

CITY OF BRITT

INDEPENDENT AUDITOR'S REPORTS  
BASIC FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 2011

## Table of Contents

		<u>Page</u>
Officials		3
Independent Auditor's Report		4-5
Management's Discussion and Analysis		6-12
Basic Financial Statements:	<u>Exhibit</u>	
Government-wide Financial Statement:		
Statement of Activities and Net Assets – Cash Basis	A	14
Governmental Fund Financial Statements:		
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	B	15
Proprietary Fund Financial Statements:		
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	C	16
Notes to Financial Statements		17-23
Required Supplementary Information:		
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances-Budget and Actual (Cash Basis)-All Governmental Funds and Proprietary Funds		25
Notes to Required Supplementary Information-Budgetary Reporting		26
Other Supplementary Information:	<u>Schedule</u>	
Schedule of Cash Receipts, Disbursements and Changes in Cash Balances-Nonmajor Governmental Funds	1	28
Schedule of Indebtedness	2	29
Bond and Note Maturities	3	30
Schedule of Receipts by Source and Disbursements by Function-All Governmental Funds	4	31
Schedule of Expenditures of Federal awards	5	32
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		33-34
Independent Auditor's Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133		35-36
Schedule of Findings and Questioned Costs		37-41

CITY OF BRITT

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
David Mitchell	Mayor	Jan 2012
Douglas Weiland	Mayor Pro tem	Jan 2014
Gary Gelner	Council Member	Jan 2012
Curt Gast	Council Member	Jan 2012
Bryan Aitchison	Council Member	Jan 2012
Michael Ostercamp	Council Member	Jan 2014
Jean Purvis	City Clerk	Jan 2012
Darcy Eisenman	Deputy City Clerk	Jan 2012
Jane Swenson	Treasurer	Jan 2012
Earl Hill	Attorney	Jan 2012

## INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and  
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Britt, Iowa, as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of City of Britt's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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 Britt as of June 30, 2011, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated February 8, 2012 on our consideration of the City of Britt's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 6 through 12 and 24 through 25 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Britt's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the seven years ended June 30, 2010 (which are not presented herein) and expressed unqualified opinions on those financial statements which were prepared in conformity with an other comprehensive basis of accounting. Other supplementary information included in Schedules 1 through 5, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

February 8, 2012

Renner & Birchem, P.C.

---

## MANAGEMENT'S DISCUSSION AND ANALYSIS

---

The City of Britt provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2011. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

### 2011 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities increased 45.6%, or \$746,902, from fiscal 2010 to fiscal 2011. Local option sales tax decreased \$52,856 and capital grants, contributions and restricted interest increased \$789,479 due to Fire Station addition.
- Disbursements increased 61.1% or \$938,293 in fiscal 2011 from fiscal 2010. Public safety, community and economic development and capital projects disbursements increased \$23,738, \$22,905 and \$917,023, respectively.
- The City's total cash basis net assets decreased 1.2%, or \$24,062 from June 30, 2010 to June 30, 2011. Of this amount, the assets of the governmental activities decreased \$89,287 and the assets of the business type activities increased by \$65,225.

### USING THIS ANNUAL REPORT

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

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

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

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

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

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

Other Supplementary Information provides detailed information about the nonmajor governmental funds and the City's indebtedness. In addition, the Schedule of Expenditures of Federal Awards provides details of various federal programs benefiting the City.

## **Basis of Accounting**

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

## **REPORTING THE CITY'S FINANCIAL ACTIVITIES**

### *Government-wide Financial Statement*

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

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

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

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

### *Fund Financial Statements*

The City has two kinds of funds:

- 1) Governmental funds account for most of the City’s basic services. These focus on how money flows into and out of those funds and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Revolving Loan, 3) the Debt Service Fund and 4) the Capital Projects Fund. The governmental fund financial statements provide a detailed, short-term view of the City’s general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City’s programs.

The required financial statements for governmental funds include a statement of cash receipts, disbursements and changes in cash balances.

- 2) Proprietary funds account for the City’s Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains four Enterprise Funds to provide separate information for the water and sewer funds, considered to be major funds of the City.

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

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City’s cash balance for governmental activities decreased from a year ago, decreasing from \$1,433,344 to \$1,344,057. The analysis that follows focuses on the changes in cash basis net assets of governmental activities.

