

CITY OF OSCEOLA, IOWA

Independent Auditors' Reports
Basic Financial Statements and
Supplemental Information
and Findings

June 30, 2009

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City of Osceola, Iowa
Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Fred P. Diehl	Mayor	December, 2009
Bill Ogbourne	Council Member	December, 2012
Peggy Mateer	Council Member	December, 2012
Dr. James Kimball	Council Member	December, 2012
Dr. George Fotiadis	Council Member	December, 2012
Glenn Schaff	Council Member	December, 2011
William Kelly	City Manager	Indefinite
Ty Wheeler	City Clerk/ Treasurer	Indefinite
Richard Murphy	City Attorney	Indefinite

POLLARD AND COMPANY P.C.

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PRIVATE COMPANIES PRACTICE SECTION
IOWA SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and Members of the City Council
City of Osceola

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 Osceola, 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's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

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.

In our opinion, 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 Osceola 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 included our report 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 grants. 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. The report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The budgetary comparison information is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

The City has not presented the Management's Discussion and Analysis that U.S. generally accepted accounting principles has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Osceola's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statement for the year ended June 30, 2008 and other auditors audited, in accordance with those standards, the financial statement for the years ended June 30, 2007, 2006 and 2005 and unqualified opinions were expressed on those financial statements. None of the prior audits are presented herein. Other supplementary information included in Schedules 1 through 5 is presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

September 21, 2010

Pollard and Company P.C.

City of Osceola, Iowa
Statement of Activities and Net Assets – Cash Basis
As of and for the year ended June 30, 2009

Functions/Programs	Program Receipts			
	Disbursements	Charges for Services	Operating Grants, Contributions, and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Governmental Activities				
Public safety	\$ 806,140	\$ 52,759	\$	\$
Public works	886,624	350,447	502,371	197,516
Culture and recreation	674,463	163,869		
Community and economic development	1,712,442		269,195	
General government	615,453			
Debt service	1,080,663			
Capital Projects	1,471,827			
Total governmental activities	<u>7,247,612</u>	<u>567,075</u>	<u>771,566</u>	<u>197,516</u>
Business Type Activities				
Sewer	1,093,645	998,415		
Component Unit- Water	1,700,487	1,450,301		262,218
Component Unit- Library Foundation	6,268			
Total	<u>\$ 10,048,012</u>	<u>\$ 3,015,791</u>	<u>\$ 771,566</u>	<u>\$ 459,734</u>
General Receipts				
Property tax levied for				
General purposes				
Tax increment financing				
Debt service				
Local option sales tax				
Hotel/motel tax				
Casino Fees and Taxes				
Unrestricted interest				
Miscellaneous				
Casino Lease				
Transfers				
Total general receipts				
Change in cash basis net assets				
Cash basis net assets beginning of year				
Cash basis net assets end of year				
Cash basis net assets				
Restricted (Deficit)				
Capital Projects				
Debt Service				
Other purposes				
Unrestricted				
Total cash basis net assets				

City of Osceola, Iowa
Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Governmental Funds
As of and for the year ended June 30, 2009

	Special Revenue			
	General	Casino Special Project	Employee Benefits	Local Option Tax LEC
Receipts				
Property Taxes	\$ 1,039,281	\$	\$ 418,220	\$
Tax Increment Financing Collections				
Casino Fees and Taxes	907,258			
Other City Tax				8,829
Licenses and Permits	12,608			
Use of Money and Property	87,753	63,130		
Intergovernmental	301,797	206,065		
Charges for Services	567,075			
Miscellaneous	114,691			
Total Receipts	3,030,463	269,195	418,220	8,829
Disbursements				
Operating				
Public Safety	634,389		146,329	25,422
Public Works	508,625		26,282	
Culture and Recreation	587,041		87,422	
Community and Economic Development		108,763		5,414
General Government	511,012		104,441	
Debt Service				
Capital Projects	379,282			
Total Disbursements	2,620,349	108,763	364,474	30,836
Excess (deficiency) of receipts over (under) disbursements	410,114	160,432	53,746	(22,007)
Other financing sources (uses)				
Operating transfers in				
Operating transfers out	(1,045,789)			
Total other financing sources (uses)	(1,045,789)			
Net change in cash balances	(635,675)	160,432	53,746	(22,007)
Cash balance (deficit) - beginning of year	2,229,027	3,551,105	330,825	193,315
Cash balance (deficit) - end of year	\$ 1,593,352	\$ 3,711,537	\$ 384,571	\$ 171,308
Cash basis fund balances (deficit)				
Unreserved				
General	\$ 1,593,352	\$	\$	\$
Capital Projects				
Special revenue funds		3,711,537	384,571	171,308
Permanent fund				
Total cash basis fund balances (deficit)	\$ 1,593,352	\$ 3,711,537	\$ 384,571	\$ 171,308

