

CITY OF IOLA, KANSAS
FINANCIAL STATEMENTS
Year ended December 31, 2008

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CITY OF IOLA, KANSAS
FINANCIAL STATEMENTS
Year ended December 31, 2008

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CITY OF IOLA, KANSAS
FINANCIAL STATEMENTS
Year ended December 31, 2008

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LOWENTHAL, WEBB & ODERMANN, P.A.

David A. Lowenthal, CPA
Patricia L. Webb, CPA
Audrey M. Odermann, CPA

CERTIFIED PUBLIC ACCOUNTANTS

900 Massachusetts, Suite 301
Lawrence, Kansas 66044-2868
Phone: (785) 749-5050
Fax: (785) 749-5061
Website: www.lswwcpa.com

Abram M. Chrislip, CPA
Caroline H. Eddinger, CPA
Grant A. Huddin, CPA
Brian W. Nyp, CPA

Members of American Institute
and Kansas Society of
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS AND SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Mayor and City Commission
City of Iola, Kansas

We have audited the accompanying financial statements of the City of Iola, Kansas (the City) as of and for the year ended December 31, 2008, as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements as of and for the year ended December 31, 2007, were audited by other auditors who expressed an unqualified opinion as to presentation in accordance with the Kansas prescribed basis of accounting. The prior year partial comparative information has been derived from the City's financial statements for the year ended December 31, 2007. In the prior year auditor's report dated October 27, 2008 on these financial statements, they expressed an adverse opinion as to presentation on the basis of generally accepted accounting principles and an unqualified opinion as to presentation on the Kansas prescribed basis of accounting.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in "Government Auditing Standards," issued by the Comptroller General of the United States and "Kansas Municipal Audit Guide." 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we express no such opinion. 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 opinion.

As described in Note 1, the City of Iola, Kansas prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the cash basis and budget laws of the State of Kansas, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, because of the omission of the financial data of one, but not all, of the component units of the City of Iola, Kansas, and, because of the City's policy to prepare its financial statements on the basis of accounting discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the governmental activities, the business-type activities, each major fund, the discretely presented component unit and the aggregate remaining fund information of the City of Iola, Kansas, as of December 31, 2008, or the respective changes in financial position for the year then ended.

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the cash and unencumbered cash balances of the City of Iola, Kansas, as of December 31, 2008, and its cash receipts and expenditures by fund, and fund budget to actual comparisons, for the year then ended, taken as a whole, on the prescribed basis of accounting described in Note 1.

The financial statements include partial prior-year comparative information. Such information does not include all of the information required for a presentation in conformity with the Kansas prescribed basis of accounting. Accordingly, such information should be read in conjunction with the City's financial statements for the year ended December 31, 2007, from which such partial information was derived.

In accordance with "Government Auditing Standards", we have also issued our report dated November 25, 2009, on our consideration of the City'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.

Our audit was performed for the purpose of forming an opinion on the financial statements of the City taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations", and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole, on the basis of accounting described in Note 1.

Lowenthal, Welt & Odermann, P.A.

November 25, 2009

CITY OF IOLA, KANSAS
SUMMARY OF CASH RECEIPTS, EXPENDITURES AND UNENCUMBERED CASH
For the Year Ended December 31, 2008

Funds	Beginning Unencumbered <u>Cash Balance</u>	Prior Period <u>Restatement</u>	Cash <u>Receipts</u>	<u>Expenditures</u>	Ending Unencumbered <u>Cash Balance</u>	Outstanding Encumbrances and Accounts <u>Payable</u>	Ending Cash <u>Balance</u>
General Fund	\$ 264,312	\$ -	\$ 4,167,676	\$ 4,425,652	\$ 6,336	\$ 153,526	\$ 159,862
Special Revenue Funds:							
Special Alcohol and Drug	11,742	-	6,286	12,458	5,570	-	5,570
Industrial	59,350	-	33,569	79,462	13,457	-	13,457
Tourism and Convention	25,634	-	60,720	69,040	17,314	-	17,314
Library	435	-	177,053	177,053	435	-	435
Special Trafficway	225,583	-	170,465	292,979	103,069	-	103,069
Special Parks and Recreation	145,027	-	1,622,486	1,691,727	75,786	4,418	80,204
Equipment Reserve	265,860	-	119,394	37,160	348,094	-	348,094
Debt Service Fund	3,544	-	396,875	396,878	3,541	-	3,541
Capital Project Funds:							
Major Non - Street Projects	2,136	-	1,402,248	1,152,028	252,356	14,500	266,856
Comprehensive Program	1,021,613	-	223,803	455,412	790,004	-	790,004
Special Street Project	38,586	-	-	17,325	21,261	-	21,261
Enterprise Funds:							
Electric	2,952,841	-	10,565,410	11,577,470	1,940,781	28,717	1,969,498
Water	280,086	-	1,427,150	1,682,632	24,604	24,632	49,236
Sewer	634,472	-	2,876,818	2,675,506	835,784	92,745	928,529
Gas	164,953	-	4,434,558	4,611,718	[12,207]	7,552	[4,655]
Refuse	166,871	-	216,978	340,981	42,868	4,549	47,417
Emergency Rescue	172,832	-	239,443	279,199	133,076	1,466	134,542
Internal Service Funds							
Stores	54,473	-	342,995	347,579	49,889	2,827	52,716
Employee Insurance	37,429	-	537,211	549,873	24,767	-	24,767
Private-Purpose Trust Funds	118,257	-	4,972	8,776	114,453	-	114,453
Total Primary Government (excluding Agency Funds)	6,646,036	-	29,026,110	30,880,908	4,791,238	334,932	5,126,170
Component Units:							
Iola Free Public Library	178,412	[35,790]	255,096	254,983	142,735	-	142,735
Total Reporting Entity (excluding Iola Housing Authority and Agency Funds)	\$ 6,824,448	\$ [35,790]	\$ 29,281,206	\$ 31,135,891	\$ 4,933,973	\$ 334,932	\$ 5,268,905

COMPOSITION OF CASH:

Great Southern	
Demand Accounts	\$ 1,117,357
Money Market	6,737
Certificates of Deposit	4,044,551
Total Great Southern	<u>5,168,645</u>
Emprise Bank	
Demand Accounts	<u>29,860</u>
Total Emprise Bank	<u>29,860</u>
Citizens Bank	
Certificates of Deposit	<u>59,887</u>
Total Emprise Bank	<u>59,887</u>
Edward Jones	
Money Market	<u>1,700</u>
Total Emprise Bank	<u>1,700</u>
Total Cash	5,260,092
Add: Agency Funds per Statement 5	<u>8,813</u>
Total Reporting Entity (excluding Iola Housing Authority and Agency Funds)	<u>\$ 5,268,905</u>

The notes to the financial statements are an integral part of this statement.

STATEMENT 2

CITY OF IOLA, KANSAS
SUMMARY OF EXPENDITURES - ACTUAL AND BUDGET
(Budgeted Funds Only)
For the Year Ended December 31, 2008

<u>Funds</u>	<u>Certified Budget</u>	<u>Adjustment for Qualifying Budget Credits</u>	<u>Total Budget for Comparison</u>	<u>Expenditures Chargeable to Current Year Budget</u>	<u>Variance Positive [Negative]</u>
General Fund	\$ 4,753,046	\$ -	\$ 4,753,046	\$ 4,425,652	\$ 327,394
Special Revenue Funds:					
Special Alcohol and Drug	12,350	-	12,350	12,458	[108]
Industrial	92,500	-	92,500	79,462	13,038
Tourism and Convention	70,000	-	70,000	69,040	960
Library	181,182	-	181,182	177,053	4,129
Special Trafficway	300,000	-	300,000	292,979	7,021
Special Park and Recreation	1,698,331	-	1,698,331	1,691,727	6,604
Equipment Reserve	41,000	-	41,000	37,160	3,840
Debt Service Fund	396,895	-	396,895	396,878	17
Capital Project Fund:					
Comprehensive Program	1,608,000	-	1,608,000	455,412	1,152,588
Enterprise Funds:					
Electric	11,635,660	-	11,635,660	11,577,470	58,190
Water	1,727,260	-	1,727,260	1,682,632	44,628
Sewer	2,870,545	-	2,870,545	2,675,506	195,039
Gas	4,845,551	-	4,845,551	4,611,718	233,833
Refuse	353,188	-	353,188	340,981	12,207
Emergency Rescue	341,000	-	341,000	279,199	61,801
Internal Service Funds					
Stores	365,023	-	365,023	347,579	17,444
Employee Insurance	632,000	-	632,000	549,873	82,127

The notes to the financial statements are an integral part of this statement.

