries and benefits payable	219,605	149,368	368,973
Deposits	-	98,598	98,598
Accrued interest payable	20,856	71,369	92,225
Unearned revenue:			
Succeeding year property tax	3,847,102	-	3,847,102
Succeeding year tax increment financing	937,005	-	937,005
Long-term liabilities:			
Portion due or payable within one year:			
General obligation bonds/notes	1,115,000	-	1,115,000
Revenue bonds payable	-	1,991,000	1,991,000
Compensated absences	191,114	185,934	377,048
Portion due or payable after one year:			
General obligation bonds	5,725,000	-	5,725,000
Revenue bonds payable (net of unamortized discounts)	-	19,657,562	19,657,562
Due to other funds	66,468	-	66,468
Compensated absences	190,001	238,442	428,443
Net OPEB liability	10,546	12,495	23,041
Total liabilities	13,017,260	24,671,639	37,688,899

CITY OF PELLA, IOWA
STATEMENT OF NET ASSETS
June 30, 2009

Continued from previous page.

Net Assets

	Primary Government		
	Governmental Activities	Business Type Activities	Total
Invested in capital assets, net of related debt	31,991,838	41,953,592	73,945,430
Restricted for:			
Debt service and improvements	-	4,265,091	4,265,091
Special Purposes	826,588	-	826,588
Permanent Trust	140,000	-	140,000
Other	-	98,598	98,598
Unrestricted	1,706,074	9,172,978	10,879,052
Total net assets	\$ 34,664,500	55,490,259	90,154,759

See notes to financial statements.

Exhibit B

CITY OF PELLA, IOWA
STATEMENT OF ACTIVITIES
Year ended June 30, 2009

Functions/Programs	Program Revenues			
	Expenses	Charges for Service	Operating Grants, Contributions & Restricted Interest	Capital Grants, Contributions & Restricted Interest
Governmental activities:				
Public safety	\$ 1,628,535	68,952	62,212	-
Public works	1,758,000	38,303	824,717	-
Culture and recreation	2,185,179	446,338	48,235	-
Community and economic development	505,436	2,719	-	-
General government	659,759	70,003	-	-
Long-term debt costs and interest	284,622	-	-	-
Facilities and acquisition	419,333	-	-	340,930
Total governmental activities	7,440,864	626,315	935,164	340,930
Business type activities:				
Water	1,881,752	1,738,726	-	41,187
Wastewater	2,032,407	1,401,301	-	-
Sanitation	505,176	542,401	-	-
Electric	16,330,907	16,399,292	-	-
Total business type activities	20,750,242	20,081,720	-	41,187
Total primary government	\$ 28,191,106	20,708,035	935,164	382,117
General Revenues:				
Taxes:				
Property taxes				
Local option sales tax				
Tax increment financing				
Other taxes				
Grants and contributions not restricted to specific programs				
Payments in lieu of taxes				
Unrestricted investment earnings				
Miscellaneous				
Gain on sale/disposal of assets				
Transfers				
Total general revenues and transfers				
Change in net assets				
Net assets beginning of year, as restated				
Net assets end of year				
See notes to financial statements.				

Exhibit B

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business Type Activities	Total
(1,497,371)	-	(1,497,371)
(894,980)	-	(894,980)
(1,690,606)	-	(1,690,606)
(502,717)	-	(502,717)
(589,756)	-	(589,756)
(284,622)	-	(284,622)
(78,403)	-	(78,403)
(5,538,455)	-	(5,538,455)
-	(101,839)	(101,839)
-	(631,106)	(631,106)
-	37,225	37,225
-	68,385	68,385
-	(627,335)	(627,335)
(5,538,455)	(627,335)	(6,165,790)
3,420,082	-	3,420,082
1,180,851	-	1,180,851
1,616,632	-	1,616,632
400,928	-	400,928
45,421	-	45,421
431,129	-	431,129
77,396	331,396	408,792
4,425	106,594	111,019
122,764	19,085	141,849
(30,277)	30,277	-
7,269,351	487,352	7,756,703
1,730,896	(139,983)	1,590,913
32,933,604	55,630,242	88,563,846
\$ 34,664,500	55,490,259	90,154,759

Exhibit C

CITY OF PELLA, IOWA
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2009

	Major Funds				Non-major	
	General	Sp. Rev. TIF-Pella Bus. Corr.	Debt Service	Capital Projects	Other Governmental Funds	Total
Assets						
Cash and pooled investments	\$ 1,924,811	182,398	3,716	312,201	835,051	3,258,177
Receivables:						
Property tax:						
Delinquent	13,098	-	2,357	-	2,101	17,556
Succeeding year	2,887,002	-	532,760	-	427,340	3,847,102
Tax increment financing:						
Delinquent	-	4,044	-	-	-	4,044
Succeeding year	-	937,005	-	-	-	937,005
Local option sales tax	-	-	-	-	186,022	186,022
Accounts receivable, miscellaneous	4,171	-	-	-	2,820	6,991
Accrued interest	7,990	-	-	1,941	2,168	12,099
Due from other governments	15,033	-	-	45,915	-	60,948
Prepaid expenditures	250	-	-	-	-	250
Due from other funds	316,468	-	-	-	-	316,468
Total assets	\$ 5,168,823	1,123,447	538,833	360,057	1,455,502	8,646,662
Liabilities and Fund Balances						
Liabilities:						
Excess of warrants over bank balance	\$ -	-	-	-	187,987	187,987
Accounts payable and accrued liabilities	112,917	-	-	248,956	20,136	382,009
Salaries and benefits payable	199,328	-	-	-	20,278	219,606
Deferred revenue:						
Succeeding year property tax	2,887,002	-	532,760	-	427,340	3,847,102
Succeeding year tax increment financing	-	937,005	-	-	-	937,005
Due to other funds	-	-	-	-	382,936	382,936
Compensated absences payable	171,635	-	-	-	19,479	191,114
Total liabilities	3,370,882	937,005	532,760	248,956	1,058,156	6,147,759
Fund balances:						
Reserved for:						
Debt Service	-	-	6,073	-	-	6,073
Permanent Trust	-	-	-	-	140,000	140,000
Unreserved:						
Undesignated:						
Reported in:						
General Fund	1,797,942	-	-	-	-	1,797,942
Special Revenue fund	-	186,442	-	-	257,346	443,788
Capital Projects fund	-	-	-	111,101	-	111,101
Total fund balances	1,797,942	186,442	6,073	111,101	397,346	2,498,904
Total liabilities and fund balances	\$ 5,168,824	1,123,447	538,833	360,057	1,455,502	8,646,663

See notes to financial statements.

CITY OF PELLA, IOWA
 RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF NET ASSETS
 June 30, 2009

Total fund balances of governmental funds (Exhibit C)	\$ 2,498,904
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the funds. The cost of assets is \$54,215,359 and the accumulated depreciation is \$15,494,622.

38,720,737

An internal service fund is used by management to track the collection and payment of various employee benefits. The assets and liabilities of the internal service fund are included in the statement of net assets.

506,262

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

(7,061,403)

Net assets of governmental activities (Exhibit A)

\$ 34,664,500

See notes to financial statements.

Exhibit E

CITY OF PELLA, IOWA
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 GOVERNMENTAL FUNDS
 Year ended June 30, 2009

	Major Funds				Non-major	
					Other	
	General	Sp. Rev. TIF-Pella Bus. Corr.	Debt Service	Capital Projects	Governmental Funds	Totals
Revenues:						
Property taxes	\$ 2,524,764	-	491,532	-	403,786	3,420,082
Tax increment financing	-	1,515,085	-	-	101,547	1,616,632
Local option sales tax	-	-	-	-	1,180,851	1,180,851
Other city taxes	396,037	-	2,485	-	2,406	400,928
Licenses and permits	29,859	-	-	-	-	29,859
Use of money and property	76,982	1,241	346	6,842	31,813	117,224
Intergovernmental	525,457	-	-	334,088	849,776	1,709,321
Special Assessments	-	-	-	-	-	-
Charges for services	492,108	-	-	-	-	492,108
Miscellaneous	73,682	-	-	-	38,586	112,268
Total revenues	4,118,889	1,516,326	494,363	340,930	2,608,765	9,079,273
Expenditures:						
Current operating:						
Public safety	1,538,082	-	-	-	-	1,538,082
Public works	286,939	-	-	-	814,867	1,101,806
Culture and recreation	1,728,232	-	-	-	87,331	1,815,563
Community and economic development	353,672	151,124	-	-	98	504,894
General government	450,969	-	-	-	-	450,969
Debt service	-	-	1,372,483	-	-	1,372,483
Capital projects	-	-	-	1,255,727	-	1,255,727
Total expenditures	4,357,894	151,124	1,372,483	1,255,727	902,296	8,039,524
Excess (deficiency) of revenues over (under) expenditures	(239,005)	1,365,202	(878,120)	(914,797)	1,706,469	1,039,749
Other financing sources (uses):						
Operating transfers in	462,075	-	876,751	666,777	6,293	2,011,896
Operating transfers (out)	(191,293)	(749,632)	-	-	(1,101,248)	(2,042,173)
Proceeds from sale of assets	-	-	-	153,615	-	153,615
Total other financing sources (uses)	270,782	(749,632)	876,751	820,392	(1,094,955)	123,338
Net change in fund balances	31,777	615,570	(1,369)	(94,405)	611,514	1,163,087
Fund balances beginning of year	1,766,165	(429,128)	7,442	205,506	(214,168)	1,335,817
Fund balances end of year	\$ 1,797,942	186,442	6,073	111,101	397,346	2,498,904

See notes to financial statements.

CITY OF PELLA, IOWA
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES
 Year ended June 30, 2009

Net change in fund balances - total governmental funds (Exhibit E) **\$ 1,163,087**

Amounts reported for governmental activities in the statement of activities are different because:

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

Expenditures for capital assets	\$ 836,394		
Depreciation expense	(1,246,980)		
Assets disposed of	<u>(30,851)</u>		(441,437)

Proceeds from issuing long-term liabilities provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of long-term debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets. Current year repayments exceeded issues, as follows:

Issued	-		
Discount on general obligation bonds	-		
Repaid	<u>1,070,000</u>		1,070,000

An internal service fund is used by management to track collections of medical and dental insurance premiums and Section 125 deductions from the employer and employee as well as disbursements for health and dental insurance premiums and claims, Section 125 claims, and other employee benefits.

Interest revenue from governmental internal service fund	14,527		
Employer funds for benefits shifted from other funds	762,904		
Employee benefits collected through withholding	195,137		
Claims and premiums paid out	<u>(993,343)</u>		(20,775)

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

Compensated absences	(47,294)		
Other postemployment benefits	(10,546)		
Interest on long-term debt	<u>17,861</u>		(39,979)

Change in net assets of governmental activities (Exhibit B) **\$ 1,730,896**

See notes to financial statements.

