

CITY OF OSCEOLA, IOWA

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

June 30, 2012

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City of Osceola, Iowa
Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Fred P. Diehl	Mayor	December, 2013
Chris Dorsey	Council Member	December, 2015
Sarah Truitt	Council Member	December, 2013
David Walkup	Council Member	December, 2015
Dr. George Fotiadis	Council Member	December, 2015
Glenn Schaff	Council Member	December, 2013
Ty Wheeler	City Manager/Clerk	Indefinite
Mark Elcock	City Attorney	Indefinite

POLLARD AND COMPANY P.C.

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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, 2012, 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 and provisions 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, 2012, 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 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. The 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.

The Management's Discussion and Analysis and the Budgetary Comparison Information are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We applied certain 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.

Our audit was conducted 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 statements for the years ended June 30, 2011, 2010, 2009 and 2008 and other auditors audited, in accordance with those standards, the financial statements 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 7 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.

December 26, 2012

Pollard and Company P.C.

Management's Discussion and Analysis

The City of Osceola 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 ending June 30, 2012. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

Financial Highlights

Government Activities total revenues increased by \$1,678,272 from the previous fiscal year. This is primarily due to bond proceeds collected that will be used to fund the Old Plant Pump Station Sewer Project, S. Fillmore to Grade Lake Sewer Project, and Force Main Sewer Project.

Government Activities total expenditures decreased by \$1,407,276. Capital Project expenditures decreased by \$1,537,460. Public Safety, Culture and Recreation, Community and Economic Development, and General Government, increased collectively \$494,377. Public Works and Debt Service decreased collectively by \$358,489.

The City's Governmental Activities total cash basis net assets increased by \$845,172.

Using This Annual Report

The annual report consists of a series of financial statements as well as other requirements 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 Statements consists of a statement of activities and changes in cash balances. 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 statements by providing information about the most significant funds.

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

Supplemental Information provides detailed information about the annual budget, non-major governmental funds and debt obligations.

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 that limitations resulting from the use of cash basis accounting.

Reporting the City as a Whole

The statement of activities and changes in cash balance presents information showing how the City's cash balances changed during the most recent fiscal year.

The City's governmental activities are displayed in the statements of activities and changes in cash balance. Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government, debt service, and capital projects. Property tax and state and federal grants finance most of these activities.

The business-type activities of the City include the waterworks and sanitary sewer systems. These activities are financed primarily by user fees.

Fund Financial Statements

The fund financial statements provide detailed information about individual significant funds; not the City as a whole. Some funds are established by State law and by bond covenants. The City can establish other funds to help it control and manage money for particular purposes.

The City has two kinds of funds:

- 1) Governmental funds account for most of the City's basic services. They focus on how money flows into and out of the funds and the balances at year-end that are available for spending. Government funds include 1) General Fund, 2) the Special Revenue Funds such as Road Use Tax, Employee Benefits, Local Option Sales Tax and Tax Increment Funds, 3) the Debt Service Fund, 4) the Capital Projects Fund, and 5) the Permanent Fund. Governmental Funds are reported on the basis of cash receipts and disbursements. The cash basis of accounting does not give effect to accounts receivable, accounts payable, and accrued items. Financial records and reports are prepared on the basis of when cash is received and disbursed. The government fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides.

Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance City programs.

The required financial statement for governmental funds is 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 the same functions presented as business-type activities in the government-wide statement of activities and changes in cash balance. The City maintains one Enterprise Fund to provide separate information for the sewer fund, considered to be a major fund of the City. The Sewer Fund is divided into several Sub-funds that include the Sewer Operating Fund, Sewer Sinking Fund, Sewer Replacement Fund, Sewer Rehab Fund and the Sewer Reserve Fund.

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

Government-Wide Financial Analysis

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from a year ago, from \$7,113,253 to 7,958,425. The analysis that follows focuses on the change in cash basis net assets of governmental activities.

Change in Cash Basis Net Assets of Governmental Activities (Year End June 30)

		<u>2012</u>	<u>2011</u>
Receipts and Transfers:			
Program Receipts:	Charges for services and sales	\$739,856	\$549,888
	Operating Grants, Contributions & Restricted Interest	\$525,246	\$643,113
	Capital Grants, Contributions, and Restricted Interest	\$45,189	\$851,193
General Receipts:	Property Tax	\$1,860,959	\$1,684,372
	Tax Incremental Financing Collections	\$895,130	\$1,781,622
	Debt Service	\$365,524	\$208,578
	Local Option Sales Tax	\$895,632	\$665,702
	Hotel/Motel Tax	\$244,185	\$226,085
	Casino Fees	\$859,456	\$865,590
	Unrestricted Interest	\$12,805	\$57,754
	Miscellaneous	\$105,545	\$117,218
	Bond Proceeds	\$2,304,202	\$0
	Transfers	\$12,234	-\$463,424
Total Receipts and Transfers		\$8,865,963	\$7,187,691
Disbursements:			
	Public Safety	\$993,430	\$925,005
	Public Works	\$1,158,217	\$1,516,706
	Culture and Recreation	\$770,405	\$724,842
	Community and Economic Development	\$1,497,676	\$1,261,826
	General Government	\$811,127	\$667
	Debt Service	\$1,541,536	\$1,547,240
	Capital Projects	\$1,248,400	\$2,758,860
Total Disbursements:		\$8,020,791	\$9,428,067
Increase (decrease) in Cash Basis Net Assets		\$845,172	-\$2,240,376
Cash Basis Net Assets Beginning of fiscal year.		\$7,113,253	\$9,353,629
Cash Basis Net Assets, End of Fiscal year.		\$7,958,425	\$7,113,253

The City's total receipts for governmental activities increased by 23% or \$1,678,272. The total cost of all programs and services decreased by 15% or \$1,407,276. These changes are due to the timing of when bond proceeds were received versus when they were spent. Program and service costs will increase in FY 2013 and FY 2014 as the bond proceeds collected in FY 2012 are expended.