<b>Changes in Cash Basis Net Assets of Governmental Activities</b>		
	<b>Year ended June 30,</b>	
	<b>2011</b>	<b>2010</b>
Receipts and transfers:		
Program receipts:		
Charges for service	\$112,807	88,157
Operating grants, contributions and restricted interest	236,914	236,650
Capital grants, contributions and restricted interest	1,088,209	298,730
General receipts:		
Property tax	725,597	722,995
Local option sales tax	125,675	178,531
Unrestricted investment earnings	27,023	31,849
Other general receipts	67,706	80,117
Total receipts	<u>2,383,931</u>	<u>1,637,029</u>

Disbursements:		
Public safety	240,802	217,064
Public works	197,451	210,408
Health and social services	3,570	3,500
Culture and recreation	219,759	207,378
Community and economic development	68,488	45,583
General government	174,926	203,231
Debt Service	251,038	247,600
Capital projects	1,317,184	400,161
Total disbursements	<u>2,473,218</u>	<u>1,534,925</u>
Change in cash basis net assets	(89,287)	102,104
Cash basis net assets beginning of year	<u>1,433,344</u>	<u>1,331,240</u>
Cash basis net assets end of year	<u><u>\$1,344,057</u></u>	<u><u>1,433,344</u></u>

The City's total receipts for governmental activities increased by 45.6% or \$746,902. The total cost of all programs and services increased by \$938,293 or 61.1%. The majority of the increase is a result of the Fire Station addition.

The City's property tax receipts for 2011 increased by \$2,602.

The cost of all governmental activities this year was \$2.47 million compared to \$1.53 million last year. However, as shown in the Statement of Activities and Net Assets on page 14, the amount taxpayers ultimately financed for these activities was \$1,035,288, because some of the cost was paid by those directly benefited from the programs (\$112,807) or by other governments and organizations which subsidized certain programs with grants, contributions and restricted interest (\$1,325,123). Overall, the City's governmental activities receipts, including intergovernmental aid and fees for service, increased in fiscal year 2011 from \$623,537 to \$1,437,930, principally due to receiving grant proceeds to complete the Fire Station addition.

<b>Changes in Cash Basis Net Assets of Business Type Activities</b>		
	<b>Year ended June 30,</b>	
	<b>2011</b>	<b>2010</b>
Receipts:		
Program receipts:		
Charges for service:		
Water	\$177,397	172,979
Sewer	188,580	176,074
Total receipts	<u>365,977</u>	<u>349,053</u>
Disbursements:		
Water	177,739	152,751
Sewer	123,013	191,866
Total disbursements and transfers	<u>300,752</u>	<u>344,617</u>
Change in cash basis net assets	65,225	4,436
Cash basis net assets beginning of year	<u>546,301</u>	<u>541,865</u>
Cash basis net assets end of year	<u><u>\$611,526</u></u>	<u><u>546,301</u></u>

Total business type activities receipts for the fiscal year were \$365,977 compared to \$349,053 last year. Total disbursements for the fiscal year decreased by 12.7% to a total of \$300,752. The cash balance increased by \$65,225 during the fiscal year compared to an increase of \$4,436 last year.

## **INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS**

As the City of Britt completed the year, its governmental funds reported a combined fund balance of \$1,344,057 a decrease of \$89,287 from last year's total of \$1,433,344. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance decreased \$13,384 from the prior year to \$266,169.
- The Local Option Tax Fund cash balance decreased by \$418,772 to \$297,040, including a transfer of \$368,592 to the Capital Projects Fund.
- The Capital Projects Fund cash balance increased by \$299,751 to \$419,464 during the fiscal year, due to the Fire Station addition.
- The Debt Service Fund cash balance increased by \$1,192 to \$4,706 during the fiscal year.

## INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance decreased by \$342 to \$313,072 during the fiscal year and will be used to maintain service and repair the water system.
- The Sewer Fund cash balance increased by \$157,790 to \$298,454 during the fiscal year and will be used to maintain service and repair the sewer system.

## BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget. The amendment was approved on May 10, 2011 and resulted in an increase in transfers to close out the Sewer Utility Sinking and Sewer Reserve funds.

The City exceeded the amounts budgeted in the health and social services function for the year ended June 30, 2011.

## DEBT ADMINISTRATION

At June 30, 2010, the City had \$1,775,000 in general obligation bonds, compared to \$1,940,000 last year, as shown below.

	Outstanding Debt at Year-End	
	June 30,	
	2011	2010
General obligation bonds and short-term borrowing	\$1,775,000	1,940,000

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$1,775,000 is significantly below its constitutional debt limit of approximately \$3,652,528.

## ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City of Britt's elected and appointed officials and citizens considered many factors when setting the fiscal year 2012 budget, tax rates, and fees that will be charged for various City activities.

These among other economic factors were taken into account when adopting the budget for fiscal year 2012. Amounts available for appropriation in the operating budget are \$2.1 million, a decrease of 27.3% from the final 2011 budget. Budgeted disbursements are expected to increase by approximately \$562,000 over 2011 actual.

If these estimates are realized, the City's budgeted cash balance is expected to decrease approximately \$174,000 by the close of 2012. Actual amounts can and usually do differ from budgeted amounts.

## **CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Jeanie Purvis, City Clerk, 170 Main Avenue South, Britt, Iowa.

## BASIC FINANCIAL STATEMENTS

## Statement of Activities and Net Assets - Cash Basis

As of and for the year ended June 30, 2011

	Program Receipts				Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
	Disbursements	Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	Total
<b>Functions / Programs:</b>							
Governmental activities:							
Public safety	\$ 240,802		17,018		(223,784)		(223,784)
Public works	197,451	27,256	198,104		27,909		27,909
Health and social services	3,570				(3,570)		(3,570)
Culture and recreation	219,759	85,551	21,792		(112,416)		(112,416)
Community and economic development	68,488				(68,488)		(68,488)
General government	174,926				(174,926)		(174,926)
Debt service	251,038				(251,038)		(251,038)
Capital projects	1,317,184			1,088,209	(228,975)		(228,975)
Total governmental activities	2,473,218	112,807	236,914	1,088,209	(1,035,288)		(1,035,288)
Business type activities:							
Water	177,739	177,397				(342)	(342)
Sewer	123,013	188,580				65,567	65,567
Total business type activities	300,752	365,977				65,225	65,225
Total	\$ 2,773,970	478,784	236,914	1,088,209	(1,035,288)	65,225	(970,063)
<b>General Receipts:</b>							
Property tax levied for:							
General purposes					\$ 396,298		396,298
Employee benefits and insurance					77,069		77,069
Debt service					252,230		252,230
Local option sales tax					125,675		125,675
Unrestricted interest on investments					27,023		27,023
Miscellaneous					67,706		67,706
Total general receipts and transfers					946,001		946,001
Change in cash basis net assets					(89,287)	65,225	(24,062)
Cash basis net assets beginning of year					1,433,344	546,301	1,979,645
Cash basis net assets end of year					\$ 1,344,057	611,526	1,955,583
<b>Cash Basis Net Assets</b>							
Restricted:							
Expendable:							
Streets					\$ 178,244		178,244
Debt service					4,706		4,706
Other purposes					856,318		856,318
Unrestricted					304,789	611,526	916,315
Total cash basis net assets					\$ 1,344,057	611,526	1,955,583

See notes to financial statements.

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

As of and for the year ended June 30, 2011

	General	Local Option	Debt Service	Capital Projects	Nonmajor	Total
<b>Receipts:</b>						
Property tax	\$ 396,298		252,230		77,069	725,597
Other city tax		125,675				125,675
Licenses and permits	6,514					6,514
Use of money and property	27,262	4,674				31,936
Intergovernmental	38,810			1,088,209	198,104	1,325,123
Charges for services	112,807					112,807
Miscellaneous	41,124			300	14,855	56,279
Total receipts	<u>622,815</u>	<u>130,349</u>	<u>252,230</u>	<u>1,088,509</u>	<u>290,028</u>	<u>2,383,931</u>
<b>Disbursements:</b>						
<b>Operating:</b>						
Public safety	205,399				35,403	240,802
Public works	33,358				164,093	197,451
Health and social services	3,570					3,570
Culture and recreation	209,652				10,107	219,759
Community and economic development	22,058	20,695			25,735	68,488
General government	162,162				12,764	174,926
Debt service			251,038			251,038
Capital projects		159,834		1,157,350		1,317,184
Total disbursements	<u>636,199</u>	<u>180,529</u>	<u>251,038</u>	<u>1,157,350</u>	<u>248,102</u>	<u>2,473,218</u>
Excess (deficiency) of receipts over (under) disbursements	<u>(13,384)</u>	<u>(50,180)</u>	<u>1,192</u>	<u>(68,841)</u>	<u>41,926</u>	<u>(89,287)</u>
<b>Other financing sources (uses):</b>						
Operating transfers in				368,592		368,592
Operating transfers out		(368,592)				(368,592)
Total other financing sources (uses)		<u>(368,592)</u>		<u>368,592</u>		
Net change in cash balances	(13,384)	(418,772)	1,192	299,751	41,926	(89,287)
Cash balances beginning of year	280,169	716,040	3,514	119,713	313,908	1,433,344
Cash balances end of year	<u>\$ 266,785</u>	<u>297,268</u>	<u>4,706</u>	<u>419,464</u>	<u>355,834</u>	<u>1,344,057</u>
<b>Cash Basis Fund Balances</b>						
<b>Restricted For:</b>						
Debt service			4,706			4,706
Streets					178,244	178,244
Other purposes	\$ 21	297,268		419,464	139,565	856,318
Unassigned	266,764				38,025	304,789
Total cash basis fund balances	<u>\$ 266,785</u>	<u>297,268</u>	<u>4,706</u>	<u>419,464</u>	<u>355,834</u>	<u>1,344,057</u>