Exhibit G

CITY OF PELLA, IOWA
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2009

	Business Type Activities					Governmental Activities
	Enterprise Funds					Internal Service Funds
	Water	Wastewater	Electric	Sanitation	Totals	
Assets						
Current assets:						
Cash and pooled investments	\$ 1,802,633	666,025	5,866,337	36,472	8,371,467	626,798
Receivables:						
Accrued interest	14,284	6,992	64,503	209	85,988	4,031
Trade (net of allowance for uncollectible)	135,887	113,470	2,179,707	44,732	2,473,796	-
Inventories	113,308	97,424	757,635	-	968,367	-
Due from other governments	515	-	-	-	515	-
Prepaid expenses	-	-	50,500	-	50,500	-
Total current assets	2,066,627	883,911	8,918,682	81,413	11,950,633	630,829
Non-current assets:						
Restricted assets (cash and pooled investments)	354,000	368,342	3,641,347	-	4,363,689	-
Deferred charge (issuance costs)	35,202	35,828	107,924	-	178,954	-
Due from other funds	66,468	-	-	-	66,468	-
Capital assets:						
Land, wastewater rights and infrastructure	118,360	907,049	550,724	-	1,576,133	-
Depreciable buildings, property, equipment and infrastructure, net	7,729,657	10,584,640	43,711,724	-	62,026,021	-
Total non-current assets	8,303,687	11,895,859	48,011,719	-	68,211,265	-
Total assets	\$ 10,370,314	12,779,770	56,930,401	81,413	80,161,898	630,829
Liabilities						
Current liabilities:						
Accounts payable and accrued liabilities	\$ 95,475	77,397	2,040,792	53,207	2,266,871	124,567
Salaries and benefits payable	27,336	19,101	101,416	1,515	149,368	-
Deposits	-	-	98,598	-	98,598	-
Accrued interest payable	7,840	11,641	51,888	-	71,369	-
Compensated absences payable	35,290	27,851	120,403	2,390	185,934	-
Long-term debt - due within one year:						
Revenue bonds payable	420,000	226,000	1,345,000	-	1,991,000	-
Total current liabilities	585,941	361,990	3,758,097	57,112	4,763,140	124,567
Long-term liabilities (net of current portion):						
Compensated absences payable	64,699	40,193	133,550	-	238,442	-
Net OPEB liability	2,271	1,884	8,161	179	12,495	-
Revenue bonds payable (net of unamortized discount)	2,143,962	3,193,000	14,320,600	-	19,657,562	-
Total long-term liabilities	2,210,932	3,235,077	14,462,311	179	19,908,499	-
Total liabilities	2,796,873	3,597,067	18,220,408	57,291	24,671,639	124,567
Net Assets						
Invested in capital assets, net of related debt	5,284,055	8,072,689	28,596,848	-	41,953,592	-
Restricted for debt service	354,000	368,342	2,042,749	-	2,765,091	-
Restricted for improvements	-	-	1,500,000	-	1,500,000	-
Restricted other	-	-	98,598	-	98,598	-
Unrestricted	1,935,386	741,672	6,471,798	24,122	9,172,978	506,262
Total net assets	\$ 7,573,441	9,182,703	38,709,993	24,122	55,490,259	506,262

See notes to financial statements

Exhibit H

CITY OF PELLA, IOWA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
June 30, 2009

	Business Type Activities					Governmental
	Enterprise Funds					Activities
	Water	Wastewater	Electric	Sanitation	Totals	Internal Service Funds
Operating revenues:						
Charges for service (pledged for revenue notes)	\$ 1,738,726	1,401,301	16,399,292	542,401	20,081,720	-
Miscellaneous	35,340	23,613	-	-	58,953	-
Internal service charges						958,041
Total operating revenues	1,774,066	1,424,914	16,399,292	542,401	20,140,673	958,041
Operating expenses:						
Personnel services	668,482	459,531	2,453,519	38,063	3,619,595	-
Contractual	54,000	32,410	-	435,819	522,229	352,448
Franchise fees	43,579	28,098	-	-	71,677	-
Materials and Supplies	467,322	541,205	8,475,081	31,294	9,514,902	-
Purchased power	-	-	2,638,167	-	2,638,167	-
Payments in lieu of taxes	-	-	431,129	-	431,129	-
Payments in lieu of services	-	-	110,622	-	110,622	-
Depreciation	531,034	818,279	1,530,298	-	2,879,611	-
Claims expense	-	-	-	-	-	640,895
Total operating expenses	1,764,417	1,879,523	15,638,816	505,176	19,787,932	993,343
Operating income (loss)	9,649	(454,609)	760,476	37,225	352,741	(35,302)
Non-operating revenues (expenses):						
Debt costs and interest	(117,335)	(152,884)	(692,091)	-	(962,310)	-
Interest income	68,373	28,817	233,352	854	331,396	14,527
Rents	21,599	12,288	-	-	33,887	-
Sale/disposal of fixed assets	-	-	19,085	-	19,085	-
Other revenues	3,752	-	1,948	8,054	13,754	-
Total non-operating revenues (expenses)	(23,611)	(111,779)	(437,706)	8,908	(564,188)	14,527
Income (loss) before operating transfers	(13,962)	(566,388)	322,770	46,133	(211,447)	(20,775)
Capital contributions-assets	-	41,187	-	-	41,187	-
Transfers in	-	168,866	94,900	-	263,766	-
Transfers (out)	(4,828)	(168,983)	(4,828)	(54,850)	(233,489)	-
Net contributions and transfers	(4,828)	41,070	90,072	(54,850)	71,464	-
Change in net assets	(18,790)	(525,318)	412,842	(8,717)	(139,983)	(20,775)
Net assets beginning of year, as restated	7,592,231	9,708,021	38,297,151	32,839	55,630,242	527,037
Net assets end of year	\$ 7,573,441	9,182,703	38,709,993	24,122	55,490,259	506,262

See notes to financial statements.

Exhibit I

CITY OF PELLA, IOWA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
Year ended June 30, 2009

	Business Type Activities					Governmental Activities
	Enterprise Funds					Internal Service Funds
	Water	Wastewater	Electric	Sanitation	Total	
Cash flows from operating activities:						
Cash received from customers	\$ 1,783,312	1,438,379	15,804,644	547,380	19,573,715	-
Cash received from internal service charges	-	-	-	-	-	958,041
Cash payments to employees for services	(666,438)	(461,662)	(2,350,082)	(38,539)	(3,516,721)	-
Cash payments for goods and services	(581,877)	(545,747)	(10,883,421)	(453,114)	(12,464,159)	(996,230)
Replacement tax, transfers	-	-	(431,129)	-	(431,129)	-
Net cash provided (used) by operating activities	534,997	430,970	2,140,012	55,727	3,161,706	(38,189)
Cash flows from non-capital financing activities:						
Miscellaneous receipts	25,351	12,288	1,948	8,054	47,641	-
Transfers in	-	168,866	94,900	-	263,766	-
Transfers (out)	(4,828)	(168,983)	(4,828)	(54,850)	(233,489)	-
Net cash provided (used) by non-capital financing activities	20,523	12,171	92,020	(46,796)	77,918	-
Cash flows from capital and related financing activities:						
Acquisition and construction of capital assets	(233,160)	(205,206)	(693,405)	-	(1,131,771)	-
Principal paid on long-term debt	(400,000)	(217,000)	(1,290,000)	-	(1,907,000)	-
Interest costs (not capitalized)	(106,801)	(152,884)	(667,311)	-	(926,996)	-
Other long-term debt costs	(4,381)	(1,818)	(12,584)	-	(18,783)	-
Due from other funds	240,782	-	614,500	-	855,282	-
Proceeds from sale of capital assets	-	-	19,085	-	19,085	-
Net cash used by capital and related financing activities	(503,560)	(576,908)	(2,029,715)	-	(3,110,183)	-
Cash flows from investing activities:						
Proceeds (to) from investments	338,919	186,905	(396,150)	(928)	128,746	(12,124)
Investment income	70,279	29,531	219,013	827	319,650	14,006
Net cash provided (used) by investing activities	409,198	216,436	(177,137)	(101)	448,396	1,882
Net increase (decrease) in cash and cash equivalents	461,158	82,669	25,180	8,830	577,837	(36,307)
Cash and cash equivalents at beginning of year	304,720	270,896	3,146,852	7,297	3,729,765	270,694
Cash and cash equivalents at end of year	\$ 765,878	353,565	3,172,032	16,127	4,307,602	234,387
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:						
Operating income (loss)	\$ 9,649	(454,609)	760,476	37,225	352,741	(35,302)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:						
Depreciation	531,034	818,279	1,530,298	-	2,879,611	-
Change in assets and liabilities:						
(Increase) decrease in receivables	9,246	13,465	(596,040)	4,979	(568,350)	-
(Increase) decrease in inventory	15,297	9,014	(16,158)	-	8,153	-
(Increase) decrease in due from other govts	(515)	-	2,502	-	1,987	-
(Increase) in prepaid expense	-	-	(28,491)	-	(28,491)	-
Increase (decrease) in accounts payable	(31,758)	46,952	382,596	13,999	411,789	(2,887)
Increase (decrease) in accrued expenses	2,484	422	11,000	(60)	13,846	-
Increase (decrease) in compensated absences	(2,711)	(4,437)	84,276	(595)	76,533	-
Increase in deposits held	-	-	1,392	-	1,392	-
Increase in other postemployment benefits	2,271	1,884	8,161	179	12,495	-
Total adjustments	525,348	885,579	1,379,536	18,502	2,808,965	(2,887)
Net cash provided (used) by operating activities	\$ 534,997	430,970	2,140,012	55,727	3,161,706	(38,189)

Exhibit I

CITY OF PELLA, IOWA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
Year ended June 30, 2009

Continued from previous page

**Reconciliation of cash and cash equivalents at year end
to specific assets included on the Statement of Net
Assets:**

Current assets:

Cash and pooled investments	\$ 1,802,633	666,025	5,866,337	36,472	8,371,467	626,798
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Restricted assets:

Cash and pooled investments:

Water bond reserve	354,000	-	-	-	354,000	-
Wastewater bond reserve	-	368,342	-	-	368,342	-
Electric bond reserve	-	-	2,042,749	-	2,042,749	-
Electric improvement reserve	-	-	1,500,000	-	1,500,000	-
Customer deposits	-	-	98,598	-	98,598	-
	354,000	368,342	3,641,347	-	4,363,689	-

Total cash and pooled investments	2,156,633	1,034,367	9,507,684	36,472	12,735,156	626,798
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Less items not meeting definition of cash equivalent:

Certificates of deposit	(1,356,259)	(663,915)	(6,178,504)	(19,840)	(8,218,518)	(382,678)
Iowa Public Agency Investment Trust	(34,496)	(16,887)	(157,148)	(505)	(209,036)	(9,733)
	(1,390,755)	(680,802)	(6,335,652)	(20,345)	(8,427,554)	(392,411)

Cash and cash equivalents at year end	\$ 765,878	353,565	3,172,032	16,127	4,307,602	234,387
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Non-cash investing, capital and financing

activities:

Current issuance cost expense, prior cash outlay	\$ 6,153	3,258	12,196	-	21,607	-
Current discount amortization, prior cash receipt	(3,581)	-	(11,384)	-	(14,965)	-
Contributions of capital assets from developer/ government	-	41,187	-	-	41,187	-
Acquisition of capital assets through developer/ government contribution	-	(41,187)	-	-	(41,187)	-

See notes to financial statements.

