

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

June 30, 2009

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CITY OF EPWORTH
OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Phillip Silker	Mayor	Deceased Mar 4, 2009
Jacob Reuter	Mayor (Appointed Mar 24, 2009)	Nov 3, 2009
Jason Putz	Mayor Pro tem	Jan 2010
Garry Gansen	Council Member	Jan 2010
Todd Kluesner	Council Member	Jan 2010
Larry Biermann	Council Member	Jan 2012
Jacob Reuter	Council Member	Appointed Mayor Mar 24, 2009
Judy Callahan	Council Member (Appointed Apr 14, 2009)	Nov 3, 2009
Janet Berger	City Clerk	Indefinite
William Blum	City Clerk	Indefinite

Dietz, Donald & Company

CERTIFIED PUBLIC ACCOUNTANTS

STEVEN S. CLAUSEN, CPA

124A Main • P.O. Box 359

Elkader, Iowa 52043

(563) 245-2154 • (800) 310-2154

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Members of the City Council:

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

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

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles. Also, as permitted by the Code of Iowa, the accounting records of the City have not been audited for all prior years. Accordingly, we were unable to satisfy ourselves as to the distribution by activity of the cash basis net assets and by fund of the cash balances at July 1, 2008.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by activity of the cash basis net assets and by fund of the cash balances at July 1, 2008, as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund

information of the City of Epworth as of June 30, 2009, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.


In accordance with Government Auditing Standards, we have also issued our report dated September 25, 2009 on our consideration of the City of Epworth's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 6 through 13 and 28 through 29 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 an opinion on the financial statements that collectively comprise the City of Epworth's basic financial statements. Other supplementary information included in Schedules 1 through 3 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the cash balances at July 1, 2008, as it relates to Schedule 1, as discussed in the third paragraph, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Elkader, Iowa

September 25, 2009


Dietz, Donald & Company, CPAs
FEIN 42-1172392

CITY OF EPWORTH
191 JACOBY DRIVE EAST, P.O. BOX 266
EPWORTH, IA 52045
(563) 876-3320 FAX (563)876-3399
epworth@yousq.net

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Epworth 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. Bear in mind that Chapter 11 of the Code of Iowa requires that the City have its financial statements audited once every four years. Therefore any financial information presented for 2008 has not been audited.

2009 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities decreased 27.7%, or approximately \$ 485,000, from fiscal 2008 to fiscal 2009. Note proceeds decreased by approximately \$ 576,000. However, property taxes increased by over \$ 71,000.
- Disbursements of the City's governmental activities increased 168.9% or approximately \$ 1.591 million, in fiscal 2009 from fiscal 2008. Public safety, debt service and capital projects disbursements increased approximately \$40,000, \$ 65,000 and \$ 1.463 million, respectively.
- The City's total cash basis net assets decreased over 75%, or approximately \$ 1.307 million from June 30, 2008 to June 30, 2009. Of this amount, the assets of the governmental activities decreased approximately \$ 1.263 million while the assets of the business type activities decreased approximately \$ 44,000.

USING THIS ANNUAL REPORT

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

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

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

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

providing information about the most significant funds.

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

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

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

BASIS OF ACCOUNTING

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

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

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

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

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

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

Fund Financial Statements

The City has two kinds of funds:

1. Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds and the balances at year-end that are available for spending. The governmental funds include [a] the General Fund, [b] the Special Revenue Funds such as Road Use Tax and Local Option Sales Tax, [c] the Debt Service Fund and [d] the Capital Projects Funds. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. The required financial statement for governmental funds include a statement of cash receipts, disbursements and changes in cash balances.
2. Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to account for business type activities. The City maintains two Enterprise Funds to provide separate information for the water and sewer funds, considered to be major funds of the City. The required financial statement for proprietary funds is a statement of cash receipts, disbursements and changes in cash balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased sharply from a year ago, decreasing from \$ 1.637 million to \$ 373,000. The analysis that follows focuses on the changes in cash balances for governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities (Expressed in Thousands)

	Years Ended June 30,	
	2009	2008
Receipts		
Program receipts		
Charges for service	\$ 154	123
Operating grants, contributions, and restricted		
Interest	140	152
Capital grants, contributions, and restricted		
Interest	63	29
General receipts		
Property tax	404	333
Local option sales tax	180	188