See notes to financial statements.

## City of Britt

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

As of and for the year ended June 30, 2011

	Enterprise Funds				Total
	Water	Sewer	Sewer Utility Sinking	Sewer Reserve	
Operating receipts:					
Charges for service	\$ 177,397	188,580			365,977
Total operating receipts	177,397	188,580			365,977
Operating disbursements:					
Business type activities	177,739	123,013			300,752
Total operating disbursements	177,739	123,013			300,752
Excess (deficiency) of receipts over (under) disbursements	(342)	65,567			65,225
Operating transfers in		92,223			92,223
Operating transfers out			(20,223)	(72,000)	(92,223)
		92,223	(20,223)	(72,000)	
Net change in cash balances	(342)	157,790	(20,223)	(72,000)	65,225
Cash balances beginning of year	313,414	140,664	20,223	72,000	546,301
Cash balances end of year	\$ 313,072	298,454			611,526
<b>Cash Basis Fund Balances</b>					
Unreserved	\$ 313,072	298,454			611,526
Total cash basis fund balances	\$ 313,072	298,454			611,526

See notes to financial statements.

# CITY OF BRITT

## Notes to Financial Statements

June 30, 2011

### (1) Summary of Significant Accounting Policies

The City of Britt is a political subdivision of the State of Iowa located in Hancock County. It was first incorporated in 1881 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, community and economic development and general government services. The City of Britt also provides water and sewer utilities for its citizens.

#### A. Reporting Entity

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

#### 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 and commissions: Hancock County Assessor's Conference Board and Hancock County Development Commission, Hancock County Disaster/911 and Hancock County Task Force.

#### 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 the following categories/components:

*Nonexpendable restricted net assets* are subject to externally imposed stipulations which require them to be maintained permanently by the City, including the City's Permanent Fund.

CITY OF BRITT

Notes to Financial Statements (continued)

June 30, 2011

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

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

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

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

The City reports the following major governmental funds:

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

Special Revenue:

The Local Option Tax Fund is used to account for local option sales tax collected.

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

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

The City reports the following major proprietary funds:

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

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

## CITY OF BRITT

### Notes to Financial Statements (continued)

June 30, 2011

The City also reports the following additional proprietary funds:

The Sewer Utility Sinking Fund and Sewer Reserve are to provide for payment of debt service on the sewer revenue bonds.

#### C. Measurement Focus and Basis of Accounting

The City of Britt 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.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restrictive classifications-committed, assigned and then unassigned fund balances.

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. Governmental Cash Basis Fund Balances:

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Nonspendable – Amounts which cannot be spent because they are legally or contractually required to be maintained intact.

Restricted – Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors, or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Assigned – Amounts the Council intends to use for specific purposes

Unassigned – All amounts not included in other spendable classifications.

CITY OF BRITT

Notes to Financial Statements (continued)

June 30, 2011

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2011 disbursements exceeded the amounts budgeted in the public works and health and social services functions.

**(2) Cash and Pooled Investments**

The City's deposits in banks at June 30, 2011 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.

At June 30, 2011, the City had no investments.