CITY OF IOLA, KANSAS
GENERAL FUND
STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET
For the Year Ended December 31, 2008
(With Comparative Actual Amounts For the Year Ended December 31, 2007)

	Prior Year Actual	Current Year		Variance Positive [Negative]
		Actual	Budget	
Cash Receipts				
Taxes	\$ 1,032,593	\$ 1,013,801	\$ 1,036,782	\$ [22,981]
Intergovernmental	1,363,446	1,234,373	1,145,776	88,597
Use of money and property	21,930	52,794	150,000	[97,206]
Fines and fees	212,963	224,163	227,000	[2,837]
Charges for services	164,781	23,361	106,000	[82,639]
Miscellaneous	10,935	188,184	20,000	168,184
Transfers in	1,571,000	1,431,000	1,531,000	[100,000]
Total Cash Receipts	<u>4,377,648</u>	<u>4,167,676</u>	<u>\$ 4,216,558</u>	<u>\$ [48,882]</u>
Expenditures and Transfers Subject to Budget				
General government	1,248,352	792,397	\$ 1,050,309	\$ 257,912
Public safety	2,163,882	2,311,070	2,328,685	17,615
Highways and streets	535,035	683,320	706,652	23,332
Culture and recreation	309,229	526,782	335,317	[191,465]
Transfers out	26,000	112,083	332,083	220,000
Total Expenditures and Transfers Subject to Budget	<u>4,282,498</u>	<u>4,425,652</u>	<u>\$ 4,753,046</u>	<u>\$ 327,394</u>
Receipts Over [Under] Expenditures	95,150	[257,976]		
Unencumbered Cash, Beginning	<u>169,162</u>	<u>264,312</u>		
Unencumbered Cash, Ending	<u>\$ 264,312</u>	<u>\$ 6,336</u>		

The notes to the financial statements are an integral part of this statement.

STATEMENT 3 - 2

CITY OF IOLA, KANSAS
SPECIAL ALCOHOL AND DRUG FUND
STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET
For the Year Ended December 31, 2008
(With Comparative Actual Amounts For the Year Ended December 31, 2007)

	Prior Year <u>Actual</u>	Current Year		Variance Positive [Negative]
		<u>Actual</u>	<u>Budget</u>	
Cash Receipts				
Intergovernmental	\$ 8,370	\$ 5,236	\$ 9,500	\$ [4,264]
Miscellaneous	<u>3,600</u>	<u>1,050</u>	<u>500</u>	<u>550</u>
Total Cash Receipts	<u>11,970</u>	<u>6,286</u>	<u>\$ 10,000</u>	<u>\$ [3,714]</u>
Expenditures and Transfers Subject to Budget				
General government				
Contractual services	6,000	6,458	\$ 6,350	\$ [108]
Transfers out	<u>6,401</u>	<u>6,000</u>	<u>6,000</u>	<u>-</u>
Total Expenditures and Transfers Subject to Budget	<u>12,401</u>	<u>12,458</u>	<u>\$ 12,350</u>	<u>\$ [108]</u>
Receipts Over [Under] Expenditures	[431]	[6,172]		
Unencumbered Cash, Beginning	<u>12,173</u>	<u>11,742</u>		
Unencumbered Cash, Ending	<u>\$ 11,742</u>	<u>\$ 5,570</u>		

The notes to the financial statements are an integral part of this statement.

CITY OF IOLA, KANSAS
INDUSTRIAL FUND
STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET
For the Year Ended December 31, 2008
(With Comparative Actual Amounts For the Year Ended December 31, 2007)

	Prior Year <u>Actual</u>	Current Year		Variance Positive [Negative]
		<u>Actual</u>	<u>Budget</u>	
Cash Receipts				
Taxes	\$ 3,364	\$ 27,648	\$ 28,564	\$ [916]
Use of money and property	<u>9,570</u>	<u>5,921</u>	<u>11,000</u>	<u>[5,079]</u>
Total Cash Receipts	<u>12,934</u>	<u>33,569</u>	<u>\$ 39,564</u>	<u>\$ [5,995]</u>
Expenditures and Transfers Subject to Budget				
General government				
Commodities	31,019	11,573	\$ 50,500	\$ 38,927
Contractual services	31,297	27,889	18,500	[9,389]
Miscellaneous	-	-	3,500	3,500
Transfer out	<u>20,000</u>	<u>40,000</u>	<u>20,000</u>	<u>[20,000]</u>
Total Expenditures and Transfers Subject to Budget	<u>82,316</u>	<u>79,462</u>	<u>\$ 92,500</u>	<u>\$ 13,038</u>
Receipts Over [Under] Expenditures	[69,382]	[45,893]		
Unencumbered Cash, Beginning	<u>128,732</u>	<u>59,350</u>		
Unencumbered Cash, Ending	<u>\$ 59,350</u>	<u>\$ 13,457</u>		

The notes to the financial statements are an integral part of this statement.

STATEMENT 3 - 4

CITY OF IOLA, KANSAS
 TOURISM AND CONVENTION FUND
 STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET
 For the Year Ended December 31, 2008
 (With Comparative Actual Amounts For the Year Ended December 31, 2007)

	Prior Year <u>Actual</u>	Current Year		Variance Positive [Negative]
		<u>Actual</u>	<u>Budget</u>	
Cash Receipts				
Intergovernmental	\$ 61,594	\$ 60,431	\$ 60,000	\$ 431
Use of money and property	897	289	2,500	[2,211]
Total Cash Receipts	<u>62,491</u>	<u>60,720</u>	<u>\$ 62,500</u>	<u>\$ [1,780]</u>
Expenditures and Transfers Subject to Budget				
Culture and recreation				
Contractual services	<u>69,828</u>	<u>69,040</u>	<u>\$ 70,000</u>	<u>\$ 960</u>
Total Expenditures and Transfers Subject to Budget	<u>69,828</u>	<u>69,040</u>	<u>\$ 70,000</u>	<u>\$ 960</u>
Receipts Over [Under] Expenditures	[7,337]	[8,320]		
Unencumbered Cash, Beginning	<u>32,971</u>	<u>25,634</u>		
Unencumbered Cash, Ending	<u>\$ 25,634</u>	<u>\$ 17,314</u>		

The notes to the financial statements are an integral part of this statement.

CITY OF IOLA, KANSAS
LIBRARY FUND
STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET
For the Year Ended December 31, 2008
(With Comparative Actual Amounts For the Year Ended December 31, 2007)

	Prior Year <u>Actual</u>	Current Year		Variance Positive [Negative]
		<u>Actual</u>	<u>Budget</u>	
Cash Receipts				
Taxes	\$ 162,869	\$ 177,053	\$ 180,750	\$ [3,697]
Total Cash Receipts	<u>162,869</u>	<u>177,053</u>	<u>\$ 180,750</u>	<u>\$ [3,697]</u>
Expenditures and Transfers Subject to Budget				
Appropriation	<u>162,869</u>	<u>177,053</u>	<u>\$ 181,182</u>	<u>\$ 4,129</u>
Total Expenditures and Transfers Subject to Budget	<u>162,869</u>	<u>177,053</u>	<u>\$ 181,182</u>	<u>\$ 4,129</u>
Receipts Over [Under] Expenditures	-	-		
Unencumbered Cash, Beginning	<u>435</u>	<u>435</u>		
Unencumbered Cash, Ending	<u>\$ 435</u>	<u>\$ 435</u>		

The notes to the financial statements are an integral part of this statement.