Unrestricted interest on investments	13	40
Note Proceeds	300	876
Other general receipts	<u>15</u>	<u>13</u>
Total receipts	<u>1,269</u>	<u>1,754</u>
Disbursements		
Public safety	137	97
Public works	264	266
Culture and recreation	79	70
Community and economic development	11	12
General government	89	73
Debt service	252	186
Capital projects	<u>1,701</u>	<u>238</u>
Total disbursements	<u>2,533</u>	<u>942</u>
Change in cash basis net assets	(1,264)	812
Cash basis net assets beginning of year	<u>1,637</u>	<u>825</u>
Cash basis net assets end of year	<u>\$ 373</u>	<u>1,637</u>

The City's total receipts for governmental activities decreased 27.7% or approximately \$ 485,000. The total cost of all programs and services increased by approximately \$ 1.591 million, or 16.9% with completion of the fire station/city hall being the one new program this year. The significant decrease in receipts was primarily the result of a majority of the note proceeds for the building project being received in 2008.

Property tax receipts increased 21% , due in large part to a 13% increase in valuations. Based on increases in the total assessed valuation property taxes are budgeted to increase an additional \$ 26,000 next year.

The cost of all governmental activities was \$ 2.533 million compared to \$ 942,000 last year. However, as shown in the Statement of Activities and Net Assets, the amount taxpayers ultimately financed for these activities was only \$ 2.175 million because some of the cost was paid by those directly benefited from the programs (\$ 154,000) or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest (\$ 203,000). Overall, in 2009, the City's governmental activities program receipts, including intergovernmental aid and fees for services, increased from approximately \$ 304,000 to approximately \$ 357,000, principally due to receiving \$ 28,000 from FEMA for a public assistance grant and \$ 23,000 more in special assessments. The City paid for the remaining "public benefit"

portion of governmental activities with approximately \$ 584,000 in tax (some of which could only be used for certain programs) and with other receipts, such as interest and note proceeds.

Changes in Cash Basis Net Assets of Business Type Activities
(Expressed in Thousands)

	Year Ended June 30,	
	2009	2008
Receipts		
Program receipts		
Charges for service		
Water	\$ 116	114
Sewer	138	128
Utility deposits	4	2
General receipts		
Unrestricted interest on investments	1	8
Other general receipts	1	6
Total receipts	<u>260</u>	<u>258</u>
Disbursements		
Water	207	218
Sewer	94	122
Utility deposits	<u>3</u>	<u>2</u>
Total disbursements	<u>304</u>	<u>342</u>
Change in cash basis net assets	(44)	(84)
Cash basis net assets beginning of year	<u>96</u>	<u>180</u>
Cash basis net assets end of year	<u>\$ 52</u>	<u>96</u>

The business type activities receipts for the fiscal year were \$ 260,000 compared to \$ 258,000 last year. The cash balance decreased by approximately \$ 44,000. Total disbursements for the fiscal year decreased by 11.1% to a total of \$ 304,000.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Epworth completed the year, its governmental funds reported a combined fund balance of \$ 373,410, a decrease of over \$ 1.263 million from last year's total of \$ 1,636,915. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance decreased \$ 232,444 from the prior year to \$ 283,705. Receipts increased \$ 41,803 from last year and disbursements increased \$ 208,174. Public safety disbursements increased \$ 40,081 as a result of equipping the new fire station. Capital projects disbursements increased \$ 115,944 primarily due to over \$ 85,000 being spent on the park pavilion.
- The Special Revenue, Road Use Tax Fund cash balance increased \$ 9,033 to \$ 12,742 during the fiscal year. The 2009 road use tax allocation decreased \$ 4,330 from 2008, however, disbursements decreased \$ 13,363.
- The Debt Service Fund cash balance decreased \$ 8,850 to \$ 15,750 during the fiscal year. Debt service disbursements increased \$ 46,343 primarily due to the retirement of the 2003 GO Street Improvement notes.
- The Capital Projects, Fire Station Fund had disbursements of \$ 1,503,169 which were primarily funded by the issuance of \$ 1,175,000 general obligation notes (\$ 875,000 of which were issued in 2008), \$ 230,000 in local option sales tax receipts and \$ 123,592 of donations and interest.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

The Water Fund cash balance decreased \$ 89,119 leaving the Water Fund with a balance of \$ 257. Receipts for 2009 were \$ 116,031, \$ 8,057 more than in 2008. The 1997 Water Revenue notes were retired in 2009, accounting for \$ 60,698 of the decrease.

