

**CITY OF POCAHONTAS, IOWA**

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

**AS OF AND FOR THE YEAR ENDED JUNE 30, 2012**

**City of Pocahontas, Iowa**

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**City of Pocahontas, Iowa**

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**City of Pocahontas, Iowa**

**Officials**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>(Before January 2012)</b>		
Brian Blomker	Mayor	Jan 2014
Brian Stover	Council Member	Jan 2014
Gus Holzmueler	Council Member	Jan 2012
Rod Stoulil	Council Member	Jan 2014
John Dewart	Council Member	Jan 2014
Jeff Nielsen	Council Member	Jan 2014
Robert Donahoo	City Administrator	Appointed
Joan Dewart	Clerk	Jan 2012
Jeff Johnson	Treasurer	Appointed
James W. Hudson, Jr. Shors & Thomas	Attorney Attorney	Appointed Appointed
Dennis Marten	Airport Commissioner	July 2012
Ray Krips	Airport Commissioner	July 2012
Ken DeYoung	Airport Commissioner	July 2013
Dr. Dennis Dahl	Airport Commissioner	July 2011
Gary McCarten	Airport Commissioner	July 2011
Nancy Kopriva	Library Trustee	July 2012
Donna Dewart	Library Trustee	July 2012
Jada Hallberg	Library Trustee	July 2012
Walter Cooke	Library Trustee	July 2013
Pat Spangler	Library Trustee	July 2014
Nancy Berte	Library Trustee	July 2014
Don Beneke	Library Trustee	July 2011
Dennis Fitzgerald	Library Trustee	July 2011
Chris Radig	Library Trustee	July 2011

**City of Pocahontas, Iowa**

**Officials**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>(After January 2012)</b>		
Dick Gruber	Mayor	Jan 2014
Brian Stover	Council Member	Jan 2014
Gus Holzmueler	Council Member	Jan 2015
Rod Stoulil	Council Member	Jan 2014
John Dewall	Council Member	Jan 2014
Jeff Nielsen	Council Member	Jan 2014
Robert Donahoo	City Administrator	Appointed
Joan Dewall	Clerk	Jan 2013
Jeff Johnson	Treasurer	Appointed
James W. Hudson, Jr. Shors & Thomas	Attorney Attorney	Appointed Appointed
Dennis Marten	Airport Commissioner	July 2012
Ray Krips	Airport Commissioner	July 2012
Ken DeYoung	Airport Commissioner	July 2013
Dr. Dennis Dahl	Airport Commissioner	July 2014
Gary McCarten	Airport Commissioner	July 2014
Mary Amm Dewall	Library Trustee	July 2014
Mary Kelly	Library Trustee	July 2014
Jada Hallberg	Library Trustee	July 2014
John Smith	Library Trustee	July 2014
Nancy Berte	Library Trustee	July 2014
Don Beneke	Library Trustee	July 2017
Chris Radig	Library Trustee	July 2017

# Cornwell, Frideres, Maher & Associates, P.L.C.

## Certified Public Accountants

714 14th Avenue North  
Fort Dodge, IA 50501-7098  
Phone 515.955.4805 • Fax 515.955.4673

**Lowell W. Cornwell, C.P.A.**  
lwcornwell@frontiernet.net

**Christine R. Frideres, C.P.A.**  
crfrideres@frontiernet.net

**Jerilyn J. Maher, C.P.A.**  
jjmaher@frontiernet.net

### 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 Pocahontas, Iowa, as of and for the year ended June 30, 2012, which collectively comprise the City's primary government basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Pocahontas' 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 do not include financial data for the City's legally separate component unit, the Pocahontas Community Hospital. Accounting principles generally accepted in the United States of America require the financial data for this component unit to be reported with the financial data of the City's primary government unless the City also issues financial statements for the financial reporting entity that include the financial data for its component units. The City has not issued such reporting entity financial statements. Because of this departure from accounting principles generally accepted in the United States of America, the receipts, disbursements and net assets of the business type activities would have increased by \$9,743,706, \$9,433,438 and \$8,543,369.

In our opinion, because of the omission of the blended component unit as discussed above, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the cash basis financial position of the business type activities.

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, each major fund and the aggregate remaining fund information for the primary government of the City of Pocahontas, Iowa 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 28, 2012 on our consideration of the City of Pocahontas' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or 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 Pocahontas' primary government's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the primary government's financial statements for the nine years ended June 30, 2011 (which are not presented herein) and expressed unqualified opinions on those financial statements, except for our opinions on the business type activities which were adverse due to the omission of the City's component unit, which were prepared in conformity with an other comprehensive basis of accounting. The supplementary information included in Schedules 1 through 7, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information 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 statements 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 City of Pocahontas' primary government's basic financial statements. Management's Discussion and Analysis and budgetary comparison information on pages 5 through 11 and 31 through 33 are presented for purpose of additional analysis and are not a required part of the basic financial statements. This information has not been subjected to the auditing procedures applied in the audit of the primary government basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

*Cornwell, Frideres, Maher & Associates, P.L.C.*

Cornwell, Frideres, Maher & Associates, P.L.C.

Certified Public Accountants

November 28, 2012

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## **Management's Discussion and Analysis**

The City of Pocahontas 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**

- Total receipts increased 38.04%, or approximately \$2,074,842 from FY 2011 to FY 2012. Governmental Funds revenues increased \$998,383 while Proprietary Funds revenues increased \$1,076,459 from the previous year.
- Total disbursements increased 39.42% or approximately \$2,029,353 in fiscal 2012 from fiscal 2011. Governmental Fund expenditures increased \$1,201,056 and Proprietary Funds expenditures increased \$828,297 from the previous year.
- The City's total cash basis net assets increased 16.80%, or approximately \$352,289 from June 30, 2011 to June 30, 2012. Of this amount, the assets of the governmental activities increased \$66,791 and the assets of the business type activities increased \$285,498.

### **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 New Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

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

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

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 non-major governmental funds. In addition, the Schedule of Expenditures of Federal Awards provides details of various federal programs benefiting the City.

## **Basis of Accounting**

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, 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 presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

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

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

### *Fund Financial Statements*

The City has two kinds of funds:

- 1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Urban Renewal Tax Increment, 3) the Debt Service Fund, 4) the Revolving Loan Funds, 5) and the

Capital Projects Fund. The governmental fund financial statements provide a detailed, short-term view of the City’s general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City’s programs.

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

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

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

Reconciliations between government-wide 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 \$1.284 million to \$1.350 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**

	<b>Year ended June 30</b>	
	<b>2012</b>	<b>2011</b>
<b>Receipts and Transfers</b>		
<b>Program Receipts:</b>		
Charges for service	\$ 334,537	\$ 290,426
Operating Grants, contributions, restricted interest	\$ 927,207	\$ 744,727
Capital grants, contributions and restricted interest	\$ 547,278	\$ 106,669
<b>General receipts:</b>		
Property tax	\$ 824,914	\$ 841,506
Local Option Sales Tax	\$ 181,893	\$ 111,698
Unrestricted interest on investments	\$ 8,352	\$ 9,188
Bond Proceeds	\$ 352,006	\$ 0
Other general receipts	\$ 27,143	\$ 44,913
<b>Transfers, net</b>	<b>\$ 202,500</b>	<b>\$ 258,320</b>
<b>Total receipts and transfers</b>	<b>\$ 3,405,830</b>	<b>\$ 2,407,447</b>

<b>Disbursements:</b>		
Public Safety	\$ 292,373	\$ 267,040
Public Works	\$ 648,735	\$ 637,173
Culture and Recreation	\$ 225,115	\$ 203,491
Community and Economic Development	\$ 731,030	\$ 276,744
General Government	\$ 260,523	\$ 252,285
Debt Service	\$ 397,004	\$ 197,367
Capital Projects	\$ 784,259	\$ 303,883
<b>Total Disbursements</b>	<b>\$ 3,339,039</b>	<b>\$ 2,137,983</b>
<b>Increase in cash basis net assets</b>	<b>\$ 66,791</b>	<b>\$ 269,464</b>
<b>Cash Basis net assets beginning of year</b>	<b>\$ 1,283,553</b>	<b>\$ 1,014,089</b>
<b>Cash basis net assets end of year</b>	<b>\$ 1,350,344</b>	<b>\$ 1,283,553</b>

The City's total receipts for governmental activities increased 41.14%, or \$1,001,383. The total cost of all programs and services increased \$1,201,056, or 56.18%, with no new programs added this year. The largest revenue increase was in Bond proceeds, which increased 100% or approximately \$352,006 because of a number of construction projects completed this year.