STATEMENT 3 - 6

CITY OF IOLA, KANSAS
SPECIAL TRAFFICWAY FUND
STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET
For the Year Ended December 31, 2008
(With Comparative Actual Amounts For the Year Ended December 31, 2007)

	Prior Year <u>Actual</u>	Current Year		Variance Positive [Negative]
		<u>Actual</u>	<u>Budget</u>	
Cash Receipts				
Intergovernmental	\$ 176,016	\$ 170,465	\$ 181,750	\$ [11,285]
Use of money and property	<u>7,915</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Cash Receipts	<u>183,931</u>	<u>170,465</u>	<u>\$ 181,750</u>	<u>\$ [11,285]</u>
Expenditures and Transfers Subject to Budget				
Highways and streets				
Capital outlay	<u>20,483</u>	<u>292,979</u>	<u>\$ 300,000</u>	<u>\$ 7,021</u>
Total Expenditures and Transfers Subject to Budget	<u>20,483</u>	<u>292,979</u>	<u>\$ 300,000</u>	<u>\$ 7,021</u>
Receipts Over [Under] Expenditures	163,448	[122,514]		
Unencumbered Cash, Beginning	<u>62,135</u>	<u>225,583</u>		
Unencumbered Cash, Ending	<u>\$ 225,583</u>	<u>\$ 103,069</u>		

The notes to the financial statements are an integral part of this statement.

CITY OF IOLA, KANSAS
SPECIAL PARKS AND RECREATION FUND
STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET
For the Year Ended December 31, 2008
(With Comparative Actual Amounts For the Year Ended December 31, 2007)

	Prior Year <u>Actual</u>	Current Year		Variance Positive [Negative]
		<u>Actual</u>	<u>Budget</u>	
Cash Receipts				
Intergovernmental	\$ 8,370	\$ 5,236	\$ 8,500	\$ [3,264]
Charges for services	95,847	105,150	87,300	17,850
Donations	-	12,100	-	12,100
Transfers in	<u>170,000</u>	<u>1,500,000</u>	<u>145,000</u>	<u>1,355,000</u>
Total Cash Receipts	<u>274,217</u>	<u>1,622,486</u>	<u>\$ 240,800</u>	<u>\$ 1,381,686</u>
Expenditures and Transfers Subject to Budget				
Culture and recreation				
Personal service	94,994	86,328	\$ 134,381	\$ 48,053
Contractual services	7,585	33,901	7,550	[26,351]
Commodities	102,325	108,504	106,400	[2,104]
Capital outlay	[43,458]	1,462,994	1,400,000	[62,994]
Transfers out	<u>-</u>	<u>-</u>	<u>50,000</u>	<u>50,000</u>
Total Expenditures and Transfers Subject to Budget	<u>161,446</u>	<u>1,691,727</u>	<u>\$ 1,698,331</u>	<u>\$ 6,604</u>
Receipts Over [Under] Expenditures	112,771	[69,241]		
Unencumbered Cash, Beginning	<u>32,256</u>	<u>145,027</u>		
Unencumbered Cash, Ending	<u>\$ 145,027</u>	<u>\$ 75,786</u>		

The notes to the financial statements are an integral part of this statement.

STATEMENT 3 - 8

CITY OF IOLA, KANSAS
EQUIPMENT RESERVE FUND
STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET
For the Year Ended December 31, 2008
(With Comparative Actual Amounts For the Year Ended December 31, 2007)

	Prior Year <u>Actual</u>	Current Year		Variance Positive [Negative]
		<u>Actual</u>	<u>Budget</u>	
Cash Receipts				
Use of money and property	\$ 25	\$ 7,311	\$ 11,250	\$ [3,939]
Transfers in	<u>26,000</u>	<u>112,083</u>	<u>162,083</u>	<u>[50,000]</u>
Total Cash Receipts	<u>26,025</u>	<u>119,394</u>	<u>\$ 173,333</u>	<u>\$ [53,939]</u>
Expenditures and Transfers Subject to Budget				
General government				
Capital outlay	29,555	37,160	\$ 36,000	\$ [1,160]
Transfers out	<u>-</u>	<u>-</u>	<u>5,000</u>	<u>5,000</u>
Total Expenditures and Transfers Subject to Budget	<u>29,555</u>	<u>37,160</u>	<u>\$ 41,000</u>	<u>\$ 3,840</u>
Receipts Over [Under] Expenditures	[3,530]	82,234		
Unencumbered Cash, Beginning	<u>269,390</u>	<u>265,860</u>		
Unencumbered Cash, Ending	<u>\$ 265,860</u>	<u>\$ 348,094</u>		

The notes to the financial statements are an integral part of this statement.

CITY OF IOLA, KANSAS
DEBT SERVICE FUND
STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET
For the Year Ended December 31, 2008
(With Comparative Actual Amounts For the Year Ended December 31, 2007)

	Prior Year <u>Actual</u>	Current Year		Variance Positive [Negative]
		<u>Actual</u>	<u>Budget</u>	
Cash Receipts				
Taxes	\$ 391,730	\$ 396,875	\$ 380,938	\$ 15,937
Total Cash Receipts	<u>391,730</u>	<u>396,875</u>	<u>\$ 380,938</u>	<u>\$ 15,937</u>
Expenditures and Transfers Subject to Budget				
Debt service	<u>391,713</u>	<u>396,878</u>	<u>\$ 396,895</u>	<u>\$ 17</u>
Total Expenditures and Transfers Subject to Budget	<u>391,713</u>	<u>396,878</u>	<u>\$ 396,895</u>	<u>\$ 17</u>
Receipts Over [Under] Expenditures	17	[3]		
Unencumbered Cash, Beginning	<u>3,527</u>	<u>3,544</u>		
Unencumbered Cash, Ending	<u>\$ 3,544</u>	<u>\$ 3,541</u>		

The notes to the financial statements are an integral part of this statement.

CITY OF IOLA, KANSAS
 MAJOR NON-STREET PROJECTS FUND*
 STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL
 For the Year Ended December 31, 2008 and 2007

	Prior Year <u>Actual</u>	Current Year <u>Actual</u>
Cash Receipts		
Intergovernmental	\$ 12,678	\$ 812,248
Transfer in	<u>20,000</u>	<u>590,000</u>
Total Cash Receipts	<u>32,678</u>	<u>1,402,248</u>
Expenditures and Transfers Subject to Budget		
Capital outlay	<u>51,022</u>	<u>1,152,028</u>
Total Expenditures and Transfers Subject to Budget	<u>51,022</u>	<u>1,152,028</u>
Receipts Over [Under] Expenditures	[18,344]	250,220
Unencumbered Cash, Beginning	<u>20,480</u>	<u>2,136</u>
Unencumbered Cash, Ending	<u>\$ 2,136</u>	<u>\$ 252,356</u>

* - This fund is not required to be budgeted.

CITY OF IOLA, KANSAS
 COMPREHENSIVE PROGRAM FUND
 STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET
 For the Year Ended December 31, 2008
 (With Comparative Actual Amounts For the Year Ended December 31, 2007)

	Prior Year <u>Actual</u>	Current Year		Variance Positive [Negative]
		<u>Actual</u>	<u>Budget</u>	
Cash Receipts				
Use of money and property	\$ 40,338	\$ 23,790	\$ 30,000	\$ [6,210]
Intergovernmental	186,282	200,013	169,062	30,951
Transfers in	-	-	225,000	[225,000]
	<u>226,620</u>	<u>223,803</u>	<u>\$ 424,062</u>	<u>\$ [200,259]</u>
Expenditures and Transfers Subject to Budget				
Capital outlay	<u>39,176</u>	<u>455,412</u>	<u>\$ 1,608,000</u>	<u>\$ 1,152,588</u>
Total Expenditures and Transfers Subject to Budget	<u>39,176</u>	<u>455,412</u>	<u>\$ 1,608,000</u>	<u>\$ 1,152,588</u>
Receipts Over [Under] Expenditures	187,444	[231,609]		
Unencumbered Cash, Beginning	<u>834,169</u>	<u>1,021,613</u>		
Unencumbered Cash, Ending	<u>\$ 1,021,613</u>	<u>\$ 790,004</u>		

The notes to the financial statements are an integral part of this statement.