The Sewer Fund cash balance increased \$ 45,011 leaving the Sewer Fund with a balance of \$ 44,339. Receipts for 2009 were \$ 138,286, \$ 10,262 more than in 2008. Disbursements decreased \$ 28,991 as capital disbursements decreased \$ 16,161.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget once. The amendment was approved on May 12, 2009. Budgeted disbursements were increased by \$ 1,076,470, including \$ 971,525 to increase budgeted disbursements for completion of the fire station/city hall and the park pavilion. Public safety budgeted disbursements were increased by \$ 28,000 and public works budgeted disbursements were increased by \$ 55,000.

The City's receipts were \$ 550,027 less than budgeted, primarily due to receiving \$ 348,132 less in grants than budgeted.

DEBT ADMINISTRATION

At June 30, 2009, the City has \$ 1,362,648 in long-term debt outstanding, compared to \$ 1,280,079 last year, as shown in the following.

Outstanding Debt at Year-End (Expressed in Thousands)		
	June 30, 2009	2008
General Obligation Notes	\$ 1,165	1,055
Water Revenue Notes	0	54
Lease-purchase Agreement	84	0
Land Contract	114	171
Total	<u>\$ 1,363</u>	<u>1,280</u>

The City issued \$ 300,000 of general obligation notes for the construction of the fire station/city hall. The City entered into a \$ 100,646 lease-purchase agreement for the purchase of a dump truck.

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$ 1.363 million is significantly below its constitutional debt limit of \$ 3.692 million.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City of Epworth's elected and appointed officials and citizens considered many factors when setting the fiscal year 2010 budget, tax rates and fees that will be charged for various City activities. One of those factors is the economy. Nationally, the country is in the depths of a recession, with unemployment reaching 9.4%. However, state-wide things do not look as bleak with unemployment at 6.1%.

The City has experienced considerable growth. City population has increased over 41% over the last thirty years. July 1, 2008 taxable valuations increased 7.6% over the July 1, 2007 taxable valuations.

These indicators were taken into account when adopting the budget for fiscal year 2010. Amounts available for appropriation in the operating budget are \$ 1.112 million, a decrease of 38.9% from the amended fiscal 2009 budget. Budgeted note proceeds decreased by \$ 300,000 from 2009 to 2010. Budgeted disbursements are expected to decrease by approximately \$ 2.264 million. Capital projects disbursements are expected to decrease \$ 1.941 million. The City added no major programs or initiatives to the 2010 budget.

If these estimates are realized, the City's budgeted cash balance is expected to increase approximately \$ 187,000 by the close of 2010.

CONTACTING THE CITY'S MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information contact Janet Berger, City Clerk; 191 Jacoby Dr. E, Epworth, Iowa 52045-0266.

BASIC FINANCIAL STATEMENTS

Exhibit A

CITY OF EPWORTH
STATEMENT OF ACTIVITIES AND NET ASSETS-CASH BASIS
As of and for the Year Ended June 30, 2009

Functions/Programs:	Disbursements	Program Receipts			Net (Disbursements), Receipts and Changes in Cash Basis Net Assets		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	Total
Governmental activities:							
Public safety	\$ 137,164	17,565	4,901	0	(114,698)	0	(114,698)
Public works	263,517	73,440	132,918	0	(57,159)	0	(57,159)
Culture and recreation	79,116	959	0	0	(78,157)	0	(78,157)
Community and economic development	10,907	0	1,668	0	(9,239)	0	(9,239)
General government	88,562	34,209	0	0	(54,353)	0	(54,353)
Debt service	251,625	27,484	714	0	(223,427)	0	(223,427)
Capital projects	1,701,306	0	0	63,174	(1,638,132)	0	(1,638,132)
Total governmental activities	2,532,197	153,657	140,201	63,174	(2,175,165)	0	(2,175,165)
Business type activities:							
Water	206,845	116,031	0	0	0	(90,814)	(90,814)
Sewer	93,448	138,286	0	0	0	44,838	44,838
Utility deposits	3,275	3,500	0	0	0	225	225
Total business type activities	303,568	257,817	0	0	0	(45,751)	(45,751)
Total	\$ 2,835,765	411,474	140,201	63,174	(2,175,165)	(45,751)	(2,220,916)
General Receipts:							
Property and other city tax levied for:							
General purposes					268,696	0	268,696
Debt service					135,427	0	135,427
Local option sales tax					179,665	0	179,665
Unrestricted interest on investments					12,741	765	13,506
Note proceeds					300,000	0	300,000
Miscellaneous					5,879	1,103	6,982
Sale of assets					9,252	0	9,252
Total general receipts					911,660	1,868	913,528
Change in cash basis net assets					(1,263,505)	(43,883)	(1,307,388)
Cash basis net assets beginning of year					1,636,915	95,919	1,732,834
Cash basis net assets end of year					\$ 373,410	52,036	425,446
Cash Basis Net Assets							
Restricted:							
Streets					\$ 31,966	0	31,966
Community betterment					5,274	0	5,274
Housing rehab					36,715	0	36,715
Debt service					15,750	0	15,750
Unrestricted					283,705	52,036	335,741
Total cash basis net assets					\$ 373,410	52,036	425,446

