

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

JUNE 30, 2012

Peak & Co., LLP
Certified Public Accountants
1370 NW 114th St., Suite 205
Clive, IA 50325

Table of Contents

	<u>Page</u>
Officials	3
Independent Auditor's Report	5-6
Management's Discussion and Analysis	7-12
Basic Financial Statements:	
	<u>Exhibit</u>
Government-wide Financial Statement:	
Statement of Activities and Net Assets-Cash Basis	A 14
Governmental Fund Financial Statement:	
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	B 15
Proprietary Fund Financial Statement:	
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	C 16
Notes to Financial Statements	17-25
Other Information:	
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances-Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Funds	27
Notes to Other Information-Budgetary Reporting	28
Supplementary Information:	
	<u>Schedule</u>
Schedule of Cash Receipts, Disbursements and Changes in Cash Balances - Nonmajor Governmental Funds	1 30
Schedule of Cash Receipts, Disbursements and Changes in Cash Balances - Nonmajor Proprietary Funds	2 31
Schedule of Indebtedness	3 32
Bond and Note Maturities	4 33
Schedule of Receipts by Source and Disbursements by Function- All Governmental Funds	5 34
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 <u>Government Auditing Standards</u>	35-36
Schedule of Findings	37-44

City of Albia

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January, 2012)		
Richard Clark	Mayor	January 1, 2012
Gene Behrens	Council Member	January 1, 2014
Merle Regenold	Council Member	January 1, 2012
Jeff Stoffa	Council Member	January 1, 2014
Cindy See	Council Member	January 1, 2012
Ron Yarkosky	Council Member	January 1, 2012
Rowland Barnes	Council Member	January 1, 2014
Linda Heller	City Clerk/Treasurer	January 1, 2012
Breckenridge Law P.C.	Attorney	January 1, 2012

(After January, 2012)

Richard Clark	Mayor	January 1, 2014
Gene Behrens	Council Member	January 1, 2014
Merle Regenold	Council Member	January 1, 2016
Jeff Stoffa	Council Member	January 1, 2014
Byron Stille	Council Member	January 1, 2016
Ron Yarkosky	Council Member	January 1, 2016
Rowland Barnes	Council Member	January 1, 2014
Linda Heller	City Clerk/Treasurer	January 1, 2014
Breckenridge Law P.C.	Attorney	January 1, 2014

Library Board

Richard Haeussler	Library Trustee	July 1, 2012
Dave Paxton	Library Trustee	July 1, 2012
Lelah Marlin	Library Trustee	July 1, 2014
Lois Mick	Library Trustee	July 1, 2014
Matt Foster	Library Trustee	July 1, 2014
Marty Ryan	Library Trustee	July 1, 2014
Sharon Crall	Library Trustee	July 1, 2014
Sue Goode	Library Trustee	July 1, 2014
Joe Starcevic	Library Trustee	July 1, 2017

Cemetery Board

Hank Betz	Cemetery Trustee	July 1, 2012
Terri Bender	Cemetery Trustee	July 1, 2014
Sandy Clark	Cemetery Trustee	July 1, 2014
Chris Yarkosky	Cemetery Trustee	July 1, 2016
Richard Brock	Cemetery Trustee	July 1, 2016

City of Albia

PEAK & CO., LLP
CERTIFIED PUBLIC ACCOUNTANTS
1370 NW 114TH ST., SUITE 205
CLIVE, IA 50325
(515) 277-3077

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 Albia, Iowa, as of and for the year ended June 30, 2012, which collectively comprise the basic financial statements of the City's primary government as listed in the table of contents. These financial statements are the responsibility of the City of Albia'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 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.

The financial statements referred to above include only the primary government of the City of Albia, which consists of all funds, organizations, institutions, agencies, departments and offices that comprise the City's legal entity. The financial statements do not include financial data for the City's legally separate component units, which U.S. generally accepted accounting principles require to be reported with the financial data of the City's primary government. As a result, the primary government financial statements do not purport to, and do not, present fairly the cash basis financial position of the reporting entity of the City of Albia as of June 30, 2012, and the changes in its cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

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 for the primary government of the City of Albia 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 issued our report dated November 30, 2012 on our consideration of the City of Albia's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts 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 on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Albia's primary government financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the primary government financial statements for the eight years ended June 30, 2011 (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. The supplementary information included in Schedules 1 through 5, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statement themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Albia's basic financial statements. Management's Discussion and Analysis and budgetary comparison information on pages 7 through 12 and 27 through 28 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The information has not been subjected to the auditing procedures applied in our audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Peak & Co., LLP
Certified Public Accountants

November 30, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

2012 FINANCIAL HIGHLIGHTS

- * Receipts of the City's governmental activities increased 31%, or approximately \$1,149,000, from fiscal year 2011 to fiscal year 2012. Property tax increased approximately \$49,000, bond proceeds increased approximately \$806,000, and capital grants, contributions and restricted interest increased approximately \$293,000.
- * Disbursements of the City's governmental activities increased approximately \$10,000, in fiscal year 2012 from fiscal year 2011. Public safety disbursements decreased approximately \$36,000, public works disbursements increased approximately \$27,000, culture and recreation disbursements increased approximately \$24,000, and capital projects disbursements decreased approximately \$45,000.
- * The City's total cash basis net assets increased 55.2%, or approximately \$2,099,000, from June 30, 2011 to June 30, 2012. Of this amount, the assets of the governmental activities increased approximately \$1,840,000 and the assets of the business type activities increased by approximately \$259,000.

USING THIS ANNUAL REPORT

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

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

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

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

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

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

BASIS OF ACCOUNTING

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

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

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

The Statement of Activities and Net Assets present 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:

- (1) Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government, debt service, and capital projects. Property tax and state and federal grants finance most of these activities.
- (2) Business Type Activities include the sanitary sewer system, landfill, airport, and the rural fire department. 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 Trust & Agency funds, 3) the Debt Service Fund, 4) the Capital Projects Fund and, 5) the Permanent 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 are 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 Sewer Fund, considered to be major a fund of the City. The Airport Fund, Landfill Fund and the Rural Fire Department Fund are considered to be non-major funds of the City.

The required financial statements for proprietary funds are a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

Reconciliations between the government-wide financial statement and the fund financial statements follow the fund financial statements.

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, increasing from approximately \$3.620 million to approximately \$5.460 million. The analysis that follows focuses on the changes in cash basis net assets of governmental activities.

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

	Year ended <u>June 30, 2011</u>	Year ended <u>June 30, 2012</u>
Receipts:		
Program receipts:		
Charges for service	146	175
Operating grants, contributions and restricted interest	458	458
Capital grants, contributions and restricted interest	159	452
General receipts:		
Property tax	1,404	1,453
Local option sales tax	656	620
Grants and contributions not restricted to specific purposes	18	17
Unrestricted investment earnings	9	9
Bond proceeds (Net)	836	1,642
Miscellaneous	12	23
Sale of assets	<u>4</u>	<u>2</u>
Total receipts	<u>3,702</u>	<u>4,851</u>
Disbursements:		
Public safety	622	586
Public works	453	480
Culture and recreation	400	424
Community and economic development	1	11
General government	190	216
Debt service	727	731
Capital projects	<u>637</u>	<u>592</u>
Total disbursements	<u>3,030</u>	<u>3,040</u>
Change in cash basis net assets before transfers	672	1,811
Transfers, net	<u>35</u>	<u>29</u>
Change in cash basis net assets	707	1,840
Cash basis net assets beginning of year	<u>2,913</u>	<u>3,620</u>
Cash basis net assets end of year	<u>\$3,620</u>	<u>5,460</u>

The City's total receipts for governmental activities increased 31%, or approximately \$1,149,000. The total cost of all programs and services increased approximately \$10,000, or 0.3%, with no new programs added this year. The significant increase in receipts was primarily the result of an increase in bond proceeds.