CITY OF PELLA, IOWA

NOTES TO FINANCIAL STATEMENTS
June 30, 2009

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

The City of Pella, Iowa is a political subdivision of the State of Iowa located in Marion County. It was incorporated in 1868 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council-Manager form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, culture and recreation, community and economic development and general government services. It also provides water, sewer, electrical and sanitation utilities.

The financial statements of the City of Pella, Iowa, are prepared in accordance with U.S. generally accepted Accounting Principles (GAAP) as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, the City of Pella 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 of Pella has no component units which meet the Governmental Accounting Standards Board criteria.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the non-fiduciary activities of the primary government. Neither fiduciary funds nor component units that are fiduciary in nature are included. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which are supported by property 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 Net Assets presents the City's non-fiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

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

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

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

CITY OF PELLA, IOWA

NOTES TO FINANCIAL STATEMENTS
June 30, 2009

(1) ***Summary of Significant Accounting Policies (continued from previous page)***
B. Basis of Presentation (continued from previous page)

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

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

The City reports the following major governmental funds:

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

Special Revenue:

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

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

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

The City reports the following major proprietary funds:

Enterprise:

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

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

The Sanitation Fund is used to account for the operation and maintenance of the City's solid waste collection system.

The Electric Fund is used to account for the operation and maintenance of the City's electricity production, procurement and transmission system.

CITY OF PELLA, IOWA

NOTES TO FINANCIAL STATEMENTS
June 30, 2009

(1) Summary of Significant Accounting Policies (continued from previous page)

In addition, the City reports the following fund types:

The Internal Service Fund is utilized to account for the financing of goods or services purchased by one department of the City and provided to other departments or agencies on a cost reimbursement basis.

These non-major governmental funds are grouped for financial statement reporting purposes:

Special Revenue:

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

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

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

The Employee Benefits fund is used to account for property tax levied to finance the payment of employee benefits.

The Pella Clothing Bank, Police Reserve, Community Development Trust, Carnegie-Viersen Library Gift/Memorial, Pella Community Center Trust, Pella Community Center Van Trust, Art Center Trust, Airport Trust, Police Asset Forfeiture, Soccer Complex, Parks Development, and Carnegie-Viersen-Van Gorp Trust funds receive proceeds from specific revenue sources that are legally restricted to expenditures for specific purposes.

The Permanent funds resources are restricted to the extent that only earnings and not principal may be used for purposes that support the reporting government's programs. That is, for the benefit of the government or its citizenry.

C. Measurement Focus and Basis of Accounting

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

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

CITY OF PELLA, IOWA

NOTES TO FINANCIAL STATEMENTS
June 30, 2009

(1) ***Summary of Significant Accounting Policies (continued from previous page)***
C. Measurement Focus and Basis of Accounting (continued from previous page)

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

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

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

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

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

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

D. **Assets, Liabilities and Fund Equity**

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

Cash, Pooled Investments and Cash Equivalents - The cash balances of most City funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Public Agency Investment Trust which is valued at amortized cost and negotiable certificates of deposit which are stated at cost. Interest earned on investments is recorded in the General Fund unless otherwise provided by law.

CITY OF PELLA, IOWA

NOTES TO FINANCIAL STATEMENTS
June 30, 2009

(1) ***Summary of Significant Accounting Policies (continued from previous page)***

D. Assets, Liabilities and Fund Equity (continued from previous page)

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

Trade receivables – Trade receivables are recorded in the enterprise funds at the time the service is billed. Trade receivables for the enterprise funds are listed net of an allowance for uncollectible accounts. The allowance for uncollectible accounts is calculated each year. See note 3.

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

Property Taxes Receivable, Including Tax Increment Financing - Property tax, including tax increment financing, in governmental funds is accounted for using the modified accrual basis of accounting. Property taxes receivable represent taxes received by or expected to be received within 60 days after year end.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date the tax asking is certified by the City to the County Board of Supervisors. Current year property tax receivable represents taxes collected by the County but not remitted to the City at June 30, 2009 and unpaid taxes. The succeeding year property tax receivable represent taxes certified by the City to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the City is required to certify its budget to the County Auditor by March 15 of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenues recognized in these funds become due and collectible in September and March of the current fiscal year with a 1½ % per month penalty for delinquent payments; is based on January 1, 2007 assessed property valuations; is for the tax accrual period July 1, 2008 through June 30, 2009 and reflects tax asking contained in the budget certified to the County Board of Supervisors in March, 2008.

Due from and Due to Other Funds - During the course of its operations, the City has numerous transactions between funds. To the extent certain transactions between funds had not been paid or received as of June 30, 2009, balances of interfund amounts receivable or payable have been recorded in the fund financial statements.

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

Restricted Assets - Funds set aside for payment of Enterprise Fund revenue notes are classified as restricted assets since their use is restricted by applicable note indentures. Other restricted assets include special purpose funds and customer deposits restricted for application to unpaid customer accounts or for refund to customers.

CITY OF PELLA, IOWA

NOTES TO FINANCIAL STATEMENTS
June 30, 2009

(1) **Summary of Significant Accounting Policies (continued from previous page)**

D. Assets, Liabilities and Fund Equity (continued from previous page)

Capital Assets - Capital assets, which include property, equipment, vehicles and infrastructure assets acquired after July 1, 1980 (e.g. roads, curbs, gutters, sidewalks and similar items which are immovable and of value only to the City) are reported in the applicable governmental or business type activities columns in the government-wide Statement of Net Assets and in the Proprietary Funds Statement of Net Assets. Capital assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair not adding to the value of the asset or materially extending asset lives are not capitalized. Reportable capital assets are defined by the City as assets with an initial, individual cost in excess of \$5,000, or lower if they want to specifically track and identify the asset such as computer purchases, and estimated useful lives in excess of two years.

Capital assets depreciated using the straight line method of depreciation over the following estimated useful lives in years, are as follows:

<u>Asset Class</u>	<u>Estimated Useful Lives (In Years)</u>
Roads	20-50
Wastewater, Water and Electrical Systems	25-75
Buildings	40
Improvements	25-35
Furniture, fixtures, and equipment	5-35
Vehicles	5-7

Capitalized Interest - Interest costs are capitalized when incurred by proprietary funds on debt where proceeds were used to finance the construction of assets. Interest earned on proceeds of tax-exempt borrowing arrangements restricted to the acquisition of qualifying assets is offset against interest costs in determining the amount to be capitalized. Capital improvements made in the water, sewer and electric funds were financed with existing revenues, no interest on debt was incurred or capitalized.

Deferred and Unearned Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of the succeeding year's property tax receivable and the succeeding year's tax increment financing receivable.

Unearned revenue in the Statement of Net Assets consists of succeeding year property tax and tax increment financing receivable that will not be recognized as revenue until the year for which they are levied.

CITY OF PELLA, IOWA

NOTES TO FINANCIAL STATEMENTS
June 30, 2009

(1) ***Summary of Significant Accounting Policies (continued from previous page)***

D. Assets, Liabilities and Fund Equity (continued from previous page)

Compensated Absences - Vested or accumulated vacation leave that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it. Vested or accumulated vacation leave of proprietary funds is recorded as an expense and liability of those funds as the benefits accrue to employees.

All vested vacation leave is in current compensated absences. In accordance with the provisions of Governmental Accounting Standards Board Statement 16, "Accounting for Compensated Absences," no liability is recorded for non-vesting accumulating rights to receive sick pay benefits. However, a liability is recognized for that portion of accumulating sick leave benefits that it is estimated will be taken as "terminal leave" prior to retirement. One year sick pay allocation is included in current compensated absences. Sick pay which has built up in an employees account, but is not expected to be paid in the current year is in long-term compensated absences. Liabilities have been computed based on rates of pay as of June 30, 2009.

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

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

Restricted Net Assets – In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

Use of Restricted/Unrestricted Net Assets - When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the City's policy is to apply restricted net assets first.

Fund Equity – In the governmental fund financial statements, reservations of fund balances are reported for amounts not available for appropriation or legally restricted by outside parties for use for a specific purpose.

CITY OF PELLA, IOWA

NOTES TO FINANCIAL STATEMENTS
June 30, 2009

(1) **Summary of Significant Accounting Policies (continued from previous page)**

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2009, disbursements exceeded the amount budgeted in the public works, community and economic development and general government functions.

(2) **Cash and Pooled Investments**

The City's deposits 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's investments at June 30, 2009 are as follows:

Certificates of deposit	\$ 9,696,569
Iowa Public Agency Investment Trust	246,502
Government Bonds	49,044
Total	<u>\$ 9,992,115</u>

The investments in the Iowa Public Agency Investment Trust are valued at an amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Credit risk. The investment in the Iowa Public Agency Investment Trust is rated Aaa by Moody's Investors Service. The investments in Government Bonds are primarily invested in U.S. Treasury securities.

(3) **Trade Accounts Receivable and Allowance for Uncollectibles**

Utility revenue is recorded when earned. Customers are billed monthly. The City Municipal Water, Wastewater, Sanitation, and Electric Utility's trade accounts receivable is based on actual customer billings. If a customer defaults on their bill, current policy does not remove their balance or details from accounts receivable. The idea being, if that same party seeks utility service from one of the municipal utilities it will not be provided until the old bill is paid. To compensate for these uncollectible balances, the allowance for uncollectible accounts includes 100% of accounts 60 days or older and 50% of accounts 30 days old. An allowance for uncollectibles has been calculated for the following enterprise funds: Electric, Water, Wastewater and Sanitation. Amounts are as follows: \$208,222, \$32,721, \$28,993 and \$14,506, respectively.