Property tax collections decreased 2.00%, or approximately \$16,592. Tax collections are expected to increase at a steady pace in the future in the area of 1% to 5% growth per year.

The cost of all governmental activities this year was \$3.339 million compared to \$2.138 million last year. The largest change was in Community and Economic Development, which increased 264.15%, or \$454,286. Other program increases generally reflected increases in the cost of salaries, health insurance and other benefits.

**Changes in Cash Basis Net Assets of Business Type Activities**  
**Year ended June 30,**

	<u>2012</u>	<u>2011</u>
<b>Receipts and Transfers</b>		
<b>Program Receipts:</b>		
<b>Charges for service:</b>		
Electric	\$ 2,135,753	\$ 2,216,655
Water	\$ 445,487	\$ 411,559
Sewer	\$ 413,605	\$ 383,069
Telecommunications (Internet)	\$ 6,825	\$ 9,750
<b>Capital grants, contributions and restricted interest</b>	\$ 0	\$ 0
<b>Miscellaneous</b>	\$ 95,224	\$ 26,103
<b>Bond proceeds</b>	\$ 1,026,701	\$ 0
<b>Total receipts and transfers</b>	<b>\$ 4,123,595</b>	<b>\$ 3,047,136</b>

<b>Disbursements:</b>		
<b>Electric</b>	<b>\$ 2,208,289</b>	<b>\$ 1,939,533</b>
<b>Water</b>	<b>\$ 798,348</b>	<b>\$ 392,636</b>
<b>Sewer</b>	<b>\$ 613,540</b>	<b>\$ 395,113</b>
<b>Telecommunications (Internet)</b>	<b>\$ 7,500</b>	<b>\$ 950</b>
<b>Miscellaneous</b>	<b>\$ 7,920</b>	<b>\$ 23,248</b>
<b>Transfers</b>	<b>\$ 202,500</b>	<b>\$ 258,320</b>
<b>Total Disbursements</b>	<b>\$ 3,838,097</b>	<b>\$ 3,009,800</b>
<b>Increase in cash basis net assets</b>	<b>\$ 285,498</b>	<b>\$ 37,336</b>
<b>Cash Basis net assets beginning of year</b>	<b>\$ 814,082</b>	<b>\$ 776,746</b>
<b>Cash Basis net assets end of year</b>	<b>\$1,099,580</b>	<b>\$ 814,082</b>

Total business type activities receipts for the fiscal year were \$4.124 million compared to \$3.047 million last year. The increase was due primarily to the increased receipts from bond revenues received for the various construction projects this past year. The cash balance increased by approximately \$285,498 from the prior year. Total disbursements for the fiscal year increased to \$3.838 million compared to \$3.010 million last year.

### **Individual Major Governmental Fund Analysis**

As the City of Pocahontas completed the year, its governmental funds reported a combined fund balance of \$1,350,344, an increase of \$66,791 above last year's total of \$1,283,553. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance decreased \$56,462 from the prior year to \$190,431. The majority of this decrease was due increases in public safety, culture and recreation, and economic development expenses. City staff would like to continue to grow the cash balance of the general fund in the coming years.
- The three City Revolving Loan Funds cash balances decreased to \$427,412 from the prior year of \$479,431. This fund has loaned out money to new and existing businesses causing the drop in cash basis. The City would prefer not to have this much cash on hand in the loan funds.
- The Industrial Development Fund cash balance increased to -\$354,092 from the prior year of -\$420,651. The City sold some of its non-essential properties, which increased the total cash basis.

## Individual Major Business Type Fund Analysis

- The Water Fund cash balance increased \$65,487 to \$234,815, due primarily to increased water rates increased in 2011. A three year tiered rate increase was adopted in June 2011 to grow the Water Fund.
- The Electric Fund cash balance increased \$30,740 to \$650,834. The expiration of an electric revenue bond will help the cash balance; however we have been receiving almost 10% wholesale electric rate increases each year.
- The Sewer Fund cash balance decreased \$191,466 to \$176,657. The City adopted a three year tiered rate increase in June 2011 which will help increase the Sewer Fund in the coming years.

## Budgetary Highlights

Over the course of the year, the City amended its budget one time. The amendment increased revenues by \$75,800 and increased expenditures by \$2,321,300. The City had sufficient cash balances to absorb the additional costs estimated under the budget amendment.

The City's receipts were \$1,278,614 over budgeted expectations. This was primarily due to the City receiving bond revenue for the construction projects this past year. Actual intergovernmental, use of money and property, and miscellaneous revenue greatly exceeded estimated amount.

The City's total expenditures were \$44,303 over budgeted expectations. Most individual programs were under budget with the exception of costs of our construction projects, primarily the waste water treatment plant improvements.

## Debt Administration

At June 30, 2012 the City had \$3,720,061 in bonds and other long-term debt outstanding, compared to \$2,989,374 last year, as shown below.

Outstanding Debt At Year-End			
June 30			
	<u>2012</u>		<u>2011</u>
<b>General obligation bonds</b>	\$ 810,000	\$	225,000
<b>Revenue Bonds</b>	\$ 1,913,347	\$	1,706,701
<b>Promissory Notes</b>	\$ 996,714	\$	1,057,673
<b>Total</b>	\$ 3,720,061	\$	2,989,374

Annual payments on the general obligation bonds, revenue bonds, and promissory notes decreased the outstanding amounts, however a new G.O Bond and additional sewer

revenue bonds increased their respected outstanding amounts. The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$810,000 less than half its constitutional debt limit of \$2.0 million.

### **Economic Factors and Next Year's Budget and Rates**

The elected and appointed officials and citizens of Pocahontas considered many factors when setting the fiscal year 2011 budget, tax rates, and fees charged for various City activities. One of those factors is the economy. The unemployment in the county now stands at 3.7%. This compares with the State's unemployment rate of 5.2% and the national rate of 7.9%. Inflation was at 2.2% from October 2011 to October 2012.

Economic conditions in Pocahontas and the surrounding area remain stable. Local Option Sales Tax Revenues increased considerably this past year which represents an increase in overall spending in Pocahontas. We have definitely benefited from an improved economy and the Highway 20 expansion. Many local companies are hiring and are actually having a difficult time recruiting employees. Pocahontas has benefited from strong performance in the agricultural and manufacturing sectors. While economic crisis has struck much of the country, Pocahontas has weathered the storm quite well. The strong farm economy, boosted by high commodity prices, benefits the local economy. The City will continue to work with local businesses and residents to expand housing and employment opportunities in Pocahontas.

These indicators were taken into account when adopting the budget for Fiscal Year 2012. Total revenues of \$5.948 million increased \$751,982 from the previous year primarily due to bond monies for construction projects. Property tax revenue increased \$12,295 even though the City's overall levy actually decreased slightly. Total expenditures of \$6.975 million, excluding transfers, increased approximately \$2,084,900 from the previous year due to construction projects. The City has added no major new programs or initiatives to the FY 2012 budget.

The City's cash balance increased approximately \$352,289 in Fiscal Year 2012.

### **Contacting the City's Financial Management**

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Robert Donahoo, City Administrator, or Joan DeWall, City Clerk, 23 West Elm Avenue, Pocahontas, IA 50574.