See notes to financial statements.

Exhibit B

CITY OF EPWORTH
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
GOVERNMENTAL FUNDS
As of and for the Year Ended June 30, 2009

	General	Special Revenue Road Use Tax	Debt Service	Capital Projects Fire Station	Nonmajor	Total
Receipts:						
Property tax	\$ 254,091	0	133,335	0	0	387,426
Other city tax	93,792	0	2,092	0	89,832	185,716
Licenses and permits	2,893	0	0	0	0	2,893
Use of money and property	30,283	0	715	8,408	0	39,406
Intergovernmental	54,459	132,918	0	0	0	187,377
Charges for service	73,738	0	0	0	0	73,738
Special assessments	174	0	27,483	0	0	27,657
Miscellaneous	45,127	0	0	10,100	0	55,227
Total receipts	554,557	132,918	163,625	18,508	89,832	959,440
Disbursements:						
Operating:						
Public safety	137,164	0	0	0	0	137,164
Public works	164,868	98,649	0	0	0	263,517
Culture and recreation	79,116	0	0	0	0	79,116
Community and economic development	4,821	6,086	0	0	0	10,907
General government	88,562	0	0	0	0	88,562
Debt service	0	19,150	232,475	0	0	251,625
Capital projects	198,130	0	0	1,503,169	7	1,701,306
Total disbursements	672,661	123,885	232,475	1,503,169	7	2,532,197
Excess (deficiency) of receipts over (under) disbursements	(118,104)	9,033	(68,850)	(1,484,661)	89,825	(1,572,757)
Other financing sources (uses):						
Note proceeds	0	0	0	300,000	0	300,000
Sale of capital assets	9,252	0	0	0	0	9,252
Operating transfers in	50,000	0	60,000	353,592	0	463,592
Operating transfers out	(173,592)	0	0	0	(290,000)	(463,592)
Total other financing sources (uses)	(114,340)	0	60,000	653,592	(290,000)	309,252
Net change in cash balances	(232,444)	9,033	(8,850)	(831,069)	(200,175)	(1,263,505)
Cash balances beginning of year	516,149	3,709	24,600	831,069	261,388	1,636,915
Cash balances end of year	\$ 283,705	12,742	15,750	0	61,213	373,410
Cash Basis Fund Balances						
Reserved for debt service	\$ 0	0	15,750	0	0	15,750
Unreserved:						
General fund	283,705	0	0	0	0	283,705
Special revenue funds	0	12,742	0	0	61,213	73,955
Total cash basis fund balances	\$ 283,705	12,742	15,750	0	61,213	373,410

See notes to financial statements.

CITY OF EPWORTH
 STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
 AND CHANGES IN CASH BALANCES
 PROPRIETARY FUNDS
 As of and for the Year Ended June 30, 2009

	Enterprise			
	Water	Sewer	Nonmajor Utility Deposits	Total
Operating receipts:				
Charges for service	\$ 116,031	138,286	0	254,317
Operating disbursements:				
Business type activities	146,147	93,448	0	239,595
Excess (deficiency) of operating receipts over (under) operating disbursements	(30,116)	44,838	0	14,722
Non-operating receipts (disbursements):				
Interest on investments	592	173	0	765
Miscellaneous	1,103	0	3,500	4,603
Debt service	(60,698)	0	0	(60,698)
Miscellaneous	0	0	(3,275)	(3,275)
Net non-operating receipts (disbursements)	(59,003)	173	225	(58,605)
Net change in cash balances	(89,119)	45,011	225	(43,883)
Cash balances beginning of year	89,376	(672)	7,215	95,919
Cash balances end of year	\$ 257	44,339	7,440	52,036
Cash Basis Fund Balances				
Unreserved	\$ 257	44,339	7,440	52,036

See notes to financial statements.