CITY OF PELLA, IOWA

NOTES TO FINANCIAL STATEMENTS
June 30, 2009**(4) Proprietary Revenues Net of Discounts and Allowances**

Enterprise Fund	Gross Charges for Services	(Increase) Decrease in Allowance	Net Charges for Service
Water	\$ 1,746,432	(7,706)	1,738,726
Wastewater	1,405,632	(4,331)	1,401,301
Electric	16,453,121	(53,829)	16,399,292
Sanitation	544,209	(1,808)	542,401

(5) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

(6) Emission Credits

The Electric Fund earns emission credits throughout the year. These credits are expended if emissions are below EPA set requirements. The City has no cost in the credits; therefore, according to available accounting guidance, they have not been recorded in the financial statements. The credits are potentially saleable, however, and should the City's emissions be below acceptable levels, these credits would offset otherwise imposed costs. Emission credit activity and value of the unused credits for the year ended June 30, 2009 is as follows:

Credit Type	Number of Credits					Value	
	7/1/2008	Earned	Used/ Transferred	Sold	6/30/2009	Each	Total
SO2	9,047	1,803	-467	0	10,383	\$ 72	\$ 747,576
NOx	0	140	-25	0	115	1,125	129,375
NOx	0	63	0	0	63	250	15,750
Total	9,047	2,006	-492	0	10,561		\$ 892,701

CITY OF PELLA, IOWA

NOTES TO FINANCIAL STATEMENTS
June 30, 2009**(7) Capital Assets**

Capital assets activity for the year ended June 30, 2009 is as follows:

Primary Government:	Balance Beginning of Balance	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 5,442,588	1,201	-	5,443,789
Construction in progress:				
Volksweg Trail Extension	184,194	841	185,035	-
W 3rd & Washington Traffic Signals	-	23,198	-	23,198
Airport Dump Truck	-	6,787	-	6,787
Aquatic Center II	2,997,432	164,113	3,161,545	-
Airport Tractor	8,569	145,298	153,867	-
Total capital assets not being depreciated	8,632,783	341,438	3,500,447	5,473,774
Capital assets being depreciated:				
Vehicles	435,984	239,985	-	675,969
Buildings and improvements	20,601,564	3,313,673	64,102	23,851,135
Machinery and equipment	5,517,972	241,167	23,578	5,735,561
Infrastructure	18,278,342	200,578	-	18,478,920
Total capital assets being depreciated	44,833,862	3,995,403	87,680	48,741,585
Less accumulated depreciation for:				
Vehicles	243,657	58,798	-	302,455
Buildings and improvements	3,893,745	566,856	33,251	4,427,350
Machinery and equipment	4,961,579	118,653	23,578	5,056,654
Infrastructure	5,205,490	502,673	-	5,708,163
Total accumulated depreciation	14,304,471	1,246,980	56,829	15,494,622
Total capital assets being depreciated net	30,529,391	2,748,423	30,851	33,246,963
Governmental activities capital assets, net	\$ 39,162,174	3,089,861	3,531,298	38,720,737

CITY OF PELLA, IOWA

NOTES TO FINANCIAL STATEMENTS
June 30, 2009(7) **Capital assets (continued from previous page)****Business type activities:****Water Fund:**

Capital assets not being depreciated:

	Balance Beginning of Balance	Increases	Decreases	Balance End of Year
Land	\$ 118,360	-	-	118,360
Construction in progress:				
Water System Analysis	-	22,754	-	22,754
Central Drive Loop	-	5,322	-	5,322
AFGF Rehabilitation	70,866	-	70,866	-
Total capital assets not being depreciated	189,226	28,076	70,866	146,436

Capital assets being depreciated:

Buildings and improvements	9,544,953	73,147	-	9,618,100
Machinery and equipment	540,452	166,891	-	707,343
Furniture and fixtures	1,079	-	-	1,079
Vehicles	75,384	22,500	1,800	96,084
Infrastructure	4,775,968	13,412	-	4,789,380
Total capital assets being depreciated	14,937,836	275,950	1,800	15,211,986

Less accumulated depreciation for:

Buildings and improvements	4,945,400	254,991	-	5,200,391
Machinery and equipment	177,896	74,950	-	252,846
Furniture and fixtures	1,079	-	-	1,079
Vehicles	31,087	13,198	1,800	42,485
Infrastructure	1,825,709	187,895	-	2,013,604
Total accumulated depreciation	6,981,171	531,034	1,800	7,510,405

Total capital assets being depreciated net

	7,956,665	(255,084)	-	7,701,581
Water - capital assets, net	\$ 8,145,891	(227,008)	70,866	7,848,017

CITY OF PELLA, IOWA

NOTES TO FINANCIAL STATEMENTS
June 30, 2009(7) **Capital assets (continued from previous page)**

	Balance Beginning of Balance	Increases	Decreases	Balance End of Year
Wastewater Fund:				
Capital assets not being depreciated:				
Land	\$ 907,049	-	-	907,049
Construction in Progress:				
None	-	-	-	-
Total capital assets not being depreciated	907,049	-	-	907,049
Capital assets being depreciated:				
Buildings and improvements	16,658,098	13,134	-	16,671,232
Machinery and equipment	567,280	66,579	-	633,859
Furniture and fixtures	4,154	-	-	4,154
Vehicles	295,598	22,080	20,306	297,372
Infrastructure	7,621,098	103,413	-	7,724,511
Total capital assets being depreciated	25,146,228	205,206	20,306	25,331,128
Less accumulated depreciation for:				
Buildings and improvements	10,709,611	434,842	-	11,144,453
Machinery and equipment	369,976	36,170	-	406,146
Furniture and fixtures	4,154	-	-	4,154
Vehicles	66,251	39,951	20,306	85,896
Infrastructure	2,798,523	307,316	-	3,105,839
Total accumulated depreciation	13,948,515	818,279	20,306	14,746,488
Total capital assets being depreciated net	11,197,713	(613,073)	-	10,584,640
Wastewater - capital assets, net	\$ 12,104,762	(613,073)	-	11,491,689

CITY OF PELLA, IOWA

NOTES TO FINANCIAL STATEMENTS
June 30, 2009(7) **Capital assets (continued from previous page)**

	Beginning Balance as Restated	Increases	Decreases	Balance End of Year
Electric Fund:				
Capital assets not being depreciated:				
Land	\$ 550,724	-	-	550,724
Construction in progress:				-
Bucket Elevator Repair	-	128,484	-	128,484
Cable Replacement	-	19,681	-	19,681
Walter Scott-4 Projects	736	7,300	736	7,300
Boiler 6 Damage Repair	639,143	38,466	677,609	-
Total capital assets not being depreciated	1,190,603	193,931	678,345	706,189
Capital assets being depreciated:				
Buildings and improvements	36,403,754	152,933	-	36,556,687
Machinery and equipment	25,391,051	1,024,886	1,039	26,414,898
Furniture and fixtures	21,037	-	-	21,037
Vehicles	416,534	-	-	416,534
Total capital assets being depreciated	62,232,376	1,177,819	1,039	63,409,156
Less accumulated depreciation for:				
Buildings and improvements	10,098,429	709,973	-	10,808,402
Machinery and equipment	7,897,938	786,000	12	8,683,926
Furniture and fixtures	21,037	-	-	21,037
Vehicles	305,195	34,337	-	339,532
Total accumulated depreciation	18,322,599	1,530,310	12	19,852,897
Total capital assets being depreciated net	43,909,777	(352,491)	1,027	43,556,259
Electric-capital assets, net	\$ 45,100,380	(158,560)	679,372	44,262,448

CITY OF PELLA, IOWA

NOTES TO FINANCIAL STATEMENTS
June 30, 2009

(7) **Capital assets (continued from previous page)**

Combining Schedule	Balance			Balance
Business type activities:	Beginning of			End of
	Balance	Increases	Decreases	Year
Capital assets not being depreciated:				
Land	\$ 1,576,133	-	-	1,576,133
Construction in progress	710,745	222,007	749,211	183,541
Total capital assets not being depreciated	2,286,878	222,007	749,211	1,759,674
Capital assets being depreciated:				
Total capital assets being depreciated	102,316,440	1,658,975	23,145	103,952,270
Total accumulated depreciation	39,252,285	2,879,623	22,118	42,109,790
Total capital assets being depreciated (net)	63,064,155	(1,220,648)	1,027	61,842,480
Business type activities capital assets, net	\$ 65,351,033	(998,641)	750,238	63,602,154

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

Governmental activities:	
Public works	\$ 631,311
Public safety	76,650
Culture and recreation	350,141
General government	188,878
Total depreciation expense - governmental activities	<u>1,246,980</u>
Business type activities:	
Water	\$ 531,034
Wastewater	818,279
Electric	1,530,298
Total depreciation expense - business type activities	<u>\$ 2,879,611</u>

(8) **Long-Term Liabilities**

The City currently has long-term debt obligations in the form of general obligation bonds and revenue bonds. The City does not have any special assessment debt. The following is a summary of changes in long-term liabilities of the City of Pella for the year ended June 30, 2009:

	Balance			Balance	Amounts	Amounts
	Beginning	Increases	Decreases	End of	Due Within	Due in More
	of Year			Year	One Year	than One Year
Governmental activities:						
General obligation bonds/notes	\$ 7,910,000	-	(1,070,000)	6,840,000	1,115,000	5,725,000
Compensated absences	304,931	238,408	(162,224)	381,115	191,114	190,001
Total governmental activities	\$ 8,214,931	238,408	(1,232,224)	7,221,115	1,306,114	5,915,001
Business type activities:						
Revenue bonds/notes	\$ 23,656,000	-	(1,907,000)	21,749,000	1,991,000	19,758,000
Compensated absences	401,340	212,471	(189,435)	424,376	185,934	238,442
Total	24,057,340	212,471	(2,096,435)	22,173,376	2,176,934	19,996,442
Unamortized discount	(115,403)	-	14,965	(100,438)	(14,965)	(85,473)
Total business type activities	\$ 23,941,937	212,471	(2,081,470)	22,072,938	2,161,969	19,910,969

CITY OF PELLA, IOWA

NOTES TO FINANCIAL STATEMENTS
June 30, 2009

(8) **Long-Term Liabilities (continued from previous page)**

General Obligation Bonds

Seven issues of unmatured general obligation bonds/notes totaling \$6,840,000 are outstanding at June 30, 2009. General obligation bonds/notes bear interest rates ranging from 1.30% to 4.75% per annum and mature in varying annual amounts, ranging from \$85,000 to \$270,000, with final maturities due in the year ending June 30, 2020.

The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for both general government and proprietary activities. These bonds therefore are reported in the proprietary funds if they are expected to be repaid from proprietary revenues. General obligation bonds are direct obligations and pledge the full faith and credit of the City.