See notes to financial statements

Special Revenue				Other Nonmajor Governmental Funds		Total
Local Option Tax Reservoir	Hotel/Motel Tax	Capital Projects	Debt Service			
\$	\$	\$	\$ 406,984	\$ 30,784	\$	1,895,269
				1,404,735		1,404,735
859,572	222,687					907,258
						1,091,088
						12,608
						150,883
				398,090		905,952
						567,075
						114,691
859,572	222,687		406,984	1,833,609		7,049,559
						806,140
				351,717		886,624
						674,463
1,111,460				486,805		1,712,442
						615,453
			1,080,663			1,080,663
		1,055,935			36,610	1,471,827
1,111,460		1,055,935	1,080,663	875,132		7,247,612
(251,888)	222,687	(1,055,935)	(673,679)	958,477		(198,053)
		990,460	673,679			1,664,139
	(222,687)			(476,619)		(1,745,095)
	(222,687)	990,460	673,679	(476,619)		(80,956)
(251,888)		(65,475)		481,858		(279,009)
246,787		(63,365)		(61,340)		6,426,354
\$ (5,101)	\$	\$ (128,840)	\$	\$ 420,518	\$	6,147,345
\$	\$	\$	\$	\$	\$	1,593,352
		(128,840)		(240,252)		(369,092)
(5,101)				580,695		4,843,010
				80,075		80,075
\$ (5,101)	\$	\$ (128,840)	\$	\$ 420,518	\$	6,147,345

City of Osceola, Iowa
Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Proprietary Fund
As of and for the year ended June 30, 2009

	Sewer
Operating receipts	
Charges for service	\$ 773,392
Surcharge	225,023
Total operating receipts	998,415
Operating disbursements	
Business type activities	691,560
Excess of operating receipts over operating disbursements	306,855
Non-operating receipts (disbursements)	
Interest on Investments	2,390
Capital Projects	(51,412)
Debt service	(350,673)
Total non-operating receipts (disbursements)	(399,695)
Net change in cash balances	(92,840)
Cash balances - beginning of year	732,438
Cash balances - end of year	\$ 639,598
Cash basis fund balances	
Reserved for debt service	\$ 639,598
Total cash basis fund balances	\$ 639,598

See notes to financial statements.

City of Osceola, Iowa
Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Fiduciary Funds
As of and for the Year Ended June 30, 2009

NON EXPENDABLE FUNDS

	<u>Library Foundation</u>	<u>Fire Association</u>
Receipts		
Interest	\$ 9,226	\$ 7,989
Total receipts	<u>9,226</u>	<u>7,989</u>
Disbursement to Osceola Public Library Foundation	<u>(1,185,018)</u>	
Excess (deficiency) of receipts over (under) disbursements	<u>(1,175,792)</u>	<u>7,989</u>
Cash balance - beginning of year	<u>1,175,792</u>	<u>364,209</u>
Cash balance - end of year	<u><u>\$</u></u>	<u><u>\$</u></u> 372,198

EXPENDABLE LIBRARY FUND

	<u>Library</u>
Receipts	
Contributions	\$ 238,965
Interest	3,692
Total receipts	<u>242,657</u>
Disbursements	
Culture and Recreation	<u>7,565</u>
Excess of receipts over disbursements	235,092
Other financing sources	
Transfer In	<u>80,956</u>
Net change in cash balances	316,048
Cash balance - beginning of year	<u>53,539</u>
Cash balance - end of year	<u><u>\$</u></u> 369,587

See notes to financial statements

CITY OF OSCEOLA, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

1/ Summary of Significant Accounting Policies

The City of Osceola is a political subdivision of the State of Iowa located in Clarke County. It was first incorporated in 1866 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, culture and recreation, public improvements, economic development and general administrative services. The City also provides water, sewer and sanitation services to its citizens.

A. Reporting Entity

For financial reporting purposes, the City 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 board 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 financial statements present the City of Osceola (the primary government) and the following component units as discretely presented component units.

The Osceola Municipal Waterworks is presented in a separate column to emphasize that it is legally separate from the City, but is financially accountable to the City, or whose relationship with the City is such that exclusion would cause the City's financial statements to be misleading or incomplete. The Waterworks is governed by a five member board appointed by the Osceola City council and its operating budget is subject to approval of the city council.

In November 2008, the Osceola Public Library Foundation became an IRC 501(c) 3 organization. The City transferred the non-expendable fiduciary funds which had been received from various bequests to the Foundation. Five out of seven members of the Board are appointed by the City. Therefore, its relationship is such that exclusion would cause the City's financial statements to be misleading or incomplete. The Foundation is presented in a separate column to emphasize that it is legally separate from the City.

In September, 2007, the Osceola Volunteer Firefighters Association became an IRC 501(c) 3 organization. The bequests received by the City designated for that Association are reported as non-expendable fiduciary funds in the financial statements. The Association has committed a significant portion of the funds to the down payment and first year debt payment on a new fire truck.

Jointly Governed Organizations

The City also 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, commissions and 28E agreements: Clarke County Sanitary Landfill Commission, Clarke County Reservoir Commission, Clarke County Assessor's Conference Board, Emergency Management Commission, Clarke County Development Corporation, the Main Street Board, Clarke County Jail and Law Enforcement Center and the Southwest Iowa Coalition .