**(3) Bonds Payable**

Annual debt service requirements to maturity for general obligation and revenue bonded indebtedness are as follows:

Year Ending June 30,	General Obligation Bonds		Total	
	Principal	Interest	Principal	Interest
2012	\$ 175,000	78,313	175,000	78,313
2013	180,000	70,821	180,000	70,821
2014	185,000	63,060	185,000	63,060
2015	195,000	55,050	195,000	55,050
2016	200,000	46,560	200,000	46,560
2017-2022	840,000	126,325	840,000	126,325
	\$ 1,775,000	440,129	1,775,000	440,129

**(4) Pension and Retirement Benefits**

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

CITY OF BRITT

Notes to Financial Statements (continued)

June 30, 2011

Most regular plan members are required to contribute 4.50% of their annual covered salary and the City is required to contribute 6.95% 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, 2011, 2010 and 2009 were \$28,021, \$26,145 and \$25,107 respectively, equal to the required contribution for each year.

**(5) Compensated Absences**

City employees accumulate a limited amount of earned but unused vacation and comp time hours for subsequent use or for payment upon termination, retirement or death. Sick leave hours are accumulated for subsequent use but are not paid upon termination, retirement, or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation and comp time termination payments payable to employees at June 30, 2011, primarily relating to the General Fund, is as follows:

<u>Type of Benefit</u>	<u>Amount June 30, 2011</u>
Vacation and Comp Time	\$ <u>29,575</u>

This liability has been computed based on rates of pay as of June 30, 2011.

**(6) Interfund Transfers**

The detail of interfund transfers for the year ended June 30, 2011 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Capital Projects	Special Revenue:	
	Local Option Sales Tax	\$ <u>368,592</u>
Enterprise:	Enterprise:	
Sewer	Sewer Utility Sinking Fund	20,223
	Sewer Reserve	<u>72,000</u>
		<u>92,223</u>
Total		\$ <u>460,815</u>

**(7) Related Party Transactions**

No transactions between the City and City officials occurred during the year ended June 30, 2011.

**(8) Risk Management**

The City is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 645 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

## CITY OF BRITT

### Notes to Financial Statements (continued)

June 30, 2011

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 150 percent of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

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

The City's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The City's annual contributions to the Pool for the year ended June 30, 2011 were \$43,983.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000 per claim. For members requiring specific coverage from \$3,000,000 to \$12,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$150,000 each occurrence, each location, with excess coverage reinsured by the Travelers Insurance Company.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event that a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. As of June 30, 2011, settled claims have not exceeded the risk pool or reinsurance company coverage since the Pool's inception.

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

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

CITY OF BRITT

Notes to Financial Statements (continued)

June 30, 2011

**(9) Other Postemployment Benefits (OPEB)**

Plan Description – The City operates a single-employer retiree benefit plan which provides medical/prescription drug and dental benefits for retirees and their spouses. There are 8 active 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 Principal. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees. The dental benefits are provided through a fully-insured plan with Delta Dental. Retirees pay the same premium for the dental benefits as active employees.

Funding Policy – The contribution requirements of plan members are established and may be amended by the City. The City currently finances the retiree benefit plan on pay-as-you-go basis. The most recent active member monthly premiums for the City and plan members are \$425 for single coverage for medical/prescription drug benefits and \$36.05 for single coverage and \$124.12 for family coverage for dental benefits. The same monthly premiums apply to retirees. For the year ended June 30, 2011 the city contributed \$42,498 to the plan.

REQUIRED SUPPLEMENTARY INFORMATION

City of Britt

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, 2011

	Governmental	Proprietary	Total	Budgeted Amounts		Final to
	Funds	Funds		Original	Final	Total
	Actual	Actual				Variance
<b>Receipts:</b>						
Property tax	\$ 725,597		725,597	694,079	694,079	31,518
Other city tax	125,675		125,675	213,898	213,898	(88,223)
Licenses and permits	6,514		6,514	4,025	4,025	2,489
Use of money and property	31,936		31,936	20,350	20,350	11,586
Intergovernmental	1,325,123		1,325,123	1,536,703	1,536,703	(211,580)
Charges for services	112,807	365,977	478,784	457,875	457,875	20,909
Miscellaneous	56,279		56,279	48,410	48,410	7,869
Total receipts	2,383,931	365,977	2,749,908	2,975,340	2,975,340	(225,432)
<b>Disbursements:</b>						
Public safety	240,802		240,802	260,870	260,870	20,068
Public works	197,451		197,451	236,841	236,841	39,390
Health and social services	3,570		3,570	3,500	3,500	(70)
Culture and recreation	219,759		219,759	227,127	227,127	7,368
Community and economic development	68,488		68,488	115,747	115,747	47,259
General government	174,926		174,926	181,708	181,708	6,782
Debt service	251,038		251,038	251,038	251,038	
Capital projects	1,317,184		1,317,184	1,756,200	1,756,200	439,016
Business type activities		300,752	300,752	371,438	371,438	70,686
Total disbursements	2,473,218	300,752	2,773,970	3,404,469	3,404,469	630,499
Excess (deficiency) of receipts over (under) disbursements	(89,287)	65,225	(24,062)	(429,129)	(429,129)	405,067
Balances beginning of year	1,433,344	546,301	1,979,645	1,953,141	1,953,141	26,504
Cash balances end of year	\$ 1,344,057	611,526	1,955,583	1,524,012	1,524,012	431,571

See accompanying independent auditor's report.