Details of general obligation bonds/notes payable at June 30, 2009 are as follows:

Purpose	Date of Issue	Interest Rates	Final Due Date	Annual Payments	Amount Originally Issued	Outstanding June 30, 2009
G/O Debt for Wastewater	2001	4.00-4.75%	June 1, 2015	105,000-160,000	\$ 1,505,000	850,000
General Government G/O	2002	1.60-3.25%	June 1, 2010	195,000-225,000	1,600,000	225,000
General Government G/O	2003	1.30-3.50%	June 1, 2012	85,000-155,000	1,370,000	330,000
General Government G/O	2003	2.00-3.50%	June 1, 2015	175,000-240,000	2,300,000	1,300,000
General Government G/O	2006	3.65-4.05%	June 1, 2016	190,000-270,000	2,260,000	1,665,000
General Government G/O	2008A	2.60-3.90%	June 1, 2018	95,000-150,000	1,230,000	1,135,000
General Government G/O	2008B	2.50-4.10%	June 1, 2020	85,000-150,000	1,420,000	1,335,000
Total General obligation bonds					<u>\$ 11,685,000</u>	<u>6,840,000</u>

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

Year ending June 30,	General Obligation Debt	
	Principal	Interest
2010	\$ 1,115,000	250,270
2011	855,000	213,260
2012	890,000	183,758
2013	830,000	152,028
2014	865,000	121,633
2015-2019	2,135,000	212,348
2020	150,000	6,150
Total	<u>\$ 6,840,000</u>	<u>1,139,447</u>

CITY OF PELLA, IOWA

NOTES TO FINANCIAL STATEMENTS
June 30, 2009**(8) Long-Term Liabilities (continued from previous page)**

General obligation bonds may be called on or after the callable date for redemption by the Issuer and paid before maturity by giving 30 days notice of the redemption by registered mail to the registered owner of the bond. The dates at which the various general obligation bonds may first be called are as follows:

Purpose	Date of Issue	Originally Issued	Callable date
G/O Debt for Wastewater	2001	\$ 1,505,000	June 1, 2009
General Government G/O	2002	1,600,000	Not subject to call
General Government G/O	2003	1,370,000	June 1, 2008
General Government G/O	2003	2,300,000	June 1, 2015
General Government G/O	2006	2,260,000	June 1, 2014
General Government G/O	2008A	1,230,000	On & after 6/1/2016
General Government G/O	2008B	1,420,000	On & after 6/1/2016

The following is a summary of the transactions for the general obligation bonds of the City for the year ended June 30, 2009:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
General Obligation bonds/notes	\$ 7,910,000	-	(1,070,000)	\$ 6,840,000

Revenue Notes

Eight issues of unmatured revenue notes totaling \$21,749,000 are outstanding at June 30, 2009. These notes bear interest at rates ranging from 2.10% to 4.625% per annum and mature in varying annual amounts ranging from \$23,000 to \$1,090,000 with the final maturity due in the year ending June 30, 2021.

The resolution providing for the issuance of the revenue notes includes the following provisions:

- The notes will only be redeemed from the future net revenues of the enterprise activity and the note holders hold a lien on the future net revenues of the funds.
- Sufficient monthly transfers shall be made to a revenue note retirement account for the purpose of making the note principal and interest payments when due.
- Separate electric, water and wastewater improvement and replacement accounts have been accumulated. These accounts are restricted for the purpose of paying for any additional improvements, extensions, repairs to the system, or principal or interest payments if necessary.
- User rates shall be established at a level which produces and maintains net revenues at a level not less than 110% for wastewater, and not less than 130% for electric and water, of the amount of principal and interest on the notes falling due in the same year. Net revenues are defined as gross earnings after the deduction of current expenses; including the cost of operating, maintaining, repairing and insuring the system, purchases at wholesale, salaries, wages, and cost of materials and supplies. This excludes; the cost of depreciation, principal and interest payments, capital expenditures, franchise fees and transfers.

During the year ended June 30, 2009, the City was in compliance with the revenue note provisions.

CITY OF PELLA, IOWA

NOTES TO FINANCIAL STATEMENTS
June 30, 2009**(8) Long-Term Liabilities (continued from previous page)**

Details of revenue notes payable at June 30, 2009, are as follows:

Purpose	Date of Issue	Interest Rates	Final Due Date	Annual Payments	Amount Originally Issued	Outstanding June 30, 2009
Wastewater	1999	3.92%	June 1, 2021	\$111,000-197,000	\$ 2,800,000	1,929,000
Wastewater	2000	4.30%	June 1, 2021	62,000-116,000	1,604,000	1,117,000
Wastewater	2000	4.30%	June 1, 2021	21,000-39,000	641,000	373,000
Electric	2001	4.00-4.625%	June 1, 2014	565,000-930,000	9,000,000	4,255,000
Water	2003	2.10-3.90%	June 1, 2014	95,000-130,000	1,000,000	600,000
Electric	2004	3.25-3.90%	June 1, 2019	105,000-1,090,000	6,000,000	5,645,000
Electric	2005	2.80-4.10%	June 1, 2019	240,000-710,000	7,000,000	5,845,000
Water refunding	2007	3.60-3.70%	June 1, 2015	260,000-370,000	2,540,000	1,985,000
					30,585,000	21,749,000
Unamortized discount					(283,984)	(100,438)
Net revenue bonds					<u>\$ 30,301,016</u>	<u>21,648,562</u>

A summary of annual revenue note principal and interest requirements to maturity are as follows:

Year ended June 30,	Enterprise Funds							
	Water		Wastewater		Electric		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2010	\$ 420,000	94,083	226,000	139,687	1,345,000	622,652	1,991,000	856,422
2011	435,000	79,293	235,000	130,459	1,435,000	570,759	2,105,000	780,511
2012	460,000	63,804	246,000	120,863	1,495,000	513,998	2,201,000	698,665
2013	475,000	47,075	256,000	110,813	1,590,000	452,749	2,321,000	610,637
2014	500,000	29,675	266,000	100,356	1,655,000	385,549	2,421,000	515,580
2015-2019	295,000	10,915	1,500,000	329,829	8,225,000	981,928	10,020,000	1,322,672
2020-2021	-	-	690,000	42,586	-	-	690,000	42,586
Total	\$ 2,585,000	324,845	3,419,000	974,593	15,745,000	3,527,635	21,749,000	4,827,073

Revenue notes may be called on or after the callable date for redemption by the Issuer and paid before maturity by giving 30 days notice of redemption by registered mail to the registered owner of the bond. The dates at which the various revenue bonds may first be called are as follows:

Purpose	Date of Issue	Originally Issued	Callable date
Wastewater	1999	\$ 2,800,000	Dec. 15, 2009
Wastewater	2000	1,604,000	Dec. 15, 2009
Wastewater	2000	641,000	Dec. 15, 2009
Electric	2001	9,000,000	June 1, 2009
Water	2003	1,000,000	June 1, 2009
Electric	2004	6,000,000	June 1, 2012
Electric	2005	7,000,000	June 1, 2013
Water refunding	2007	2,540,000	Not subject to call

CITY OF PELLA, IOWA

NOTES TO FINANCIAL STATEMENTS
June 30, 2009

(8) **Long-Term Liabilities (continued from previous page)**

The following is a summary of the transactions for revenue notes, net of unamortized discounts, for the water, sewer, and electric utilities for the year ended June 30, 2009:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Water revenue notes	\$ 2,985,000	-	(400,000)	2,585,000
Unamortized discount	(24,619)	-	3,581	(21,038)
Net water revenue notes	2,960,381	-	(396,419)	2,563,962
Sewer revenue notes	3,636,000	-	(217,000)	3,419,000
Net sewer revenue notes	3,636,000	-	(217,000)	3,419,000
Electric revenue notes	17,035,000	-	(1,290,000)	15,745,000
Unamortized discount	(90,784)	-	11,384	(79,400)
Net electric revenue notes	16,944,216	-	(1,278,616)	15,665,600
Total net revenue notes	\$ 23,540,597	-	(1,892,035)	21,648,562

Long-term Debt Interest Expense - The long-term debt costs and interest, governmental activities, in the Statement of Activities in the amount of \$284,622 is all direct interest expense on long-term debt.

Discount and issuance costs are deferred and amortized over the term of the notes using the straight-line method, which approximates the effective interest method. Discounts are presented as a reduction of the face amount of bonds/notes payable whereas issuance costs are recorded as deferred charges. The details of the discounts are listed in the previous schedules. The unamortized issuances costs are listed as an asset on the balance sheet. The issuance costs are amortized over the life of the loan and are included in interest and debt costs. Issuance costs detail is as follows:

	Balance Beginning of Year	Incurred	Amortized	Balance End of Year
Business type activities:				
Sewer SFR Loan	\$ 39,086	-	(3,258)	35,828
Water revenue note	41,355	-	(6,153)	35,202
Electric revenue note	120,120	-	(12,196)	107,924
Total deferred issuance costs	\$ 200,561	-	(21,607)	178,954

CITY OF PELLA, IOWA

NOTES TO FINANCIAL STATEMENTS
June 30, 2009

(9) Interfund Transfers

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

Transfer to:	Transfer from:	Amount
General	Employee Benefits - Special Revenue	\$ 407,225
General	Environmental Services	54,850
Debt Service	Local sales tax- Special Revenue	141,200
Debt Service	Pella Business Corridor- TIF- Special Revenue	571,396
Debt Service	Wastewater Sinking -2001 GO Sewer Bond	164,155
Local sales tax-Special Revenue	General	6,293
Electric	Highpoint TIF-Special Revenue	94,900
Wastewater	Pella Business Corridor- TIF- Special Revenue	168,866
Capital	General	185,000
Capital	Carnegie-Viersen Van Gorp Trust	841
Capital	Water	4,828
Capital	Wastewater	4,828
Capital	Electric	4,828
Capital	Airport Trust - Special Revenue	75,000
Capital-Pella Outdoor Aquatic	Local sales tax - Special Revenue	164,113
Capital-RUT	Road use - Special Revenue	217,969
Capital-Pella Business Corridor	Pella Business Corridor- TIF- Special Revenue	9,370

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

(10) Due From and Due To Other Funds

Beginning October 1, 2008, the interfund receivable due to the General and Water funds will accrue interest at a rate of 3% compounded annually.

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

Receivable Fund:	Payable Fund:	Amount	APR
General Fund	Local Sales Tax-Spec. Rev	316,468	3%
Water Fund	Local Sales Tax-Spec. Rev	66,468	3%

These balances result from interfund loans to finance projects. Repayments will be made from future Local Option Sales Tax revenues and are not expected to be paid within one year.

CITY OF PELLA, IOWA

NOTES TO FINANCIAL STATEMENTS
June 30, 2009**(11) Net Assets Restricted by Enabling Legislation**

The components of Net Restricted Assets listed in Exhibit A are as follows:

Restricted for:	Governmental Activities	Business Type Activities
Debt restricted - Water Bond Reserve	\$ -	354,000
Debt restricted - Wastewater Bond Reserve	-	368,342
Debt restricted - Electric Bond Reserve	-	2,042,749
Debt restricted - Electric Improvement Reserve	-	1,500,000
Debt restricted - Debt Service fund balance	-	-
Special purposes - TIF - High Point	20	-
Special purposes - TIF - Pella Business Corridor	186,442	-
Special purposes - to cover deficit TIF balances	-	-
Special purposes - Road use	316,917	-
Special purposes - Local Option Sales Tax	(382,800)	-
Special purposes - to cover deficit LOST balance	382,800	-
Special purposes - Pella Clothing Bank	1,498	-
Special purposes - Police Reserve	1,166	-
Special purposes - Community Development	4,795	-
Special purposes - Library Gifts/Memorials	84,321	-
Special purposes - Pella Community Center	2,380	-
Special purposes - Pella Community Center Van Trust	7,227	-
Special purposes - Art Center	24,334	-
Special purposes - Airport	46,362	-
Special purposes - Police Asset Forfeiture	39,564	-
Special purposes - Soccer Complex	11,817	-
Special purposes - Parks Development	20,945	-
Special purposes - Carnegie-Viersen Trust Earnings - Library operations	28,042	-
Special purposes - Carnegie-Viersen-Van Gorp Trust Earnings - Educational purposes	5,804	-
Special purposes - Carnegie-Viersen-Van Gorp Trust - Library Repairs	28,352	-
Special purposes - Van Gorp Trust Earnings - Information Windmill Repairs	16,602	-
Nonexpendable - Permanently restricted donation - Carnegie-Viersen Trust	40,000	-
Nonexpendable - Permanently restriction donation - Van Gorp Trust	100,000	-
Other - deposits	-	98,598
Total net restricted assets	\$ 966,588	4,363,689

(12) Retirement Plans

Iowa Public Employees Retirement System - 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 contributions to IPERS for the years ended June 30, 2009, 2008 and 2007, were \$285,261, \$259,630, and \$229,337, respectively, equal to the required contributions for each year.