B. Basis of Presentation

Government-wide Financial Statements - 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 services.

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

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

Unrestricted net assets consist of net assets that do not meet 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 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 that are not paid from other funds.

Special Revenue:

The Casino Special Project is used to account for contributions and development activities for a new reservoir and regional recreation facility.

The Employee Benefits Fund is used to account for the tax levy and disbursement for the benefits.

The Local Option Sales Tax Funds are used to account for the City's sales tax receipts for the Law Enforcement Center (LEC) and the Reservoir and the disbursements financed by such.

The Hotel/Motel Tax Fund is used to account for the City's hotel/motel tax receipts and the disbursements financed by such.

Capital Projects-The Capital Project Fund was established to account for the costs of various projects and the financing thereof.

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

Basis of Presentation (continued)

The City reports the following major proprietary fund:

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

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

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

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2009, disbursements exceeded the amounts budgeted in Public Works, Community and Economic Development, Debt Service and Capital Project functions.

2/ Cash and Pooled Investments

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

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

The City had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$192,519 pursuant to Rule 2a-7 under the Investment Company Act of 1940. In addition, the City held 1,828 shares of Principal Financial Group, Inc. which was received in the demutualization of that insurance company and is carried at no cost in the financial statements.

Interest Rate Risk – The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but maturities shall be consistent with the needs and use of the City.

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

3/ Bonds and Notes Payable

The annual debt service requirement to maturity for general obligation bonds and notes, and the sewer revenue bonds is as follows:

General Obligation Bonds and

Year Ending	Notes		Sewer Revenue Bonds		Primary Government Total		
	June 30,	Principal	Interest	Principal	Interest	Principal	Interest
2010		714,000	407,929	263,000	92,640	977,000	500,569
201		739,000	380,497	272,000	87,210	1,011,000	467,707
2012		759,000	351,732	282,000	81,630	1,041,000	433,362
2013		725,000	321,797	293,000	75,870	1,018,000	397,667
2014		750,000	293,388	304,000	69,960	1,054,000	363,348
2015-2019		3,970,000	999,821	731,000	254,520	4,701,000	1,254,341
2020-2025		2,100,000	221,234	664,000	77,310	2,764,000	298,544
Total	\$	9,757,000	\$ 2,976,398	\$ 2,809,000	\$ 739,140	\$ 12,566,000	\$ 3,715,538

Component Unit- Annual debt service requirements to maturity for the water revenue bonds and note are as follows:

Water Revenue Bonds and Notes

Year Ending	June 30,	Principal	Interest
2010		211,000	96,960
201		216,000	90,090
2012		222,000	83,070
2013		197,000	75,870
2014		203,000	69,960
2015-2019		1,113,000	254,520
2020-2025		1,016,000	77,310
Total	\$	3,178,000	\$ 747,780

The City has pledged future sewer receipts, net of specified operating disbursements, to repay \$ 4,550,000 in sewer revenue bonds issued in May 1994 and October 2003, respectively. Proceeds were used to provide financing for the construction of improvements to the sewer plant. The obligations are payable solely from sewer customer net receipts and are payable through 2023. The total principal and interest remaining to be paid on the obligations is \$3,548,140. For the current year, principal and interest paid was \$344,860 and total customer net receipts were \$306,855.

The Component Unit has pledged future water receipts, net of specified operating disbursements, to repay \$4,216,000 in water revenue bonds and note issued May 2002 and February 2007, respectively. Proceeds were used to provide financing for drinking water facilities. The total principal and interest remaining to be paid on the obligations is \$3,925,780. For the current year, principal and interest paid was \$308,734 and total customer net receipts were \$320,766.

The resolutions providing for the issuance of the note and bond include the following provisions:

- a. The notes or bonds will only be redeemed from the future earnings of the enterprise activity and the holders hold a lien on the future earnings of the funds.

Bonds and Notes Payable (continued)

- b. Sufficient monthly transfers shall be made to a separate water bond sinking account for the purpose of making the next principal and interest payments.
- c. The City shall establish, impose, adjust and provide for the sewer and water rates to produce gross revenues at least sufficient to leave a balance, after specified operating disbursements, equal to 110% of the principal and interest due in any fiscal year.

During the year, the City did not increase sewer rates as required by the above resolutions. Water rates were increased effective January 1, 2009. In August, 2010, sewer rates were increased.

4/ Tax Increment Financing

In 2003, the City consolidated seven urban renewal districts into one and established a residential urban renewal area. Subsequently, the West 35 Industrial and the CT 8 Western were established in 2007 and 2008, respectively. The City has made agreements with the county, school and other taxing jurisdictions, in accordance with Chapter 403.19 of the Code of Iowa, to divide the increase in taxes, as a result of the incremental property tax valuation in those districts. The taxes so collected are paid into the City's Special Revenue Fund and are to be expended for project costs or debt service associated with the projects affecting the districts.