City of Britt

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2011

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

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

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

During the year ended June 30, 2011, disbursements exceeded the amounts budgeted in the health and social services function.

OTHER SUPPLEMENTARY INFORMATION

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

As of and for the year ended June 30, 2011

	Special Revenue				Total
	Road Use Tax	Revolving Loan	Employee Benefits	Sunset Ridge	
<b>Receipts:</b>					
Property tax			77,069		77,069
Intergovernmental	\$ 198,104				198,104
Miscellaneous		14,855			14,855
Total receipts	198,104	14,855	77,069		290,028
<b>Disbursements:</b>					
Public safety			35,403		35,403
Public works	150,606		13,487		164,093
Culture and recreation			10,107		10,107
Community and economic development		25,000	735		25,735
General government			12,764		12,764
Total disbursements	150,606	25,000	72,496		248,102
Net change in cash balances	47,498	(10,145)	4,573		41,926
Cash balances beginning of year	130,746	101,005	44,132	38,025	313,908
Cash balances end of year	\$ 178,244	90,860	48,705	38,025	355,834
<b>Cash Basis Fund Balances</b>					
<b>Restricted For:</b>					
Streets	\$ 178,244				178,244
Other purposes		90,860	48,705		139,565
Unassigned				38,025	38,025
Total Cash Basis Fund Balances	\$ 178,244	90,860	48,705	38,025	355,834

See accompanying independent auditor's report.

## City of Britt

## Schedule of Indebtedness

Year ended June 30, 2011

<b>Obligation</b>	<b>Date of Issue</b>	<b>Interest Rate</b>	<b>Amount Originally Issued</b>	<b>Balance Beginning of Year</b>	<b>Issued During the Year</b>	<b>Redeemed During Year</b>	<b>Balance End of Year</b>	<b>Interest Paid</b>
General Obligation Bonds:								
Capital loan	3-15-07	3.9-4.3%	\$ 845,000	630,000		80,000	550,000	26,190
Aquatic Center	8-1-08	4.5-4.6%	1,550,000	1,310,000		85,000	1,225,000	59,148
Total				\$ 1,940,000		165,000	1,775,000	85,338

See accompanying independent auditor's report.

City of Britt  
Bond and Note Maturities  
June 30, 2011

Year Ending June 30,	General Obligation Bond					Total
	Capital Loan		Aquatic Center			
	Issued March 15, 2007		Issued August 1, 2008			
	Interest Rates	Amount	Interest Rates	Amount		
2012	4.05%	\$ 85,000	4.50%	90,000	175,000	
2013	4.10	85,000	4.50	95,000	180,000	
2014	4.15	90,000	4.50	95,000	185,000	
2015	4.20	95,000	4.50	100,000	195,000	
2016	4.25	95,000	4.50	105,000	200,000	
2017	4.30	100,000	4.55	110,000	210,000	
2018			4.55	115,000	115,000	
2019			4.40	120,000	120,000	
2020			4.50	125,000	125,000	
2021			4.55	130,000	130,000	
2022			4.60	140,000	140,000	
<b>Total</b>		<b>\$ 550,000</b>		<b>1,225,000</b>	<b>1,775,000</b>	

See accompanying independent auditor's report.