STATEMENT 3 - 12

CITY OF IOLA, KANSAS
 SPECIAL STREET PROJECT FUND*
 STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL
 For the Year Ended December 31, 2008 and 2007

	Prior Year <u>Actual</u>	Current Year <u>Actual</u>
Cash Receipts		
Use of money and property	\$ -	\$ -
 Total Cash Receipts	-	-
Expenditures and Transfers Subject to Budget		
Capital outlay	-	17,325
 Total Expenditures and Transfers Subject to Budget	-	17,325
 Receipts Over [Under] Expenditures	-	[17,325]
 Unencumbered Cash, Beginning	38,586	38,586
 Unencumbered Cash, Ending	\$ 38,586	\$ 21,261

* - This fund is not required to be budgeted.

CITY OF IOLA, KANSAS
ELECTRIC FUND
STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET
For the Year Ended December 31, 2008
(With Comparative Actual Amounts For the Year Ended December 31, 2007)

	Prior Year <u>Actual</u>	Current Year		Variance Positive [Negative]
		<u>Actual</u>	<u>Budget</u>	
Cash Receipts				
Charges for services	\$ 9,157,495	\$ 10,389,801	\$ 10,168,500	\$ 221,301
Miscellaneous	204,804	104,855	3,500	101,355
Use of money and property	<u>72,439</u>	<u>70,754</u>	<u>40,000</u>	<u>30,754</u>
Total Cash Receipts	<u>9,434,738</u>	<u>10,565,410</u>	<u>\$ 10,212,000</u>	<u>\$ 353,410</u>
Expenditures and Transfers Subject to Budget				
Production	6,632,329	7,757,549	\$ 7,445,076	\$ [312,473]
Distribution	566,633	923,441	817,500	[105,941]
Capital outlay	174,335	203,146	179,750	[23,396]
Transfers out	<u>903,334</u>	<u>2,693,334</u>	<u>3,193,334</u>	<u>500,000</u>
Total Expenditures and Transfers Subject to Budget	<u>8,276,631</u>	<u>11,577,470</u>	<u>\$ 11,635,660</u>	<u>\$ 58,190</u>
Receipts Over [Under] Expenditures	1,158,107	[1,012,060]		
Unencumbered Cash, Beginning	<u>1,794,734</u>	<u>2,952,841</u>		
Unencumbered Cash, Ending	<u>\$ 2,952,841</u>	<u>\$ 1,940,781</u>		

The notes to the financial statements are an integral part of this statement.

CITY OF IOLA, KANSAS
WATER FUND
STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET
For the Year Ended December 31, 2008
(With Comparative Actual Amounts For the Year Ended December 31, 2007)

	Prior Year <u>Actual</u>	Current Year		Variance Positive [Negative]
		<u>Actual</u>	<u>Budget</u>	
Cash Receipts				
Charge for services	\$ 1,490,343	\$ 1,426,635	\$ 1,637,900	\$ [211,265]
Miscellaneous	1,384	515	3,500	[2,985]
Total Cash Receipts	<u>1,491,727</u>	<u>1,427,150</u>	<u>\$ 1,641,400</u>	<u>\$ [214,250]</u>
Expenditures and Transfers Subject to Budget				
Capital outlay	73,416	154,978	\$ 73,835	\$ [81,143]
Production	1,230,572	1,237,744	194,600	[1,043,144]
Distribution	281,695	256,577	593,692	337,115
Transfers out	133,333	33,333	133,333	100,000
Debt service	-	-	731,800	731,800
Total Expenditures and Transfers Subject to Budget	<u>1,719,016</u>	<u>1,682,632</u>	<u>\$ 1,727,260</u>	<u>\$ 44,628</u>
Receipts Over [Under] Expenditures	[227,289]	[255,482]		
Unencumbered Cash, Beginning	<u>507,375</u>	<u>280,086</u>		
Unencumbered Cash, Ending	<u>\$ 280,086</u>	<u>\$ 24,604</u>		

The notes to the financial statements are an integral part of this statement.

CITY OF IOLA, KANSAS
SEWER FUND
STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET
For the Year Ended December 31, 2008
(With Comparative Actual Amounts For the Year Ended December 31, 2007)

	Prior Year <u>Actual</u>	Current Year		Variance Positive [Negative]
		<u>Actual</u>	<u>Budget</u>	
Cash Receipts				
Charges for services	\$ 1,717,658	\$ 690,108	\$ 750,000	\$ [59,892]
Miscellaneous	248	63,147	72,216	[9,069]
Loan proceeds	-	2,103,940	2,365,000	[261,060]
Use of money and property	14,495	19,623	3,000	16,623
Total Cash Receipts	<u>1,732,401</u>	<u>2,876,818</u>	<u>\$ 3,190,216</u>	<u>\$ [313,398]</u>
Expenditures and Transfers Subject to Budget				
Treatment	59,744	141,265	\$ 141,893	\$ 628
Collection	101,101	270,694	204,135	[66,559]
Capital outlay	1,496,085	2,127,274	2,384,517	257,243
Debt service	-	96,273	100,000	3,727
Transfers out	40,000	40,000	40,000	-
Total Expenditures and Transfers Subject to Budget	<u>1,696,930</u>	<u>2,675,506</u>	<u>\$ 2,870,545</u>	<u>\$ 195,039</u>
Receipts Over [Under] Expenditures	35,471	201,312		
Unencumbered Cash, Beginning	<u>599,001</u>	<u>634,472</u>		
Unencumbered Cash, Ending	<u>\$ 634,472</u>	<u>\$ 835,784</u>		

The notes to the financial statements are an integral part of this statement.

CITY OF IOLA, KANSAS
GAS FUND
STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET
For the Year Ended December 31, 2008
(With Comparative Actual Amounts For the Year Ended December 31, 2007)

	Prior Year <u>Actual</u>	Current Year		Variance Positive [Negative]
		<u>Actual</u>	<u>Budget</u>	
Cash Receipts				
Charges for services	\$ 3,884,961	\$ 4,426,924	\$ 4,506,000	\$ [79,076]
Miscellaneous	888	155	10,000	[9,845]
Use of money and property	<u>25,234</u>	<u>7,479</u>	<u>30,000</u>	<u>[22,521]</u>
Total Cash Receipts	<u>3,911,083</u>	<u>4,434,558</u>	<u>\$ 4,546,000</u>	<u>\$ [111,442]</u>
Expenditures and Transfers Subject to Budget				
Capital outlay	8,750	34,872	\$ 243,468	\$ 208,596
Distribution	3,579,370	4,118,513	4,143,750	25,237
Transfers out	<u>458,333</u>	<u>458,333</u>	<u>458,333</u>	<u>-</u>
Total Expenditures and Transfers Subject to Budget	<u>4,046,453</u>	<u>4,611,718</u>	<u>\$ 4,845,551</u>	<u>\$ 233,833</u>
Receipts Over [Under] Expenditures	[135,370]	[177,160]		
Unencumbered Cash, Beginning	<u>300,323</u>	<u>164,953</u>		
Unencumbered Cash, Ending	<u>\$ 164,953</u>	<u>\$ [12,207]</u>		

The notes to the financial statements are an integral part of this statement.