5/ Local Option Sales Tax

In 2001, the City, Clarke County and the cities of Murray and Woodburn entered into a 28E agreement to build the Clarke County Jail and Law Enforcement Center. The participants committed the 1% local option sales tax passed by the 2000 referendum towards the construction of the facility. During the year ended June 30, 2009, the final payment on the Center was made. The balance in the Local Option Tax LEC fund is committed to be paid for expenditures which benefit County constituents.

In 2007, a referendum directed that the taxes earned after January 1, 2008, would be used for the acquisition of land, planning, design, construction, equipping and maintenance, while any project debt is outstanding, for the Clarke County Reservoir Project.

6/ Pension and Retirement Benefits

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

Most regular plan members are required to contribute 4.10% of their annual covered salary and the City is required to contribute 6.35% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contribution to IPERS for the years ended June 30, 2009, 2008, and 2007 were \$107,464, \$101,456, and \$95,818, respectively, equal to the required contributions for each year.

7/ Other Postemployment Benefits (OPEB)

During the year ended June 30, 2009, the City implemented GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits other than Pension.

The City operates a single-employer retiree benefit plan which provides medical/prescription drug benefits for retirees and their spouses. There are 37 active and no retired members in the plan. Participants must be age 55 or older at retirement. The medical/ prescription drug benefits are provided through a fully-insured plan with United Healthcare. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees.

The contribution requirements of plan members are established and may be amended by the City. The City currently finances the retiree benefit plan on a pay-as-you-go- basis. The most recent active member monthly premiums for the City and the plan members are \$317 for single coverage, \$633 for employee and spouse, and \$950 for family coverage. The same monthly premiums apply to retirees. For the year ended June 30, 2009, the City contributed \$315,039 and plan members eligible for benefits contributed \$36,213 to the plan.

8/ Compensated Absences

City employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, retirement, or death. These accumulations are not recognized as disbursements by the City until used or paid. The liability is computed based on the rate of pay as of June 30, 2009. The City's approximate liability for earned vacation and sick leave termination payments payable to employees at June 30, 2009, primarily relating to the General Fund, was \$111,000.

9/ Landfill Closure and Postclosure Care

The City has entered into an agreement with Clarke County and the cities of Murray and Woodburn, as allowed under Code of Iowa Section 28E, to provide for economical and environmentally responsible disposal of solid waste and establish permanent environmental responsibility for the Clarke County Sanitary Landfill. State and federal laws and regulations require the Landfill to place a final cover on the site and to perform certain maintenance and monitoring functions at the site for thirty years after closure. Although closure and postclosure care costs will be paid near or after the date that the landfill no longer accepts waste, the Landfill has estimated the total liability for such to be \$832,000. At June 30, 2009, approximately \$288,000 is unfunded. The closure is expected to be in 2012. These amounts are based on cost estimates and other information contained in the Landfill's financial statements.. Actual costs may be higher due to inflation, technology changes, and changes in regulations.

As specified in the 28E agreement, the City may be responsible for 50% of the unfunded closure and postclosure costs. The City's proportionate share is updated in accordance with the agreement.

10/ Lease

The City and the Municipal Waterworks have entered into a renewable lease agreement with Herbst Gaming Inc. for certain real estate surrounding West Lake and the use of the lake in the operation of a casino. As part of the agreement Herbst Gaming paid an initial payment of \$3,200,000 plus will pay 1% of the annual adjusted gross receipts of the casino, commencing in 2012, to the Special Revenue - Casino Special Project Fund to be used for the Clarke County Reservoir Project.

The Municipal Waterworks will receive \$150,000 per year plus a 1% increase per year until lease termination offset by certain credits for certain improvements. During the year, the Waterworks received \$150,655.

The City receives 1.25% of the casino's adjusted gambling receipts on a monthly basis. During the year ended June 30, 2009, the City received \$907,258.

11/ Interfund Transfers

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

<u>Transfer From</u>	<u>Transfer To</u>	<u>Amount</u>
General-		
	Library Expendable	\$80,957
	2008 Pavement Project	964,832
West 35 Industrial TIF	Industrial Park Project	25,628
Motel/ Hotel Tax	Debt Service	222,687
Consolidated TIF	Debt Service	420,838
Residential TIF	Debt Service	30,153

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

12/ Risk Management

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

b) The City is a member of the Iowa Municipalities Workers' Compensation Association (IMWCA) which provides workers' compensation coverage to its members. IMWCA is governed by a board of directors elected by representatives of the governing bodies of each participating governmental jurisdiction. The City has executed a Workers' Compensation Coverage Agreement with IMWCA which extends through June 30, 2009 and has authorized IMWCA to issue general obligation bonds to provide funds to pay claims. During the year ended June 30, 2009, the City paid IMWCA insurance premiums of \$59,929.

13/ Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that effect the reported amounts and disclosure of liabilities, contingent liabilities and commitments at the date of the financial statements, and the classification of receipts and disbursements during the reporting period. Actual results could differ from the estimates that were used.

14/ Reclassification

The General Fund and the Expendable Library Fund beginning fund balances have been reclassified to conform to the 2009 presentation.