## City of Britt

Schedule of Receipts by Source and Disbursements by Function –  
All Governmental Funds

## For the Last Eight Years

	2011	2010	2009	2008	2007	2006	2005	2004
<b>Receipts:</b>								
Property tax	\$ 725,597	722,995	712,536	704,736	587,176	527,179	452,456	424,817
Tax increment financing				525	86,642	57,755	46,303	19,110
Other city tax	125,675	178,531	162,349	127,991	134,871	142,126	122,940	126,438
Licenses and permits	6,514	22,364	24,020	23,992	22,291	2,651	1,981	3,969
Use of money and property	31,936	34,314	36,907	39,846	39,016	7,787	22,930	25,352
Intergovernmental	1,325,123	535,380	434,906	206,767	233,654	292,596	262,084	321,789
Charges for service	112,807	88,157	73,814	39,329	46,713	38,844	43,713	36,732
Miscellaneous	56,279	55,288	262,375	301,394	149,765	147,244	92,955	116,808
<b>Total</b>	<b>\$ 2,383,931</b>	<b>1,637,029</b>	<b>1,706,907</b>	<b>1,444,580</b>	<b>1,300,128</b>	<b>1,216,182</b>	<b>1,045,362</b>	<b>1,075,015</b>
<b>Disbursements:</b>								
<b>Operating:</b>								
Public safety	\$ 240,802	217,064	231,053	219,589	236,671	246,957	215,160	210,273
Public works	197,451	210,408	285,650	282,552	319,535	285,894	381,731	180,968
Health and social services	3,570	3,500	3,500					
Culture and recreation	219,759	207,378	205,604	114,609	162,517	164,626	153,489	117,531
Community and economic development	68,488	45,583	64,894	87,336	95,011	156,537	117,946	165,503
General government	174,926	203,231	193,162	190,036	233,067	223,085	164,539	78,845
Debt service	251,038	247,600	325,867	107,319	158,533	183,818	159,815	54,692
Capital projects	1,317,184	400,161	2,024,181	128,333	279,726	694,880	91,982	126,410
<b>Total</b>	<b>\$ 2,473,218</b>	<b>1,534,925</b>	<b>3,333,911</b>	<b>1,129,774</b>	<b>1,485,060</b>	<b>1,955,797</b>	<b>1,284,662</b>	<b>934,222</b>

See accompanying independent auditor's report.

## City of Britt

## Schedule of Expenditures of Federal Awards

Year ended June 30, 2011

Grantor/Program	CFDA Number	Agency Pass-through Number	Program Expenditures
Direct:			
U.S. Department of Homeland Security:			
FEMA:			
ARRA-Firefighters Fire Station Construction	97.115	EMW-2009-FC-01338R	\$ <u>498,062</u>
Indirect:			
U.S. Department of Housing and Urban Development:			
Iowa Department of Economic Development:			
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii, Disaster Recovery Infrastructure Contract	14.228	08-DRI-254	294,622
Iowa Department of Economic Development: Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii, Housing Fund Contracts	14.228	09-HSG-051	<u>282,891</u>
Total Indirect			<u>577,513</u>
Total			<u>\$1,075,575</u>

**Basis of Presentation** – The Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Britt and is presented in conformity with an other comprehensive basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

See accompanying independent auditor's report.

Independent Auditor's Report on Internal Control  
over Financial Reporting and on Compliance and Other Matters  
Based on an Audit of Financial Statements Performed in Accordance  
with Government Auditing Standards

To the Honorable Mayor and  
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Britt, Iowa, as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements listed in the table of contents and have issued our report thereon dated February 8, 2012. 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 Britt's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the City of Britt's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Britt'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 and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as discussed in accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting we consider to be material weaknesses and other deficiencies we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of City of Britt's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in Part II of the accompanying Schedule of Findings and Questioned Costs as items II-A-11 and II-B-11 to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in Part II of the accompanying Schedule of Findings and Questioned Costs as item II-C-11 to be a significant deficiency.

### Compliance and Other Matters

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

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2011 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 Britt's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the City's responses, we did not audit the City of Britt's responses and, accordingly, we express no opinion of them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Britt and other parties to whom the City of Britt may report including federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Britt during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

February 8, 2012

Renner & Birchem, P.C.

Independent Auditor's Report on Compliance with Requirements  
That Could Have a Direct and Material Effect on Each  
Major Program and on Internal Control over Compliance  
in Accordance with OMB Circular A-133

To the Honorable Mayor and  
Members of the City Council:

Compliance

We have audited City of Britt, Iowa's compliance with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on City of Britt's major federal programs for the year ended June 30, 2011. City of Britt's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to its major federal programs is the responsibility of City of Britt's management. Our responsibility is to express an opinion on City of Britt's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, 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 non-compliance 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 City of Britt's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on City of Britt's compliance with those requirements.

In our opinion City of Britt complied, in all material respects, with the requirements referred to above that could have a direct and material effect on its major federal programs, for the year ended June 30, 2011.