## **Basic Financial Statements**

City of Pocahontas, Iowa

Statement of Activities and Net Assets - Cash Basis

As of and for the year ended June 30, 2012

	<u>Disbursements</u>	<u>Program Receipts</u>		
		<u>Charges for Service</u>	<u>Operating Grants, Contributions, and Restricted Interest</u>	<u>Capital Grants, Contributions, and Restricted Interest</u>
<b>Functions/Programs:</b>				
Governmental activities:				
Public safety	\$ 292,373	3,958	36,681	-
Public works	648,735	248,529	245,962	-
Culture and recreation	225,115	73,545	33,829	-
Community and economic development	731,030	164	553,421	-
General government	260,523	8,341	16,314	-
Debt service	397,004	-	41,000	-
Capital projects	<u>784,259</u>	<u>-</u>	<u>-</u>	<u>547,278</u>
Total governmental activities	<u>3,339,039</u>	<u>334,537</u>	<u>927,207</u>	<u>547,278</u>
Business type activities:				
Water	798,348	445,487	-	-
Electric	2,208,289	2,135,753	-	-
Sewer	613,540	413,605	-	-
Other non-major	<u>15,420</u>	<u>16,225</u>	<u>-</u>	<u>-</u>
Total business type activities	<u>3,635,597</u>	<u>3,011,070</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 6,974,636</u>	<u>3,345,607</u>	<u>927,207</u>	<u>547,278</u>

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
Governmental Activities	Business Type Activities	Total
(251,734)	-	(251,734)
(154,244)	-	(154,244)
(117,741)	-	(117,741)
(177,445)	-	(177,445)
(235,868)	-	(235,868)
(356,004)	-	(356,004)
<u>(236,981)</u>	<u>-</u>	<u>(236,981)</u>
<u>(1,530,017)</u>	<u>-</u>	<u>(1,530,017)</u>
-	(352,861)	(352,861)
-	(72,536)	(72,536)
-	(199,935)	(199,935)
<u>-</u>	<u>805</u>	<u>805</u>
<u>-</u>	<u>(624,527)</u>	<u>(624,527)</u>
<u>(1,530,017)</u>	<u>(624,527)</u>	<u>(2,154,544)</u>

(continued)

## Statement of Activities and Net Assets - Cash Basis

As of and for the year ended June 30, 2012

	Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
	Governmental Activities	Business Type Activities	Total
<b>General Receipts:</b>			
Property and other city taxes levied for:			
General purposes	\$ 554,993	-	554,993
Debt service	105,224	-	105,224
Tax increment financing	164,697	-	164,697
Local options sales tax	181,893	-	181,893
Unrestricted interest on investments	8,352	3,998	12,350
Miscellaneous	27,143	81,826	108,969
Bond proceeds	352,006	1,026,701	1,378,707
Transfers	202,500	(202,500)	-
Total general receipts and transfers	<u>1,596,808</u>	<u>910,025</u>	<u>2,506,833</u>
Change in cash basis net assets	66,791	285,498	352,289
Cash basis net assets beginning of year	<u>1,283,553</u>	<u>814,082</u>	<u>2,097,635</u>
Cash basis net assets end of year	<u>1,350,344</u>	<u>1,099,580</u>	<u>2,449,924</u>
<b>Cash Basis Net Assets</b>			
Restricted:			
Nonexpendable:			
Culture and recreation	150,000	-	150,000
Expendable:			
Hotel/Motel	33,056	-	33,056
Streets	155,913	-	155,913
Debt service	1,322		1,322
Other purposes	1,227,759		1,227,759
Unrestricted	<u>(217,706)</u>	<u>1,099,580</u>	<u>881,874</u>
<b>Total cash basis net assets</b>	<u>\$ 1,350,344</u>	<u>1,099,580</u>	<u>2,449,924</u>

See notes to financial statements.

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

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects Capital Improvement</u>
Receipts:			
Property tax	\$ 343,008	103,916	-
Tax increment financing	-	-	-
Other city tax	4,873	1,308	-
Licenses and permits	2,815	-	-
Use of money and property	54,972	-	18,336
Intergovernmental	43,772	-	547,878
Charges for service	271,567	-	-
Special assessments	-	-	1,892
Miscellaneous	34,598	41,000	32,084
Total receipts	<u>755,605</u>	<u>146,224</u>	<u>600,190</u>
Disbursements:			
Operating:			
Public safety	231,565	-	-
Public works	251,131	-	-
Culture and recreation	200,145	-	-
Community and economic development	89,261	-	-
General government	214,888	-	-
Debt service	-	397,004	-
Capital projects	-	-	682,150
Total disbursements	<u>986,990</u>	<u>397,004</u>	<u>682,150</u>
Excess (deficiency) of receipts over (under) disbursements	<u>(231,385)</u>	<u>(250,780)</u>	<u>(81,960)</u>
Other financing sources (uses):			
Bond proceeds	-	261,967	72,802
Operating transfers in	210,000	6,000	5,000
Operating transfers out	(35,077)	-	-
Total other financing sources (uses)	<u>174,923</u>	<u>267,967</u>	<u>77,802</u>
Net change in cash balances	(56,462)	17,187	(4,158)
Cash balances beginning of year	246,893	(15,865)	72,501
Cash balances end of year	<u>\$ 190,431</u>	<u>1,322</u>	<u>68,343</u>
<b>Cash Basis Fund Balances</b>			
Nonspendable - Permanent funds	\$ -	-	-
Restricted:			
Debt service	-	1,322	-
Hotel/Motel	33,056	-	-
Streets	-	-	-
Other purposes	-	-	89,332
Unassigned	157,375	-	(20,989)
Total cash basis fund balances	<u>\$ 190,431</u>	<u>1,322</u>	<u>68,343</u>

See notes to financial statements.

Exhibit B

Other Nonmajor Governmental Funds	<u>Total</u>
207,916	654,840
164,697	164,697
184,887	191,068
-	2,815
555,221	628,529
188,319	779,969
-	271,567
-	1,892
48,265	155,947
1,349,305	2,851,324
60,808	292,373
397,604	648,735
24,970	225,115
641,769	731,030
45,635	260,523
-	397,004
102,109	784,259
1,272,895	3,339,039
76,410	(487,715)
17,237	352,006
117,577	338,577
(101,000)	(136,077)
33,814	554,506
110,224	66,791
980,024	1,283,553
1,090,248	1,350,344
150,000	150,000
-	1,322
-	33,056
155,913	155,913
1,138,427	1,227,759
(354,092)	(217,706)
1,090,248	1,350,344

City of Pocahontas, Iowa

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

As of and for the year ended June 30, 2012

	Enterprise Funds		
	<u>Water</u>	<u>Electric</u>	<u>Sewer</u>
Operating receipts:			
Use of money and property	\$ 3,600	-	-
Charges for service	437,699	2,110,420	407,362
Miscellaneous	4,188	25,333	6,243
Total operating receipts	<u>445,487</u>	<u>2,135,753</u>	<u>413,605</u>
Operating disbursements:			
Business type activities	<u>294,559</u>	<u>1,883,917</u>	<u>206,494</u>
Total operating disbursements	<u>294,559</u>	<u>1,883,917</u>	<u>206,494</u>
Excess (deficiency) of operating receipts over (under) operating disbursements	<u>150,928</u>	<u>251,836</u>	<u>207,111</u>
Non-operating receipts (disbursements):			
Bond proceeds	464,164	128,450	434,087
Intergovernmental	-	81,826	-
Interest on investments	1,184	-	2,814
Debt service	(111,473)	(187,806)	(58,689)
Capital projects	<u>(392,316)</u>	<u>(136,566)</u>	<u>(348,357)</u>
Total non-operating receipts (disbursements)	<u>(38,441)</u>	<u>(114,096)</u>	<u>29,855</u>
Excess (deficiency) of receipts over (under) disbursements	112,487	137,740	236,966
Operating transfers out	<u>(47,000)</u>	<u>(107,000)</u>	<u>(45,500)</u>
Net change in cash balances	65,487	30,740	191,466
Cash balances beginning of year	<u>169,328</u>	<u>620,094</u>	<u>(14,809)</u>
Cash balances end of year	<u>\$ 234,815</u>	<u>650,834</u>	<u>176,657</u>
<b>Cash Basis Fund Balances</b>			
Unrestricted	<u>234,815</u>	<u>650,834</u>	<u>176,657</u>
Total cash basis fund balances	<u>\$ 234,815</u>	<u>650,834</u>	<u>176,657</u>

See notes to financial statements.