15/ Deficit Fund Balances

At June 30, 2009 the Local Option Tax Reservoir, Capital Project and Road Use Tax Funds had deficit balances of \$5,101,\$128,840 and \$240,252, respectively. The deficit in the Capital Project Fund will be reduced by transfers from the General Fund as the projects are completed. The Local Option Tax and Road Use Tax deficit balances will be reduced by future receipts.

16/ Commitments

At June 30, 2009, the City has entered into engineering and construction contracts for street improvements and other projects totaling \$418,817 which will be paid as work progresses. In addition, the City agreed to purchase a new fire truck for a total of \$951,533. The Fire Association has agreed to contribute toward the purchase price. (see note 1 A)

17/ Subsequent Events

In August 2009, the City issued \$2,750,000 of general obligation bonds for street paving and sidewalk projects.

City of Osceola, Iowa
 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
Receipts		
Property Taxes	\$ 1,895,269	\$
Tax increment financing collections	1,404,735	
Other city tax	1,091,088	
Licenses and permits	12,608	
Use of money and property	150,883	2,390
Intergovernmental	905,952	
Charges for Service	1,474,333	998,415
Special assessments		
Miscellaneous	114,691	
Total Receipts	7,049,559	1,000,805
Disbursements		
Public safety	806,140	
Public works	886,624	
Culture and recreation	674,463	
Community and economic development	1,712,442	
General government	615,453	
Debt service	1,080,663	
Capital projects	1,471,827	
Business type activities		1,093,645
Total Disbursements	7,247,612	1,093,645
Excess (deficiency) of receipts over (under) disbursements	(198,053)	(92,840)
Other financing (uses) net	(80,956)	
Excess (deficiency) of receipts over disbursements and other financing uses	(279,009)	(92,840)
Balance (deficit) - beginning of year	6,426,354	732,438
Balance (deficit) - end of year	\$ 6,147,345	\$ 639,598

See accompanying independent auditors' report.

Component Unit Included in Budget	Budgeted Amounts			
	Net	Original	Final	Final to Net Variance
\$	\$ 1,895,269	\$ 1,843,011	\$ 1,843,011	\$ 52,258
	1,404,735	782,941	782,941	621,794
	1,091,088	1,205,663	1,205,663	(114,575)
	12,608	17,825	20,325	(7,717)
159,699	312,972	70,000	70,000	242,972
262,218	1,168,170	1,836,291	2,216,291	(1,048,121)
1,450,301	3,923,049	3,265,662	3,332,662	590,387
		215,000	215,000	(215,000)
	114,691	980,000	990,000	(875,309)
1,872,218	9,922,582	10,216,393	10,675,893	(753,311)
	806,140	1,214,886	1,229,886	423,746
	886,624	576,647	599,647	(286,977)
	674,463	678,487	969,837	295,374
	1,712,442	1,393,177	1,458,177	(254,265)
	615,453	1,172,699	1,284,199	668,746
	1,080,663	879,406	879,406	(201,257)
	1,471,827			(1,471,827)
1,700,487	2,794,132	2,910,765	3,335,765	541,633
1,700,487	10,041,744	8,826,067	9,756,917	(284,827)
171,731	(119,162)	1,390,326	918,976	(1,038,138)
	(80,956)	80,000	80,000	(160,956)
171,731	(200,118)	1,470,326	998,976	(1,199,094)
62,022	7,220,814	5,390,549	8,632,128	(1,411,314)
\$ 233,753	\$ 7,020,696	\$ 6,860,875	\$ 9,631,104	\$ (2,610,408)

City of Osceola, Iowa
Notes to Required Supplementary Information – Budgetary Reporting
June 30, 2009

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 Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Proprietary 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, budget amendments increased budgeted disbursements by \$930,850. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2009, disbursements exceeded the amounts budgeted in the Public Works, Community and Economic Development, Debt Service and Capital Project functions.

City of Osceola, Iowa
Statement of Cash Receipts, Disbursements, and Changes in Cash Balances
Nonmajor Governmental Funds
As of and for the year ended June 30, 2009

	Special Revenue			
	Urban Renewal Consolidated TIF	Residential TIF	West 35 Industrial TIF	CT 8 Western TIF
Receipts				
Tax increment financing collections	\$ 740,469	\$ 183,667	\$ 355,525	\$ 125,074
Property tax				
Intergovernmental				
Total Receipts	<u>740,469</u>	<u>183,667</u>	<u>355,525</u>	<u>125,074</u>
Disbursements				
Public Works				
Community and economic development	55,475	154,573	276,757	
Capital Projects				
Total Disbursements	<u>55,475</u>	<u>154,573</u>	<u>276,757</u>	
Excess of receipts over disbursements	<u>684,994</u>	<u>29,094</u>	<u>78,568</u>	<u>125,074</u>
Operating Transfers Out	<u>(420,838)</u>	<u>(30,153)</u>	<u>(25,628)</u>	
Total other financing (uses)	<u>(420,838)</u>	<u>(30,153)</u>	<u>(25,628)</u>	
Net change in cash balances	264,156	(1,059)	53,140	125,074
Cash balance (Deficit) - beginning of year	(5,609)	114,209		
Cash balance (Deficit) - end of year	<u>\$ 258,547</u>	<u>\$ 113,150</u>	<u>\$ 53,140</u>	<u>\$ 125,074</u>
Cash basis fund balances (Deficit)				
Unreserved				
Capital projects	\$	\$	\$	\$
Special revenue	258,547	113,150	53,140	125,074
Permanent fund				
Total cash basis fund balances	<u>\$ 258,547</u>	<u>\$ 113,150</u>	<u>\$ 53,140</u>	<u>\$ 125,074</u>

See accompanying independent auditors' report.