The City's property tax collections increased approximately \$49,000 from fiscal year 2011 to fiscal year 2012. Approximately \$1,404,000 and \$1,453,000 in property taxes were collected in fiscal year 2011 and 2012, respectively. Property tax receipts are budgeted to remain relatively the same in fiscal year 2013.

The cost of all governmental activities this year was approximately \$3.040 million compared to approximately \$3.030 million last year. However, as shown on the Statement of Activities and Net Assets on page 14, the amount taxpayers ultimately financed for these activities was only \$1.955 million because some of the cost was paid by those directly benefited from the programs (\$175,000) or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest (\$911,000). Overall, the City's governmental activities receipts, including intergovernmental aid and fees for service, increased in fiscal year 2012 from approximately \$763,000 to approximately \$1,086,000, principally due to additional federal highway grant funds received in fiscal year 2012 compared to fiscal year 2011.

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

	<u>Year ended</u> <u>June 30, 2011</u>	<u>Year ended</u> <u>June 30, 2012</u>
Receipts:		
Program receipts:		
Charges for service:		
Sewer	\$ 319	319
Airport	6	7
Landfill	17	17
Rural fire department	42	39
Capital grants, contributions and restricted interest	174	12
General receipts:		
Unrestricted interest on investments	1	-
Bond proceeds	-	250
Miscellaneous	-	1
Sale of assets	-	3
Total receipts	<u>559</u>	<u>648</u>
Disbursements:		
Sewer	260	291
Airport	199	7
Landfill	39	27
Rural fire department	27	35
Total disbursements	<u>525</u>	<u>360</u>
Change in cash basis net assets before transfers	34	288
Transfers, net	<u>(35)</u>	<u>(29)</u>
Change in cash basis net assets	(1)	259
Cash basis net assets beginning of year	<u>180</u>	<u>179</u>
Cash basis net assets end of year	<u>\$ 179</u>	<u>438</u>

Total business type activities receipts for the fiscal year were approximately \$.648 million compared to approximately \$.559 million last year. This increase was due primarily due to the receipt of \$250,000 of bond proceeds credited to the Sewer Fund in fiscal year 2012. Total cash balance increased by approximately \$259,000 from the prior year because all of the bond proceeds received will not be spent until the next fiscal year for the approved construction project. Total disbursements for the fiscal year decreased 31.4% to approximately \$.360 million.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Albia completed the year, its governmental funds reported a combined fund balance of \$5,460,218, an increase of \$1,840,097 above last year's total of \$3,620,121. 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 increased by \$66,190 from the prior year to \$275,793. The City has been watching the General Fund very close in order to stabilize the balance in this fund.
- The Special Revenue, Road Use Tax Fund cash balance decreased by \$15,542 from the prior year to \$27,861. This decrease was just due to spending more from this fund in fiscal year 2012 than received into this fund.
- The Special Revenue, Aquatic Center Fund cash balance increased by \$294,819 during the fiscal year to a total of \$2,909,315. This increase is due to the receipt of local option sales tax collections in excess of the related costs and debt service payments. We are receiving a lot more local option sales tax funds than we ever expected.
- The Special Revenue, Employee Benefits Fund cash balance increased \$5,879 to \$177,243 during the fiscal year. In the fiscal year, the City just levied more than related costs incurred in this fund.
- The Debt Service Fund cash balance increased by \$2,620 during the fiscal year to a total of \$23,948. This increase was due to an increase in property tax.
- The Capital Projects Fund cash balance increased \$1,484,547 to \$1,690,374. Proceeds from the sale of bonds were received into this fund in fiscal 2012, and the proceeds were used to pay the costs of street repair in the City in fiscal 2013. The City also received reimbursement from the State of Iowa in fiscal year 2012 from the Iowa Department of Transportation. The City plans to use the money in this fund to pay for the costs of street repair, equipment purchases, library improvements and sewer improvements.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Enterprise, Sewer Fund cash balance increased by \$246,720 to \$335,528, due to monies received from a bond issue.

BUDGETARY HIGHLIGHTS

During the course of the year, the City amended its budget one time. The budget was amended because of equipment purchases and capital projects which were greater than originally anticipated. The City had sufficient cash balances to absorb these additional costs.

The City's receipts were \$495,023 less than budgeted. This was primarily due to the City receiving less grant money than anticipated, even after the budget amendments.

Even though the City did not go over budget in total, disbursements in the debt service function were \$70,642 more than the amended budget amount. This was primarily due to a clerical error by City personnel when computing the budget amendment amounts.

DEBT ADMINISTRATION

At June 30, 2012, the City of Albia had approximately \$5,499,000 in bonds and other long-term debt outstanding, compared to approximately \$4,119,000 last year, as shown below.

	Outstanding Debt at Year-End (Expressed in Thousands)	
	<u>June 30, 2011</u>	<u>June 30, 2012</u>
General Obligation Bonds and Notes	\$4,045	5,440
Revenue Note	65	55
Lease – Purchase Agreement	<u>9</u>	<u>4</u>
Total	<u>\$4,119</u>	<u>5,499</u>

Debt increased as a result new debt obtained in the fiscal year. New debt of \$2,780,000 was issued in the fiscal year. Monies from this new debt will be used for various capital projects.

The amount of general obligation debt a political subdivision of the State of Iowa can incur is controlled by constitutional debt limit, which is an amount equal to 5% of the actual value of property within the corporate limits, taken from the last county tax list. The City's debt limit, based upon said valuation, amounts to the following:

Actual Value of Property, 2010	\$124,452,556
Debt Limit	<u>.05</u>
	<u>\$6,222,628</u>

The City's outstanding general obligation debt of \$5,440,000 is below the constitutional debt limit of \$6,222,628.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

City of Albia's elected and appointed officials and citizens considered many factors when setting the fiscal year 2013 budget, tax rates, and fees that will be charged for various City activities. One of those factors is the economy and the rising costs of employee benefits.

These indicators were taken into account when adopting the budget for fiscal year 2013. Amounts available for appropriation in the operating budget are approximately \$4.0 million, keeping in line with 2012 budget year.

CONTRACTING THE CITY'S FINANCIAL MANAGEMENT

The financial report is designed to provide our citizens, taxpayer, 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 Linda Heller, City Clerk, 120 South "A" Street, Albia, Iowa 52531.