Exhibit C

<u>Other Nonmajor</u>	<u>Total</u>
-	3,600
16,225	2,971,706
<u>-</u>	<u>35,764</u>
<u>16,225</u>	<u>3,011,070</u>
<u>15,420</u>	<u>2,400,390</u>
<u>15,420</u>	<u>2,400,390</u>
<u>805</u>	<u>610,680</u>
-	1,026,701
-	81,826
-	3,998
-	(357,968)
<u>-</u>	<u>(877,239)</u>
<u>-</u>	<u>(122,682)</u>
805	487,998
<u>(3,000)</u>	<u>(202,500)</u>
(2,195)	285,498
<u>39,469</u>	<u>814,082</u>
<u>37,274</u>	<u>1,099,580</u>
<u>37,274</u>	<u>1,099,580</u>
<u>37,274</u>	<u>1,099,580</u>

City of Pocahontas, Iowa

Notes to Financial Statements

June 30, 2012

**(1) Summary of Significant Accounting Policies**

The City of Pocahontas is a political subdivision of the State of Iowa located in Pocahontas County. It was first incorporated in 1870 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, culture and recreation, community and economic development and general government services. The City also provides water, sewer and electric utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Pocahontas has included only the primary government of the City of Pocahontas, which consists of all funds, organizations, institutions, agencies, departments, and offices that comprise the City's primary government. The financial statements do not include financial data for the City's legally separate component unit, the Pocahontas Community Hospital, which U.S. generally accepted accounting principles require to be reported with the financial data of the City's primary government. The audited financial statements of the Pocahontas Community Hospital can be obtained at their business office.

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: Pocahontas County Emergency Management Commission, Pocahontas County Joint E911 Service Board, and Pocahontas County Solid Waste Commission.

City of Pocahontas, Iowa  
Notes to Financial Statements  
June 30, 2012

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 services.

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

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

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 are aggregated and reported as nonmajor governmental funds.

City of Pocahontas, Iowa

Notes to Financial Statements

June 30, 2012

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 not paid from other funds.

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.

Capital Projects:

The Capital Improvements Fund is used to account for transactions promoting capital improvements

The City reports the following major proprietary funds:

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

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

The Electric Fund accounts for the operation and maintenance of the City's electric system.

C. Measurement Focus and Basis of Accounting

The City of Pocahontas 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.

City of Pocahontas, Iowa

Notes to Financial Statements

June 30, 2012

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

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

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

D. Governmental Cash Basis Fund Balances

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

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

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

Assigned – Amounts the Council intends to use for specific purposes.

Unassigned – All amounts not included in other spendable classifications.

City of Pocahontas, Iowa

Notes to Financial Statements

June 30, 2012

C. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2012, disbursements exceeded the amounts budgeted in the culture and recreation, debt service and business type activities functions.

**(2) Cash**

The City's deposits in banks at June 30, 2012 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

The City has no investments at June 30, 2012. During the year, the City deposited excess funds in certificates of deposit.

City of Pocahontas, Iowa

Notes to Financial Statements

June 30, 2012

**(3) Bonds Payable**

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

Year Ending	General		Revenue Bonds		Total	
	Obligation Bonds					
June 30,	Principal	Interest	Principal	Interest	Principal	Interest
2013	\$ 125,000	10,853	115,000	57,400	240,000	68,253
2014	130,000	8,327	118,000	53,951	248,000	62,278
2015	105,000	5,648	123,000	50,410	228,000	56,058
2016	110,000	5,017	126,000	46,721	236,000	51,738
2017	110,000	3,918	130,000	42,940	240,000	46,858
2018-2022	230,000	2,817	712,000	153,742	942,000	156,559
2023-2027	---	1,495	409,000	51,352	409,000	52,847
2028-2032	---	---	102,000	21,142	102,000	21,142
2033-2036	---	---	<u>78,347</u>	<u>5,322</u>	<u>78,347</u>	<u>5,322</u>
Total	\$ 810,000	38,075	1,913,347	482,980	2,723,347	521,055
	=====	=====	=====	=====	=====	=====

The resolutions providing for the issuance of the revenue bonds include the following provisions.

- (a) The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the funds.
- (b) The Water Revenue Fund must produce and maintain net revenues at a level not less than 110% of the amount of principal and interest on the revenue bond due in any one year.
- (c) The Sewer Revenue Fund must produce and maintain net revenues at a level not less than 110% of the amount of principal and interest on the revenue bond due in any one year.

City of Pocahontas, Iowa  
Notes to Financial Statements  
June 30, 2012

Revenue Bonds

The City has pledged future water customer receipts, net of specified operating disbursements, to repay \$1,418,582 in water revenue notes issued in April 2004. Proceeds from the notes provided financing for water improvements. The notes are payable through 2024. Annual principal and interest payments on the notes are expected to require less than 90 percent of net receipts. The total principal and interest remaining to be paid on the notes is \$1,300,700. For the current year, principal and interest paid and total customer net receipts were \$108,590 and \$152,112, respectively.

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay \$1,630,000 in sewer revenue notes issued in July 2004 and August 2011. Proceeds from the notes provided financing for the construction of improvements to the sewer treatment plant and other sewer improvements. The notes are payable solely from sewer customer net receipts and are payable through 2036. Annual principal and interest payments on the notes are expected to require less than 90 percent of net receipts. The total principal and interest remaining to be paid on the notes is \$1,095,627. For the current year, principal and interest paid and total customer net receipts were \$56,471 and \$206,298, respectively.

**(4) Promissory Notes**

The City entered into a loan agreement dated February 8, 2006 for \$1,000,000 secured by the electric utility revenue and receivables. This agreement has an interest rate of 4.75% for five years with a variable rate thereafter, but not to exceed 7.75%. The loan matures February 8, 2016 at which time all principal and interest are due. Semi-annual payments of \$63,392.25 are due on this note beginning June 1, 2010.

Future payments are due as follows based on 4.75% interest:

Year ending <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>
2013	\$ 97,959	28,825
2014	102,612	24,172
2015	107,486	19,298
2016	112,592	14,193
2017	<u>186,202</u>	<u>8,845</u>
	\$ 606,851	95,333
	=====	=====

City of Pocahontas, Iowa

Notes to Financial Statements

June 30, 2012

The City also entered into a loan agreement for \$402,939 with the United States Department of Agriculture secured by the portfolio of investments derived from the proceeds of this loan award. This agreement carries an interest rate of 1%, with interest only paid for the first three years. This loan has a due date of 2-1-2038.

Future payments are due as follows:

<u>Year Ending</u> <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>
2013	\$ 13,206	3,899
2014	13,338	3,767
2015	13,472	3,633
2016	13,607	3,498
2017	13,743	3,362
2018-2022	70,802	14,723
2023-2027	74,414	11,111
2028-2032	78,210	7,315
2033-2037	82,199	3,326
2038	<u>16,872</u>	<u>169</u>
Total	\$ 389,863	54,803
	=====	=====

**(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.

City of Pocahontas, Iowa  
Notes to Financial Statements  
June 30, 2012

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 \$69,056, \$60,507 and \$51,738, respectively, equal to the required contributions for each year.

**(6) Other Postemployment Benefits (OPEB)**

Plan Description – The City of Pocahontas 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 0 retired members in the plan. The city will pay 100% of premiums for single coverage and up to the amount of the single premium rate for family coverage. 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 benefits as active employees.

Funding Policy – The contribution requirements of plan members are established and may be amended by the City. The City currently finances the benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the City and plan members are \$332 for single coverage and \$829 for family coverage. The same monthly premiums apply to retirees. For the year ended June 30, 2012, the City contributed \$84,817 and plan members eligible for benefits contributed \$28,696 to the plan.