CITY OF EPWORTH

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

(1) Summary of Significant Accounting Policies

The City of Epworth is a political subdivision of the State of Iowa located in Dubuque County. It was first incorporated in 1880 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services, including public safety, public works, health and social services, culture and recreation, community and economic development, and general government services. The City also provides water and sewer utilities for its citizens.

A. Reporting Entity

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

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Dubuque Metropolitan Solid Waste Agency, Dubuque County Joint E911 Service Board, Iowa Mutual Aid Compact, Eastern Iowa Regional Housing Authority, and the Eastern Iowa Regional Housing Corporation.

B. Basis of Presentation

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

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

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

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

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

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

The City reports the following major governmental funds:

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

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

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

Capital Projects, the Fire Station Fund is used to account for construction costs of the new fire station/city hall.

The City reports the following major proprietary funds:

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

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

C. Measurement Focus and Basis of Accounting

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

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

D. Budgets and Budgetary Accounting

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

(2) Cash

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

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; eligible bankers acceptances; certain high rated commercial paper;

perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$ 16,525 pursuant to Rule 2a – 7 under the Investment Company Act of 1940 No. 3.

Interest rate risk – The City’s investment policy limits the investments of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the City. At June 30, 2009, the City had \$ 287,087 invested in certificates of deposit with maturities ranging from 87 to 474 days.

Credit risk – The City’s investment in the Iowa Public Agency Investment Trust is unrated.

(3) Long-Term Debt

Annual debt service requirements to maturity for general obligation notes, the lease-purchase agreement and the land contract are as follows:

Year Ending June 30	General Obligation Notes		Lease-Purchase Agreement		Land Contract		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2010	\$ 88,332	34,093	15,140	4,010	56,935	-	160,407	38,103
2011	88,332	32,003	15,908	3,242	56,935	-	161,175	35,245
2012	83,332	29,913	16,715	2,435	-	-	100,047	32,348
2013	83,332	28,013	17,562	1,588	-	-	100,894	29,601
2014	88,332	26,113	18,453	697	-	-	106,785	26,810
2015-2019	438,340	97,668	-	-	-	-	438,340	97,668
2020-2023	295,000	31,353	-	-	-	-	295,000	31,353
Total	\$ 1,165,000	279,156	83,778	11,972	113,870	-	1,362,648	291,128

(4) Pension and Retirement Benefits

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

Most regular plan members are required to contribute 4.10% of their annual covered salary and the City is required to contribute 6.35% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the year ended June 30, 2009 were \$ 16,490, equal to the required contribution for the year.

(5) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized by the City until used or paid. The City's approximate liability for earned vacation payable to employees at June 30, 2009, relating to both the General and Enterprise Funds, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$ <u>4,200</u>

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

(6) Interfund Transfers

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

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Special Revenue: Local Option Sales Tax - Community Betterment	\$ <u>50,000</u>
Debt Service	Special Revenue: Local Option Sales Tax - Assessment Pool	<u>60,000</u>
Capital Projects: Fire Station	General	173,592
	Special Revenue: Local Option Sales Tax - Community Betterment	<u>180,000</u>
		<u>353,592</u>
Total		\$ <u>463,592</u>

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

(7) Related Party Transactions

The City had business transactions between City and City officials totaling \$ 10,107 during the year ended June 30, 2009.

(8) Risk Management

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

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

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

The City's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The City's net contributions to the Pool for the year ended June 30, 2009 were \$ 20,760.

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

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

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all casualty claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal.

Members withdrawing within the first six years of membership may receive a partial refund of their casualty capital contributions. If a member withdraws after the sixth year, the member is refunded 100 percent of its casualty capital contributions. However, the refund is reduced by an amount equal to the annual casualty operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

The City also carries commercial insurance purchased from other insurers for coverage associated with worker's compensation and the clerk's fidelity bond. The City assumes liability for any deductibles, and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(9) Lease Agreements

The City entered into lease agreements with Operation New View, the Dubuque County Library and the Dubuque County Safe Youth Coalition to lease space in various City buildings.