The City did not change the property tax levy rate from FY 2011 to FY 2012. The taxable valuation increased from FY 2011 from FY 2012 by approximately 19% or \$23,364,425. This was due primarily to the decrease in TIF certification.

The cost of all governmental activities in FY 2012 was \$8,020,791 compared to \$9,428,067 in FY 2011. The total for governmental receipts and transfers was \$8,865,963 in FY 2012 compared to \$7,187,691 in FY 2011.

Changes in Cash Basis Net Assets of Business-Type Activities

	2012	2011
Receipts		
Program Receipts:		
Sewer Service and sales	\$1,125,407	\$921,423
Water Service and sales	\$1,507,420	\$1,419,598
Unrestricted Interest- Water	\$749	\$8,654
Unrestricted Interest- Sewer	\$39	\$1,546
Casino Lake Lease- Water	\$200,681	\$167,350
Transfer	-\$12,234	\$463,424
Bond Proceeds	\$2,312,817	\$0
Total Revenues	\$5,134,879	\$2,981,995
Disbursements and Transfers:		
Sewer	\$3,115,841	\$1,038,275
Water	\$1,908,715	\$1,657,590
Total Disbursements and transfers	\$5,024,556	\$2,695,865
Increase in cash balance	\$110,323	\$286,130
Cash Balance Beginning of Fiscal Year	\$947,928	\$664,798
Cash Balance End of Fiscal Year	\$1,058,251	\$947,928

Total business-type activity receipts for the FY 2012 year were \$5,134,879 compared to \$2,981,995 in FY 2011. The revenue increase was due primarily to revenue bond proceeds collected by the sewer utility for capital projects.

The City's Individual Major Governmental Fund Analysis

The City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The focus of the City's funds is to provide information on near-term inflows, outflows, and cash balances of spendable resources. The following are the major reasons for changes in cash balances from the prior year for the City's major funds.

Governmental Funds

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, the cash balance in the General Fund was \$ 1,197,205, a decrease of \$92,196.

The Employee Benefits Fund is a Special Revenue Fund that accounts for revenues received and expenditures paid in support of employee benefits. The types of revenues received are property taxes assessed for the employer contributions for health insurance, FICA, IPERS, and Unemployment Benefits. Expenditures from the fund include premiums and the employer contributions for FICA, IPERS, and Unemployment Benefits. The fund showed a net gain of \$68,188 during the fiscal year.

The Debt Service Fund is utilized to account for the payment of interest and principal on the City's general obligation and long-term debt. The City transferred \$ 1,149,241 from other funds to make payments for these obligations. The fund showed a decrease of \$26,771 for the fiscal year just completed.

The Casino Special Project Fund is a Special Revenue Fund used to account for contributions and development activities for a new reservoir. At the end of the current fiscal year, the cash balance in this fund was \$3,902,039, an increase of \$21,577.

The Local Option Sales Tax Fund is used to account for the City's sales tax receipt for 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. At the end of the current fiscal year, the cash balance in the fund was \$26,943 an increase of \$15,073 from the prior fiscal year.

The Capital Projects Fund is used to account for the costs of various projects and the financing thereof. At the end of the current fiscal year, the cash balance in the fund was \$1,114,917, an increase of \$1,111,013.

The Urban Renewal TIF Fund is used to account for the City's tax increment finance receipts and the disbursements financed by such. At the end of the current fiscal year, the cash balance in this fund was \$985,413, a decrease of \$330,900.

Proprietary Funds

The cash balance of the Sewer Fund at the end of the fiscal year was \$705,387, an increase of \$322,422. The prior year operating deficit of \$115,306 was eliminated due to the increase in the sewer surcharge. Additionally, the sewer utility refinanced and reissued revenue bond debt in order to fund future capital projects and save interest.

Fiduciary Funds

The cash balance of the Fire Association was \$0 at the end of the current fiscal year.

The cash balance of the Friends of the Depot was \$3,491 at the end of the current fiscal year. These funds have been purposed for the restoration of the train depot.

The cash balance of the Library Funds was \$330,553 at the end of the current fiscal year.

The cash balance of the Police Forfeiture Fund was \$9,518 at the end of the current fiscal year.

Debt Administration

At year-end, the City had approximately \$6,750,904 in General Obligation debt, \$3,750,000 in Annual Appropriation General Obligation Debt, and \$7,229,000 in SFR/Revenue note debt. The City redeemed \$4,289,389 in General Obligation Debt during FY 2012.

Outstanding Debt at Year-End		
	2012	2011
General Obligation Corporate Purpose, 2009	\$2,295,000	\$2,450,000
General Obligation Corporate Purpose and Refunding, 2005	\$395,000	\$3,990,000
General Obligation Corporate Purpose, 2007	\$0	\$64,000
Annual Appropriation General Obligation, 2007	\$3,750,000	\$4,010,000
Capital Lease, Road Grader, 2009	\$50,013	\$64,572
General Obligation Note- Fire Truck, 2010	\$465,891	\$610,692
General Obligation Corporate Purpose, 2003	\$185,000	\$240,000
General Obligation Refunding 2011	\$3,360,000	\$0
SRF- Sewer, 1994	\$0	\$489,000
SRF- Sewer, 2003	\$0	\$1,785,000
Sewer Revenue Bond 2012	\$4,700,000	\$0
SRF- Water, 2002	\$2,529,000	\$2,721,000
Revenue Note, Water, 2007	\$0	\$30,000
GO Debt	\$6,750,904	
Annual Appropriation Debt	\$3,750,000	
Revenue Bond Debt	\$7,229,000	

The City Debt Service levy fiscal year ending June 30, 2012 was \$2.11/1000. The Constitution of the State of Iowa limits the amount of general obligation debt that cities can issue to five percent (5%) of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation of \$6,750,904 is well below the City's \$12,679,042 legal debt limit.