CITY OF IOLA, KANSAS
REFUSE FUND
STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET
For the Year Ended December 31, 2008
(With Comparative Actual Amounts For the Year Ended December 31, 2007)

	Prior Year <u>Actual</u>	Current Year		Variance Positive [Negative]
		<u>Actual</u>	<u>Budget</u>	
Cash Receipts				
Charges for services	\$ 227,146	\$ 215,370	\$ 250,000	\$ [34,630]
Use of money and property	<u>4,832</u>	<u>1,608</u>	<u>5,000</u>	<u>[3,392]</u>
Total Cash Receipts	<u>231,978</u>	<u>216,978</u>	<u>\$ 255,000</u>	<u>\$ [38,022]</u>
Expenditures and Transfers Subject to Budget				
Collection	136,693	155,640	\$ 111,788	\$ [43,852]
Capital outlay	-	85,341	141,400	56,059
Transfers out	<u>100,000</u>	<u>100,000</u>	<u>100,000</u>	<u>-</u>
Total Expenditures and Transfers Subject to Budget	<u>236,693</u>	<u>340,981</u>	<u>\$ 353,188</u>	<u>\$ 12,207</u>
Receipts Over [Under] Expenditures	[4,715]	[124,003]		
Unencumbered Cash, Beginning	<u>171,586</u>	<u>166,871</u>		
Unencumbered Cash, Ending	<u>\$ 166,871</u>	<u>\$ 42,868</u>		

The notes to the financial statements are an integral part of this statement.

CITY OF IOLA, KANSAS
EMERGENCY RESCUE FUND
STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET
For the Year Ended December 31, 2008
(With Comparative Actual Amounts For the Year Ended December 31, 2007)

	Prior Year Actual	Current Year		Variance Positive [Negative]
		Actual	Budget	
Cash Receipts				
Charges for services	\$ 280,960	\$ 118,873	\$ 225,000	\$ [106,127]
Intergovernmental	80,000	80,000	-	80,000
Miscellaneous	-	40,570	80,000	[39,430]
Total Cash Receipts	<u>360,960</u>	<u>239,443</u>	<u>\$ 305,000</u>	<u>\$ [65,557]</u>
Expenditures and Transfers Subject to Budget				
Operations	169,933	29,199	\$ 91,000	\$ 61,801
Transfers out	<u>200,000</u>	<u>250,000</u>	<u>250,000</u>	<u>-</u>
Total Expenditures and Transfers Subject to Budget	<u>369,933</u>	<u>279,199</u>	<u>\$ 341,000</u>	<u>\$ 61,801</u>
Receipts Over [Under] Expenditures	[8,973]	[39,756]		
Unencumbered Cash, Beginning	<u>181,805</u>	<u>172,832</u>		
Unencumbered Cash, Ending	<u>\$ 172,832</u>	<u>\$ 133,076</u>		

The notes to the financial statements are an integral part of this statement.

CITY OF IOLA, KANSAS
STORES FUND
STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET
For the Year Ended December 31, 2008
(With Comparative Actual Amounts For the Year Ended December 31, 2007)

	Prior Year Actual	Current Year		Variance Positive [Negative]
		Actual	Budget	
Cash Receipts				
Charges for services	\$ 238,683	\$ 242,995	\$ 200,500	\$ 42,495
Transfers in	100,000	100,000	100,000	-
Total Cash Receipts	<u>338,683</u>	<u>342,995</u>	<u>\$ 300,500</u>	<u>\$ 42,495</u>
Expenditures and Transfers Subject to Budget				
Administration	91,507	99,093	\$ 101,923	\$ 2,830
Commodities	<u>248,391</u>	<u>248,486</u>	<u>263,100</u>	<u>14,614</u>
Total Expenditures and Transfers Subject to Budget	<u>339,898</u>	<u>347,579</u>	<u>\$ 365,023</u>	<u>\$ 17,444</u>
Receipts Over [Under] Expenditures	[1,215]	[4,584]		
Unencumbered Cash, Beginning	<u>55,688</u>	<u>54,473</u>		
Unencumbered Cash, Ending	<u>\$ 54,473</u>	<u>\$ 49,889</u>		

The notes to the financial statements are an integral part of this statement.

CITY OF IOLA, KANSAS
EMPLOYEE INSURANCE FUND
STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET
For the Year Ended December 31, 2008
(With Comparative Actual Amounts For the Year Ended December 31, 2007)

	Prior Year Actual	Current Year		Variance Positive [Negative]
		Actual	Budget	
Cash Receipts				
Charges for services	\$ 458,384	\$ 537,211	\$ 626,000	\$ [88,789]
Use of money and property	3,007	-	6,000	[6,000]
Total Cash Receipts	<u>461,391</u>	<u>537,211</u>	<u>\$ 632,000</u>	<u>\$ [94,789]</u>
Expenditures and Transfers Subject to Budget				
Administration	<u>500,679</u>	<u>549,873</u>	<u>\$ 632,000</u>	<u>\$ 82,127</u>
Total Expenditures and Transfers Subject to Budget	<u>500,679</u>	<u>549,873</u>	<u>\$ 632,000</u>	<u>\$ 82,127</u>
Receipts Over [Under] Expenditures	[39,288]	[12,662]		
Unencumbered Cash, Beginning	<u>76,717</u>	<u>37,429</u>		
Unencumbered Cash, Ending	<u>\$ 37,429</u>	<u>\$ 24,767</u>		

The notes to the financial statements are an integral part of this statement.

CITY OF IOLA, KANSAS
 COMPONENT UNIT
 IOLA FREE PUBLIC LIBRARY*
 STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL
 For the Year Ended December 31, 2008 and 2007

	Prior Year <u>Actual</u>	Current Year <u>Actual</u>
Cash Receipts		
Intergovernmental	\$ 162,869	\$ 194,348
Use of money and property	15,524	13,691
Grants and donations	-	29,478
Fines and fees	9,798	10,770
Miscellaneous	<u>25,185</u>	<u>6,809</u>
 Total Cash Receipts	 <u>213,376</u>	 <u>255,096</u>
 Expenditures and Transfers Subject to Budget		
Culture and recreation	<u>211,596</u>	<u>254,983</u>
 Total Expenditures and Transfers Subject to Budget	 <u>211,596</u>	 <u>254,983</u>
 Receipts Over [Under] Expenditures	 <u>1,780</u>	 <u>113</u>
 Unencumbered Cash, Beginning	 176,632	 178,412
Restatement	<u>-</u>	<u>[35,790]</u>
Unencumbered Cash, Beginning (restated)	<u>176,632</u>	<u>142,622</u>
 Unencumbered Cash, Ending	 <u>\$ 178,412</u>	 <u>\$ 142,735</u>

* - This fund is not required to be budgeted.

STATEMENT 4

CITY OF IOLA, KANSAS
 PRIVATE-PURPOSE TRUST FUNDS
 STATEMENT OF CASH RECEIPTS, EXPENDITURES AND UNENCUMBERED CASH
 For the Year Ended December 31, 2008

<u>FUNDS</u>	Beginning Unencumbered <u>Cash Balance</u>	Prior Year Cancelled <u>Encumbrances</u>	Cash <u>Receipts</u>	<u>Expenditures</u>	Ending Unencumbered <u>Cash Balance</u>	Outstanding Encumbrances and Accounts <u>Payable</u>	Ending Cash <u>Balance</u>
Wm. Green Trust	\$ 5,509	\$ -	\$ 500	\$ -	\$ 6,009	\$ -	\$ 6,009
Joseph and Mary Wolf Memorial	9,488	-	928	-	10,416	-	10,416
Clean-up	4,159	-	49	184	4,024	-	4,024
Cemetary Perpetual Maintenance	76,603	-	916	916	76,603	-	76,603
Fire Insurance Proceeds	13,160	-	87	7,676	5,571	-	5,571
Special Law Enforcement	<u>9,338</u>	<u>-</u>	<u>2,492</u>	<u>-</u>	<u>11,830</u>	<u>-</u>	<u>11,830</u>
Total Private-Purpose Trust Fund	<u>\$ 118,257</u>	<u>\$ -</u>	<u>\$ 4,972</u>	<u>\$ 8,776</u>	<u>\$ 114,453</u>	<u>\$ -</u>	<u>\$ 114,453</u>

The notes to the financial statements are an integral part of this statement.