Basic Financial Statements

City of Albia

Exhibit A

Statement of Activities and Net Assets - Cash Basis

As of and for the year ended June 30, 2012

Functions / Programs:	Program Receipts				Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
	Disbursements	Charges for Service	Operating		Governmental Activities	Business Type Activities	Total
			Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest			
Governmental activities:							
Public safety	\$ 586,038	41,451	17,302	-	(527,285)	-	(527,285)
Public works	479,953	3,653	357,209	-	(119,091)	-	(119,091)
Culture and recreation	424,215	114,485	54,712	20,412	(234,606)	-	(234,606)
Community and economic development	10,978	-	-	2,500	(8,478)	-	(8,478)
General government	216,486	14,984	-	-	(201,502)	-	(201,502)
Debt service	730,569	-	29,394	-	(701,175)	-	(701,175)
Capital projects	592,173	-	-	429,193	(162,980)	-	(162,980)
Total governmental activities	3,040,412	174,573	458,617	452,105	(1,955,117)	-	(1,955,117)
Business type activities:							
Sewer	290,765	319,365	-	-	-	28,600	28,600
Airport	6,715	6,588	-	11,925	-	11,798	11,798
Landfill	27,393	16,815	-	-	-	(10,578)	(10,578)
Rural fire department	35,325	39,167	-	-	-	3,842	3,842
Total business type activities	360,198	381,935	-	11,925	-	33,662	33,662
Total	\$ 3,400,610	556,508	458,617	464,030	(1,955,117)	33,662	(1,921,455)
General Receipts and Transfers:							
Property and other city tax levied for:							
General purposes					1,031,041	-	1,031,041
Debt service					421,471	-	421,471
Local option sales tax					619,710	-	619,710
Grants and contributions not restricted to specific purposes					17,360	-	17,360
Unrestricted interest on investments					9,608	-	9,608
Bond proceeds (net of \$20,231 discount)					2,509,769	250,000	2,759,769
Payment to refunding bond escrow agent					(867,310)	-	(867,310)
Miscellaneous					22,760	2,818	25,578
Sale of capital assets					1,925	916	2,841
Transfers					28,880	(28,880)	-
Total general receipts and transfers					3,795,214	224,854	4,020,068
Change in cash basis net assets					1,840,097	258,516	2,098,613
Cash basis net assets beginning of year					3,620,121	178,748	3,798,869
Cash basis net assets end of year					\$ 5,460,218	437,264	5,897,482
Cash Basis Net Assets							
Restricted:							
Nonexpendable:							
Cemetery perpetual care					\$ 86,436	-	86,436
Library endowment					92,666	-	92,666
Expendable:							
Insurance					28,461	-	28,461
Debt service					23,948	19,828	43,776
Streets					27,861	-	27,861
Other purposes					4,953,514	-	4,953,514
Unrestricted					247,332	417,436	664,768
Total cash basis net assets					\$ 5,460,218	437,264	5,897,482

See notes to financial statements.

City of Albia

Exhibit B

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

As of and for the year ended June 30, 2012

	Special Revenue							Total
	General	Road Use Tax	Aquatic Center	Employee Benefits	Debt Service	Capital Projects	Nonmajor	
Receipts:								
Property tax	\$ 699,107	-	-	331,934	421,471	-	-	1,452,512
Other city tax	17,360	-	619,710	-	-	-	-	637,070
Licenses and permits	16,218	-	-	-	-	-	-	16,218
Use of money and property	14,184	-	28,457	-	937	-	1,369	44,947
Intergovernmental	55,239	357,209	-	-	-	429,193	2,400	844,041
Charges for service	115,676	-	-	-	-	-	31,882	147,558
Miscellaneous	60,282	-	1,245	3,372	-	-	-	64,899
Total receipts	978,066	357,209	649,412	335,306	422,408	429,193	35,651	3,207,245
Disbursements:								
Operating:								
Public safety	426,073	-	-	151,627	-	-	8,338	586,038
Public works	29,588	364,388	-	85,977	-	-	-	479,953
Culture and recreation	307,344	-	55,624	46,496	-	-	14,751	424,215
Community and economic development	5,000	-	-	-	-	-	5,978	10,978
General government	171,847	-	-	44,639	-	-	-	216,486
Debt service	-	-	-	-	730,569	-	-	730,569
Capital projects	-	-	-	-	-	592,173	-	592,173
Total disbursements	939,852	364,388	55,624	328,739	730,569	592,173	29,067	3,040,412
Excess (deficiency) of receipts over (under) disbursements	38,214	(7,179)	593,788	6,567	(308,161)	(162,980)	6,584	166,833
Other financing sources (uses):								
Bond proceeds (net of \$20,231 discount)	-	-	-	-	868,769	1,641,000	-	2,509,769
Sale of capital assets	1,925	-	-	-	-	-	-	1,925
Payment to refunding bond escrow agent	-	-	-	-	(867,310)	-	-	(867,310)
Operating transfers in	29,051	-	-	-	315,849	6,527	-	351,427
Operating transfers out	(3,000)	(8,363)	(298,969)	(688)	(6,527)	-	(5,000)	(322,547)
Total other financing sources (uses)	27,976	(8,363)	(298,969)	(688)	310,781	1,647,527	(5,000)	1,673,264
Net change in cash balances	66,190	(15,542)	294,819	5,879	2,620	1,484,547	1,584	1,840,097
Cash balances beginning of year	209,603	43,403	2,614,496	171,364	21,328	205,827	354,100	3,620,121
Cash balances end of year	\$ 275,793	27,861	2,909,315	177,243	23,948	1,690,374	355,684	5,460,218
Cash Basis Fund Balances								
Nonspendable:								
Cemetery perpetual care	\$ -	-	-	-	-	-	86,436	86,436
Library endowment	-	-	-	-	-	-	92,666	92,666
Restricted for:								
Insurance	28,461	-	-	-	-	-	-	28,461
Debt service	-	-	-	-	23,948	-	-	23,948
Streets	-	27,861	-	-	-	-	-	27,861
Other purposes	-	-	2,909,315	177,243	-	1,690,374	176,582	4,953,514
Assigned	25,224	-	-	-	-	-	-	25,224
Unassigned	222,108	-	-	-	-	-	-	222,108
Total cash basis fund balances	\$ 275,793	27,861	2,909,315	177,243	23,948	1,690,374	355,684	5,460,218

See notes to financial statements.

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

As of and for the year ended June 30, 2012

	Enterprise		
	Sewer	Nonmajor	Total
Operating receipts:			
Use of money and property	\$ -	6,588	6,588
Charges for service	318,835	55,982	374,817
Miscellaneous	530	-	530
Total operating receipts	<u>319,365</u>	<u>62,570</u>	<u>381,935</u>
Operating disbursements:			
Business type activities	<u>236,736</u>	<u>53,252</u>	<u>289,988</u>
Total operating disbursements	<u>236,736</u>	<u>53,252</u>	<u>289,988</u>
Excess of operating receipts over operating disbursements	<u>82,629</u>	<u>9,318</u>	<u>91,947</u>
Non-operating receipts (disbursements):			
Intergovernmental	-	11,925	11,925
Miscellaneous	-	2,818	2,818
Debt service	-	(12,766)	(12,766)
Capital projects	<u>(54,029)</u>	<u>(3,415)</u>	<u>(57,444)</u>
Net non-operating receipts (disbursements)	<u>(54,029)</u>	<u>(1,438)</u>	<u>(55,467)</u>
Excess of receipts over disbursements	<u>28,600</u>	<u>7,880</u>	<u>36,480</u>
Other financing sources (uses):			
Bond proceeds	250,000	-	250,000
Sale of capital assets	-	916	916
Operating transfers in	-	3,000	3,000
Operating transfers out	<u>(31,880)</u>	-	<u>(31,880)</u>
Total other financing sources (uses)	<u>218,120</u>	<u>3,916</u>	<u>222,036</u>
Net change in cash balances	246,720	11,796	258,516
Cash balances beginning of year	<u>88,538</u>	<u>90,210</u>	<u>178,748</u>
Cash balances end of year	<u>\$ 335,258</u>	<u>102,006</u>	<u>437,264</u>
Cash Basis Fund Balances			
Restricted for debt service	\$ -	19,828	19,828
Unrestricted	<u>335,258</u>	<u>82,178</u>	<u>417,436</u>
Total cash basis fund balances	<u>\$ 335,258</u>	<u>102,006</u>	<u>437,264</u>

See notes to financial statements.

City of Albia

Notes to Financial Statements

June 30, 2012

(1) Summary of Significant Accounting Policies

The City of Albia is a political subdivision of the State of Iowa located in Monroe County. It 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 governmental services. The City also provides sewer utilities and airport services for its citizens.

A. Reporting Entity

Except as discussed below, for financial reporting purposes, City of Albia has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the City.

These financial statements present the City of Albia (the primary government) and exclude the City's component units. The component units discussed below are not included in the City's reporting entity although its operational or financial relationship with the City is significant.