Economic Factors and Next Year's Budget and Rates

The City's elected and appointed officials and citizens considered many factors when setting the 2013 fiscal year budget, tax rates, and fees that will be charged for various City activities. In addition, return on investments, fuel costs, and the costs of employee benefits are primary concerns in setting a budget.

These factors all contributed when adopting the fiscal year 2012 budget. The City's taxable valuation grew by 2% for FY 2013. The City was able to hold the property tax rate stable at \$14.329.

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 Ty Wheeler, City Administrator/City Clerk, Box 465, 115 N Fillmore, Osceola, Iowa 50213.

City of Osceola, Iowa
Statement of Activities and Net Assets -- Cash Basis
As of and for the year ended June 30, 2012

Functions/Programs	Program Receipts			
	Disbursements	Charges for Services	Operating Grants, Contributions, and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Governmental Activities				
Public safety	\$ 993,430	\$ 24,800	\$ 36,148	\$ 1,430
Public works	1,158,217	452,873	467,521	43,759
Culture and recreation	770,405	196,917		
Community and economic development	1,497,676		21,577	
General government	811,127	65,266		
Debt service	1,541,536			
Capital Projects	1,248,400			
Total governmental activities	<u>\$ 8,020,791</u>	<u>\$ 739,856</u>	<u>\$ 525,246</u>	<u>\$ 45,189</u>
Business Type Activities				
Sewer	3,115,841	1,125,407		
Component Unit- Water	1,908,715	1,507,420		
Component Unit- Library Foundation	26,650			
Total business type activities	<u>\$ 5,051,206</u>	<u>\$ 2,632,827</u>		
General Receipts				
Property tax levied for				
General purposes				
Tax increment financing				
Debt service				
Local option sales tax				
Hotel/motel tax				
Casino Fees				
Unrestricted interest				
Miscellaneous				
Casino Lease				
Transfers				
Bond Proceeds				
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 :				
Nonexpendable-Cemetery perpetual care				
Expendable:				
Urban renewal purposes				
Debt service				
Other purposes				
Unrestricted				
Total cash basis net assets				

There were no reconciling items between the Governmental and Fiduciary Fund Statements of Cash Receipts, Disbursements and Changes in Cash Balances and the above Statement. See notes to financial statements.

Net (Disbursements) Receipts and Changes in Cash Basis Discretely Presented Component
 Net Assets Units

Governmental Activities	Business Type Activities	Total	Water	Public Library Foundation
----------------------------	-----------------------------	-------	-------	------------------------------

\$ (931,052)		\$ (931,052)		
(194,064)		(194,064)		
(573,488)		(573,488)		
(1,476,099)		(1,476,099)		
(745,861)		(745,861)		
(1,541,536)		(1,541,536)		
(1,248,400)		(1,248,400)		
<u>(6,710,500)</u>		<u>(6,710,500)</u>		
	(1,990,434)	(1,990,434)		
			(401,295)	
				(26,650)
	<u>\$ (1,990,434)</u>	<u>\$ (8,700,934)</u>	<u>\$ (401,295)</u>	<u>\$ (26,650)</u>

1,860,959		1,860,959		
895,130		895,130		
365,524		365,524		
895,632		895,632		
244,185		244,185		
859,456		859,456		
12,805	39	12,844	749	3,569
105,545		105,545		
			200,681	
12,234		12,234	(12,234)	
<u>2,304,202</u>	<u>2,312,817</u>	<u>4,617,019</u>		
<u>7,555,672</u>	<u>2,312,856</u>	<u>9,868,528</u>	<u>189,196</u>	<u>3,569</u>
845,172	322,422	1,167,594	(212,099)	(23,081)
<u>7,113,253</u>	<u>382,965</u>	<u>7,496,218</u>	<u>564,963</u>	<u>1,228,156</u>
<u>\$ 7,958,425</u>	<u>\$ 705,387</u>	<u>\$ 8,663,812</u>	<u>\$ 352,864</u>	<u>\$ 1,205,075</u>

\$ 99,097	\$	\$ 99,097		
985,413		985,413		
	334,963	334,963		
6,846,662		6,846,662		
27,253	370,424	397,677		
<u>\$ 7,958,425</u>	<u>\$ 705,387</u>	<u>\$ 8,663,812</u>		

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, 2012

	Special Revenue			
	General	Casino Special Project	Employee Benefits	Tax Increment Financing
Receipts				
Property Taxes	\$ 1,346,667	\$	\$ 513,745	\$
Tax Increment Financing				895,130
Casino Fees	859,456			
Other City Tax				
Licenses and Permits	90,066			
Use of Money and Property	12,805	21,577		
Intergovernmental	36,148			
Charges for Services	649,790			
Miscellaneous	92,958			
Total Receipts	3,087,890	21,577	513,745	895,130
Disbursements				
Operating				
Public Safety	789,679		203,751	
Public Works	642,769		68,901	
Culture and Recreation	681,264		89,141	
Community and Economic Development				591,111
General Government	727,363		83,764	
Debt Service				
Capital Projects				
Total Disbursements	2,841,075		445,557	591,111
Excess (deficiency) of receipts over (under) disbursements	246,815	21,577	68,188	304,019
Other financing sources (uses)				
Bond proceeds				
Operating transfers in	547			
Operating transfers out	(339,558)			(634,919)
Total other financing sources (uses)	(339,011)			(634,919)
Net change in cash balances	(92,196)	21,577	68,188	(330,900)
Cash balance (deficit) - beginning of year	1,289,401	3,880,462	489,861	1,316,313
Cash balance (deficit) - end of year	\$ 1,197,205	\$ 3,902,039	\$ 558,049	\$ 985,413
Cash basis fund balances				
Nonexpendable-Cemetery perpetual care	\$	\$	\$	\$
Restricted for:				
Urban renewal purposes				985,413
Other purposes		3,902,039	558,049	
Unassigned	1,197,205			
Total cash basis fund balances	\$ 1,197,205	\$ 3,902,039	\$ 558,049	\$ 985,413