The Operation New View lease begins August 1, 2009 and expires June 30, 2010 and calls for a monthly rental of \$550.

The Dubuque County Library lease begins August 1, 2009 and expires June 30, 2010 with a monthly rental of \$1,615.

The Dubuque County Safe Youth Coalition lease began September 30, 2008 and expires September 29, 2009. An annual rental of \$8,608 was received September 19, 2008.

(10) Termination Benefits

In May 2009, the City approved a voluntary early retirement plan for employees. The plan was offered to employees for two weeks. Eligible employees must have completed twenty consecutive years of service to the City, must have reached the age of fifty-five on or before January 1, 2009, and meet the "rule of 88" under IPERS.

Early retirement benefits equal 100% of the employee's unused sick and vacation leave, calculated as of the last day of employment prior to retirement. The employee will also received \$200 per year for recognition of service. This is not to exceed thirty years. In addition, if the employee was covered by a City health insurance plan on the last day of employment prior to retirement, the City shall upon request by the employee, contribute an amount, not to exceed \$388, each month toward the employee's continued participation in the City's health insurance plan. Payments by the City toward health insurance will not exceed two years.

After two years the retiree remains eligible to stay on the City's health insurance, but will be required to cover the entire cost of his/her premium.

At June 30, 2009, the City has obligations to one participant with a total liability of \$9,318. Actual early retirement disbursements for the year ended June 30, 2009 totaled \$16,013.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF EPWORTH
BUDGETARY COMPARISON SCHEDULE
OF RECEIPTS, DISBURSEMENTS AND CHANGES IN BALANCES
BUDGET AND ACTUAL (CASH BASIS)-ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUNDS
REQUIRED SUPPLEMENTARY INFORMATION
Year Ended June 30, 2009

	Governmental Funds Actual	Proprietary Funds Actual	Total	Budgeted Amounts		Final to Total Variance
				Original	Final	
Receipts:						
Property tax	\$ 387,426	0	387,426	387,537	387,537	(111)
Other city tax	185,716	0	185,716	165,927	175,927	9,789
Licenses and permits	2,893	0	2,893	3,025	3,025	(132)
Use of money and property	39,406	765	40,171	18,500	41,500	(1,329)
Intergovernmental	187,377	0	187,377	501,000	535,509	(348,132)
Charges for service	73,738	254,317	328,055	320,500	320,500	7,555
Special assessments	27,657	0	27,657	22,721	22,721	4,936
Miscellaneous	55,227	4,603	59,830	23,000	332,000	(272,170)
Total receipts	959,440	259,685	1,219,125	1,442,210	1,818,719	(599,594)
Disbursements:						
Public safety	137,164	0	137,164	123,956	151,956	14,792
Public works	263,517	0	263,517	228,620	283,620	20,103
Culture and recreation	79,116	0	79,116	60,521	84,521	5,405
Community and economic development	10,907	0	10,907	14,750	14,750	3,843
General government	88,562	0	88,562	97,340	97,340	8,778
Debt service	251,625	0	251,625	293,680	251,625	0
Capital projects	1,701,306	0	1,701,306	1,026,000	1,997,525	296,219
Business type activities	0	303,568	303,568	266,740	306,740	3,172
Total disbursements	2,532,197	303,568	2,835,765	2,111,607	3,188,077	352,312
Deficiency of receipts under disbursements	(1,572,757)	(43,883)	(1,616,740)	(669,397)	(1,369,358)	(247,382)
Other financing sources, net	309,252	0	309,252	0	0	309,252
Deficiency of receipts and other financing sources under disbursements and other financing uses	(1,263,505)	(43,883)	(1,307,388)	(669,397)	(1,369,358)	61,970
Balances beginning of year	1,636,915	95,919	1,732,834	1,018,396	1,732,834	0
Balances end of year	\$ 373,410	52,036	425,446	348,999	363,476	61,970

See accompanying independent auditor's report and notes to required supplementary information - budgetary reporting.

CITY OF EPWORTH
Notes to Required Supplementary Information - Budgetary Reporting
June 30, 2009

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. The nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Fund, the Permanent Fund and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund.

During the year ended June 30, 2009, one budget amendment increased budgeted disbursements by \$ 1,076,470. The budget amendment is reflected in the final budgeted amounts.