Special Revenue			Cemetery Perpetual Care	Total
Emergency Levy	Road Use Tax			
\$	\$	\$	\$	\$ 1,404,735
30,784				30,784
	398,090			398,090
30,784	398,090			1,833,609
	351,717			351,717
				486,805
	36,610			36,610
	388,327			875,132
30,784	9,763			958,477
				(476,619)
				(476,619)
30,784	9,763			481,858
	(250,015)	80,075		(61,340)
\$ 30,784	\$ (240,252)	\$ 80,075	\$	\$ 420,518
\$	\$ (240,252)	\$	\$	\$ (240,252)
30,784				580,695
		80,075		80,075
\$ 30,784	\$ (240,252)	\$ 80,075	\$	\$ 420,518

City of Osceola, Iowa
Schedule of Capital Projects Funds
As of and for the year ended June 30, 2009

	Industrial Park	2008 Paving	2009 Paving	BSNF Bldg
Receipts				
Miscellaneous	\$	\$	\$	\$
Disbursements				
Capital Projects	23,348	964,832	22,028	
Total Disbursements	23,348	964,832	22,028	
Excess(deficiency) of receipts over (under) disbursements	(23,348)	(964,832)	(22,028)	
Other financing				
Operating Transfers In	25,628	964,832		
Total other financing	25,628	964,832		
Net change in cash balances	2,280		(22,028)	
Cash balance (Deficit)- beginning of year	(2,280)			(27,826)
Cash balance (Deficit) - end of year	\$	\$	\$ (22,028)	\$ (27,826)
Cash basis fund balances (Deficit)				
Unreserved				
Capital projects	\$	\$	\$ (22,028)	\$ (27,826)
	\$	\$	\$ (22,028)	\$ (27,826)

See accompanying independent auditors' report.

BSNF Depot	Total
\$	\$
<u>45,727</u>	<u>1,055,935</u>
<u>45,727</u>	<u>1,055,935</u>
<u>(45,727)</u>	<u>(1,055,935)</u>
	<u>990,460</u>
	<u>990,460</u>
(45,727)	(65,475)
(33,259)	(63,365)
<u>\$ (78,986)</u>	<u>\$ (128,840)</u>
<u>\$ (78,986)</u>	<u>(128,840)</u>
<u>\$ (78,986)</u>	<u>\$ (128,840)</u>

City of Osceola, Iowa
Schedule of Indebtedness
For the year ended June 30, 2009

	Date of Issue	Interest Rates	Amount Originally Issued
Obligation			
Primary Government			
General Obligation Bond and Notes			
General Corporate Purpose	August 1, 1998	4.00 - 4.50%	1,235,000
General Corporate Purpose and Refunding	September 1, 2005	3.50 - 4.00%	5,800,000
General Corporate Purpose	July 24, 2007	4.72%	320,000
General Corporate Purpose	August 1, 2007	4.00 - 5.00%	4,500,000
General Obligation - Park	December 10, 2004	5.00%	16,000
General Obligation Note - Fire Truck	December 10, 1999	4.49%	280,000
General Corporate Purpose	September 12, 2003	2.50 - 4.30%	500,000
Totals			
Revenue Bonds			
Sewer Revenue Bonds	May 2, 1994	3.00%	1,880,000
Sewer Revenue Bonds	October 27, 2003	3.00%	2,670,000
Totals			
Total City of Osceola			
Component Unit			
Revenue Bonds and Notes			
Water Revenue Bonds	May 14, 2002	3.00%	4,066,000
Water Revenue Notes	February 13, 2007	4.80%	150,000

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

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
\$ 140,000	\$	\$ 140,000	\$	\$ 6,300	\$
5,060,000		345,000	4,715,000	189,236	
256,000		64,000	192,000	12,260	
4,500,000			4,500,000	207,645	
6,654		6,654		406	
40,919		40,919		1,639	
400,000		50,000	350,000	15,804	
<u>\$ 10,403,573</u>		<u>\$ 646,573</u>	<u>\$ 9,757,000</u>	<u>\$ 433,290</u>	
\$ 921,000		\$ 138,000	\$ 783,000	\$ 27,630	
2,141,000		115,000	2,026,000	64,230	
<u>\$ 3,062,000</u>		<u>\$ 253,000</u>	<u>\$ 2,809,000</u>	<u>\$ 91,860</u>	
<u>\$ 13,465,573</u>		<u>\$ 899,573</u>	<u>\$ 12,566,000</u>	<u>\$ 525,150</u>	
\$ 3,263,000		\$ 175,000	\$ 3,088,000	\$ 97,890	
120,000		30,000	90,000	5,844	
<u>\$ 3,383,000</u>	<u>\$</u>	<u>\$ 205,000</u>	<u>\$ 3,178,000</u>	<u>\$ 103,734</u>	<u>\$</u>