See notes to financial statements

Special Revenue						
Local Option Tax Reservoir	Hotel/Motel Tax	Capital Projects	Debt Service	Other Nonmajor Governmental Funds	Total	
\$	\$	\$	\$ 365,524	\$ 547	\$ 2,226,483	
					895,130	
					859,456	
895,632	244,185				1,139,817	
					90,066	
		1,430			35,812	
		43,759		467,521	547,428	
					649,790	
		10,022		2,565	105,545	
895,632	244,185	55,211	365,524	470,633	6,549,527	
					993,430	
				446,547	1,158,217	
					770,405	
890,531	10,000			6,034	1,497,676	
					811,127	
			1,541,536		1,541,536	
		1,248,400			1,248,400	
890,531	10,000	1,248,400	1,541,536	452,581	8,020,791	
					993,430	
					770,405	
					811,127	
					1,541,536	
					1,248,400	
					993,430	
					770,405	
					811,127	
					1,541,536	
					1,248,400	
					993,430	
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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, 2012

	Sewer
Operating receipts	
Charges for service	\$ 873,133
Surcharge	252,274
Total operating receipts	1,125,407
Operating disbursements	
Business type activities	689,756
Excess of operating receipts over operating disbursements	435,651
Non-operating receipts (disbursements)	
Bond Proceeds	2,312,817
Interest on Investments	39
Capital Projects	(68,737)
Debt service	(2,357,348)
Total non-operating receipts (disbursements)	(113,229)
Net change in cash balances	322,422
Cash balances - beginning of year	382,965
Cash balances - end of year	\$ 705,387
Cash basis fund balances	
Restricted for debt service	\$ 334,963
Unassigned	370,424
Total cash basis fund balances	\$ 705,387

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, 2012

NON EXPENDABLE FUND	<u>Fire Association</u>	<u>Friends of Depot</u>
Receipts		
Interest and contributions	\$ 475	\$ 3,491
Total receipts	<u>475</u>	<u>3,491</u>
Disbursement- payment on Fire Truck	<u>(48,003)</u>	
Excess (deficiency) of receipts over (under) disbursements	<u>(47,528)</u>	<u>3,491</u>
Cash balance - beginning of year	<u>47,528</u>	
Cash balance - end of year	<u>\$ -</u>	<u>\$ 3,491</u>
EXPENDABLE FUNDS	<u>Library</u>	<u>Police Forfeiture</u>
Receipts		
Interest and contributions	\$ 3,420	\$ 9,518
Total receipts	<u>3,420</u>	<u>9,518</u>
Disbursements		
Culture and Recreation	<u>20,619</u>	
Excess (deficiency) of receipts over (under) disbursements	<u>(17,199)</u>	<u>9,518</u>
Cash balance - beginning of year	<u>347,752</u>	
Cash balance - end of year	<u>\$ 330,553</u>	<u>\$ 9,518</u>

See notes to financial statements

CITY OF OSCEOLA, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

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.

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 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, Osceola/Chariton Building Inspection 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 three categories:

Nonexpendable restricted net assets are subject to externally imposed stipulations which require them to be maintained permanently by the City.

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 that do not meet the definition of the preceding categories. 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.

Separate Fund 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 Tax Increment Financing is used to account for all the City's tax financing resources and the disbursements financed by such.

The Local Option Tax Fund is used to account for the City's sales tax receipts for 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.

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.

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 places 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.

E. Budgets and Budgetary Accounting

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

2/ Cash and Pooled Investments

The City's deposits at June 30, 2012 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 \$192,953 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:

Year Ending	General Obligation Bonds and Notes		Sewer Revenue Bonds		Primary Government Total		
	June 30,	Principal	Interest	Principal	Interest	Principal	Interest
2013		1,035,380	426,516	200,000	107,502	1,235,380	534,018
2014		1,141,361	312,700	200,000	106,004	1,341,361	418,704
2015		1,171,738	284,024	200,000	104,504	1,371,738	388,528
2016		967,425	252,468	205,000	102,704	1,172,425	355,172
2017		980,000	226,222	205,000	100,449	1,185,000	326,671
2018-2022		4,320,000	667,427	1,080,000	452,620	5,400,000	1,120,047
2023-2027		885,000	51,605	1,210,000	325,821	2,095,000	377,426
2028-2032				1,400,000	137,090	1,400,000	137,090
Total	\$	10,500,904	\$ 2,220,962	\$ 4,700,000	\$ 1,436,694	\$ 15,200,904	\$ 3,657,656

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

Water Revenue Bonds and Notes		
Year Ending		
June 30,	Principal	Interest
2013	197,000	75,870
2014	203,000	69,960
2015	210,000	63,870
2016	216,000	57,570
2017	222,000	51,090
2018-2022	1,216,000	151,350
2023-2027	265,000	7,950
Total	\$ 2,529,000	\$ 477,660

On May 31, 2012, the City issued \$4,700,000 Sewer Revenue Improvement and Refunding Bonds to finance construction of improvements and refund the revenue bonds issued on May 2, 1994 and October 27, 2003. The interest rates range from .60 to 3.25%. Interest payments are due semiannually beginning December 1, 2012. Principal payments are paid annually beginning June 1, 2013.

The City has pledged future sewer receipts, net of specified operating disbursements, to repay \$ 4,700,000 bonds above. The obligations are payable solely from sewer customer net receipts and are payable through 2032. The total principal and interest remaining to be paid on the obligations is \$6,136,694. For the current year, principal and interest paid was \$72,927 and total customer net receipts were \$435,651.

The Component Unit has pledged future water receipts, net of specified operating disbursements, to repay \$4,216,000 in water revenue bonds and notes issued May 2002 and February 2007, respectively. Proceeds were used to provide financing for drinking water facilities. The obligations are payable solely from water customer net receipts and are payable through 2023. The total principal and interest remaining to be paid on the obligations is \$3,006,660. For the current year, principal and interest paid was \$305,084 and total customer net receipts and lease payments were \$370,684.