CITY OF PELLA, IOWA

NOTES TO FINANCIAL STATEMENTS
June 30, 2009

(12) Retirement Plans (continued from previous page)

Municipal Fire and Police Retirement System of Iowa - The City contributes to the Municipal Fire and Police Retirement System of Iowa (the Plan), which is a cost-sharing multiple-employer defined benefit pension plan administered by a Board of Trustees. The Plan provides retirement, disability, and death benefits which are established by state statute to plan members and beneficiaries. The Plan issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to Municipal Fire and Police Retirement System of Iowa, 7155 Lake Drive, Suite 201, West Des Moines, Iowa 50266.

Plan members are required to contribute 9.35% of earnable compensation and the City's contribution rate, based upon an actuarially determined normal contribution rate, cannot be less than 17% of earnable compensation. Contribution requirements are established by state statute. The City's contribution to the Plan for the years ended June 30, 2009, 2008 and 2007 were \$121,364, \$163,219, and \$167,229, respectively, which met the required minimum contribution for each year.

(13) Other Postemployment Benefits (OPEB)

The City implemented GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits other Than Pensions during the year ended June 30, 2009.

Plan Description - The City operates a single-employer retiree benefit plan which provides medical/prescription drug benefits for retirees and their spouses. There are 85 active and no retired members in the plan. General participants (IPERS) must be age 55 or older at retirement. Police participants (MFDRSI) must be age 55 or older with 22 years of service at retirement. Surviving spouse/dependents of retirees are allowed to remain on health coverage at their own expense until age 65.

The medical/prescription drug coverage is provided through a self-funded plan. Retirees under age 65 pay the same premium for the medical/prescription drug benefit as active employees, which results in an implicit subsidy and an OPEB liability.

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

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

The following table shows the components of the City's annual OPEB cost for the year ended June 30, 2009, the amount actually contributed to the plan and changes in the City's net OPEB obligation:

Annual required contribution	\$ 24,113
Interest on net OPEB obligation	-
Adjustment to annual required contribution	-
Annual OPEB cost	<u>24,113</u>
Contributions made	<u>(1,072)</u>
Increase in net OPEB obligation	23,041
Net OPEB obligation beginning of year	<u>-</u>
Net OPEB obligation end of year	<u>\$ 23,041</u>

CITY OF PELLA, IOWA

NOTES TO FINANCIAL STATEMENTS
June 30, 2009

(13) Other Postemployment Benefits (OPEB) (continued from previous page)

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2008. The end of year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2009.

The required contribution is based on projected pay-as-you-go financing. For fiscal year 2009, the City contributed \$1,072 toward the annual required OPEB contribution. It also funded 90% of the established premium toward active members' health coverage. Active members receiving benefits contributed \$94,194, or 10% of the established premium, through their required contribution of \$47 or \$99 per month, depending on whether single or family coverage is elected. There were no retirees covered during fiscal year 2009.

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation as of June 30, 2009 are summarized as follows:

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2009	\$ 24,113	4.4%	\$ 23,041

Funded Status and Funding Progress - As of July 1, 2008, the most recent actuarial valuation date for the period July 1, 2008 through June 30, 2009, the actuarial accrued liability was \$199 thousand, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$199 thousand. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$4,866,000 and the ratio of the UAAL to covered payroll was 4.1%. As of June 30, 2009, there were no trust fund assets.

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

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

As of the July 1, 2008 actuarial valuation date, the unit credit actuarial cost method was used. The actuarial assumptions includes a 4% discount rate based on the City's funding policy. The projected annual medical trend rate is 10%. The ultimate medical trend rate is 5%. The medical trend rate is reduced 0.5% each year until reaching the 5% ultimate trend rate.

CITY OF PELLA, IOWA

NOTES TO FINANCIAL STATEMENTS
June 30, 2009

(13) Other Postemployment Benefits (OPEB) (continued from previous page)

Mortality rates are from the RP2000 Group Annuity Mortality Table, applied on a gender-specific basis. Annual retirement and termination probabilities were developed from the retirement probabilities from the IPERS Actuarial Report as of June 30, 2007 and applying the termination factors used in the IPERS Actuarial Report as of June 30, 2007.

Projected claim costs of the medical plan are \$733 per month for retirees less than age 60 and \$894 per month for retirees less than age 65. The salary increase rate was assumed to be 3% per year. The UAAL is being amortized as a level percentage of projected payroll expense on an open basis over 30 years.

(14) Deferred Compensation Plan

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457 for employees and Code Section 401 for the position of City Administrator. The 457 plan, available to all City employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights must be held in trust of the exclusive benefit of plan participants and beneficiaries. These funds are invested and held by the ICMA-RA (International City County Management Association Retirement Corporation) and not by the City. Therefore, they are not listed as a liability of the City.

It is the opinion of the City's legal counsel that the City has no liability for losses under the plan but does have the duty of due care that would be required of an ordinary prudent investor.

(15) Deficit Balances

At June 30, 2009, the Special Revenue, Local Option Sales Tax fund had a deficit balance of \$382,800. This deficit balance is the result of project costs in excess of available funds. This fund will be eliminated upon collection of local option sales tax revenues and the subsequent payment of interfund loans to the General and Water funds.

(16) Related Party Transactions

The City had business transactions between the City and Council members totaling \$1,208 during the year ended June 30, 2009. There were no related payables at June 30, 2009.

(17) Major Customer

During the year ended June 30, 2009, the City of Pella Municipal Electric Utility had two major customers. They purchased \$3,720,242 and \$2,096,682 of electric power. These charges represent 22.69% and 12.79%, respectively, of total charges for electric services.

(18) Risk Management

Insurance - The City of Pella carries commercial insurance purchased from issuers for coverage associated with risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

CITY OF PELLA, IOWA

NOTES TO FINANCIAL STATEMENTS
June 30, 2009

(18) Risk Management (continued from previous page)

Self-Insured Health Care Plan - The City of Pella has a self-insured health care plan for City employees. A fixed monthly fee per participating employee is paid to an insurance administrative company to administer the plan and evaluate claims.

The City escrows funds from each month to be used to pay medical claims incurred. The maximum exposure to the city for claims incurred is limited by the "stop-loss" feature of the plan. The maximum exposure for one individual in a twelve month period is \$50,000, and the maximum exposure for the group as a whole is a computed amount based on 120 percent of the actuarially computed expected claims for the group. Claims in excess of the stop-loss ceilings are paid by the stop-loss insurance company.

At June 30, 2009, the plan held \$626,798 cash and pooled investments. The actuarial estimate of the reserves necessary for claims incurred but not yet paid was \$124,567, which is listed as the accounts payable balance of the Internal Service Fund.

CITY OF PELLA, IOWA

NOTES TO FINANCIAL STATEMENTS
June 30, 2009**(19) Commitments**

The City has entered into several contracts totaling \$4,265,212. At June 30, 2009, \$3,620,959 had been paid towards these contracts. The remaining amounts will be paid as work on the projects progresses.

Contracts	Contract Amount	Amount Paid	%Complete
Water Treatment & Source Analysis			
Howard R. Green Company	\$ 29,500	\$ 22,754	77%
Water & Wastewater Cost of Service Analysis			
Howard R. Green Company	18,500	14,708	80%
Sanitary Sewer Collection System Engineering			
Howard R. Green Company	12,000	-	0%
Cable Replacement Project			
DeWild Grant Reckert	20,000	3,633	18%
Aquatic Center			
Central Electric	188,060	178,657	95%
Aquatic Center-Lazy River			
M & M Enterprises	2,955,173	2,893,933	98%
West 3rd Street Signal Improvements			
Voltmer, Inc.	111,900	-	0%
West 3rd & Washington St. Traffic Signal Engineering			
Snyder & Assoc.	24,966	19,853	80%
Fuel Handling Improvement Project			
Winger Company	320,050	91,755	29%
Coal Elevator Replacement Engineering			
Brown Engineering Company	37,500	35,625	95%
ARC Flash Assessment			
DeWild Grant Reckert-Distribution	26,000	24,394	94%
DeWild Grant Reckert-Production	17,000	16,235	96%
Pella to I-80 Corridor Feasibility Study			
CH2MHILL	200,404	194,069	97%
Replacement Airport			
Snyder & Assoc.	211,136	75,855	36%
Airport Layout Plan			
Snyder & Assoc.	42,000	37,380	89%
Airport SRE Truck			
Snyder & Assoc.	8,023	6,739	84%
Oskaloosa/Main St. Resurfacing Engineering			
Snyder & Assoc.	43,000	5,369	12%
	<u>\$ 4,265,212</u>	<u>\$ 3,620,959</u>	

CITY OF PELLA, IOWA

NOTES TO FINANCIAL STATEMENTS
June 30, 2009**(19) Commitments (continued from previous page)**

Other Contracts:			Expires:
Power Interchange Agreement			
Muscatine Power & Water			9/1/2009
Coal Supply Agreement			
Interstate Power & Light		Base price	12/31/2012
Ash Disposal Agreement			
Interstate Power & Light		Base price	12/31/2012
Solid Waste Collection			
Kal Services, Inc.		per tote	7/31/2009

(20) Prior Period Adjustments

Prior period adjustments were made in the Electric Enterprise Fund to correctly classify the Walter-Scott Unit 4 capital and operating expenses and to accrue the energy cost adjustment revenue correctly. The capital and operating expenses for Walter-Scott Unit 4 were based on estimates each month. Actual expenditures have been reconciled with the estimated expenditures which required FY 07/08 prior period adjustments to correct capital and operating expenses. Fixed assets were lowered by \$76,480 and accounts payable was increased \$37,682 for a total fund balance adjustment of \$114,162. The Walter-Scott Unit 4 capital was lumped together as one asset and is now broken out by each project for the Walter-Scott Unit 4. All the projects have different completion dates and some projects are not complete yet. This change caused an increase in depreciation of \$521,183 for FY 07/08. The two adjustments result in a decrease of \$635,345 to the Electric Fund balance.