Internal Control Over Compliance

The management of City of Britt is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered City of Britt's internal control over compliance with 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 and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 City of Britt's internal control over compliance.

Our consideration of the internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as discussed below, we identified a deficiency in internal control over compliance we consider to be a material weakness.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item III-A-11 to be a material weakness.

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

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Britt and other parties to whom the City of Britt may report, including federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

February 8, 2012

Renner & Birchem, P.C.

City of Britt

Schedule of Findings and Questioned Costs

Year Ended June 30, 2011

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

- (a) Unqualified opinions were issued on the financial statements which 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.
- (b) Material weaknesses in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) A material weakness in internal control over the major program was disclosed by the audit of the financial statements.
- (e) An unqualified opinion was issued on compliance with requirements applicable to the major program.
- (f) The audit disclosed no audit findings which were required to be reported in accordance with Office of Management Budget Circular A-133, Section .510(a).
- (g) The major programs were CFDA Number 97.115 – ARRA-Firefighters Fire Station Construction and CFDA Number 14.228-Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii.
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) The City of Britt did not qualify as a low-risk auditee.

City of Britt

Schedule of Findings and Questioned Costs

Year ended June 30, 2011

Part II: Findings Related to the Financial Statements:

**Internal Control Deficiencies:**

II-A-11 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. The areas of cash receipts, cash disbursements, investments, and payroll under ideal conditions would be segregated.

Recommendation - We realize that with a limited number of employees segregation of duties is difficult. However, the City should review its operating procedures to obtain the maximum internal control possible under the circumstances.

Response - We will investigate this.

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

II-B-11 Preparation of Financial Statements – The City does not have an internal control system designed to provide for the preparation of the financial statements on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Therefore, as auditors, we were requested to draft the financial statements and accompanying notes to the financial statements. This circumstance is not unusual for a governmental entity similar in population to the City of Britt. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Recommendation – We realize that obtaining the expertise necessary to prepare the financial statements, including all necessary disclosures, can be considered costly and ineffective. However, the City’s management and those charged with governance should decide whether to accept the degree of risk associated with this condition because of cost or other considerations.

Response – The city will continue to review and monitor procedures currently in place and evaluate the risks to be accepted in preparation of the financial statements.

Conclusion - Response accepted.

City of Britt

Schedule of Findings and Questioned Costs

Year ended June 30, 2011

Part II: Findings Related to the Financial Statements (continued):

II-C-11 Credit Cards – The City has credit cards for use by employees while on City business. The City has not adopted a formal policy to regulate the use of credit cards and to establish procedures for the proper accounting of credit card charges. Personal items were purchased with the library credit card and subsequently reimbursed.

Recommendation – The City should adopt a formal written policy regulating the use of City credit cards. The policy, at a minimum, should address who controls credit cards, who is authorized to use credit cards and for what purposes, as well as the types of supporting documentation required to substantiate charges. Cards should never be used for personal items and policies should prohibit purchases for City items being co-mingled with personal items.

Response – Although we have not established a formal written policy detailing specifics on the use of City credit cards, we have unwritten guidelines. We will review procedures and guidelines and establish a written policy.

Conclusion - Response accepted

**Instances of Non-compliance:**

No matters were noted.

City of Britt

Schedule of Findings and Questioned Costs

Year Ended June 30, 2011

Part III: Findings and Questioned Costs For Federal Awards:

**Instances of Non-Compliance**

No matters were noted.

**Internal Control Deficiencies:**

CFDA Number 97.115 –ARRA-Firefighters Fire Station Construction  
Federal Award Year: 2011  
U.S. Department of Homeland Security

CFDA Number 14.228-Community Development Block Grants/State's  
Program and Non-Entitlement Grants in Hawaii  
Federal Award Year: 2011  
U.S. Department of Housing and Urban Development

III-A-11 Segregation of Duties See Item II-A-11

City of Britt

Schedule of Findings and Questioned Costs

Year ended June 30, 2011

Part IV: Other Findings Related to Statutory Reporting:

IV-A-11 Certified Budget – Disbursements during the year ended June 30, 2011 exceeded the amounts budgeted in the health and social services function. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.

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

Response – The budget will be amended in the future, if applicable.

Conclusion - Response accepted.

IV-B-11 Questionable Disbursements - We noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

IV-C-11 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

IV-D-11 Business Transactions - No transactions between the City and City officials were noted.

IV-E-11 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.

IV-F-11 Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not.

IV-G-11 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 and the City's investment policy.