OTHER SUPPLEMENTARY INFORMATION

CITY OF EPWORTH
 SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS
 AND CHANGES IN CASH BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 As of and for the Year Ended June 30, 2009

	Special Revenue			
	Local Option Sales Tax Community Betterment	Local Option Sales Tax Assessment Pool	Housing Rehab Projects	Total
Receipts:				
Other city tax	\$ 44,916	44,916	0	89,832
Disbursements:				
Capital projects	0	0	7	7
Excess (deficiency) of receipts over (under) disbursements	44,916	44,916	(7)	89,825
Other financing uses:				
Operating transfers out	(230,000)	(60,000)	0	(290,000)
Net change in cash balances	(185,084)	(15,084)	(7)	(200,175)
Cash balances beginning of year	190,358	34,308	36,722	261,388
Cash balances end of year	<u>\$ 5,274</u>	<u>19,224</u>	<u>36,715</u>	<u>61,213</u>
Cash Basis Fund Balances				
Unreserved:				
Special revenue funds	<u>\$ 5,274</u>	<u>19,224</u>	<u>36,715</u>	<u>61,213</u>

See accompanying independent auditor's report.

Schedule 2

CITY OF EPWORTH
SCHEDULE OF INDEBTEDNESS
Year Ended June 30, 2009

Obligation	Date of Issue	Interest Rates	Amount Originally Issued	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
General obligation notes:								
Street improvement	Apr 1, 2003	3.15%	\$ 770,000	180,000	0	180,000	0	5,670
Fire station	May 15, 2008	3.80-4.20%	875,000	875,000	0	10,000	865,000	36,005
Fire station	Dec 1, 2008	0%	300,000	0	300,000	0	300,000	0
Total				<u>\$ 1,055,000</u>	<u>300,000</u>	<u>190,000</u>	<u>1,165,000</u>	<u>41,675</u>
Revenue notes:								
Water	Sep 27, 1978	5.00%	\$ 397,000	54,274	0	54,274	0	6,522
Lease-purchase agreement:								
2009 International 7400 truck	Dec 1, 2008	5.01%	\$ 100,646	0	100,646	16,868	83,778	2,281
Land contract:								
Fire station site	Oct 16, 2007	0%	\$ 227,741	170,805	0	56,935	113,870	0

See accompanying independent auditor's report.

Schedule 3

CITY OF EPWORTH
NOTE AND OTHER DEBT MATURITIES
June 30, 2009

Year Ending June 30,	General Obligation Notes					Lease-purchase Agreement		Land Contract	
	Fire Station		Fire Station		Total	2009 IH 7400 Truck		Fire Station Site	
	Issued May 15, 2008		Issued Dec 1, 2008			Issued Dec 1, 2008		Issued Oct 16, 2007	
	Interest Rates	Amount	Interest Rates	Amount		Interest Rates	Amount	Interest Rates	Amount
2010	3.80%	\$ 55,000	0%	\$ 33,332	88,332	5.01%	\$ 15,140	0%	\$ 56,935
2011	3.80	55,000	0	33,332	88,332	5.01	15,908	0	56,935
2012	3.80	50,000	0	33,332	83,332	5.01	16,715		-
2013	3.80	50,000	0	33,332	83,332	5.01	17,562		-
2014	3.80	55,000	0	33,332	88,332	5.01	18,453		-
2015	3.80	55,000	0	33,332	88,332		-		-
2016	3.85	60,000	0	33,332	93,332		-		-
2017	3.85	60,000	0	33,332	93,332		-		-
2018	3.90	65,000	0	33,344	98,344		-		-
2019	4.00	65,000		-	65,000		-		-
2020	4.05	70,000		-	70,000		-		-
2021	4.10	70,000		-	70,000		-		-
2022	4.15	75,000		-	75,000		-		-
2023	4.20	80,000		-	80,000		-		-
Total		\$ 865,000		\$ 300,000	1,165,000		\$ 83,778		\$ 113,870

See accompanying independent auditor's report.