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.
- 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.

On November 30, 2011, the City issued \$3,360,000 in General Obligation Bonds with an interest rate range of .65 to 2.10% to advance refund \$3,215,000 of outstanding September 1, 2005 General Obligation Bonds with an average interest rate of 3.85%. The net proceeds of \$3,277,622 (after payment of \$82,378 in issuance costs) were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide interest payments on the September 1, 2005 bonds from December 1, 2013 to June 1, 2020 and the principal amount on those bonds maturing in 2014 through 2020. As a result, the balance of the September 1, 2005 bonds are considered to be defeased and the liability for those bonds have been removed from the general long-term debt. The advance refund reduced the City's debt service payments over the next 9 years by \$152,140 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$140,614.

4/ Tax Increment Financing

In 2003, the City consolidated seven urban renewal districts into one and established a residential urban renewal area. Subsequently, the CT 8 Western was established in 2008. 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. The activity is reflected as a nonmajor fund.

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. The activity is reflected in the Local Option Tax Reservoir Fund as a major fund.

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 5.38% of their annual covered salary and the City is required to contribute 8.07% 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, 2012, 2011, and 2010, were \$153,162, \$123,663, and \$121,640, respectively, equal to the required contributions for each year.

7/ Other Postemployment Benefits (OPEB)

Plan Description- The City participates in a single-employer benefit plan which provides medical/prescription drug and dental benefits for active employees, 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 benefits are provided through a fully-insured plan with United Healthcare. Retirees under age 65 pay the full premium for the benefits while the City contributes to the premium of active employees.

Funding Policy- 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 \$462 for single coverage, \$923 for employee and spouse, \$877 for employee and dependent children and \$1,385 for family coverage. The City pays the full cost of the single coverage and 85% of the difference between single coverage and any other coverage the employee elects. The contribution requirements of plan members are established and may be amended by the City. For the year ended June 30, 2011, the City contributed \$361,762 and plan members eligible for benefits contributed \$27,437 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, 2012. The City's approximate liability for earned vacation and sick leave termination payments payable to employees at June 30, 2012, primarily relating to the General Fund, was \$141,000.

9/ Lease

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

During the year, the lease was renewed and the Municipal Waterworks is to receive \$245,000 per year beginning January 1, 2012. plus a 1% increase per year, offset by certain credits for certain improvements. During the year, the Waterworks received \$200,681.

The City receives 1.25% of the casino's adjusted gambling receipts on a monthly basis. During the year ended June 30, 2012, the City received \$859,456.

10/ Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2012 is as follows:

<u>Transfer From</u>	<u>Transfer To</u>	<u>Amount</u>
General	Debt Service	\$339,558
2009 Street Improvements	South Fillmore	572,300
2009 Street Improvements	Harkin Hills	369,064
Road Use	Debt Service	65,511
Motel/Hotel Tax	Road Use	122,093
Motel/Hotel Tax	Debt Service	97,019
Water	Debt Service	12,234
Residential TIF	Debt Service	60,071
Consolidated TIF	Debt Service	574,848
Emergency Levy	General	547

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

11/ 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, 2012 and has authorized IMWCA to issue general obligation bonds to provide funds to pay claims. During the year ended June 30, 2012, the City paid IMWCA insurance premiums of \$ 50,606.

12/ 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.

13/ Deficit Fund Balances

At June 30, 2012 the Road Use Tax had a deficit balance \$26,170. The deficit will be reduced by future receipts. The deficits in the Grade Lake, South Fillmore, BSNF Building, BSNF Depot, Fillmore/ Grade Lake and Airport Capital Project Funds of \$778,262, \$118,079,\$27,826,\$143,156,\$ 30,526 and \$ 45,933, respectively, will be reduced by transfers from other funds, grants and/or bond proceeds as the projects are completed. The deficits in the Grade Lake and South Fillmore construction of \$ 716,676 and \$32,575, respectively, will be reduced by future bond proceeds and /or transfers from other funds as the projects are completed.

14/ Commitments

At June 30, 2012, the City has entered into engineering and construction contracts for street improvements, Sewer Plant improvements , force main replacement and other projects totaling \$2,985,400 which will be paid as work progresses from the proceeds of the bond issued and the General Fund.

15/ Contingent Liabilities

The City is a party in various legal actions brought by or against it. In the opinion of the City's management, the ultimate resolution of these proceedings will not materially affect the cash basis financial position or changes in cash basis financial position of the City.

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, 2012

	Governmental Funds Actual	Proprietary Funds Actual
Receipts		
Property Taxes	\$ 2,226,483	
Tax increment financing collections	895,130	
Other city tax	1,999,273	
Licenses and permits	90,066	
Use of money and property	35,812	39
Intergovernmental	547,428	
Charges for Service	649,790	1,125,407
Miscellaneous	105,545	
Total Receipts	6,549,527	1,125,446
Disbursements		
Public safety	993,430	
Public works	1,158,217	
Culture and recreation	770,405	
Community and economic development	1,497,676	
General government	811,127	
Debt service	1,541,536	2,357,348
Capital projects	1,248,400	68,737
Business type activities		689,756
Total Disbursements	8,020,791	3,115,841
Excess (deficiency) of receipts over (under) disbursements	(1,471,264)	(1,990,395)
Other financing sources, net	2,316,436	2,312,817
Balance - beginning of year	7,113,253	382,965
Balance - end of year	\$ 7,958,425	\$ 705,387

See accompanying independent auditors' report.