Excluded Component Units

The Albia Municipal Waterworks was established under Chapter 388 of the Code of Iowa, is legally separate from the City, but has the potential to provide specific benefits to or impose specific burdens on the City. The Municipal Waterworks is governed by a three-member board appointed by the Mayor and approved by the City Council. The Waterworks' operating budget is subject to the approval of the City Council. Complete financial statements of the component unit, which will issue separate financial statements, can be obtained from the Municipal Waterworks administrative office.

The Fire/Rescue Association of Albia, Iowa was established under Chapter 504 of the Code of Iowa, is legally separate from the City, but has the potential to provide specific benefits to or impose specific financial burdens on the City. The purpose of the Fire/Rescue Association of Albia, Iowa is to support the activities of the Albia, Iowa fire department.

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: Monroe County Assessor's Conference Board and the Monroe County Joint E-911 Service Board.

Related Organization

The City Council members are also responsible for appointing the members of the Low Rent Housing Board, but the City's accountability for this organization does not extend beyond making the appointments.

B. Basis of Presentation

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

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

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 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 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 and proprietary funds are aggregated and reported as nonmajor governmental funds and nonmajor proprietary funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts from general and emergency levies 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 Road Use Tax Fund is used to account for the road use tax allocation from the State of Iowa to be used for road construction and maintenance.

The Aquatic Center Fund is used to account for the local option sales tax collections to be used for the related costs and debt associated with the aquatic center.

The Employee Benefits Fund is utilized to account for property tax and other receipts to be used for the payment of employee benefits.

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

The Capital Projects Fund is used to account for bond proceeds and government grants to be used for costs associated with major road construction projects and the purchase of capital equipment.

The City reports the following major proprietary fund:

The Enterprise, 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 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 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.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information. During the year ended June 30, 2012, disbursements exceeded the amounts budgeted in the debt service function.

(2) **Cash and Pooled Investments**

Because the City's cash in banks exceeded the depository resolution amount, the City's deposits in banks at June 30, 2012, and at other times during the year, were not 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. At June 30, 2012, the City exceeded their depository resolution at one financial institution by \$583,186.

The City is authorized by statute to invest public funds in the 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 no investments meeting the disclosure requirements of Government Accounting Standards Board Statement No. 3, as amended by Statement No. 40.

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) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the City.

(3) Bonds and Notes Payable

Annual debt service requirements to maturity for general obligation bonds and notes, and the revenue note are as follows:

Year Ending June 30,	General Obligation					
	Bonds and Notes		Revenue Note		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2013	\$ 620,000	\$ 121,062	\$ 10,507	\$ 2,267	\$ 630,507	\$ 123,329
2014	655,000	109,376	10,932	1,834	665,932	111,210
2015	685,000	96,972	11,383	1,383	696,383	98,355
2016	640,000	82,973	11,852	914	651,852	83,887
2017	445,000	67,560	10,302	425	455,302	67,985
2018	445,000	57,637	-	-	445,000	57,637
2019	460,000	47,007	-	-	460,000	47,007
2020	480,000	35,272	-	-	480,000	35,272
2021	300,000	22,197	-	-	300,000	22,197
2022	305,000	15,470	-	-	305,000	15,470
2023	200,000	8,100	-	-	200,000	8,100
2024	205,000	4,100	-	-	205,000	4,100
	<u>\$ 5,440,000</u>	<u>\$ 667,726</u>	<u>\$ 54,976</u>	<u>\$ 6,823</u>	<u>\$ 5,494,976</u>	<u>\$ 674,549</u>

General Obligation Corporate Purpose and Refunding Bonds

On June 1, 2012, the City issued \$2,780,000 of general obligation corporate purpose and refunding bonds for the current refunding of \$160,000 of general obligation corporate purpose bonds dated December 1, 2002. The refunding bonds also included advance refunding of the outstanding balance of \$575,000 of the \$1,345,000 of the general obligation corporate purpose bonds dated May 25, 2006, and \$105,000 of the \$250,000 of the general obligation street improvement bonds dated September 1, 2007. The general obligation corporate purpose bonds also included \$1,891,000 for the purpose of constructing street and sewer improvements, acquiring police vehicles, acquiring a fire truck, acquiring vehicles and equipment for the public works department, and making improvements to the City’s library. The bonds bear interest at 0.35% to 2.00% per annum and mature on June 1, 2024.

For the advance refunding, the City entered into an escrow agreement with Bankers Trust Company, N.A., and deposited the proceeds from the refunding bonds to be used to purchase government securities in such amounts and such maturities to be sufficient to pay the principal and interest on the City's outstanding bonds. As a result, the bonds are considered to be defeased.

The City obtained an economic gain (difference between the present value of the debt service payments on the old and new debt) of approximately \$32,376.

Revenue Note

The City has pledged future township fire receipts, net of specified operating disbursements, to repay \$102,900 in a fire department revenue note issued in October, 2006. Proceeds from the note provided financing for the purchase of a new fire truck. The note is payable solely from township fire net receipts and is payable through fiscal year 2017. Annual principal and interest payments on the note are expected to require less than 77 percent of net receipts. The total principal and interest remaining to be paid on the note is \$61,799. For the current year, principal and interest paid and total customer net receipts were \$12,766 and \$16,608 respectively.

The note is payable to the U.S. Department of Agriculture (USDA) in annual installments of \$12,766, including interest at 4.125% per annum. During the year ended June 30, 2012, a payment of \$12,766 was made to the USDA, leaving a principal balance due at June 30, 2012 of \$54,976.

The resolution for the issuance of the fire department revenue note includes the following provisions:

- (a) The note will only be redeemed from the future earnings of the enterprise activity and the note holder holds a lien on the future earnings of the funds.
- (b) The City shall make annual payments of \$12,766 to the USDA, including interest at 4.125%, per annum, in fiscal years 2008 through 2017, inclusive.
- (c) Sufficient monthly transfers shall be made to a fire department revenue note sinking account for the purpose of making the above payments when due.
- (d) Additional monthly transfers of \$107 per month until \$12,166 is accumulated shall be made to a fire department revenue note reserve account until a specific maximum balance has been accumulated. This account is restricted for making the annual principal and interest payments whenever there is insufficient money in the fire department revenue note sinking account.

The City's balance in the fire department revenue note reserve account was deficient by \$214 as of June 30, 2012. In addition, the City was not in compliance with the revenue note sinking account requirements. As a result, it appears the City is technically in non-compliance with the USDA loan requirements in relation to this loan.

(4) Lease Purchase Obligation

The City is purchasing a lawn mower under a capital lease contract. Future payments in relation to this lease consist of a total payment of \$4,305 for the year ended June 30, 2012. The \$4,305 payment consists of principal of \$4,153 and interest of \$152. This lease is scheduled to be paid off as of June 30, 2013.

(5) 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 contributions to IPERS for the years ended June 30, 2012, 2011 and 2010 were \$55,225, \$53,168 and \$46,801, respectively, equal to the required contributions for each year.

(6) Other Postemployment Benefits (OPEB)

Plan Description – The City operates a single-employer health benefit plan which provides medical/prescription drug benefits for employees and retirees and their spouses. There are 17 active and one retired member in the plan. Retired participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefit 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 benefit plan on a pay-as-you go basis. The most recent active member monthly premiums for the City and the plan members are \$507.15 for single coverage, \$989.32/\$1,038.64 for employee/spouse coverage, \$914.44 for employee/dependent coverage, and \$1,482.52/\$1,556.54 for family coverage. The same monthly premium applies to retirees. The difference in the premiums for the same group represents differences in the types of coverage provided. For the year ended June 30, 2012, the City contributed \$196,523 and plan members eligible for benefits contributed \$6,846 to the plan.