CITY OF IOLA, KANSAS
 AGENCY FUNDS
 STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS
 For the Year Ended December 31, 2008

<u>Fund</u>	Beginning Cash <u>Balance</u>	Cash <u>Receipts</u>	Cash <u>Disbursements</u>	Ending Cash <u>Balance</u>
Kansas Sales Tax Fund	\$ [3,267]	\$ 370,261	\$ 375,807	\$ [8,813]
Total Assets	<u>\$ [3,267]</u>	<u>\$ 370,261</u>	<u>\$ 375,807</u>	<u>\$ [8,813]</u>

The notes to the financial statements are an integral part of this statement.

CITY OF IOLA, KANSAS

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2008

NOTE 1 - Summary of Significant Accounting Policies

Financial Reporting Entity

The City of Iola (the City) is a municipal corporation governed by a three member commission. Under governmental accounting and financial reporting standards, the City is considered to be a financial reporting entity consisting of a primary government and any other organizations for which the City is (1) financially accountable or (2) not financially accountable but for which the nature and significance of the other organization's relationship to the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. Such organizations are referred to as component units. One of the City's component units, the Iola Housing Authority, is not included in these financial statements. The other component unit, the Iola Free Public Library, is reported separately to emphasize that it is legally separate from the City.

Basis of Accounting

These financial statements are presented on a basis of accounting, which demonstrates compliance with the cash basis and budget laws of Kansas. Cash receipts are recognized when the cash balance of a fund is increased. For an interfund transaction, a cash receipt is recorded in the fund receiving cash from another fund. Cash disbursements are recognized when the cash balance of a fund is decreased. For an interfund transaction, a cash disbursement is recorded in the fund from which the cash is transferred. Expenditures include disbursements, accounts payable, and encumbrances. Encumbrances are commitments related to unperformed (executory) contracts for goods and services, and are usually evidenced by a purchase order or written contract.

Departure from Accounting Principles Generally Accepted in the United States of America

The basis of accounting described above results in a financial statement presentation, which shows cash receipts, cash disbursements, cash and unencumbered cash balances, and expenditures compared to budget. Balance sheets that would have shown noncash assets such as receivables, inventories, and prepaid expense, liabilities such as deferred revenue and matured principal and interest payable, and reservations of the fund balance are not presented.

Under accounting principles generally accepted in the United States of America, encumbrances are only recognized as a reservation of fund balance; encumbrances outstanding at year end do not constitute expenditures or liabilities. Consequently, the expenditures as reported do not present the cost of goods and services received during the fiscal year in accordance with accounting principles generally accepted in the United States of America. Capital assets that account for the land, buildings and equipment owned by the City are not presented in the financial statements. Also, long-term debt such as general obligation bonds, temporary notes, and compensated absences are not presented in the financial statements. Inventories and prepaid expenses which benefit future periods are recorded as an expenditure during the year of purchase, as required by state statutes.

The City has obtained a waiver from accounting principles generally accepted in the United States of America, which allows the City to use the statutory basis of accounting.

Fund Descriptions

In governmental accounting, a fund is defined as an independent fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations.

CITY OF IOLA, KANSAS

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2008

NOTE 1 - Summary of Significant Accounting Policies (Continued)

The following types of funds comprise the financial activities of the City for the year ended December 31, 2008:

Governmental Funds

General Fund - to account for all unrestricted cash except that required to be accounted for in another fund. This is the principal operating fund of the City.

Special Revenue Funds - to account for the proceeds of specific revenue sources (other than major capital projects) that are restricted by law or administrative action to expenditure for specified purposes.

Debt Service Fund - to account for the accumulation of resources for, and the payments of, interest and principal and related costs on general long-term debt.

Capital Project Funds - to account for the acquisition of capital assets or construction of major capital projects not being financed by proprietary or fiduciary funds.

Proprietary Fund Types

The proprietary funds are used to account for the City's ongoing organizations and activities, which are similar to those often found in the private sector. The City's proprietary fund types are:

Enterprise Funds - to account for operations that are financed and operated in a manner similar to private business enterprise - where the intent of the governing body is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

Internal Service Funds - to account for operations that provide services to other departments or agencies of the City, or to other governments, on a cost-reimbursement basis.

Fiduciary Fund Types

The fiduciary funds account for assets held by the City in a trustee capacity or as an agent on behalf of others. Trust funds account for assets held by the City under the terms of a formal trust agreement.

Trust and Agency Funds - to account for assets held by the City in a trustee capacity or as an agent for individuals, other governmental units, private organizations, and/or other funds.

CITY OF IOLA, KANSAS

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2008

NOTE 1 - Summary of Significant Accounting Policies (Continued)

Budgetary Information

Kansas statutes require that an annual operating budget be legally adopted for the general fund, special revenue funds (unless specifically exempted by statute), debt service funds, and enterprise funds. The statutes provide for the following sequence and timetable in the adoption of the legal annual operating budget:

1. Preparation of the budget for the succeeding calendar year on or before August 1st.
2. Publication in local newspaper of the proposed budget and notice of public hearing on the budget on or before August 5th.
3. Public hearing on or before August 15th, but at least ten days after publication of notice of hearing.
4. Adoption of the final budget on or before August 25th.

The statutes allow for the city commission to increase the originally adopted budget for previously unbudgeted increases in revenue other than ad valorem property taxes. To do this, a notice of public hearing to amend the budget must be published in the local newspaper. At least ten days after publication, the hearing may be held and the governing body may amend the budget at that time. The 2008 budget was amended for the General, Debt Service, Special Parks and Recreation, Convention and Tourism, Special Trafficway, Electric, Water, Gas, Refuse, Sewer, Stores and Comprehensive Program Funds.

The statutes permit transferring budgeted amounts between accounts within an individual fund. However, such statutes prohibit expenditures in excess of the total amount of the adopted budget of expenditures of individual funds. Budget comparison statements are presented for each fund showing actual receipts and expenditures compared to legally budgeted receipts and expenditures.

All legal annual operating budgets are prepared using the statutory basis of accounting, in which, revenues are recognized when cash is received, and expenditures include disbursements, accounts payable and encumbrances. Encumbrances are commitments by the City for future payments and are supported by a document evidencing the commitment, such as a purchase order or contract. All unencumbered appropriations (legal budget expenditure authority) lapse at year-end.

A legal operating budget is not required for capital projects funds, internal service funds, trust funds and certain special revenue funds:

Spending in funds which are not subject to the legal annual operating budget requirement is controlled by federal regulations, other statutes, or by the use of internal spending limits established by the governing body.

Ad Valorem Tax Revenues

The determination of assessed valuations and the collection of property taxes for all political subdivisions in the State of Kansas are the responsibility of the various counties. The County Appraiser annually determines assessed valuations on January 1 and the County Clerk spreads the annual assessment on the tax rolls. Property taxes are levied as of November 1 and become a lien on the property as of that date. Payments are due November 1 and become delinquent, with penalty, December 21. Payments of 50% are accepted through December 20, with the second 50% then being due on or before May 10 of the following year.

The County Treasurer is the tax collection agent for all taxing entities within the County. The initial distribution to the subdivisions, including the City, is on or before January 20 of the ensuing year. Additional amounts are distributed on four (4) subsequent dates throughout the calendar year.

CITY OF IOLA, KANSAS

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2008

NOTE 2 – Deposits

The City’s cash is considered to be active funds by management and is invested according to KSA 9-1401. The statute requires that banks eligible to hold active funds have a main or branch bank in the county in which the City is located or in a county adjacent to the City and the banks provide an acceptable rate for active funds.