STEVEN S. CLAUSEN, CPA

124A Main • P.O. Box 359

Elkader, Iowa 52043

(563) 245-2154 • (800) 310-2154

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, business type activities, each major fund and the aggregate remaining fund information of the City of Epworth, 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 September 25, 2009. Our report on the financial statements, which were prepared in conformity with an other comprehensive basis of accounting, expressed qualified opinions since we were unable to satisfy ourselves as to the distribution by activity of the cash basis net assets and by fund of the cash balances at July 1, 2008. Except as noted in the Independent Auditor's Report, we conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

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

A control deficiency exists when the design or operation of a control does not allow

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

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City of Epworth'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 material weaknesses. However, of the significant deficiencies described above, we believe items I-A-09 and I-B-09 are material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Epworth's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have 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 on noncompliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of noncompliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 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 Epworth's responses to findings in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the

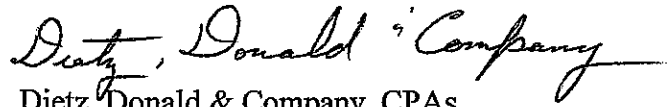
City's responses, we did not audit the City of Epworth's responses and, accordingly, we express no opinion on them.

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 Epworth and other parties to whom the City of Epworth may report. This report is not intended to be and should not be used by anyone other than these specified parties.

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

Elkader, Iowa

September 25, 2009


Dietz, Donald & Company, CPAs
FEIN 42-1172392

CITY OF EPWORTH
SCHEDULE OF FINDINGS
Year Ended June 30, 2009

Part I: Findings Related to the Financial Statements:

SIGNIFICANT DEFICIENCIES:

- I-A-09 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted substantially all accounting functions are performed by one individual.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, the City should review its control procedures to obtain maximum internal control possible under the circumstances. For instance, a City official could receive and then review bank statements before giving them to the individual responsible for account reconciliations.

Response - We will consider this.

Conclusion: Response acknowledged. The City should segregate duties to the extent possible with existing personnel and utilize elected officials whenever possible to provide additional control through review of financial transactions and reports.

- I-B-09 Financial Reporting - As is common in small organizations, the City does not prepare its financial statements, complete with notes, in accordance with U.S. generally accepted accounting principles. Accordingly, the City is unable to, and has not established internal controls over the preparation of financial statements.

Recommendation - As part of the audit, we have been requested to prepare a draft of the City's financial statements, including related notes. The City then performs a review of the financial statements. However, in order to provide improved oversight of the financial reporting process, the City should establish review policies and procedures including the performance of some or all of the following:

1. Review the adequacy of financial statement disclosures.
2. Review and approve schedules and calculations supporting amounts included in the notes to the financial statements.
3. Apply analytical procedures to the draft financial statements.
4. Apply other procedures as considered necessary by the City.

Response - We will consider this. However, we normally prepare formal financial

statements only when we are required to have an audit, which currently is once every four years.

Conclusion- Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

CITY OF EPWORTH
SCHEDULE OF FINDINGS
Year Ended June 30, 2009

Part II: Other Findings Related to Required Statutory Reporting:

II-A-09 Certified Budget - Disbursements for the year ended June 30, 2009 did not exceed the amounts budgeted.

II-B-09 Questionable Disbursements - Certain disbursements were noted that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 since the public benefits to be derived have not been clearly documented. These disbursement are detailed as follows:

<u>Paid to</u>	<u>Purpose</u>	<u>Amount</u>
Kim's Kreations	Welcome Basket	\$ 115

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

Recommendation - The Council should determine and document the public purpose served by these disbursements before authorizing any further payments. If this practice is continued, the City should establish written policies and procedures, including the requirements for written documentation.

Response - The City will obtain better documentation to support these expenditures as a public purpose. We will consider a written policy for this practice.

Conclusion - Response accepted.

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

II-D-09 Business Transactions - Business transactions between the City and City officials are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Phillip Silker, Mayor Employee and son of owner Of Silker's Store	Parts and supplies	\$ 899
Donna Silker, wife of Mayor, Executive Director Dubuque County Safe Youth Coalition	Allocation Rent of office space from the City	600 8,608

In accordance with Chapter 362.5(11) of the Code of Iowa, the transactions with the Mayor do not appear to represent conflicts of interest since total transactions with the Mayor were less than \$ 2,500 during a fiscal year. In accordance with Chapter 362.5(5) the transactions with the Mayor's wife do not appear to represent a conflict of interest as the contract is for services not customarily awarded by competitive bid and her remuneration of employment will not be directly affected as a result of the contract.

- II-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 insure the coverage is adequate for current operations.
- II-F-09 Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not.
- II-G-09 Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.
- II-H-09 Revenue Bonds - No instances of non-compliance with the revenue bond resolutions were noted.