(7) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation, holiday and compensatory 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 City's approximate liability for compensated absences payable to employees at June 30, 2012 primarily relating to the General Fund, was \$32,665. The liability has been computed based on rates of pay in effect at June 30, 2012.

(8) Interfund Transfers

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

Transfer to	Transfer from	Amount
General	Special Revenue:	
	Road Use Tax	\$ 8,363
	Aquatic Center	15,000
	Employee Benefits	688
	Library	5,000
		<u>29,051</u>
Debt Service	Special Revenue:	
	Aquatic Center	283,969
	Enterprise:	
	Sewer	31,880
		<u>315,849</u>
Capital Projects	Debt Service	<u>6,527</u>
Enterprise:		
Rural Fire Department	General	<u>3,000</u>
	Total	<u>\$ 354,427</u>

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

(9) Related Party Transactions

The City had business transactions between the City and City officials, totaling \$3,678 during the year ended June 30, 2012.

(10) 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 663 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 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 contributions to the Pool for the year ended June 30, 2012 were \$56,003.

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, 2012, 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 a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all 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% 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 workers compensation in the amount of \$1,000,000 for each accident, \$1,000,000 memorandum limit, and \$1,000,000 each employee. 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.

(11) Contingency

In prior years, the City received payments in lieu of taxes from the local housing agency. However it was later determined that some of these funds should have been distributed to the other political subdivisions in the county. The City Attorney's position was that the City owed the other political subdivisions in the County for the past five years only, which would amount to approximately \$21,000. However, in fiscal year 2004, the City agreed to pay approximately \$64,000 to the other political subdivisions in settlement of the payments in lieu of taxes from the local housing agency. The City and other political subdivisions signed an agreement whereby the other political subdivisions will receive the City's share of the payments in lieu of taxes until the City's liability has been satisfied. At June 30, 2012, the City owed approximately \$39,000 to the other political subdivisions in settlement of the payments in lieu of taxes from the local housing agency.

The City participates in a number of Federal and State grant programs. These programs are subject to program compliance audits by the grantors or their representatives. Entitlement to these resources is generally conditional upon compliance with the terms and conditions of grant and loan agreements and applicable federal and state regulations, including the expenditure of resources for allowable purposes. Any disallowance resulting from a federal or state audit may become a liability to the City. The City's management believes such revisions or disallowances, if any, will not be material to the City.

(12) Commitments

The City has committed \$5,000 to be paid to a local organization. This commitment is expected to be paid over the next five years.

The City entered into purchase contracts in fiscal year 2012 for equipment purchases, sewer projects and street projects. The total cost of these projects is approximately \$1,200,000. These projects began in fiscal year 2012 and 2013, and it is anticipated that these projects will be completed in fiscal year 2013. The cost of these projects will be paid for from existing cash reserves.

The City has entered into a street construction project as of June 30, 2012. Based on the contracts, approximately \$233,000 will be paid on this project. Payment will be made on this project as work is completed. The State of Iowa will reimburse the City for 80% of these costs, with the balance, or 20%, paid for by the City from existing cash reserves. It is anticipated that this project will be completed in fiscal year 2013.

(13) Fund Balance

The City's assigned fund balance in the General Fund as of June 30, 2012 consists of the following:

Purpose	Amount
Library	\$ 10,642
Cemetery	6,919
Fire Protection	1,051
Community Policing	6,612
Total	<u>\$ 25,224</u>

(14) Subsequent Events

The City has committed approximately \$225,000 for the purchase of a fire truck, and for Library roof repairs in fiscal year 2013. It is anticipated that that these projects will be paid for in fiscal year 2013 from existing cash reserves.

The City has evaluated all subsequent events through November 30, 2012, the date the financial statements were available to be issued.

Other Information

City of Albia

Budgetary Comparison Schedule
of Receipts, Disbursements, and Changes in Balances -
Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Funds

Other Information

Year ended June 30, 2012

	Governmental Funds Actual	Proprietary Funds Actual	Total	Budgeted Amounts		Final to Total Variance
				Original	Final	
Receipts:						
Property tax	\$ 1,452,512	-	1,452,512	1,422,751	1,393,464	59,048
Other city tax	637,070	-	637,070	634,414	634,014	3,056
Licenses and permits	16,218	-	16,218	11,550	11,550	4,668
Use of money and property	44,947	6,588	51,535	65,800	65,800	(14,265)
Intergovernmental	844,041	11,925	855,966	595,147	595,147	260,819
Charges for service	147,558	374,817	522,375	404,425	404,425	117,950
Miscellaneous	64,899	3,348	68,247	4,500	4,500	63,747
Total receipts	3,207,245	396,678	3,603,923	3,138,587	3,108,900	495,023
Disbursements:						
Public safety	586,038	-	586,038	643,291	643,291	57,253
Public works	479,953	-	479,953	629,622	629,622	149,669
Culture and recreation	424,215	-	424,215	617,388	642,388	218,173
Community and economic development	10,978	-	10,978	9,000	12,000	1,022
General government	216,486	-	216,486	227,365	227,365	10,879
Debt service	730,569	-	730,569	706,761	659,927	(70,642)
Capital projects	592,173	-	592,173	-	2,491,000	1,898,827
Business type activities	-	360,198	360,198	318,980	368,980	8,782
Total disbursements	3,040,412	360,198	3,400,610	3,152,407	5,674,573	2,273,963
Excess (deficiency) of receipts over (under) disbursements	166,833	36,480	203,313	(13,820)	(2,565,673)	2,768,986
Other financing sources, net	1,673,264	222,036	1,895,300	-	2,780,000	(884,700)
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	1,840,097	258,516	2,098,613	(13,820)	214,327	1,884,286
Balances beginning of year	3,620,121	178,748	3,798,869	3,914,707	3,914,707	(115,838)
Balances end of year	\$ 5,460,218	437,264	5,897,482	3,900,887	4,129,034	1,768,448

See accompanying independent auditor's report.

City of Albia

Notes to Other Information-Budgetary Reporting

June 30, 2012

The budgetary comparison is presented 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. 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, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Funds, the Permanent Funds and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$2,522,166. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2012, disbursements exceeded the amounts budgeted in the debt service function.

Supplementary Information

City of Albia

Schedule 1

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

As of and for the year ended June 30, 2012

	Special Revenue				Permanent		Total
	Cooper Estate Bequest	Historical Preservation Board	Police Department	Library	Cemetery Perpetual Care	Library Endowment	
Receipts:							
Use of money and property	\$ 1,369	-	-	-	-	-	1,369
Intergovernmental	-	-	-	2,400	-	-	2,400
Miscellaneous	-	2,500	12,978	14,818	1,586	-	31,882
Total receipts	1,369	2,500	12,978	17,218	1,586	-	35,651
Disbursements:							
Operating:							
Public safety	-	-	8,338	-	-	-	8,338
Culture and recreation	-	-	-	14,751	-	-	14,751
Community and economic development	3,208	2,770	-	-	-	-	5,978
Total disbursements	3,208	2,770	8,338	14,751	-	-	29,067
Excess (deficiency) of receipts over (under) disbursements	(1,839)	(270)	4,640	2,467	1,586	-	6,584
Other financing sources (uses):							
Operating transfers out	-	-	-	(5,000)	-	-	(5,000)
Total other financing sources (uses)	-	-	-	(5,000)	-	-	(5,000)
Net change in cash balances	(1,839)	(270)	4,640	(2,533)	1,586	-	1,584
Cash balances beginning of year	135,063	2,911	15,144	23,466	84,850	92,666	354,100
Cash balances end of year	\$ 133,224	2,641	19,784	20,933	86,436	92,666	355,684
Cash Basis Fund Balances							
Nonspendable:							
Cemetery perpetual care	\$ -	-	-	-	86,436	-	86,436
Library endowment	-	-	-	-	-	92,666	92,666
Restricted for other purposes	133,224	2,641	19,784	20,933	-	-	176,582
Total cash basis fund balances	\$ 133,224	2,641	19,784	20,933	86,436	92,666	355,684

See accompanying independent auditor's report.