Component Unit Included in Budget	Budgeted Amounts		
	Net	Original and Final	Final to Net Variance
	\$ 2,226,483	\$ 2,183,785	\$ 42,698
	895,130	928,811	(33,681)
	1,999,273	2,112,989	(113,716)
	90,066	30,300	59,766
201,430	237,281	50,500	186,781
	547,428	834,399	(286,971)
1,507,420	3,282,617	3,309,047	(26,430)
	105,545	2,572,834	(2,467,289)
<u>1,708,850</u>	<u>9,383,823</u>	<u>12,022,665</u>	<u>(2,638,842)</u>
	993,430	1,275,274	281,844
	1,158,217	1,138,897	(19,320)
	770,405	748,511	(21,894)
	1,497,676	520,539	(977,137)
	811,127	1,581,143	770,016
	3,898,884	775,791	(3,123,093)
	1,317,137	2,470,000	1,152,863
1,908,715	2,598,471	3,036,008	437,537
<u>1,908,715</u>	<u>13,045,347</u>	<u>11,546,163</u>	<u>(1,499,184)</u>
<u>(199,865)</u>	<u>(3,661,524)</u>	<u>476,502</u>	<u>(4,138,026)</u>
(12,234)	4,617,019		4,617,019
564,963	8,061,181	8,692,408	(631,227)
<u>\$ 352,864</u>	<u>\$ 9,016,676</u>	<u>\$ 9,168,910</u>	<u>\$ (152,234)</u>

City of Osceola, Iowa
Notes to Required Supplementary Information – Budgetary Reporting
June 30, 2012

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, there were no budget amendments. Therefore, the original budget and the final budgeted amounts are the same.

During the year ended June 30, 2012, disbursements exceeded the amounts budgeted in the Public Works, Culture and Recreation, Community and Economic Development and Debt Service functions.

City of Osceola, Iowa
Schedule of Cash Receipts, Disbursements, and Changes in Cash Balances
Nonmajor Governmental Funds
As of and for the year ended June 30, 2012

Schedule 1

	Special Revenue				Cemetery Perpetual Care	Total
	Local Option Sales Tax LEC	Emergency Levy	Road Use Tax			
Receipts						
Property tax	\$	\$ 547	\$	\$	\$	547
Intergovernmental			467,521			467,521
Miscellaneous			1,111	1,454		2,565
Total Receipts		547	468,632	1,454		470,633
Disbursements						
Public Works			446,547			446,547
Community and economic development	6,034					6,034
Total Disbursements	6,034		446,547			452,581
 Excess (deficiency) of receipts over (under) disbursements		(6,034)	547	22,085	1,454	18,052
 Other financing sources (uses)						
Operating Transfers In			122,093			122,093
Operating Transfers Out			(547)	(65,511)		(66,058)
Total other financing sources (uses)			(547)	56,582		56,035
 Net change in cash balances		(6,034)		78,667	1,454	74,087
 Cash balance (Deficit) - beginning of year		106,966		(104,837)	97,643	99,772
Cash balance (Deficit) - end of year	\$	100,932	\$	\$ (26,170)	\$ 99,097	\$ 173,859
 Cash basis fund balances (Deficit)						
Nonspendable	\$		\$		99,097	99,097
Restricted- other purposes		100,932				100,932
Unassigned				(26,170)		(26,170)
Total cash basis fund balances	\$	100,932	\$	\$ (26,170)	\$ 99,097	\$ 173,859

See accompanying independent auditors' report.

City of Osceola, Iowa
 Schedule of Capital Projects Funds
 As of and for the year ended June 30, 2012

Schedule 2

	2009 Paving	Grade Lake	Sewer Plant Pump	South Fillmore
Receipts				
Use of Money and Property	\$ 1,430	\$	\$	\$
Intergovernmental Contributions		43,759		
Total Receipts	1,430	43,759		
Disbursements				
Capital Projects		105,345	14,900	657,804
Total Disbursements		105,345	14,900	657,804
Excess(deficiency) of receipts over (under) disbursements	1,430	(61,586)	(14,900)	(657,804)
Other financing sources				
Bond proceeds			2,304,202	
Operating transfers in				572,300
Operating transfers out	(941,364)			
Total other financing sources (uses)	(941,364)		2,304,202	572,300
Net change in cash balances	(939,934)	(61,586)	2,289,302	(85,504)
Cash balance (Deficit)- beginning of year	939,969	(716,676)	(40,660)	(32,575)
Cash balance (Deficit) - end of year	\$ 35	\$ (778,262)	\$ 2,248,642	\$ (118,079)
Cash basis fund balances (Deficit)				
Restricted for other purposes	\$ 35	\$	\$ 2,248,642	\$
Unassigned		(778,262)		(118,079)
Total cash basis fund balances	\$ 35	\$ (778,262)	\$ 2,248,642	\$ (118,079)

See accompanying independent auditors' report.

BSNF Bldg	BSNF Depot	Harkin Hills	Fillmore/ Grade Lake	Recreation Center	Airport Projects	Total
\$	\$	\$	\$	\$	\$	\$ 1,430
						43,759
				10,022		10,022
				10,022		55,211
	24,828	369,064	30,526		45,933	1,248,400
	24,828	369,064	30,526		45,933	1,248,400
	(24,828)	(369,064)	(30,526)	10,022	(45,933)	(1,193,189)
						2,304,202
		369,064				941,364
						(941,364)
		369,064				2,304,202
	(24,828)		(30,526)	10,022	(45,933)	1,111,013
(27,826)	(118,328)					3,904
\$ (27,826)	\$ (143,156)		\$ (30,526)	\$ 10,022	\$ (45,933)	\$ 1,114,917
\$	\$	\$	\$	\$ 10,022	\$	\$ 2,258,699
(27,826)	(143,156)		(30,526)		(45,933)	(1,143,782)
\$ (27,826)	\$ (143,156)		\$ (30,526)	\$ 10,022	\$ (45,933)	\$ 1,114,917

City of Osceola, Iowa
Schedule of Tax Increment Financing Funds
As of and for the year ended June 30, 2012