The Electric Department charges or refunds a monthly energy cost adjustment (ECA) to its customers based on energy costs that are higher or lower than the base energy cost in the current electric rates each month. The ECA adjustment is calculated two months after the actual expenses due to receiving invoices up to two months after the energy costs are incurred. Therefore, monthly revenues are not matching expenses. To correct this, an ECA accrual was created to accrue the revenue or expense in the proper month. For FY 07/08, an ECA accrual of \$659,556 was created to match revenue with expenses. This adjustment resulted in an increase of \$659,556 to the Electric Fund balance.

The Electric Fund balance was \$38,272,940 at the end of FY 07/08. With the prior period adjustments listed above, the fund balance was restated to \$38,297,151.

Proprietary Net Assets	June 30, 2008	Prior Period Adjustment	As restated, July 1, 2008
Water	\$ 7,592,231	-	7,592,231
Wastewater	9,708,021	-	9,708,021
Electric	38,272,940	24,211	38,297,151
Sanitation	32,839	-	32,839
Total	\$ 55,606,031	24,211	55,630,242

CITY OF PELLA, IOWA

NOTES TO FINANCIAL STATEMENTS
June 30, 2009

(21) Subsequent Events

On October 8, 2009, Governor Chet Culver announced a 10% across-the-board cut to state general fund appropriations effective immediately. Cities will be affected directly or indirectly by the across-the-board cuts, including cuts to homestead tax credits. What this will mean to Iowa municipalities is still unfolding.

On December 1, 2009, the City Council approved the sale of \$2,115,000 general obligation refunding capital loan notes Series 2010A and authorized redemption of the general obligation 2001B and 2003B bonds. Also approved was the sale of \$2,825,000 in Electric revenue refunding capital loan notes 2010B and the redemption of Electric revenue bond series 2001.

Required Supplementary Information

CITY OF PELLA, IOWA
BUDGETARY COMPARISON SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN BALANCES - BUDGET AND ACTUAL (MODIFIED ACCRUAL BASIS) -
GOVERNMENTAL AND PROPRIETARY FUNDS
REQUIRED SUPPLEMENTARY INFORMATION
Year ended June 30, 2009

	Governmental Funds-Actual	Proprietary Funds-Actual	Total Actual	Budgeted Amounts		Final to Actual Variance
				Original	Final	
Revenues:						
Property taxes	\$ 3,420,082	-	3,420,082	3,419,214	3,419,214	868
Tax increment financing	1,616,632	-	1,616,632	1,657,643	1,657,643	(41,011)
Other city taxes	1,581,779	-	1,581,779	1,299,816	1,299,816	281,963
Licenses and permits	29,859	-	29,859	49,600	49,600	(19,741)
Use of money and property	117,224	365,283	482,507	508,137	608,137	(125,630)
Intergovernmental	1,709,321	-	1,709,321	2,007,900	2,034,291	(324,970)
Charges for services	492,108	20,140,673	20,632,781	19,381,380	21,398,321	(765,540)
Special Assessments	-	-	-	11,500	11,500	(11,500)
Miscellaneous	112,268	13,754	126,022	586,305	1,586,305	(1,460,283)
Total revenues	9,079,273	20,519,710	29,598,983	28,921,495	32,064,827	(2,465,844)
Expenditures:						
Public safety	1,538,082	-	1,538,082	1,561,995	1,565,233	27,151
Public works	1,101,806	-	1,101,806	1,033,384	1,060,099	(41,707)
Culture and recreation	1,815,563	-	1,815,563	1,851,554	1,862,316	46,753
Community and economic development	504,894	-	504,894	457,267	457,449	(47,445)
General government	450,969	-	450,969	366,984	367,389	(83,580)
Debt service	1,372,483	-	1,372,483	1,841,496	1,841,496	469,013
Capital projects	1,255,727	-	1,255,727	1,662,400	2,099,025	843,298
Business type activities	-	20,872,818	20,872,818	20,246,937	24,850,417	3,977,599
Total expenditures	8,039,524	20,872,818	28,912,342	29,022,017	34,103,424	5,191,082
Excess (deficiency) of revenues over (under) expenditures	1,039,749	(353,108)	686,641	(100,522)	(2,038,597)	2,725,238
Other financing sources (uses):						
Operating transfers in	2,011,896	263,766	2,275,662	7,689,442	10,201,148	7,925,486
Operating transfers out	(2,042,173)	(233,489)	(2,275,662)	(7,689,442)	(10,201,148)	(7,925,486)
Capital Contributions-assets	-	41,187	41,187	-	-	(41,187)
Debt Proceeds	-	-	-	-	-	-
Discount on General obligation debt	-	-	-	-	-	-
Proceeds from sale of assets	153,615	19,085	172,700	10,250	10,250	(162,450)
Total other financing sources	123,338	90,549	213,887	10,250	10,250	(203,637)
Excess (deficiency) of revenues and other financing sources over (under) expenditures	1,163,087	(262,559)	900,528	(90,272)	(2,028,347)	2,928,875
Balance beginning of year, as restated	1,335,817	14,596,842	15,932,659	13,429,590	14,333,189	1,599,470
Balance end of year	\$ 2,498,904	14,334,283	16,833,187	13,339,318	12,304,842	4,528,345

See the following page for GAAP to modified accrual conversion necessary for this comparison.

See accompanying independent auditor's report.

CITY OF PELLA, IOWA
BUDGETARY COMPARISON SCHEDULE
PROPRIETARY-GAAP TO MODIFIED ACCRUAL RECONCILIATION
REQUIRED SUPPLEMENTARY INFORMATION
Year ended June 30, 2009

	Proprietary Funds		
	GAAP	Accrual Adjustments	Modified Accrual Basis
Total revenues	\$ 20,519,710	-	20,519,710
Expenses:			
Business type activities	20,750,242	122,576	20,872,818
Total expenses	20,750,242	122,576	20,872,818
Excess (deficiency) of revenues under expenses	(230,532)	(122,576)	(353,108)
Other financing sources (uses):			
Operating transfers from other funds	263,766	-	263,766
Operating transfers to other funds	(233,489)	-	(233,489)
Sale of fixed assets	19,085	-	19,085
Other revenues	41,187	-	41,187
Total other financing sources	90,549	-	90,549
Increase in net assets	(139,983)	(122,576)	(262,559)
Beginning net assets, as restated	55,630,242	(41,033,400)	14,596,842
Ending net assets	\$ 55,490,259	(41,155,976)	14,334,283

The City budgets on the modified accrual basis. It includes proprietary expenditures outlays for capital assets and debt principal paid with adjustments to remove the effects of depreciation and bond issuance and discount costs recognized in GAAP accounting. The adjustments account for the \$122,576 adjustment to proprietary expenditures.

See accompanying independent auditor's report.

CITY OF PELLA, IOWA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
Year ended June 30, 2009

The budgetary comparison is presented as Required Supplementary Information in accordance with *Government 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 modified accrual 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, Special Revenue Funds, Debt Service Fund, Capital Projects Fund and Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$5,081,407. This budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2009, disbursements in the public works, community and economic development and general government functions exceeded the amounts budgeted.

CITY OF PELLA, IOWA
SCHEDULE OF FUNDING PROGRESS FOR THE RETIREE HEALTH PLAN
REQUIRED SUPPLEMENTARY INFORMATION

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
July 1, 2008	\$ -	\$ 199,000	\$ 199,000	0.0%	\$ 4,866,000	4.1%

See Note 13 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB Cost and Net OPEB Obligation, funded status and funding progress.

CITY OF PELLA, IOWA

Other Supplementary Information

Schedule 1

CITY OF PELLA, IOWA
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
June 30, 2009

Special Revenue Funds

	Highpoint Tax Increment Financing	Road Use	Local Option Tax	Employee Benefits	Pella Clothing Bank	Police Reserve	Community Development Trust	Carnegie Viersen Library Gift/Memorial
Assets								
Cash and pooled investments	\$ 20	365,561	-	-	1,493	1,157	4,761	87,634
Receivable:								
Property tax:								
Delinquent	-	-	-	2,101	-	-	-	-
Succeeding year	-	-	-	427,340	-	-	-	-
Tax Increment Financing:								
Delinquent	-	-	-	-	-	-	-	-
Succeeding year	-	-	-	-	-	-	-	-
Local option sales tax	-	-	186,022	-	-	-	-	-
Accounts receivable, miscellaneous		2,820						
Due from other governments		-						
Due from other funds		-						
Accrued interest	-	-	-	-	5	9	34	448
Total assets	\$ 20	368,381	186,022	429,441	1,498	1,166	4,795	88,082
Liabilities and Fund Balance								
Liabilities:								
Excess of warrants over bank balance	\$ -	-	185,886	2,101	-	-	-	-
Accounts payable	-	11,707	-	-	-	-	-	3,761
Salaries and benefits payable	-	20,278	-	-	-	-	-	-
Deferred revenue:								
Succeeding year property tax	-	-	-	427,340	-	-	-	-
Succeeding year tax increment financ.	-	-	-	-	-	-	-	-
Compensated absences payable	-	19,479	-	-	-	-	-	-
Interfund payable	-	-	382,936	-	-	-	-	-
Total liabilities	-	51,464	568,822	429,441	-	-	-	3,761
Fund balances:								
Reserved:								
Permanent trust	-	-	-	-	-	-	-	-
Other special purposes	20	316,917	(382,800)	-	1,498	1,166	4,795	84,321
Total fund balances	20	316,917	(382,800)	-	1,498	1,166	4,795	84,321
Total liabilities and fund balance	\$ 20	368,381	186,022	429,441	1,498	1,166	4,795	88,082

See accompanying independent auditor's report.