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

As of and for the year ended June 30, 2012

	Enterprise			
	Airport	Landfill	Rural Fire Department	Total
Operating receipts:				
Use of money and property	\$ 6,588	-	-	6,588
Charges for service	-	16,815	39,167	55,982
Total operating receipts	<u>6,588</u>	<u>16,815</u>	<u>39,167</u>	<u>62,570</u>
Operating disbursements:				
Business type activities	3,300	27,393	22,559	53,252
Total operating disbursements	<u>3,300</u>	<u>27,393</u>	<u>22,559</u>	<u>53,252</u>
Excess (deficiency) of operating receipts over (under) operating disbursements	<u>3,288</u>	<u>(10,578)</u>	<u>16,608</u>	<u>9,318</u>
Non-operating receipts (disbursements):				
Intergovernmental	11,925	-	-	11,925
Miscellaneous	-	-	2,818	2,818
Debt service	-	-	(12,766)	(12,766)
Capital projects	(3,415)	-	-	(3,415)
Net non-operating receipts (disbursements)	<u>8,510</u>	<u>-</u>	<u>(9,948)</u>	<u>(1,438)</u>
Excess (deficiency) of receipts over (under) disbursements	<u>11,798</u>	<u>(10,578)</u>	<u>6,660</u>	<u>7,880</u>
Other financing sources:				
Sale of capital assets	-	-	916	916
Operating transfers in	-	-	3,000	3,000
Total other financing sources	<u>-</u>	<u>-</u>	<u>3,916</u>	<u>3,916</u>
Net change in cash balances	11,798	(10,578)	10,576	11,796
Cash balances beginning of year	5,074	66,468	18,668	90,210
Cash balances end of year	<u>\$ 16,872</u>	<u>55,890</u>	<u>29,244</u>	<u>102,006</u>
Cash Basis Fund Balances				
Restricted for debt service	\$ -	-	19,828	19,828
Unrestricted	16,872	55,890	9,416	82,178
Total cash basis fund balances	<u>\$ 16,872</u>	<u>55,890</u>	<u>29,244</u>	<u>102,006</u>

See accompanying independent auditor's report.

City of Albia

Schedule 3

Schedule of Indebtedness

Year ended June 30, 2012

Obligation	Date of Issue	Interest Rates	Amount Originally Issued	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
General Obligation Bonds and Notes-									
Corporate Purpose Bonds	December 1, 2002	1.90 to 4.35%	\$ 520,000	210,000	-	210,000	-	8,968	-
Swimming Pool Bonds	December 1, 2003	2.25 to 4.00%	2,000,000	1,160,000	-	215,000	945,000	43,267	-
Corporate Purpose Bonds	May 25, 2006	3.70 to 4.05%	1,345,000	705,000	-	705,000	-	27,877	-
Street Improvement Bonds	September 1, 2007	3.75 to 4.10%	250,000	130,000	-	130,000	-	5,205	-
Corporate Purpose Bonds	May 1, 2008	3.10 to 3.80%	640,000	350,000	-	95,000	255,000	12,163	-
Street Improvement Bonds	August 1, 2009	3.25 to 3.75%	670,000	670,000	-	-	670,000	23,617	-
Corporate Purpose Bonds	September 1, 2010	1.25 to 3.40%	845,000	820,000	-	30,000	790,000	22,085	-
Corporate Purpose and Refunding Bonds	June 1, 2012	0.35 to 2.00%	2,780,000	-	2,780,000	-	2,780,000	-	-
Total			\$4,045,000	\$4,045,000	2,780,000	1,385,000	5,440,000	143,182	-
Revenue Note-									
Fire Department	October 30, 2006	4.125%	\$ 102,900	65,051	-	10,075	54,976	2,691	-
Lease Purchase Agreement- Equipment	June 3, 2008	7.95%	\$ 21,396	8,786	-	4,633	4,153	532	-

See accompanying independent auditor's report.

Bond and Note Maturities

June 30, 2012

General Obligation Bonds and Notes											
Year Ending June 30,	Swimming Pool Bonds Issued December 1, 2003		Corporate Purpose Bonds Issued May 1, 2008		Street Improvement Bonds Issued August 1, 2009		Corporate Purpose Bonds Issued September 1, 2010		Corporate Purpose and Refunding Bonds Issued June 1, 2012		Total
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	
2013	3.60%	\$ 225,000	3.35%	\$ 60,000	-	\$ -	1.25%	\$ 45,000	0.35%	\$ 290,000	\$ 620,000
2014	3.70%	230,000	3.35%	45,000	-	-	1.80%	50,000	0.45%	330,000	655,000
2015	3.85%	240,000	3.80%	50,000	-	-	1.80%	55,000	0.55%	340,000	685,000
2016	4.00%	250,000	3.80%	50,000	-	-	2.50%	55,000	0.75%	285,000	640,000
2017	-	-	3.80%	50,000	3.25%	125,000	2.50%	90,000	0.95%	180,000	445,000
2018	-	-	-	-	3.40%	175,000	3.00%	90,000	1.10%	180,000	445,000
2019	-	-	-	-	3.60%	180,000	3.00%	95,000	1.30%	185,000	460,000
2020	-	-	-	-	3.75%	190,000	3.10%	100,000	1.50%	190,000	480,000
2021	-	-	-	-	-	-	3.25%	105,000	1.70%	195,000	300,000
2022	-	-	-	-	-	-	3.40%	105,000	1.90%	200,000	305,000
2023	-	-	-	-	-	-	-	-	2.00%	200,000	200,000
2024	-	-	-	-	-	-	-	-	2.00%	205,000	205,000
		<u>\$ 945,000</u>		<u>\$ 255,000</u>		<u>\$ 670,000</u>		<u>\$ 790,000</u>		<u>\$ 2,780,000</u>	<u>\$ 5,440,000</u>

Revenue Note		
Fire Department		
Issued October 30, 2006		
Year Ending June 30,	Interest Rates	Amount
2013	4.125%	\$ 10,507
2014	4.125%	10,932
2015	4.125%	11,383
2016	4.125%	11,852
2017	4.125%	10,302
		<u>\$ 54,976</u>

See accompanying independent auditor's report.

City of Albia

Schedule 5

Schedule of Receipts By Source and Disbursements By Function -
All Governmental Funds

For the Last Nine Years

	2012	2011	2010	2009	2008	2007	2006	2005	2004
Receipts:									
Property tax	\$ 1,452,512	1,404,213	1,213,781	1,259,475	1,194,235	1,171,575	1,083,508	946,940	950,378
Other city tax	637,070	673,919	717,285	821,020	720,239	802,383	592,594	395,200	132,780
Licenses and permits	16,218	12,716	18,261	13,035	14,213	10,027	12,467	12,251	10,933
Use of money and property	44,947	52,454	66,274	80,900	49,674	34,441	18,817	50,775	51,900
Intergovernmental	844,041	542,179	608,350	692,753	399,788	552,749	815,230	491,131	403,254
Charges for service	147,558	101,446	108,171	101,782	142,031	152,345	78,802	23,630	6,588
Special assessments	-	-	-	-	-	-	-	-	5,269
Miscellaneous	64,899	74,562	77,634	92,487	45,622	147,615	113,930	46,933	123,574
Total	\$ 3,207,245	2,861,489	2,809,756	3,061,452	2,565,802	2,871,135	2,715,348	1,966,860	1,684,676
Disbursements:									
Operating:									
Public safety	\$ 586,038	622,247	550,295	499,768	539,780	682,761	504,928	523,795	452,930
Public works	479,953	453,114	463,730	433,586	485,546	421,834	369,213	362,559	352,137
Culture and recreation	424,215	399,970	368,501	292,741	289,273	302,258	233,024	152,510	193,891
Community and economic development	10,978	749	13,046	9,185	46,670	2,477	11,714	32,956	47,637
General government	216,486	189,982	217,841	225,846	253,739	299,152	301,257	228,492	289,948
Debt service	730,569	727,495	669,920	633,696	1,086,975	620,756	1,478,044	417,219	387,104
Capital projects	592,173	636,784	688,093	743,120	197,074	635,254	1,275,365	1,867,844	235,007
Total	\$ 3,040,412	3,030,341	2,971,426	2,837,942	2,899,057	2,964,492	4,173,545	3,585,375	1,958,654

See accompanying independent auditor's report.