**(7) Compensated Absences**

City employees accumulate a limited amount of earned but unused vacation and comp time hours for subsequent use or for payment upon termination, retirement or death. Sick leave hours accumulate and are paid only when used. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned compensated absences payable to employees at June 30, 2012, primarily relating to the General Fund, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation and comp time	\$ <u>61,000</u>

This liability has been computed based on rates of pay in effect at June 30, 2012.

City of Pocahontas, Iowa

Notes to Financial Statements

June 30, 2012

**(8) Interfund Transfers**

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

<u>Transfer To</u>	<u>Transfer From</u>	<u>Amount</u>
General	Enterprise:	
	Water	\$ 45,000
	Sewer	45,000
	Electric	117,000
	Internet	<u>3,000</u>
		<u>210,000</u>
Debt Service	Special Revenue:	
	LOST	<u>6,000</u>
Capital Projects:		
Capital Improvements	General	<u>5,000</u>
Capital Equipment	General	30,077
	Enterprise:	
	Water	1,000
	Sewer	500
	Electric	2,500
	Special Revenue:	
	Road Use	<u>30,000</u>
		<u>64,077</u>
Special Revenue:		
Industrial Development	Enterprise:	
	Water	1,000
	Electric	<u>22,500</u>
		<u>23,500</u>
REDG Revolving Loan Fund	Special Revenue:	
	Industrial Development	<u>30,000</u>
Total		\$ <u>338,577</u>

City of Pocahontas, Iowa

Notes to Financial Statements

June 30, 2012

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 \$57,163 during the year ended June 30, 2012.

**(10) Risk Management**

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

**(11) Deficit Balances**

The Special Revenue, Industrial Development Revenue Fund had a deficit balance of \$354,092 at June 30, 2012. This deficit will be eliminated upon repayment of loans, interfund transfers, and sale of property.

The Capital Projects Fund, Airport Account had a deficit balance of \$20,989 at June 30, 2012. This deficit will be eliminated upon receipt of grant reimbursements.

**(12) Economic Development Loans Receivable**

The City has various long-term loans receivable totaling \$1,082,831 as of June 30, 2012 due from various business in Pocahontas. The loans were financed with the proceeds from various grant agreements, matching contribution from the City and repayments from the businesses. Interest rates on these loans vary from 0% - 4.5% with monthly payments varying from \$221 to \$1,520.

City of Pocahontas, Iowa

Notes to Financial Statements

June 30, 2012

**(13) Construction Commitments**

The City has approximately \$159,000 left to pay on their sewer and water projects that were not completed by June 30, 2012.

**(14) Subsequent Events**

The City has evaluated subsequent events through November 28, 2012, the date the financial statements were available to be issued.

The City approved a new loan from their Revolving Loan Fund to Pocahontas Community Hospital for \$360,000. This loan will be financed by receipt of an additional grant of \$300,000 and cash on hand.

## **Other Information**

City of Pocahontas, Iowa  
 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 <u>Actual</u>	Proprietary Funds <u>Actual</u>
Receipts:		
Property tax	\$ 654,840	-
Tax increment financing collections	164,697	-
Other city tax	191,068	-
Licenses and permits	2,815	-
Use of money and property	628,529	7,598
Intergovernmental	779,969	81,826
Charges for service	271,567	2,971,706
Special assessments	1,892	-
Miscellaneous	155,947	35,764
Total receipts	<u>2,851,324</u>	<u>3,096,894</u>
Disbursements:		
Public safety	292,373	-
Public works	648,735	-
Culture and recreation	225,115	-
Community and economic development	731,030	-
General government	260,523	-
Debt service	397,004	-
Capital projects	784,259	-
Business type activities	-	3,635,597
Total disbursements	<u>3,339,039</u>	<u>3,635,597</u>
Excess (deficiency) of receipts over (under) disbursements	(487,715)	(538,703)
Other financing sources (uses), net	<u>554,506</u>	<u>824,201</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	66,791	285,498
Balances beginning of year	<u>1,283,553</u>	<u>814,082</u>
Balances end of year	<u>\$ 1,350,344</u>	<u>1,099,580</u>
See accompanying independent auditor's report.		

<u>Total</u>	<u>Budgeted Amounts</u>		<u>Final to Total Variance</u>
	<u>Original</u>	<u>Final</u>	
654,840	646,267	646,267	8,573
164,697	137,700	161,000	3,697
191,068	170,872	170,872	20,196
2,815	1,175	1,175	1,640
636,127	69,240	69,240	566,887
861,795	399,450	399,450	462,345
3,243,273	3,091,600	3,091,600	151,673
1,892	-	-	1,892
191,711	77,500	130,000	61,711
<u>5,948,218</u>	<u>4,593,804</u>	<u>4,669,604</u>	<u>1,278,614</u>
292,373	276,800	313,650	21,277
648,735	647,686	740,786	92,051
225,115	209,425	214,025	(11,090)
731,030	307,534	792,684	61,654
260,523	287,250	292,500	31,977
397,004	135,040	135,040	(261,964)
784,259	289,777	1,708,027	923,768
3,635,597	2,455,521	2,733,621	(901,976)
<u>6,974,636</u>	<u>4,609,033</u>	<u>6,930,333</u>	<u>(44,303)</u>
(1,026,418)	(15,229)	(2,260,729)	1,234,311
<u>1,378,707</u>	<u>-</u>	<u>1,924,100</u>	<u>(545,393)</u>
352,289	(15,229)	(336,629)	688,918
<u>2,097,635</u>	<u>1,976,910</u>	<u>1,976,910</u>	<u>120,725</u>
<u>2,449,924</u>	<u>1,961,681</u>	<u>1,640,281</u>	<u>809,643</u>

City of Pocahontas, Iowa

Notes to Other Information – Budgetary Reporting

June 30, 2012

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

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

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. 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 Fund, the Permanent Fund 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 \$2,321,300, increased budgeted revenues by \$75,800 and increased budgeted other financing sources by \$1,924,100. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2012, disbursements exceeded the amounts budgeted in the culture and recreation, debt service and business type activities functions.

## **Supplementary Information**

City of Pocahontas, Iowa

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					
	Road <u>Use</u>	Employee <u>Benefits</u>	Local Option Sales <u>Tax</u>	Tax Increment <u>Fund (TIF)</u>	Revolving <u>Loan Fund</u>	REDG Revolving <u>Loan Fund</u>
Receipts:						
Property tax	\$ -	207,916	-	-	-	-
Tax increment financing	-	-	-	164,697	-	-
Other city tax	-	2,994	181,893	-	-	-
Use of money and property	-	-	-	-	82,010	306,753
Intergovernmental	170,249	-	-	-	-	-
Special assessments	-	-	-	-	-	-
Miscellaneous	-	-	-	-	-	-
Total receipts	<u>170,249</u>	<u>210,910</u>	<u>181,893</u>	<u>164,697</u>	<u>82,010</u>	<u>306,753</u>
Disbursements:						
Operating:						
Public safety	-	60,808	-	-	-	-
Public works	126,429	49,765	202,336	-	-	-
Culture and recreation	-	24,970	-	-	-	-
Community and economic development	-	18,157	-	61,231	104,939	306,330
General government	-	45,635	-	-	-	-
Debt Service	-	-	-	-	-	-
Capital projects	-	-	-	-	-	-
Total disbursements	<u>126,429</u>	<u>199,335</u>	<u>202,336</u>	<u>61,231</u>	<u>104,939</u>	<u>306,330</u>
Excess (deficiency) of receipts over (under) disbursements	<u>43,820</u>	<u>11,575</u>	<u>(20,443)</u>	<u>103,466</u>	<u>(22,929)</u>	<u>423</u>

Schedule 1

					Capital Projects
Intermediary Relending <u>Loan Fund</u>	Industrial Development <u>Revenue Fund</u>	I-Jobs <u>Revenue</u>	"Irma Elbert Bequest"	"Charlotte Lenore Zech Bequest"	Capital <u>Equipment</u>
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
68,472	96,186	-	1,800	-	-
-	-	-	-	-	18,070
-	-	-	-	-	-
-	-	-	-	-	48,265
<u>68,472</u>	<u>96,186</u>	<u>-</u>	<u>1,800</u>	<u>-</u>	<u>66,335</u>
-	-	-	-	-	-
-	-	19,074	-	-	-
-	-	-	-	-	-
127,985	23,127	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	102,109
<u>127,985</u>	<u>23,127</u>	<u>19,074</u>	<u>-</u>	<u>-</u>	<u>102,109</u>
<u>(59,513)</u>	<u>73,059</u>	<u>(19,074)</u>	<u>1,800</u>	<u>-</u>	<u>(35,774)</u>