City of Osceola, Iowa
Bond and Note Maturities
For the year ended June 30, 2009

Year Ending June 30,	General Corporate Purpose and Refunding Issued August 1, 1998		General Corporate Purpose Issued October 1, 2007		General Corporate Purpose Issued September 12, 2003	
	Interest Rates (%)	Amount	Interest Rates (%)	Amount	Interest Rates (%)	Amount
	2010	3.63	355,000	4.00	240,000	3.50
2011	3.63	370,000	4.10	250,000	3.75	55,000
2012	3.63	380,000	4.20	260,000	4.00	55,000
2013	3.63	395,000	4.30	270,000	4.10	60,000
2014	3.63	410,000	4.40	280,000	4.20	60,000
2015	3.75	425,000	4.50	295,000	4.30	65,000
2016	3.75	435,000	4.60	310,000		
2017	3.80	460,000	4.65	320,000		
2018	3.85	475,000	4.70	335,000		
2019	3.90	495,000	4.75	355,000		
2020	4.00	515,000	4.80	370,000		
2021			4.90	385,000		
2022			4.95	405,000		
2023			5.00	425,000		
Totals		<u>\$ 4,715,000</u>		<u>\$ 4,500,000</u>		<u>\$ 350,000</u>

Year Ending June 30,	Sewer Revenue Bonds Issued May 2, 1994		Sewer Revenue Bonds Issued October 27, 2003		Total Sewer Revenue Bonds
	Interest Rates (%)	Amount	Interest Rates (%)	Amount	
2010	3.00	144,000	3.00	119,000	263,000
2011	3.00	150,000	3.00	122,000	272,000
2012	3.00	156,000	3.00	126,000	282,000
2013	3.00	163,000	3.00	130,000	293,000
2014	3.00	170,000	3.00	134,000	304,000
2015			3.00	138,000	138,000
2016			3.00	142,000	142,000
2017			3.00	146,000	146,000
2018			3.00	150,000	150,000
2019			3.00	155,000	155,000
2020			3.00	159,000	159,000
2021			3.00	164,000	164,000
2022			3.00	169,000	169,000
2023			3.00	172,000	172,000
Totals		<u>\$ 783,000</u>		<u>\$ 2,026,000</u>	<u>\$ 2,809,000</u>

See accompanying independent auditors' report.

General Corporate Purpose		
Issued July 24, 2007		
Interest		
Rates (%)	Amount	Total
4.72	64,000	714,000
4.72	64,000	739,000
4.72	64,000	759,000
		725,000
		750,000
		785,000
		745,000
		780,000
		810,000
		850,000
		885,000
		385,000
		405,000
		425,000
	<u>\$ 192,000</u>	<u>\$9,757,000</u>

Water Revenue Bonds and Notes - Component Unit

Water Revenue Bonds		Water Revenue Notes		
Issued May 2, 1994		Issued		
Interest Rates (%)	Amount	Interest Rates (%)	Amount	Total
3.00	181,000	4.80	30,000	211,000
3.00	186,000	4.80	30,000	216,000
3.00	192,000	4.80	30,000	222,000
3.00	197,000			197,000
3.00	203,000			203,000
3.00	210,000			210,000
3.00	216,000			216,000
3.00	222,000			222,000
3.00	229,000			229,000
3.00	236,000			236,000
3.00	243,000			243,000
3.00	250,000			250,000
3.00	258,000			258,000
3.00	265,000			265,000
	<u>\$ 3,088,000</u>		<u>\$ 90,000</u>	<u>\$ 3,178,000</u>

City of Osceola, Iowa
 Schedule of Receipts by Source and Disbursements by Function
 All Governmental Funds
 As of and for the year ended June 30, 2009

	2009	2008	2007	2006	2005
Receipts					
Property taxes	\$ 1,895,269	\$ 1,712,784	\$ 1,682,743	\$ 1,592,606	\$ 1,638,777
Tax increment financing collections	1,404,735	789,314	678,536	603,981	513,847
Other city tax	1,091,088	769,961	753,174	552,620	620,895
Licenses and permits	12,608	13,051	11,677	15,773	19,346
Use of money and property	150,883	357,239	1,382,319	1,197,582	1,041,928
Intergovernmental	905,952	873,023	825,723	851,667	1,003,840
Charges for service	1,474,333	1,379,026	530,078	435,661	393,136
Miscellaneous	114,691	222,955	340,819	915,980	3,382,729
Total	\$ 7,049,559	\$ 6,117,353	\$ 6,205,069	\$ 6,165,870	\$ 8,614,498
Disbursements					
Operating					
Public safety	\$ 806,140	\$ 920,333	\$ 778,792	\$ 748,843	\$ 776,541
Public works	886,624	1,185,219	1,327,025	1,528,242	1,317,761
Culture and recreation	674,463	761,378	829,558	726,759	671,715
Community and economic development	1,712,442	609,503	310,974	165,339	322,661
General government	615,453	574,462	919,082	745,378	753,168
Debt service	1,080,663	1,188,129	931,079	2,087,209	502,784
Capital projects	1,471,827	4,172,811	1,629,160	4,152,489	1,483,962
Total	\$ 7,247,612	\$ 9,411,835	\$ 6,725,670	\$ 10,154,259	\$ 5,828,592

See accompanying independent auditors' report.