PEAK & CO., LLP
CERTIFIED PUBLIC ACCOUNTANTS
1370 NW 114TH ST., SUITE 205
CLIVE, IA 50325

(515) 277-3077

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 primary government financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Albia, 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 issue our report thereon dated November 30, 2012. Our report expressed unqualified opinions on the primary government 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

The management of the City of Albia is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City of Albia'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 Albia's internal control over financial reporting. Accordingly, we do not express our opinion on the effectiveness of the City of Albia's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and 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 described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control over financial reporting that 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 a 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 a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of City of Albia's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings as items (A) and (B) to be material weaknesses.

A significant deficiency is a deficiency, or 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 deficiencies described in the accompanying Schedule of Findings as items (C), (D), (E) and (F) to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Albia's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and other matters, 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 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.

City of Albia'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 City of Albia's responses and, accordingly, we do not express an 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 Albia and other parties to whom the City of Albia may report, 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 Albia 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.

Peak & Co., LLP
Certified Public Accountants

November 30, 2012

City of Albia

Schedule of Findings

Year ended June 30, 2012

Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

(A) **Segregation of Duties** – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Although one full-time individual and one part-time individual are involved in the accounting duties of the City, there is insufficient segregation of duties to prevent one individual from having control over each of the following areas for the City:

- 1) Cash – reconciling bank accounts, initiating cash receipts and handling and recording cash.
- 2) Investments – detailed record keeping, custody and reconciling.
- 3) Long-term debt – recording and reconciling.
- 4) Receipts – collecting, depositing, posting and reconciling.
- 5) Accounting system – performing all general accounting functions and having custody of City assets.
- 6) Disbursements – preparing checks, signing checks and access to the accounting records.
- 7) Petty cash – custody, reconciling and recording.
- 8) Payroll – recordkeeping, preparation and distribution.

Recommendation – We realize with a limited number of office employees, segregation of duties is difficult. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials. Evidence of review of reconciliations should be indicated by initials of the independent reviewer and date of the review.

Response – The City will review its control procedures to obtain the maximum internal control possible with the limited staff it has.

Conclusion – Response acknowledged.

(B) **Records of Account** - The Albia Police Department maintains the accounting records and bank statements pertaining to three different bank accounts. These transactions and the resulting balances are not recorded in the Clerk's records. Chapter 384.20 of the Code of Iowa states in part "a city shall keep accounts which show an accurate and detailed statement of all public funds collected, received, or expended for any city purpose."

Recommendation - For better accountability, financial and budgetary control, the financial activity and balances of all city accounts should be recorded on the Clerk's records.

Response – We will review this situation.

Conclusion - Response accepted.

City of Albia

Schedule of Findings

Year ended June 30, 2012

- (C) Library Procedures – The Library receives monies from memorials, donations, the State of Iowa, and from miscellaneous fees. Library monies are not timely deposited, currently the monies are normally deposited approximately once per month. In addition, Library monies on hand are taken home at night by the Librarian for safekeeping. Also, an adequate written record is not maintained which documents the amount of unspent Library memorial monies, by memorial, at any one time.

Recommendation – Library monies should be deposited when cash and checks on hand exceed \$100. In addition, Library monies should not be taken home at night by the Librarian. Also, written records need to be maintained documenting the amount of unspent Library memorial monies, by memorial, at any one time.

Response – We will implement the above to the best of our ability.

Conclusion – Response accepted.

- (D) Accounting Structure – Instances were noted where receipts and disbursements were not always properly classified in the general ledger. In addition, the City did not properly record the receipts and disbursements related to the advanced refunding bond issue on the accounting records.

Recommendation – The City should implement procedures to ensure all receipts and disbursements are properly classified on the accounting records.

Response – We will work on the proper classification of receipts and disbursements.

Conclusion – Response accepted.

- (E) Financial Reporting – We noted that while management is capable of preparing accurate financial statements that provide information sufficient for City Council members to make management decisions, reporting financial data reliably in accordance with an other comprehensive basis of accounting (OCBOA) requires management to possess sufficient knowledge and expertise to select and apply accounting principles and prepare year-end financial statements, including footnote disclosures. Due to the technical nature of these requirements, management does not prepare this information, which is a common situation in all small entities.

Recommendation – Obtaining additional knowledge through reading relevant accounting literature and attending local professional education courses should help management significantly improve in the ability to prepare OCBOA financial statements.

Response – These are very technical issues that the average citizen would not understand. This issue relates to auditor independence issues, and we accept the risk associated with not being able to prepare these documents and apply accounting principles in accordance with the OCBOA requirement.

Conclusion – Response accepted.

City of Albia

Schedule of Findings

Year ended June 30, 2012

- (F) Receipts – Receipt slips issued by the City were not always issued in numerical order. There is no initial record of receipt for fees collected by the police department.

Recommendation – Receipt slips should be issued in numerical order. In addition an initial record of receipt should be maintained for all police department collections.

Response – We will implement these to the best of our ability.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

City of Albia
 Schedule of Findings
 Year ended June 30, 2012

Other Findings Related to Required Statutory Reporting:

- (1) **Certified Budget** – Disbursements during the year ended June 30, 2012 exceeded the amounts budgeted in the debt service function. In addition, prior to the May, 2012 budget amendment, disbursements during the year ended June 30, 2012 exceeded the amounts budgeted in the capital projects 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.”

In addition, the beginning balances on the budget amendment did not agree to the ending balances as recorded on the original budget.

The City’s fiscal year 2012 property tax levy rate was increased after publication of the proposed property tax levy rate in the newspaper. This appears to violate Chapter 384.16(5) of the Code of Iowa.

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. In addition, the beginning balances on the budget amendment should agree to the ending balances as recorded on the original budget.

The City should also consult with legal counsel in relation to increasing the property tax levy rate after publication of the proposed property tax levy rate in the newspaper.

Response – We will implement these recommendations.

Conclusion – Response accepted.

- (2) **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.
- (3) **Travel Expense** - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- (4) **Business Transactions** - Business transactions between the City and City officials or employees are detailed as follows:

<u>Name, Title, and Business Connection</u>	<u>Transaction/ Description</u>	<u>Amount</u>
Linda Heller, City Clerk, Owner, Heller Home & Lawn Maintenance	Mowing	\$200
Warren Woolums, Volunteer Fireman	Service Equipment	\$2,129
Ray Vitko, Jr. Volunteer Fireman, Owner, Vitko’s	Service Trucks	\$1,349

In accordance with Chapter 362 of the Code of Iowa, the transactions with the City Clerk do not appear to represent a conflict of interest since total transactions with the City Clerk were less than \$1,500 during the fiscal year. In accordance with Chapter 362 of the Code of Iowa, the transactions with the Volunteer Fireman do not appear to represent conflicts of interest.