The City’s cash in investments is considered to be idle funds by management and are invested according to KSA 12-1675. The statute requires that at the City invest its idle funds in only temporary notes of the City, bank certificates of deposit, repurchase agreements, and if eligible banks do not offer an acceptable rate for the funds: U.S. treasuries or notes, the Municipal Investment Pool (KMIP) and certain other investments if the municipality has extended investment authority. Maturities of the above investments may not exceed two years by statute.

Custodial credit risk is the risk that in the event of a bank failure, the City’s deposits may not be returned to it. The City’s deposit policy for custodial credit risk require that the depository banks will maintain 100% security in the form of FDIC coverage and pledged collateral according to KSA 9-1402.

The City does not have any formal investment policies that would further limit interest rate, credit or custodial credit risks beyond state statutes.

NOTE 3 - Retirement Plan

Plan Description - The City participates in the Kansas Public Employees Retirement System (“System”), a cost-sharing multiple-employer defined benefit pension plan as provided by K.S.A. 74-4901, *et seq.* KPERS provides retirement benefits, life insurance, disability income benefits, and death benefits. Kansas law establishes and amends benefit provisions. KPERS issues a publicly available financial report that includes financial statements required supplementary information. That report may be obtained by writing to KPERS (611 South Kansas Avenue; Topeka, Kansas 66603) or by calling 1-888-275-5737.

Funding Policy - K.S.A. 74-4919 establishes the KPERS member-employee contribution rate of 4% of covered salary. The employer collects and remits member-employee contributions according to the provisions of Section 414(h) of the Internal Revenue Code. State law provides that the employer contribution rate be determined annually based on the results of an annual actuarial valuation. KPERS is funded by an actuarial reserve bases. State law sets a limitation on annual increases in the contribution rates for KPERS employers. The employer rate was 5.93% from January 1 to December 31, 2008. The employer contributions to KPERS for years ending December 31, 2008, 2007 and 2006 were \$222,839, \$193,797, and \$156,477 respectively, equal to the required contributions for each year.

NOTE 4 - Long-Term Debt

General Obligation Bonds. The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities.

General obligation bonds are direct obligations and pledge the full faith and credit of the City. These bonds generally are issued with equal amounts of principal maturing each year. General obligation bonds currently outstanding are as follows:

<u>Purpose</u>	<u>Interest Rates</u>	<u>Issued</u>	<u>Outstanding 12/31/2008</u>
General government - Main Trafficway Improvements, Series 1998	3.90 to 4.45%	\$ 3,100,000	\$ 385,000
		<u>\$ 3,100,000</u>	<u>\$ 385,000</u>

CITY OF IOLA, KANSAS

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2008

NOTE 4 - Long-Term Debt (Continued)

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

	Year Ending <u>December 31, 2008</u>
Total Principal and Interest	\$ 401,363
Less: Interest	<u>[16,363]</u>
Total	<u>\$ 385,000</u>

Changes in Long-term Debt. During the year ended December 31, 2008, the following changes occurred in long term debt:

	Balance January 1, <u>2008</u>	<u>Additions</u>	<u>Retirements</u>	Balance December 31, <u>2008</u>
General obligation debt	\$ 750,000	\$ -	\$ 365,000	\$ 385,000
State agency loan	<u>9,919,075</u>	<u>1,939,174</u>	<u>431,398</u>	<u>11,426,851</u>
	<u>\$ 10,669,075</u>	<u>\$ 1,939,174</u>	<u>\$ 796,398</u>	<u>\$ 11,811,851</u>

Special Assessments. As provided by Kansas statutes, projects financed in part by special assessments are financed through general obligation bonds of the City and are retired from the debt service fund. Special assessments paid prior to the issuance of bonds are recorded as revenue in the appropriate project. Special assessments received after the issuance of bonds are recorded as revenue in the debt service fund. The special assessments receivable are not recorded as revenue when levied against the respective property owners as such amounts are not available to finance current year operations. The special assessment debt is a contingent liability of the City to the extent of property owner defaults which have historically been immaterial.

State Agency Loan. The City has obtained a loan through the Kansas Department of Health and Environment (KDHE) for the construction of a new water treatment facility. The loan agreement provides for a maximum principal of \$10,000,000. The loan carries a gross interest rate of 4.01% and is payable in semi-annual installments beginning August 1, 2005 and ending August 1, 2025.

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

Year Ending <u>December 31,</u>	
2009	\$ 731,038
2010	731,038
2011	731,038
2012	731,038
2013	731,038
2014-2018	3,655,189
2019-2023	3,627,287
2024-2025	<u>1,124,459</u>
Total Principal and Interest	12,062,123
Less: Interest	<u>[3,300,387]</u>
Total	<u>\$ 8,761,736</u>

CITY OF IOLA, KANSAS

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2008

NOTE 4 - Long-Term Debt (Continued)

The KDHE loan represents a general obligation of the City and the full faith, credit and resources of the City may be used to retire the principal and interest due on the loan. It is anticipated that the loan will be retired from water charges received by the Water Fund.

State Agency Loan. On January 2, 2007, the City entered into a loan agreement with the Kansas Department of Health and Environment to borrow up to \$2,751,000 to fund improvements to the City's wastewater treatment lagoon. As of December 31, 2008, the City had borrowed \$2,727,942 on this loan. Principal repayment on the loan began in 2008. The interest rate on the loan is 2.51% with an additional .25% service fee rate. The final maturity date on the loan is September 1, 2028. The following is a schedule of future loan payments for the full loan proceeds amount.

Year Ending <u>December 31,</u>		
2009	\$	175,795
2010		175,795
2011		175,795
2012		175,795
2013		175,795
2014-2018		878,976
2019-2023		878,976
2024-2028		<u>791,078</u>
Total Principal and Interest		3,428,006
Less: Interest		<u>[730,378]</u>
Total	\$	<u>2,697,627</u>

NOTE 5 - Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the City carries commercial insurance. No significant reductions in insurance coverage from that of the prior year have occurred. Settlements have not exceeded insurance coverage for each of the last three years. Beginning in 1989, the City stopped carrying commercial health insurance because of its prohibitive cost and began covering all such claims settlements and judgments out of its Employee Insurance Fund. The Employee Insurance Fund is an internal service fund. Claims expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated.

At December 31, 2008 the amount of liabilities was \$72,288. This liability is the City's best estimate based on available information. Changes in the balances of claims liabilities during the past two years are as follows:

	<u>2007</u>	<u>2008</u>
Unpaid claims, January 1	\$ 198	\$ 4,787
Current year claims	353,991	639,268
Claim payments	<u>[349,402]</u>	<u>[571,767]</u>
Unpaid claims, December 31	<u>\$ 4,787</u>	<u>\$ 72,288</u>

At December 31, 2008 the fund held cash of \$24,766 for funding future claim liabilities.

CITY OF IOLA, KANSAS

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2008

NOTE 5 - Risk Management (Continued)

The City purchases commercial reinsurance to limit the maximum exposure of liability to \$50,000 per subscriber for 2008. The City has contracted with a professional employee benefits service company for the administration of the plan.

NOTE 6 - Interfund Transfers

A reconciliation of all transfers by fund type for 2008 follows:

<u>Fund</u>	<u>In</u>	<u>Out</u>
General Fund	\$ 1,431,000	\$ 112,083
Special Alcohol and Drug Fund	-	6,000
Industrial Fund	-	40,000
Special Parks and Recreation Fund	1,500,000	-
Equipment Reserve Fund	112,083	-
Major Non-Street Projects Fund	590,000	-
Electric Fund	-	2,693,334
Water Fund	-	33,333
Sewer Fund	-	40,000
Gas Fund	-	458,333
Refuse Fund	-	100,000
Emergency Rescue Fund	-	250,000
Stores Fund	100,000	-
	<u>\$ 3,733,083</u>	<u>\$ 3,733,083</u>

NOTE 7 - Compensated Absences

It is the City's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. Payment for vested vacation is payable upon resignation or retirement. An employee can carryover no more than one year's worth of vacation. Compensated absences payable was \$192,190 as of December 31, 2008.