(continued)

City of Pocahontas, Iowa

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					
	Road <u>Use</u>	Employee <u>Benefits</u>	Local Option Sales <u>Tax</u>	Tax Increment <u>Fund (TIF)</u>	Revolving <u>Loan Fund</u>	REDG Revolving <u>Loan Fund</u>
Other financing sources (uses):						
Bond proceeds	-	-	-	-	-	-
Operating transfers in	-	-	-	-	-	30,000
Operating transfers out	(65,000)	-	(6,000)	-	-	-
Total other financing sources (uses)	<u>(65,000)</u>	<u>-</u>	<u>(6,000)</u>	<u>-</u>	<u>-</u>	<u>30,000</u>
Net change in cash balances	(21,180)	11,575	(26,443)	103,466	(22,929)	30,423
Cash balances beginning of year	<u>177,093</u>	<u>117,912</u>	<u>156,125</u>	<u>116,023</u>	<u>56,676</u>	<u>249,575</u>
Cash balances end of year	<u>\$ 155,913</u>	<u>129,487</u>	<u>129,682</u>	<u>219,489</u>	<u>33,747</u>	<u>279,998</u>
<b>Cash Basis Fund Balances</b>						
Nonspendable - Permanent funds	-	-	-	-	-	-
Restricted:						
Debt service	-	-	-	-	-	-
Streets	155,913	-	-	-	-	-
Other purposes	-	129,487	129,682	219,489	33,747	279,998
Unassigned	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total cash basis fund balances	<u>\$ 155,913</u>	<u>129,487</u>	<u>129,682</u>	<u>219,489</u>	<u>33,747</u>	<u>279,998</u>

See accompanying independent auditor's report.

Schedule 1

					Capital Projects
Intermediary Relending <u>Loan Fund</u>	Industrial Development <u>Revenue Fund</u>	I-Jobs <u>Revenue</u>	"Irma Elbert <u>Bequest"</u>	"Charlotte Lenore Zech <u>Bequest"</u>	Capital <u>Equipment</u>
-	-	-	-	-	17,237
-	23,500	-	-	-	64,077
-	(30,000)	-	-	-	-
-	(6,500)	-	-	-	81,314
(59,513)	66,559	(19,074)	1,800	-	45,540
<u>173,180</u>	<u>(420,651)</u>	<u>19,074</u>	<u>6,917</u>	<u>4,254</u>	<u>173,846</u>
<u>113,667</u>	<u>(354,092)</u>	<u>-</u>	<u>8,717</u>	<u>4,254</u>	<u>219,386</u>
-	-	-	-	-	-
-	-	-	-	-	-
113,667	-	-	8,717	4,254	219,386
-	(354,092)	-	-	-	-
<u>113,667</u>	<u>(354,092)</u>	<u>-</u>	<u>8,717</u>	<u>4,254</u>	<u>219,386</u>

(continued)

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

As of and for the year ended June 30, 2012

	Permanent			Total
	"Jean Wallace Perry <u>Memorial"</u>	"Charlotte Lenore Zech <u>Bequest"</u>	"Irma Elbert <u>Bequest"</u>	
Receipts:				
Property tax	\$ -	-	-	207,916
Tax increment financing collections	-	-	-	164,697
Other city tax	-	-	-	184,887
Use of money and property	-	-	-	555,221
Intergovernmental	-	-	-	188,319
Special assessments	-	-	-	-
Miscellaneous	-	-	-	48,265
Total receipts	-	-	-	1,349,305
Disbursements:				
Operating:				
Public safety	-	-	-	60,808
Public works	-	-	-	397,604
Culture and recreation	-	-	-	24,970
Community and economic development	-	-	-	641,769
General government	-	-	-	45,635
Debt Service	-	-	-	-
Capital projects	-	-	-	102,109
Total disbursements	-	-	-	1,272,895
Excess (deficiency) of receipts over (under) disbursements	-	-	-	76,410

(continued)

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

As of and for the year ended June 30, 2012

	Permanent			
	"Jean Wallace Perry <u>Memorial"</u>	"Charlotte Lenore Zech <u>Bequest"</u>	"Irma Elbert <u>Bequest"</u>	<u>Total</u>
Other financing sources (uses):				
Operating transfers in	-	-	-	117,577
Operating transfers out	-	-	-	(101,000)
Total other financing sources (uses)	-	-	-	33,814
Net change in cash balances	-	-	-	110,224
Cash balances beginning of year	\$ 2,500	87,500	60,000	980,024
Cash balances end of year	\$ 2,500	\$ 87,500	\$ 60,000	\$ 1,090,248
<b>Cash Basis Fund Balances</b>				
Nonspendable - Permanent funds	2,500	87,500	60,000	150,000
Restricted:				
Debt service	-	-	-	-
Streets	-	-	-	155,913
Other purposes	-	-	-	1,138,427
Unassigned	-	-	-	(354,092)
Total cash basis fund balances	\$ 2,500	87,500	60,000	1,090,248

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 Funds		
	Meter <u>Deposits</u>	<u>Internet</u>	<u>Total</u>
Operating receipts:			
Charges for service	\$ 9,400	6,825	16,225
Total operating receipts	<u>9,400</u>	<u>6,825</u>	<u>16,225</u>
Operating disbursements:			
Business type activities	7,920	7,500	15,420
Total operating disbursements	<u>7,920</u>	<u>7,500</u>	<u>15,420</u>
Excess (deficiency) of operating receipts over (under) operating disbursements	<u>1,480</u>	<u>(675)</u>	<u>805</u>
Operating transfers in (out)	<u>-</u>	<u>(3,000)</u>	<u>(3,000)</u>
Net change in cash balances	1,480	(3,675)	(2,195)
Cash balances beginning of year	<u>16,553</u>	<u>22,916</u>	<u>39,469</u>
Cash balances end of year	<u>\$ 18,033</u>	<u>19,241</u>	<u>37,274</u>
<b>Cash Basis Fund Balances</b>			
Unrestricted			
Total cash basis fund balances	<u>\$ 18,033</u>	<u>19,241</u>	<u>37,274</u>

See notes to financial statements.

City of Pocahontas, Iowa

Schedule of Indebtedness

Year ended June 30, 2012

<u>Obligation</u>	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount Originally Issued</u>
General obligation bonds:			
G.O. refunding bonds, series 2001	Nov 1, 2001	3.00-4.40%	\$ 1,715,000
G.O. corporate purpose bonds, series 2012	Jun 28, 2012	0.50-1.30%	710,000
Revenue bonds:			
Water	Apr 23, 2004	3.00%	\$ 1,418,582
Sewer	Jul 7, 2004	3.00%	1,200,000
Sewer	Aug 5, 2011	3.00%	430,000
Promissory notes:			
Electric	Feb 8, 2006	4.75%	\$ 1,000,000
United States Department of Agriculture	Feb 1, 2008	1.00%	402,939

See accompanying independent auditor's report.