City of Albia

Schedule of Findings

Year ended June 30, 2012

- (5) 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 ensure that the coverage is adequate for current operations.
- (6) City Council Minutes - Transactions were found that we believe should have been approved in the Council minutes but were not.

Interfund transfers and some claims paid were not approved by the City Council. A summary of all receipts was not consistently published in the newspaper. Several claims were not published in the newspaper. Some City Council minutes, and related claims, were not published until several weeks after the City Council meetings. Chapter 372.13(6) of the Code of Iowa requires a summary of all receipts, total expenditures from each city fund, and all claims be published in the newspaper within fifteen days of the City Council meeting. In addition, this same Code Section requires that the City Council approve all claims.

The City Council went into closed session on February 20, 2012. However, the minutes record did not document the specific information regarding the closed session as required by Chapter 21 of the Code of Iowa, commonly known as the open-meetings law.

Recommendation - The City should implement procedures to ensure that all interfund transfers and claims paid are approved by the City Council. The City should also implement procedures to ensure that total expenditures from each city fund, all claims, a summary of all receipts, and all City Council minutes are included in the newspaper publication. In addition, the City should ensure that all this information is timely published in the newspaper as required by the Code of Iowa. The City should also comply with Chapter 21 of the Code of Iowa.

Response - We will implement these recommendations.

Conclusion - Response accepted.

- (7) Deposits and Investments – The City’s depository resolution does not include one depository used by the City. In addition, the depository resolution refers to an outdated Section of the Code of Iowa. The cash in bank amount exceeded the deposit resolution amount for one bank.

Interest earned on the balances in the Capital Projects, Debt Service, Enterprise – Sewer and the Enterprise – Rural Fire Department Funds were not credited to those funds. In accordance with Chapter 12C.9 of the Code of Iowa, such interest shall be used to pay principal and interest on the indebtedness or be credited to the Capital Project Fund to be used on those projects.

Other than the above, no instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City’s investment policy were noted.

Recommendation – The City implement procedures to ensure compliance with the Code of Iowa in relation to the City’s depository resolution, which should include all depositories used by the City, references used in the resolution refer to the current Sections of the Code of Iowa, and that the deposit resolution amounts exceed the cash in bank balances. In addition, the City should comply with Chapter 12C.9 of the Code of Iowa and allocate interest to the proper funds.

Response – The above issues were an oversight on our part. We will implement the above recommendations.

Conclusion – Response accepted.

City of Albia

Schedule of Findings

Year ended June 30, 2012

- (8) Revenue Note – The City has not complied with the fire department revenue note resolutions.

The City's cash balance in the fire department revenue note reserve account was deficient by \$214 as of June 30, 2012. In addition, the City did not consistently make sufficient monthly transfers to the fire department revenue note sinking account, as required by the revenue note provisions.

Recommendation – The City implement procedures to ensure the fire department revenue note reserve account cash balance and the monthly transfers to the fire department revenue note sinking account meets the requirements as established by the U.S. Department of Agriculture revenue note resolutions.

Response – We will implement this recommendation in the future.

Conclusion – Response accepted.

- (9) Transfer – At June 30, 2012, \$37,690 was due from the Capital Projects Fund to the Debt Service Fund.

Recommendation – The City make the above transfer.

Response – We will implement this recommendation.

Conclusion – Response accepted.

- (10) Compliance Issues – A general obligation bond interest payment was not paid from the Debt Service Fund, as required by Chapter 384.4 of the Code of Iowa. An adjustment was subsequently made so that all general obligation bond interest payments were charged to the Debt Service Fund.

The City levies a tax to pay for liability insurance coverage. The proceeds of this tax is used to pay all the costs associated with liability insurance coverage. However, the costs incurred by the sewer and airport operations for liability insurance coverage should be charged to those funds instead of the tax levy for liability insurance coverage.

The City has not turned over old uncashed checks to the State of Iowa, as required by Chapter 556 of the Code of Iowa.

Recommendation – The City should ensure that all general obligation bond interest payments are paid from the Debt Service Fund. Costs incurred for liability insurance coverage for the sewer and airport operations should be charged to those funds. Also, old uncashed checks should be turned over to the State of Iowa, in accordance with the Code of Iowa.

Response – We will implement these recommendations.

Conclusion – Response accepted.

- (11) Monies Not Collected – Our review noted where individuals did not pay the City \$750 in rent for airplane hangar rental. The condition has been noted for several years; however, the City has not followed-up on this issue.

The group that rents the day care building did not pay rent to the City in fiscal year 2012, as required.

The individual who rents crop ground at the airport did not pay the crop ground rent in the spring of 2012, as required by the lease. In addition, it appears the City did not receive over \$4,000 in reimbursement due from the State of Iowa in relation to the South 13th street project. Neither of these issues were known by the City until we brought it to the City's attention.

City of Albia

Schedule of Findings

Year ended June 30, 2012

Recommendation – The City implement procedures to ensure all monies due to the City are identified and received on a timely basis. This would include monies from the rental of airplane hangars, building rent, crop ground rent, and reimbursement due from the State of Iowa.

Response – We will review this and take appropriate action. The individual who rents the crop ground at the airport indicated they mailed the rent check to the City in March, 2012; however, this check was never shown as received by the City. As a result, in July, 2012, a replacement check was issued from the renter to the City. We have resubmitted a claim to the State of Iowa for the reimbursement in relation to the South 13th street project, and personnel from the State of Iowa indicated that this was an oversight on their part, and that they would reimburse the City for these costs.

Conclusion – Response accepted.

- (12) Tax Issues – Several IRS-1099 Misc. forms were not issued as required. It appears the Job Service reports submitted to the State of Iowa for two quarters were materially inaccurate. The City is overpaying sales tax to the State of Iowa for swimming pool admissions.

Recommendation – The City issue IRS 1099-Misc. forms as required. In addition, the City implement procedures to ensure the Job Service reports submitted to the State of Iowa and the sales tax amount paid to the State of Iowa are correct.

Response – We will implement these recommendations.

Conclusion – Response accepted.

- (13) Electronic Check Retention – Chapter 554D.114 of the Code of Iowa allows the City to retain cancelled checks in an electronic format and required retention in this manner to include an image of both the front and back of each cancelled check. The Police Department retains electronic images of the front of cancelled checks, but not the back of cancelled checks.

Recommendation – The Police Department retain an image of both the front and back of each cancelled check as required.

Response – The Police Department will request that the back of the checks be included with the bank statement.

Conclusion – Response accepted.

- (14) Payroll – In some instances, the timecards were not signed by the employees' supervisor, and the beginning work time and ending work time was not documented on the timecards. In addition, instances were noted where there was not always written authorization for the amount of deductions withheld from the employees' paycheck.

Recommendation – The City implement procedures to ensure the beginning work time and ending work time is documented on the timecards, and that the timecards are signed by the employees' supervisor. In addition, written authorizations should be maintained for the amount of deductions withheld from the employees' paycheck.

Response – We will attempt to implement these recommendations.

Conclusion – Response accepted.

City of Albia

Schedule of Findings

Year ended June 30, 2012

(15) Ordinances – Chapter 380.6 of the Code of Iowa states that an ordinance has to be published in the newspaper in order for the ordinance to become effective. We noted that for a real estate property sale, and for an increase in the City Council member pay, the ordinances in relation to these issues were never published. As a result, it is unclear if the real estate property sale by the City was a legal transfer of property, and whether the City overpaid the City Council members, given that the ordinances which relate to these issues were never published.

Recommendation – The City work with the City Attorney to determine the legality and propriety of the real estate property sale and the City Council member pay. In addition, in the future, all ordinances should be published as required.

Response – The failure to publish the above ordinances were an oversight on our part. We will work with the City Attorney on these issues, and follow his guidance.

Conclusion – Response accepted.