Schedule 3

	Special Revenue			
	Urban Renewal Consolidated TIF	Residential TIF	CT 8 Western TIF	Total
Receipts				
Tax increment financing collections	\$ 491,805	\$ 4,022	\$ 399,303	\$ 895,130
Disbursements				
Community and economic development	336,857		254,254	591,111
Excess (deficiency) of receipts over (under) disbursements	154,948	4,022	145,049	304,019
Other financing (uses)				
Operating Transfers Out	(574,848)	(60,071)		(634,919)
Total	(574,848)	(60,071)		(634,919)
Net change in cash balances	(419,900)	(56,049)	145,049	(330,900)
Cash balance - beginning of year	768,234	179,488	368,591	1,316,313
Cash balance - end of year	\$ 348,334	\$ 123,439	\$ 513,640	\$ 985,413
Cash basis fund balances				
Restricted for Urban Renewal Purposes	\$ 348,334	\$ 123,439	\$ 513,640	\$ 985,413
Total cash basis fund balances	\$ 348,334	\$ 123,439	\$ 513,640	\$ 985,413

See accompanying independent auditors' report.

City of Osceola, Iowa
Schedule of Indebtedness
For the year ended June 30, 2012

Schedule 4

	Date of Issue	Interest Rates	Amount Originally Issued
<u>Obligation</u>			
<u>Primary Government</u>			
General Obligation Bond and Notes			
General Corporate Purpose	August 1, 2009	1.25-4.40%	\$2,750,000
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
Capital Lease- Road Grader	September 22, 2009	4.50%	79,800
General Obligation Note - Fire Truck	April 2, 2010	3.36%	751,533
General Corporate Purpose	September 12, 2003	2.50 - 4.30%	500,000
General Obligation Refunding	November 30, 2011	.65- 2.10%	3,360,000
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
Sewer Revenue Bonds	May 31, 2012	.60-3.25%	4,700,000
Totals			
Total City of Osceola			
<u>Component Unit</u>			
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
\$ 2,450,000	\$	\$ 155,000	\$ 2,295,000	\$ 89,453	\$
3,990,000		3,595,000	395,000	150,879	
64,000		64,000		3,071	
4,010,000		260,000	3,750,000	187,795	
65,241		15,228	50,013	2,897	
611,052		145,161	465,891	20,861	
240,000		55,000	185,000	10,141	
	3,360,000		3,360,000		
<u>\$ 11,430,293</u>	<u>\$ 3,360,000</u>	<u>\$ 4,289,389</u>	<u>\$ 10,500,904</u>	<u>\$ 465,097</u>	<u>\$</u>
\$ 489,000	\$	\$ 489,000	\$	\$ 14,915	\$ 7,580
1,785,000		1,785,000		58,012	31,237
	4,700,000		4,700,000		
<u>\$ 2,274,000</u>	<u>\$ 4,700,000</u>	<u>\$ 2,274,000</u>	<u>\$ 4,700,000</u>	<u>\$ 72,927</u>	<u>\$ 38,817</u>
<u>\$ 13,704,293</u>	<u>\$ 8,060,000</u>	<u>\$ 6,563,389</u>	<u>\$ 15,200,904</u>	<u>\$ 538,024</u>	<u>\$ 38,817</u>
\$ 2,721,000		\$ 192,000	\$ 2,529,000	\$ 81,630	\$
30,000		30,000		1,454	
<u>\$ 2,751,000</u>	<u>\$</u>	<u>\$ 222,000</u>	<u>\$ 2,529,000</u>	<u>\$ 83,084</u>	<u>\$</u>

City of Osceola, Iowa
 Bond and Note Maturities- Governmental
 For the year ended June 30, 2012

Schedule 4

Year Ending June 30,	General Corporate Purpose and Refunding		General Corporate Purpose		General Corporate Purpose		General Corporate Purpose	
	Issued August 1, 1998		Issued October 1, 2007		Issued September 12, 2003		Issued July 24, 2007	
	Interest Rates (%)	Amount	Interest Rates (%)	Amount	Interest Rates (%)	Amount	Interest Rates (%)	Amount
2013	3.63	395,000	4.30	270,000	4.10	60,000	0.65	465,000
2014			4.40	280,000	4.20	60,000	0.90	470,000
2015			4.50	295,000	4.30	65,000	1.15	470,000
2016			4.60	310,000			1.40	480,000
2017			4.65	320,000			1.65	485,000
2018			4.70	335,000			1.90	490,000
2019			4.75	355,000			2.10	500,000
2020			4.80	370,000				
2021			4.90	385,000				
2022			4.95	405,000				
2023			5.00	425,000				
2024								
Totals		<u>\$ 395,000</u>		<u>\$ 3,750,000</u>		<u>\$ 185,000</u>		<u>\$ 3,360,000</u>

Interest Rates(%)	General Corporate Purpose		Road Grader		Fire Truck		Total
	Amount	Interest Rates(%)	Amount	Interest Rates(%)	Amount	Interest Rates(%)	
2.55	160,000	4.50	15,928	3.36	150,380		1,035,380
2.90	165,000	4.50	16,660	3.36	155,433		1,141,361
3.15	165,000	4.50	17,425	3.36	160,078		1,171,738
3.40	170,000						967,425
3.60	180,000						980,000
3.75	185,000						1,005,000
3.90	190,000						1,035,000
4.00	200,000						1,070,000
4.10	205,000						590,000
4.20	215,000						620,000
4.30	225,000						650,000
4.40	235,000						235,000
	<u>\$ 2,295,000</u>		<u>\$ 50,013</u>		<u>\$ 465,891</u>		<u>\$ 10,500,904</u>

City of Osceola
 Revenue Bond and Note Maturities
 For the year ended June 30, 2012

Schedule 6

Sewer Revenue Bonds		
Issued May 31, 2012		
2013	0.60	200,000
2014	0.75	200,000
2015	0.90	200,000
2016	1.10	205,000
2017	1.30	205,000
2018	1.50	210,000
2019	1.80	210,000
2020	1.80	215,000
2021	2.10	220,000
2022	2.25	225,000
2023	2.40	230,000
2024	2.63	235,000
2025	2.63	240,000
2026	3.00	250,000
2027	3.00	255,000
2028	3.00	265,000
2029	3.00	270,000
2030	3.25	280,000
2031	3.25	290,000
2032	3.25	295,000
Total	\$	4,700,000

Component Unit		
Water Revenue Bonds		
Issued May 2, 1994		
2013	3.00	197,000
2014	3.00	203,000
2015	3.00	210,000
2016	3.00	216,000
2017	3.00	222,000
2018	3.00	229,000
2019	3.00	236,000
2020	3.00	243,000
2021	3.00	250,000
2022	3.00	258,000
2023	3.00	265,000
Totals	\$	2,529,000

See accompanying independent auditors' report.