NOTE 8 – Other Post Employment Benefits

As provided by KSA 12-5040, the City allows retirees to participate in the group health insurance plan. While each retiree pays the full amount of the applicable premium, conceptually, the City is subsidizing the retirees because each participant is charged a level premium regardless of age. However, the cost of this subsidy has not been quantified in these financial statements.

NOTE 9 - Statutory Violation

Actual exceeded budgeted expenditures in the Special Alcohol and Drug Fund by \$108, which is prohibited by KSA 79-2935.

The Gas Fund had a negative cash balance of \$4,655 on December 31, 2008, which is a violation of KSA 10-1113.

The City budget was amended to provide for additional expenses incurred from the flood. The budget amendment was approved after the year end on January 28, 2009, which is a violation of KSA 79-2929a.

The City violated KSA 12-825d by transferring non surplus cash out of the utility funds.

CITY OF IOLA, KANSAS

Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2008

Federal Grantor/Pass-Through <u>Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Expenditures</u>
<u>U.S. Department of Homeland Security</u>		
Passed Through Kansas Adj Gen Hazard Mitigation Grant	97.039	\$ 855,491
Public Assistance Grant	97.036	<u>2,317,285</u>
Total U.S. Department of Homeland Security		<u>3,172,776</u>
<u>U.S. Department of Housing and Urban Development</u>		
Passed Through Kansas Department of Commerce CDBG	14.228	<u>114,767</u>
<u>U.S. Department of Transportation</u>		
Passed Through Kansas Department of Transportation State and Community Highway Safety (STEP)	20.600	<u>340</u>
Total Expenditures of Federal Awards		<u>\$ 3,287,883</u>

The notes to the schedule of expenditures of federal awards are an integral part of this schedule.

CITY OF IOLA, KANSAS
Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2008

1. General

The accompanying Schedule of Expenditures of Federal Awards presents the expenditures of all federal financial assistance programs of the City of Iola, Kansas. All expenditures of federal financial assistance received directly from federal agencies as well as federal financial assistance passed through other government agencies are included on the schedule.

2. Basis of Accounting

The accompanying schedule of expenditures of federal awards is presented on the Kansas prescribed basis of accounting which includes expenditures cash disbursements, accounts payable and encumbrances.

CITY OF IOLA, KANSAS

Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2008

Section I - Summary of Auditor's Results

Financial Statements

Adverse (GAAP)
Unqualified (Prescribed Basis)

Type of auditor's report issued:

Internal control over financial reporting:

Material weakness(es) identified? _____ Yes X No

Significant deficiency (ies) identified that are not considered to be material weaknesses? X Yes _____ No

Noncompliance material to financial statements noted? _____ Yes X No

Federal Awards

Internal control over major programs:

Material weakness(es) identified? _____ Yes X No

Significant deficiency (ies) identified that are not considered to be material weaknesses? _____ Yes X None reported

Type of auditor's report issued on compliance for major program Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? _____ Yes X No

Identification of major programs:

CFDA Number

Name of Federal Program or Cluster

97.036
97.039

Public Assistance Grant
Hazard Mitigation Grant

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? _____ Yes X No

CITY OF IOLA, KANSAS

Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2008

Section II - Financial Statement Findings

Current Year Findings

<u>Program</u>	<u>Finding</u>	<u>Conditions</u>	<u>Criteria</u>	<u>Questioned Costs</u>	<u>Recommendation</u>	<u>Management Response</u>
Not applicable	2008-1	The municipal court receipting function currently lacks a proper separation of duties. The court clerk is also the individual that prepares, reconciles and reviews the outstanding fines and fees list.	Recommend Practices	Not determined	Municipal court cash receipt procedures should provide for separation between the cash and accounting functions. Specifically, the same person should not be receipting cash, preparing the deposit and recording the receipt into the accounting system. We also recommend that a reconciliation be performed between all receipts issued and the system receipts. In addition, we recommend that someone other than the court clerk reconcile and review outstanding fines and fees.	Agrees
Not applicable	2008-2	Emergency medical service billing summaries for December 2008 were not turned into the City until August 2009.	Recommend Practices	Not determined	We recommend that the City adopt strict policies regarding communication of billing amounts to the City. Included within this policy should be monthly deadlines for this communication.	Agrees
Not applicable	2008-3	The City does not currently have a policy regarding the appropriate level of fund balance to be maintained in the general fund or any other fund.	Recommend Practices	Not determined	We recommend that the City adopt the Government Finance Officers Association (GFOA) guidelines of a minimum fund balance of 5 to 15% of regular operating revenues.	Agrees
Not applicable	2008-4	The City violated KSA 12-825d with regard to transfers from utility funds by transferring non surplus cash from several utility funds.	Statutory Violation	Not determined	We recommend that the City adopt a policy that would require adherence to KSA 12-825d which reads in part "At any time that there may be a surplus of such fund, it shall, if needed to redeem bonds, be quarterly placed in a sinking fund, which shall only be used for the pupose of redeeming bonds that may have been issued for acquiring, renewing or extending said plant or distribution system, or making renewals of extensions thereto. When any surplus of either the operating fund or sinking fund is not needed for any of the above stated purposes, said surpluses: (a) May be transferred and merged into the city general revenue fund or any other fund or funds of such city"	Agrees

Prior Year Findings

None Noted

Section III - Federal Award Findings and Questioned Costs

Current Year Findings

None Noted

Prior Year Findings

None Noted

LOWENTHAL, WEBB & ODERMANN, P.A.

CERTIFIED PUBLIC ACCOUNTANTS

900 Massachusetts, Suite 301
Lawrence, Kansas 66044-2868
Phone: (785) 749-5050
Fax: (785) 749-5061
Website: www.lswwcpa.com

David A. Lowenthal, CPA
Patricia L. Webb, CPA
Audrey M. Odermann, CPA

Abram M. Chrislip, CPA
Caroline H. Eddinger, CPA
Grant A. Huddin, CPA
Brian W. Nyp, CPA

Members of American Institute
and Kansas Society of
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"

Mayor and City Commission
City of Iola, Kansas

We have audited the financial statements of the City of Iola (City) as of and for the year ended December 31, 2008, and have issued our report thereon dated November 25, 2009 which is a special report on the financial statements prepared in accordance with a basis of accounting prescribed by the State of Kansas. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

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 or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the Kansas prescribed basis of accounting such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control. We consider the deficiencies described in the schedule of findings and questioned costs, as Finding 2008-1, 2008-2, 2008-3 and 2008-4 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 that a material misstatement of the financial statements will not be prevented or detected by the City's internal control.

Our consideration of 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 internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City'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 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 noncompliance or other matters that are required to be reported under "Government Auditing Standards."

However, we noted certain other matters that we have reported to management in a separate letter dated November 25, 2009.

This communication is intended solely for the information and use of the city administrator, city commission, other members of management, federal awarding agencies and pass through entities, is not intended to be, and should not be used by anyone other than these specified parties.

Lowenthal, Wett & Odenmann, P.A.

November 25, 2009

LOWENTHAL, WEBB & ODERMANN, P.A.

CERTIFIED PUBLIC ACCOUNTANTS

900 Massachusetts, Suite 301
Lawrence, Kansas 66044-2868
Phone: (785) 749-5050
Fax: (785) 749-5061
Website: www.lswwcpa.com

David A. Lowenthal, CPA
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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Mayor and City Commission
City of Iola, Kansas

Compliance

We have audited the compliance of the City of Iola, Kansas (the City), with the types of compliance requirements described in the "U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement" that are applicable to each of its major federal programs for the year ended December 31, 2008. Major federal financial programs are identified in the Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in "Government Auditing Standards", issued by the Comptroller General of the United States; and OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations". Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2008.

Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of law, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over compliance 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 or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This communication is intended solely for the information and use of the city administrator, mayor, city commission, other members of management, federal awarding agencies and pass through entities, is not intended to be, and should not be used by anyone other than these specified parties.

Lowenthal, Wett & Odemann, P.A.

November 25, 2009