## Schedule 3

<u>Balance Beginning of Year</u>	<u>Issued During Year</u>	<u>Redeemed During Year</u>	<u>Balance End of Year</u>	<u>Interest Paid</u>	<u>Interest Due and Unpaid</u>
225,000	-	125,000	100,000	9,538	-
-	710,000	-	710,000	-	-
<u>\$ 225,000</u>	<u>710,000</u>	<u>125,000</u>	<u>810,000</u>	<u>9,538</u>	<u>-</u>
1,153,000	-	74,000	1,079,000	34,590	-
448,701	8,299	26,000	431,000	13,606	-
-	414,347	11,000	403,347	5,866	-
<u>\$ 1,601,701</u>	<u>422,646</u>	<u>111,000</u>	<u>1,913,347</u>	<u>54,062</u>	<u>-</u>
654,734	-	47,883	606,851	29,488	-
402,939	-	13,076	389,863	4,029	-
<u>\$ 1,057,673</u>	<u>-</u>	<u>60,959</u>	<u>996,714</u>	<u>33,517</u>	<u>-</u>

Bond Maturities- General Obligation Bonds

June 30, 2012

Year Ending <u>June 30,</u>	<u>General Obligation</u> <u>Refunding Bonds Series 2001</u> <u>Issued November 1, 2001</u>		<u>General Obligation</u> <u>Corporate Purpose Bonds Series 2012</u> <u>Issued June 28, 2012</u>		<u>Total</u>
	Interest		Interest		
	<u>Rates</u>	<u>Amount</u>	<u>Rates</u>	<u>Amount</u>	
2013	4.30 %	\$ 50,000	0.50 %	\$ 75,000	\$ 125,000
2014	4.40	50,000	0.60	80,000	130,000
2015	-	-	0.60	105,000	105,000
2016	-	-	1.00	110,000	110,000
2017	-	-	1.00	110,000	110,000
2018	-	-	1.15	115,000	115,000
2019	-	-	1.30	115,000	115,000
Total		<u>\$ 100,000</u>		<u>\$ 710,000</u>	<u>\$ 810,000</u>

See accompanying independent auditor's report.

Bond Maturities - Revenue Bonds

June 30, 2012

Year Ending June 30,	Water Revenue Bonds			Sewer Revenue Bonds		
	Series 2004			Series 2004		
	Issued April 23, 2004			Issued July 7, 2004		
	Interest		Amount	Interest		Amount
	Rates			Rates		
2013	3.00	%	\$ 76,000	3.00	%	\$ 27,000
2014	3.00		78,000	3.00		28,000
2015	3.00		81,000	3.00		29,000
2016	3.00		83,000	3.00		30,000
2017	3.00		86,000	3.00		31,000
2018	3.00		88,000	3.00		32,000
2019	3.00		91,000	3.00		33,000
2020	3.00		94,000	3.00		34,000
2021	3.00		96,000	3.00		35,000
2022	3.00		99,000	3.00		36,000
2023	3.00		102,000	3.00		37,000
2024	3.00		105,000	3.00		39,000
2025	-		-	3.00		40,000
Total			\$ 1,079,000			\$ 431,000

Year Ending June 30,	Sewer Revenue Bonds			Total
	Series 2011			
	Issued August 5, 2011			
	Interest		Amount	Total
	Rates			
2013	3.00	%	\$ 12,000	\$ 115,000
2014	3.00		12,000	118,000
2015	3.00		13,000	123,000
2016	3.00		13,000	126,000
2017	3.00		13,000	130,000
2018	3.00		14,000	134,000
2019	3.00		14,000	138,000
2020	3.00		15,000	143,000
2021	3.00		15,000	146,000
2022	3.00		16,000	151,000
2023	3.00		16,000	155,000
2024	3.00		17,000	161,000
2025	3.00		17,000	57,000
2026	3.00		18,000	18,000
2027	3.00		18,000	18,000
2028	3.00		19,000	19,000
2029	3.00		20,000	20,000
2030	3.00		20,000	20,000
2031	3.00		21,000	21,000
2032	3.00		22,000	22,000
2033	3.00		22,000	22,000
2034	3.00		23,000	23,000
2035	3.00		24,000	24,000
2036	3.00		9,347	9,347
Total			\$ 403,347	\$ 1,913,347

See accompanying independent auditor's report.

City of Pocahontas, Iowa

Schedule of Receipts By Source and Disbursements by Function -  
All Government Funds

For the Last Ten Years

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Receipts:				
Property tax	\$ 654,840	658,174	625,289	612,206
Tax increment financing collections	164,697	149,068	152,318	154,619
Other city tax	191,068	125,896	158,312	154,096
Licenses and permits	2,815	1,210	1,625	1,675
Use of money and property	628,529	503,230	336,879	366,456
Intergovernmental	779,969	338,244	935,842	419,799
Charges for service	271,567	258,819	241,916	259,374
Special assessments	1,892	5,417	5,281	7,514
Miscellaneous	<u>155,947</u>	<u>109,069</u>	<u>98,395</u>	<u>105,673</u>
 Total	 <u>\$ 2,851,324</u>	 <u>2,149,127</u>	 <u>2,555,857</u>	 <u>2,081,412</u>
Disbursements:				
Operating:				
Public safety	\$ 292,373	267,040	255,329	247,291
Public works	648,735	637,173	471,823	603,095
Culture and recreation	225,115	203,491	212,045	259,503
Community and economic development	731,030	276,744	749,291	876,815
General government	260,523	252,285	257,534	242,584
Debt service	397,004	197,367	199,405	195,905
Capital projects	<u>784,259</u>	<u>303,883</u>	<u>450,620</u>	<u>197,178</u>
 Total	 <u>\$ 3,339,039</u>	 <u>2,137,983</u>	 <u>2,596,047</u>	 <u>2,622,371</u>

See accompanying independent auditor's report.

Schedule 6

<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
578,796	578,775	592,328	569,770	582,771	555,410
98,695	60,937	51,243	16,831	5,506	-
129,935	141,821	111,680	173,693	57,090	9,604
1,425	2,717	2,290	2,005	5,978	2,065
306,949	132,945	138,368	70,116	79,805	79,939
1,037,160	264,837	413,845	349,556	217,340	216,267
261,607	223,168	198,951	208,711	197,975	193,299
12,616	6,489	10,446	13,873	23,054	4,699
<u>93,906</u>	<u>137,713</u>	<u>179,061</u>	<u>80,092</u>	<u>57,168</u>	<u>86,519</u>
<u>2,521,089</u>	<u>1,549,402</u>	<u>1,698,212</u>	<u>1,484,647</u>	<u>1,226,687</u>	<u>1,147,802</u>
243,031	236,813	226,559	245,152	235,853	249,267
566,239	471,068	452,681	345,215	330,161	368,997
188,648	181,058	174,088	188,266	172,439	151,623
1,233,174	473,909	637,418	350,567	537,037	15,591
249,901	226,240	240,394	236,556	215,623	226,590
212,467	224,068	224,455	219,784	225,130	217,100
<u>165,423</u>	<u>48,605</u>	<u>45,882</u>	<u>286,398</u>	<u>34,135</u>	<u>88,181</u>
<u>2,858,883</u>	<u>1,861,761</u>	<u>2,001,477</u>	<u>1,871,938</u>	<u>1,750,378</u>	<u>1,317,349</u>

Schedule of Expenditures of Federal Awards

Year ended June 30, 2012

Grantor/Program	CFDA Number	Agency Pass-through Number	Program Expenditures
Direct:			
U.S. Department of Transportation:			
Airport Improvement Program	20.106	03-19-0076-03-2007	\$ 12,968
Airport Improvement Program	20.106	03-19-0076-06-2010	208,974
Airport Improvement Program	20.106	03-19-0076-07-2011	218,839
Airport Improvement Program	20.106	03-19-0076-08-2012	<u>13,528</u>
			<u>454,309</u>
Indirect:			
U.S. Department of Energy:			
Iowa Economic Development Authority:			
Energy Efficiency and Conservation			
Block Grant (ARRA funds)	81.128	EECBG-10-3454	<u>81,826</u>
Total			<u><u>\$ 536,135</u></u>

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

See accompanying independent auditor's report.

# Cornwell, Frideres, Maher & Associates, P.L.C.

## Certified Public Accountants

714 14th Avenue North  
Fort Dodge, IA 50501-7098  
Phone 515.955.4805 • Fax 515.955.4673

Lowell W. Cornwell, C.P.A.  
lwcornwell@frontiernet.net

Christine R. Frideres, C.P.A.  
crfrideres@frontiernet.net

Jerilyn J. Maher, C.P.A.  
jjmaher@frontiernet.net

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

To the Honorable Mayor and  
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Pocahontas, Iowa, as of and for the year ended June 30, 2012, which collectively comprise the primary government's basic financial statements listed in the table of contents, and have issued our report thereon dated November 28, 2012. Our report expressed unqualified opinions on the financial statements, except for the business type activities, which was adverse due to the omission of the City's component unit, 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 City of Pocahontas is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City of Pocahontas' 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 an opinion on the effectiveness of the City of Pocahontas' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Pocahontas' internal control over financial reporting.