City of Osceola, Iowa
 Schedule of Receipts by Source and Disbursements by Function
 All Governmental Funds
 Last Eight Years

Schedule 7

	2012	2011	2010	2009	2008	2007	2006	2005
Receipts								
Property taxes	\$ 2,226,483	\$ 1,892,950	\$ 2,102,099	\$ 1,895,269	\$ 1,712,784	\$ 1,682,743	\$ 1,592,606	\$ 1,638,777
Tax increment financing collections	895,130	1,781,622	1,057,921	1,404,735	789,314	678,536	603,981	513,847
Other city tax	1,999,273	1,757,377	1,149,150	1,091,088	769,961	753,174	552,620	620,895
Licenses and permits	90,066	74,672	82,916	12,608	13,051	11,677	15,773	19,346
Use of money and property	35,812	120,671	221,638	150,883	357,239	1,382,319	1,197,582	1,041,928
Intergovernmental	547,428	1,277,390	1,004,665	905,952	873,023	825,723	851,667	1,003,840
Charges for service	649,790	496,799	1,408,787	1,474,333	1,379,026	530,078	435,661	393,136
Miscellaneous	105,545	249,634	605,676	114,691	222,955	340,819	915,980	3,382,729
Total	\$ 6,549,527	\$ 7,651,115	\$ 7,632,852	\$ 7,049,559	\$ 6,117,353	\$ 6,205,069	\$ 6,165,870	\$ 8,614,498
Disbursements								
Operating								
Public safety	\$ 993,430	\$ 925,005	\$ 895,638	\$ 806,140	\$ 920,333	\$ 778,792	\$ 748,843	\$ 776,541
Public works	1,158,217	1,516,706	948,194	886,624	1,185,219	1,327,025	1,528,242	1,317,761
Culture and recreation	770,405	724,842	734,817	674,463	761,378	829,558	726,759	671,715
Community and economic development	1,497,676	1,261,826	1,309,821	1,712,442	609,503	310,974	165,339	322,661
General government	811,127	666,588	614,904	615,453	574,462	919,082	745,378	753,168
Debt service	1,541,536	1,547,240	1,351,643	1,080,663	1,188,129	931,079	2,087,209	502,784
Capital projects	1,248,400	2,785,860	2,072,884	1,471,827	4,172,811	1,629,160	4,152,489	1,483,962
Total	\$ 8,020,791	\$ 9,428,067	\$ 7,927,901	\$ 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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IOWA SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS

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

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, 2012, 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 deficiencies, significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, we identified a deficiency in internal control over financial reporting, described in Part I of the accompanying Schedule of Findings that we consider to be a material weakness.

A deficiency in internal control 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 material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the financial statements will not be prevented or detected and corrected on a timely basis.

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, 2012 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.

December 26, 2012

Pollard and Company P.C.

CITY OF OSCEOLA, IOWA
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2012

Part I -Findings Related to the Financial Statements

INTERNAL CONTROL DEFICIENCY:

I-A-12 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) Disbursements, check writing, signing, mailing
journalizing and posting.
- (2) Payroll preparation and distribution.
- (3) Bank account reconciliations

Recommendation

The City has been reconciling its bank accounts on a timely basis and has implemented a computerized receipt system. We realize that with a limited number of office employees, further segregation of duties is difficult. The City should continue to obtain the maximum internal control possible under the circumstances.

Response

We are attempting 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.

Conclusion

Response accepted.

I-B-12 Reconciliation of Utility Billings and Collections

Utility billings and collections were not reconciled throughout the year. Utility collections were reconciled to deposits. A delinquent account listing was prepared each month.

Recommendation

Procedures should be established to reconcile the utility billings and collections for each billing period. A person independent of the billing system should review the reconciliations.

Response

These procedures will be implemented as recommended.

Conclusion

Response accepted.

Part II-Other Findings Related to Required Statutory Reporting

- II-A-12 Certified Budget
Disbursements during the year ended June 30, 2012 exceeded the amounts budgeted in the Capital Projects and Debt Service 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 should have been amended to reclassify the expenditures resulting from the issuance of additional debt during the year. The budget will be amended in the future, as applicable.
- Conclusion
Response accepted.
- II-B-12 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-12 Travel Expense
We noted no disbursements of City money for travel expenses of spouses of City officials or employees during the year.
- II-D-12 Business Transactions
No business transactions between the City and City officials or employees were noted.
- II-E-12 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-12 Council Minutes
Although minutes of the Council meetings were published some were not published within 15 days as required by Chapter 372.13(6) of the Code of Iowa. Also, they did not always contain the disbursements by fund and did not contain a summary of receipts.
- Recommendation
The City should comply with Chapter 372 of the Code of Iowa and include the above in the publications.
- Response
During the year ended June 30, 2012, we began complying with the Code requirements after it was reported in the prior year audit.
- Conclusion
Response accepted.

II-G-12 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-12 Financial Condition
Certain funds had deficit balances at June 30, 2012.

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

Response
Note 13 of the financial statements describes the amount of the deficits and the City's plans to eliminate the deficits.

Conclusion
Response accepted.