POLLARD AND COMPANY P.C.

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PRIVATE COMPANIES PRACTICE SECTION
IOWA SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS

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

To the Honorable Mayor and
Members of the City Council

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Osceola, 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 as dated below. Our report expressed unqualified opinions on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. 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 Osceola'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 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.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a deficiency in internal control over financial reporting that we considered to be a significant deficiency and we considered to be a material weakness.

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 function, 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 an other comprehensive 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 deficiency in internal control described in Part I of the accompanying Schedule of Findings to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that result 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 the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be

significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiency described above, we believe item I-A-09 is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Osceola's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part 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 Osceola's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusion on the City's responses, we did not audit the City'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 and other parties to whom the City of Osceola may report. This report is not intended to be and should not be used by anyone other than these specified parties.

September 21, 2010

Pollard and Company P.C.

CITY OF OSCEOLA, IOWA
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2009

Part I: Findings Related to the Financial Statements

SIGNIFICANT DEFICIENCY:

I-A-09 Segregation of Duties

One important aspect of internal accounting control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that generally one person has control over each of the following areas:

- (1) Cash receipts, journalizing and posting.
- (2) Disbursements, check writing, signing, mailing journalizing and posting.
- (3) Payroll preparation and distribution.
- (4) Bank account reconciliations

Also, during the year, the bank accounts were not reconciled on a timely basis. This resulted in numerous and significant unposted entries to the general ledger. For the year ended June 30, 2009 the process was finally completed in August 2010.

Recommendation

In any environment, and especially in a cash receipts and disbursements environment, the reconciliation of the information maintained by the banks is a very important internal control function. This is the fourth year that this function has not been performed on a timely basis. We realize that with a limited number of office employees, the function may be set aside for other daily duties. However, the City should review its procedures to provide sufficient time and personnel to perform this function on a timely basis, accurately and post any entries to the general ledger to complete the books and records. In addition, the above segregation of duties issue should be addressed to obtain the maximum internal control possible under the circumstances.

Response

With new personnel hired in June 2010, we will consider the above and attempt to involve management and department heads to produce more segregation of duties of the above functions. We will continue to review the internal control procedures and continue to segregate duties to the extent possible and will complete the bank reconciliations in a timely manner. The bank reconciliation process will be brought up to date as soon as possible.

Conclusion

Response accepted

Part II: Other Findings Related to Statutory Reporting

II-A-09 Certified Budget

Disbursements during the year ended June 30, 2009 exceeded the amounts budgeted in the Public Works, Community and Economic Development, Debt Service and Capital Project functions. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

Recommendation

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

Response

The budget will be amended in the future, as applicable.

Conclusion

Response accepted.

II-B-09

Questionable Disbursements

We noted no disbursements for parties, banquets or other entertainment expenses that do not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

II-C-09

Travel Expense

We noted no disbursements of City money for travel expenses of spouses of City officials or employees during the year.

II-D-09

Business Transactions

No business transactions between the City and City officials or employees were noted.

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 that the coverage is adequate for current operations.

II-F-09

Council Minutes

Although minutes of the Council meetings were published they did not always contain the disbursements by fund and did not contain a summary of receipts.

Recommendation

The City should comply with Chapter 21 of the Code of Iowa and include the above in the publications.

Response

We will comply with the code requirements.

Conclusion

Response accepted.

II-G-09

Deposits and Investments

We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa.

II-H-09

Revenue Bonds and Notes

As noted in Note 3, the City did not maintain sufficient rates to service the revenue bonds and notes as required by the resolutions.

Recommendation

The City should periodically determine if rates are sufficient to provide net operating revenues which exceed 110% of the debt service required on the revenue bonds and notes.

Response

The sewer receipts during the year were not sufficient due to a decrease in the volume of discharge by certain major commercial operations. Water rates were increased effective January 1, 2009 and sewer rates in August, 2010.

Conclusion

Response accepted.

II-I-09

Financial Condition

The Local Option Tax Reservoir, Capital Project and Road Use Tax Funds had deficit balances at June 30, 2009 of \$5,101, \$128,840 and \$240,252, respectively.

Recommendation

The City should investigate alternatives to eliminate these deficits in order to return these funds to a sound financial position.

Response

Note 15 of the financial statements describes the City's plans to eliminate the deficits.

Conclusion

Response accepted.