*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 that a material misstatement of the City of Pocahontas' financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies in internal control over financial reporting as items II-A-12 and II-B-12. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

### Compliance and Other Matters

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

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2012 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

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

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Pocahontas and other parties to whom the City of Pocahontas may report, including federal awarding agencies and pass-through entities. This report 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 Pocahontas 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.

*Cornwell, Frideres, Maher & Associates, P.L.C.*

Cornwell, Frideres, Maher & Associates, P.L.C.  
Certified Public Accountants

November 28, 2012

# Cornwell, Frideres, Maher & Associates, P.L.C.

## Certified Public Accountants

714 14th Avenue North  
Fort Dodge, IA 50501-7098  
Phone 515.955.4805 • Fax 515.955.4673

**Lowell W. Cornwell, C.P.A.**  
lwcornwell@frontiernet.net

**Christine R. Frideres, C.P.A.**  
crfrideres@frontiernet.net

**Jerilyn J. Maher, C.P.A.**  
jjmaher@frontiernet.net

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

To the Honorable Mayor and  
Members of the City Council:

### Compliance

We have audited the City of Pocahontas' compliance with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on the City of Pocahontas' major federal program for the year ended June 30, 2012. The City of Pocahontas' major federal program is identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to its major federal program is the responsibility of City of Pocahontas' management. Our responsibility is to express an opinion on the City of Pocahontas' compliance based on our audit.

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

In our opinion, the City of Pocahontas complied, in all material respects, with the requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2012.

## Internal Control Over Compliance

The management of City of Pocahontas is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grant agreements applicable to federal programs. In planning and performing our audit, we considered the City of Pocahontas' internal control over compliance with requirement that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of City of Pocahontas' internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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

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

*Cornwell, Frideres, Maher & Associates, P.L.C.*  
Cornwell, Frideres, Maher & Associates, P.L.C.  
Certified Public Accountants

November 28, 2012

City of Pocahontas, Iowa

Schedule of Findings and Questioned Costs

Year ended June 30, 2012

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

- (a) Unqualified opinions were issued on the financial statements except for the business type entities, which was adverse due to the omission of the City's component unit, which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
- (b) Significant deficiencies in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) No material weaknesses in internal control over the major programs were disclosed by the audit of the financial statements.
- (e) An unqualified opinion was issued on compliance with requirements applicable to the major program.
- (f) The audit disclosed audit findings which are required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) The major program was CFDA Number 20.106 – Airport Improvement Program.
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) The City of Pocahontas did not qualify as a low-risk auditee.

City of Pocahontas, Iowa

Schedule of Findings and Questioned Costs

Year ended June 30, 2012

**Part II: Findings Related to the Financial Statements:**

**SIGNIFICANT DEFICIENCIES:**

II-A-12 Segregation of Duties - Community Center - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the same person writes checks, signs checks, posts receipts and disbursements and reconciles the bank account.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, we recommend that the Community Center Board review its control procedures to obtain the maximum internal control possible under the circumstances.

Response – We will investigate possible alternatives.

Conclusion – Response accepted.

II-B-12 Preparation of Financial Statements – Management is responsible for establishing and maintaining internal controls over financial reporting and procedures related to the fair presentation of the financial statements in accordance with the cash basis of accounting. The City of Pocahontas does not have an internal control system designed to provide for the preparation of the financial statements, including the accompanying footnotes, as required by generally accepted accounting principles. The guidance in Statement of Auditing Standards No. 115, *Communicating Internal Control Related Matters Identified in an Audit*, requires us to communicate this matter to those charged with governance.

As auditors, we were requested to draft the financial statements and accompanying notes to the financial statements. The outsourcing of these services is not unusual in an organization of your size.

City of Pocahontas, Iowa

Schedule of Findings and Questioned Costs

Year ended June 30, 2012

Recommendation – We realize that obtaining the expertise necessary to prepare the financial statements, including all necessary disclosures, in accordance with generally accepted accounting principles can be considered costly and effective. However, it is the responsibility of the City’s management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Response – Management feels that committing the resources necessary to remain current on GAAP and GASB reporting requirements and corresponding footnote disclosures would lack benefit in relation to the cost, but will continue evaluating on a going forward basis.

Conclusion – Response accepted.

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

**Part III: Findings and Questioned Costs for Federal Awards**

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

**INTERNAL CONTROL DEFICIENCIES:**

No matters were noted.

**Part IV: Other Findings Related to Statutory Reporting:**

IV-A-12 Certified Budget – Disbursements during the year ended June 30, 2012 exceeded the amounts budgeted in the culture and recreation, debt service and business type activities functions. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

City of Pocahontas, Iowa

Schedule of Findings and Questioned Costs

Year ended June 30, 2012

Recommendation – The budget should be amended in sufficient amounts before the disbursements exceed the budget.

Response – The budget will be amended in sufficient amounts in the future, if applicable. We budgeted for our business type activities capital projects under the wrong category, which explains the large discrepancy noted on the Budgetary Comparison Schedule. We are working with the software vendor to help insure this does not happen in the future.

Conclusion – Response accepted.

IV-B-12 Questionable Disbursements – No disbursements were noted that may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979.

IV-C-12 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

IV-D-12 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>
Gus Holzmueller – Council Member Owner of Pocahontas Ford	Police car & auto repairs	\$ 32,040
Brian Stover – Council Member Owner of Stover Construction	Repairs	14,082
Ray Krips – Airport Commissioner Owner of Ray Krips Construction	City hall roof and repairs	<u>11,041</u>
		<u>57,163</u>

In accordance with Chapter 362.5(4) of the Code of Iowa, the transactions with Pocahontas Ford and Stover Construction do not represent conflicts of interest as they were entered into through competitive bidding procedures.

City of Pocahontas, Iowa

Schedule of Findings and Questioned Costs

Year ended June 30, 2012

IV-E-12 Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage is reviewed annually to insure that coverage is adequate for current operations.

IV-F-12 City Council Minutes - We noted that City officials did not publish the claims paid from the Economic Development Revolving Loan Funds' checking accounts for the year ended June 30, 2012.

Recommendation – As these checking accounts are part of the City's accounts, these claims should be published with the rest of the City's claims.

Response – This was an oversight this year. These checking accounts are required by the USDA to have separate checking accounts and thus were overlooked when listing claims paid from the main account.

Conclusion – Response accepted.

IV-G-12 Deposits and Investments - No instances of non-compliance with the deposit and investments provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.

IV-H-12 Revenue Bonds and Notes – No instances of non-compliance with the revenue bond and note resolutions were noted.

IV-I-12 Telecommunications Services – No instances of non-compliance with Chapter 388.10 of the Code of Iowa were noted.

IV-J-12 Deficit Balances – There was a deficit balance noted as of June 30, 2012.

Recommendation – City officials should review this deficit in order to return this account to a sound financial position.

Response – See footnote #11 in notes to financial statements for our plans to eliminate this deficit.

Conclusion – Response accepted.

City of Pocahontas, Iowa

Schedule of Findings and Questioned Costs

Year ended June 30, 2012

IV-K-12 Tax Increment Financing (TIF) – There is approximately \$219,000 of cash in the TIF Special Revenue Fund at June 30, 2012. However, City officials were unable to determine if there was excess cash on hand as the county auditor does not prepare a reconciliation of TIF remittances with the amount of debt certified.

Recommendation – The City should decertify the cash on hand on or before December 1, 2011. In addition, the City should work with the county auditor to determine a resolution to this matter. A copy of this report should be filed with the county auditor.

Response – We have consulted TIF legal counsel and will follow the above recommendations.

Conclusion – Response accepted.