Schedule 1

Special Revenue Funds								Permanent Funds		Total Non-major Governmental Funds
Pella Community Center Trust	Pella Community Center Van Trust	Art Center Trust	Airport Trust	Police Asset Forfeiture	Soccer Complex	Parks Development	Carnegie-Viersen- Van Gorp Trust Fund	Carnegie- Viersen Trust Fund	Van Gorp Trust	
4,862	7,227	24,334	46,034	39,548	11,817	23,000	33,889	68,042	115,672	835,051
-	-	-	-	-	-	-	-	-	-	2,101
-	-	-	-	-	-	-	-	-	-	427,340
-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	186,022
										2,820
										-
										-
3	-	-	328	16	-	128	267	-	930	2,168
4,865	7,227	24,334	46,362	39,564	11,817	23,128	34,156	68,042	116,602	1,455,502
-	-	-	-	-	-	-	-	-	-	187,987
2,485	-	-	-	-	-	2,183	-	-	-	20,136
-	-	-	-	-	-	-	-	-	-	20,278
-	-	-	-	-	-	-	-	-	-	427,340
-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	19,479
-	-	-	-	-	-	-	-	-	-	382,936
2,485	-	-	-	-	-	2,183	-	-	-	1,058,156
-	-	-	-	-	-	-	-	40,000	100,000	140,000
2,380	7,227	24,334	46,362	39,564	11,817	20,945	34,156	28,042	16,602	257,346
2,380	7,227	24,334	46,362	39,564	11,817	20,945	34,156	68,042	116,602	397,346
4,865	7,227	24,334	46,362	39,564	11,817	23,128	34,156	68,042	116,602	1,455,502

Schedule 2

CITY OF PELLA, IOWA
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 NON-MAJOR OTHER GOVERNMENTAL FUNDS
 Year ended June 30, 2009

	Special Revenue Funds								
	Highpoint Tax Increment Financing	Road Use	Local Option Tax	Employee Benefits	Pella Clothing Bank	Police Reserve	Community Development Trust	Carnegie Viersen Library Gift/ Memorial	Pella Community Center
Revenues:									
Property tax	\$ -	-	-	403,786	-	-	-	-	-
Tax Increment Financing	101,547	-	-	-	-	-	-	-	-
Local option tax	-	-	1,180,851	-	-	-	-	-	-
Other City Taxes	-	-	-	2,406	-	-	-	-	-
Intergovernmental	-	823,989	-	-	-	-	-	13,787	-
Use of money and property	83	18,540	831	1,033	22	36	120	1,626	22
Miscellaneous	-	1,770	-	-	2,663	-	-	22,470	-
Total revenues	101,630	844,299	1,181,682	407,225	2,685	36	120	37,883	22
Expenditures:									
Operating:									
Public Safety	-	-	-	-	-	-	-	-	-
Public works	-	814,867	-	-	-	-	-	-	-
Culture and recreation	-	-	36,871	-	2,649	-	-	24,539	2,485
Community & Econ Development	98	-	-	-	-	-	-	-	-
Total expenditures	98	814,867	36,871	-	2,649	-	-	24,539	2,485
Excess (deficiency) of revenues over (under) expenditures	101,532	29,432	1,144,811	407,225	36	36	120	13,344	(2,463)
Other financing sources (uses):									
Operating transfer in	-	-	6,293	-	-	-	-	-	-
Operating transfer (out)	(94,900)	(217,969)	(305,313)	(407,225)	-	-	-	-	-
Total other financing sources (uses)	(94,900)	(217,969)	(299,020)	(407,225)	-	-	-	-	-
Excess (deficiency) of revenues over (under) expenditures and other financing uses	6,632	(188,537)	845,791	-	36	36	120	13,344	(2,463)
Fund balances beginning of year	(6,612)	505,454	(1,228,591)	-	1,462	1,130	4,675	70,977	4,843
Fund balances end of year	\$ 20	316,917	(382,800)	-	1,498	1,166	4,795	84,321	2,380

See accompanying independent auditor's report.

Schedule 2

Special Revenue Funds							Permanent Funds		Total Non-major Governmental Funds
Pella Community Center Van Trust	Art Center Trust	Airport Trust	Police Asset Forfeiture	Soccer Complex	Parks Develop- ment	Carnegie- Viersen- Van Gorp Trust Fund	Carnegie- Viersen Trust Fund	Van Gorp Trust	
-	-	-	-	-	-	-	-	-	403,786
-	-	-	-	-	-	-	-	-	101,547
-	-	-	-	-	-	-	-	-	1,180,851
-	-	-	-	-	-	-	-	-	2,406
-	-	-	12,000	-	-	-	-	-	849,776
28	66	2,751	129	38	469	932	1,850	3,237	31,813
-	5,650	-	-	1,500	4,533	-	-	-	38,586
28	5,716	2,751	12,129	1,538	5,002	932	1,850	3,237	2,608,765
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	814,867
898	5,830	-	-	4,986	9,073	-	-	-	87,331
-	-	-	-	-	-	-	-	-	98
898	5,830	-	-	4,986	9,073	-	-	-	902,296
(870)	(114)	2,751	12,129	(3,448)	(4,071)	932	1,850	3,237	1,706,469
-	-	-	-	-	-	-	-	-	6,293
-	-	(75,000)	-	-	-	(841)	-	-	(1,101,248)
-	-	(75,000)	-	-	-	(841)	-	-	(1,094,955)
(870)	(114)	(72,249)	12,129	(3,448)	(4,071)	91	1,850	3,237	611,514
8,097	24,448	118,611	27,435	15,265	25,016	34,065	66,192	113,365	(214,168)
7,227	24,334	46,362	39,564	11,817	20,945	34,156	68,042	116,602	397,346

CITY OF PELLA, IOWA
SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION
ALL GOVERNMENTAL FUNDS
FOR THE LAST EIGHT YEARS

	Modified Accrual Basis							
	2009	2008	2007	2006	2005	2004	2003	2002
Revenues:								
Property tax	\$ 3,420,082	2,863,107	2,792,009	2,778,762	2,722,753	2,837,958	2,794,278	2,605,151
Tax increment financing revenue	1,616,632	2,022,553	1,867,289	1,675,567	1,672,240	1,444,657	1,069,118	732,375
Local option sales tax	1,180,851	875,711	984,332	1,000,702	813,900	851,409	908,915	424,448
Other city tax	400,928	516,806	499,706	394,645	366,366	367,213	384,797	323,714
Licenses and permits	29,859	18,266	21,369	27,320	30,033	20,427	14,558	14,351
Use of money and property	117,224	158,941	177,215	178,192	151,017	120,419	99,101	170,331
Intergovernmental	1,709,321	1,622,953	1,519,012	1,438,435	1,686,186	1,687,032	2,009,076	1,974,034
Special assessments	-	-	44,124	-	-	-	-	2,588
Charges for service	492,108	411,384	340,054	377,208	353,694	251,492	310,852	307,930
Miscellaneous	112,268	170,369	406,459	277,790	183,838	516,042	289,876	752,519
Total	<u>\$ 9,079,273</u>	<u>8,660,090</u>	<u>8,651,569</u>	<u>8,148,621</u>	<u>7,980,027</u>	<u>8,096,649</u>	<u>7,880,571</u>	<u>7,307,441</u>
Expenditures:								
Operating:								
Public safety	\$ 1,538,082	1,568,486	1,411,218	1,401,296	1,338,999	1,148,456	1,098,202	1,088,566
Public works	1,101,806	1,037,294	1,010,058	911,054	951,204	918,075	1,524,769	1,659,514
Culture and recreation	1,815,563	1,645,610	1,585,354	1,532,929	1,516,237	1,491,734	1,412,690	1,973,083
Community and economic development	504,894	463,659	541,534	506,050	601,903	262,752	86,560	237,300
General government	450,969	344,179	339,003	336,511	338,399	666,256	718,703	940,854
Debt service	1,372,483	5,853,291	1,706,474	4,092,597	1,795,402	1,743,005	3,881,721	1,400,224
Capital projects	1,255,727	3,142,731	2,217,218	1,446,816	668,144	3,205,314	367,781	894,029
Total	<u>\$ 8,039,524</u>	<u>14,055,250</u>	<u>8,810,859</u>	<u>10,227,253</u>	<u>7,210,288</u>	<u>9,435,592</u>	<u>9,090,426</u>	<u>8,193,570</u>

See accompanying independent auditor's report.



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Van Maanen, Sietstra & Meyer, PC
CERTIFIED PUBLIC ACCOUNTANTS

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
City of Pella, Iowa

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Pella, 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 December 11, 2009. 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 Pella'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 Pella's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Pella'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 and another 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 Pella's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood a misstatement of the City of Pella's financial statements that is more than inconsequential will not be prevented or detected by the City of Pella's internal control. We consider the deficiencies in internal control described in Part II of 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 Pella'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 II-A-09 is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Pella'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 Part IV of 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 Pella'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 Pella'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 Pella and other parties to whom the City of Pella may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

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

Van Maanen, Sietstra & Meyer, PC

Van Maanen, Sietstra & Meyer, PC
Certified Public Accountants

December 11, 2009

CITY OF PELLA, IOWA
SCHEDULE OF FINDINGS
Year ended June 30, 2009

Part I: Summary of the Independent Auditor's Results:

- (a) Unqualified opinions were issued on the financial statements.
- (b) Significant deficiencies in internal control over financial reporting were disclosed by the audit of the financial statements, including a material weakness.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.

Part II: Findings Related to the Financial Statements:

SIGNIFICANT DEFICIENCIES:

II-A-09 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Currently the same employees that handle cash and deposits also have software access to the receipts module.

Recommendation - We recommend that those employees who handle cash receipts do not also have access to that area of the accounting records.

Response - We will work to maintain the best possible control with the personnel available.

Conclusion - Response accepted.

INSTANCES OF NON-COMPLIANCE

No matters were reported.

Part III: Findings and Questioned Costs for Federal Awards:

Not applicable since less than \$500,000 in Federal Awards.

CITY OF PELLA, IOWA

SCHEDULE OF FINDINGS

Year ended June 30, 2009

Part IV: Other Findings Related to Required Statutory Reporting:

- IV-A-09 Certified Budget - Expenditures for the year ended June 30, 2009, exceeded the budget in the public works, community and economic development, and general government functions. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

Recommendation - The budget should have been amended in accordance with Chapter 384.20 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response - The budget will be amended in the future.

Conclusion - Response accepted.

- IV-B-09 Questionable Disbursements - No disbursements were noted that we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

- IV-C-09 Travel Expense - No expenditures of City money for travel expenses of spouses of City officials or employees were noted.

- IV-D-09 Business Transactions

Business transactions between the City and City officials or employees for the year ended June 30, 2009 are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Bruce Schiebout, Council Member Stockholder of Eagle Electric, Inc.	Electrical work	\$1,208

There were no related payables at June 30, 2009.

In accordance with Chapter 362.5(10) of the Code of Iowa, the transactions with the Council Members do not appear to represent conflicts of interest since total transactions with each individual were less than \$1,500 during the fiscal year.

- IV-E-09 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 that coverage is adequate for current operations.

- IV-F-09 Deposits and Investments - No instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.

CITY OF PELLA, IOWA
SCHEDULE OF FINDINGS

Year ended June 30, 2009

IV-G-09 Council Minutes - Published minutes did not include the purpose of the expenditure, total disbursements by fund, and a summary of receipts.

Recommendation - The purpose of expenditures should be included in the published minutes.

Response - When expenditures are approved by Council, a description of the expenditure is provided that ranges in length from seven to fifteen words. The system does not have the capability to print a report that summarizes our description into one word for publication purposes. We will investigate our ability to include the other information.

Conclusion - Response accepted.

IV-H-09 Revenue Bonds - The City has complied with the provisions of the revenue bond indentures.

IV-I-09 Financial Condition – As of June 30, 2009, the Special Revenue, Local Option Sales Tax fund had a deficit balance of \$382,800.

Recommendation - The City should investigate alternatives to eliminate this deficit in order to return this account to a sound financial position.

Response - The deficit balance is due to the following interfund payables: \$310,468 to the General fund and \$66,468 to the Water fund. We anticipate these payables will be paid back with future local option sales tax revenues.

Conclusion - Response accepted.