

CITY OF NEOLA
INDEPENDENT AUDITORS' REPORTS
BASIC FINANCIAL STATEMENTS
SUPPLEMENTARY AND OTHER INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2012

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City of Neola

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January 2012)		
Lon Ring	Mayor	January 2012
Herb Brich	Council Member	January 2012
Ethan Matthews	Council Member	January 2010
Aric Thomsen	Council Member	January 2010
Pete Sorenson	Council Member	January 2012
Joe Munch	Council Member	January 2012
Deb Schierbrock	City Clerk	Indefinite
Sarah McDermott	Deputy Clerk	Indefinite
Scott Rogers	Attorney	Indefinite
(After January 2012)		
Lon Ring	Mayor	January 2014
Herb Brich	Council Member	January 2016
Ethan Matthews	Council Member	January 2014
Aric Thomsen	Council Member	January 2014
Pete Sorenson	Council Member	January 2016
Joe Munch	Council Member	January 2016
Deb Schierbrock	City Clerk	Indefinite
Sarah McDermott	Deputy Clerk	Indefinite
Scott Rogers	Attorney	Indefinite

City of Neola



Diane McGrain, CPA
Jim Menard, CPA

January 12, 2013

Independent Auditors' 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, and each major fund of the City of Neola, Iowa, as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Neola'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. Also, as permitted by the Code of Iowa, the accounting records of the City have not been audited for all prior years. Accordingly, we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2011.

In our opinion, except for the effects of such adjustments, if any, as might have been determined necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2011, as discussed in the preceding paragraph, 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, and each major fund of the City of Neola 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.

Continued...

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Independent Auditors' Report
City of Neola

In accordance with *Government Auditing Standards*, we have also issued our reports dated January 12, 2013 on our consideration of the City of Neola's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the 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 Neola's basic financial statements. The supplementary information included in Schedules 1 and 2 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 the City of Neola's basic financial statements. Management's Discussion and Analysis and the budgetary comparison information on pages 7 through 11, and 30 through 32, are presented for purposes 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 basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Schrover & Associates, P.C.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Neola 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

Revenues of the City's governmental activities increased 14%, or approximately \$73,000, from fiscal 2011 to fiscal 2012. Property tax increased approximately \$12,000, tax increment financing increased \$6,000, and operating grants increased \$70,000.

Disbursements of the City's governmental activities decreased by 17%, or approximately \$93,000, from fiscal year 2011 to fiscal year 2012, public works decreased \$54,000 and culture and recreation decreased \$35,000.

The City's total cash basis net assets decreased 34%, or approximately \$162,000 from June 30, 2011 to June 30, 2012. Of this amount, the assets of the governmental activities increased approximately \$160,000 and the assets of the business type activities decreased by approximately \$322,000.

USING THIS ANNUAL REPORT

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

Management's Discussion and Analysis introduce the basic financial statements and provide 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 operation 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 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 operations of the fund in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

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

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

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

Governmental Activities include public safety, public works, 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 electric services. 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, and 4) the Capital Projects Fund. The governmental fund financial statements provided 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 government funds include a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains Enterprise Funds to provide separate information for the water, sewer, sewer construction and garbage funds, all considered major funds of the City.

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from a year ago, decreasing from \$71,000 to \$231,000. The analysis that follows focuses on the changes in cash balances for governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities (Expressed in Thousands)		
	Year Ended June 30,	
	2012	2011
Receipts:		
Program receipts:		
Charges for service	\$ 52	\$ 53
Operating grants, contributions and restricted interest	189	119
General receipts:		
Property tax	223	211
Tax increment financing	19	13
Local option sales tax	96	106
Grants and contributions restricted to specific purpose	4	4
Unrestricted interest on investments	1	1
Loan proceeds	-	-
Miscellaneous	9	13
Total receipts	<u>593</u>	<u>520</u>
Disbursements:		
Public safety	79	80
Public works	182	236
Health and social service	2	-
Culture and recreation	70	105
Community and economic development	7	6
General government	76	86
Debt service	50	35
Capital projects	-	12
Total disbursements	<u>466</u>	<u>559</u>
Change in cash basis net assets before transfers	127	(39)
Transfers, net	<u>33</u>	<u>50</u>
Change in cash basis net assets	160	11
Cash basis net assets beginning of year	<u>71</u>	<u>60</u>
Cash basis net assets end of year	<u>\$ 231</u>	<u>\$ 71</u>

The cost of all governmental activities this year decreased by approximately \$93,000 from fiscal year 2011 to 2012 primarily due to a decrease in public works of approximately \$54,000 due to street maintenance and repairs, and culture and recreation of approximately \$35,000. Total receipts increased by approximately \$73,000 primarily due to an increase in miscellaneous receipts from a Cities grant of \$55,000.

Changes in Cash Basis Net Assets of Business Type Activities (Expressed in Thousands)		
	Year Ended June 30,	
	2012	2011
Receipts:		
Program receipts:		
Charges for service		
Water	\$ 146	\$ 146
Sewer	44	43
Electrical	438	441
General receipts:		
Unrestricted interest on investments	2	2
Loan proceeds	1,777	-
Miscellaneous	6	3
Total receipts	<u>2,413</u>	<u>635</u>
Disbursements:		
Water	146	141
Sewer	2,033	63
Electrical	523	632
Total operating disbursements	<u>2,702</u>	<u>836</u>
Change in cash basis net assets before transfers	(289)	(201)
Transfers net	<u>(33)</u>	<u>(21)</u>
Change in cash basis net assets	(322)	(222)
Cash basis net asset beginning of year	<u>351</u>	<u>573</u>
Cash basis net assets end of year	<u>\$ 29</u>	<u>\$ 351</u>

Total business type activities receipts for the fiscal year were \$2,412,561 compared to \$635,040 last year. The increase was due to a loan the City received for wastewater treatment facility improvements.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As Neola completed the year, its governmental funds report a combined fund balance of \$231,377, an increase of more than \$160,000 above last year's total of \$71,318. 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 \$140,213 from the prior year to \$165,493 due to grant monies received and additional fire township funds.

The Special Revenue, Road Use Tax Fund cash balance increased by \$14,354 to \$59,122 during the fiscal year. This was due to employee benefits tax collections and additional tax increment financing collections.

The Special Revenue, Employee Benefits Fund cash balance increased by \$3,604 during the fiscal year.

The Special Revenue, Urban Renewal Tax Increment Fund cash balance increased by \$1,888 during the fiscal year.

The Special Revenue, Local Option Sales Tax Fund cash balance did not change during the fiscal year.

The Debt Service Fund cash balance decreased by \$33,105 during the fiscal year. This was due to current year loan payments and no new note proceeds received.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

The Enterprise, Water Fund cash balance decreased \$35,030 to \$104,498.

The Enterprise, Sewer Fund cash balance decreased by \$62,641 to \$84,710 due to sewer repairs and current year loan payments.

The Enterprise, Sewer Capital Project Fund cash decreased by \$157,199 to (\$357,802) due to payments for the new sewer project.

The Enterprise, Electric Fund cash balance decreased by \$77,481 to \$186,981 due to underground electric repairs and the purchase of transformers and other electric supply.

BUDGETARY HIGHLIGHTS

The City's receipts were \$3,219,000 less than budgeted in the charges for services category. This was primarily due to the City budgeting for loan proceeds in the charges for services category rather than in the other financing sources category.

The City's disbursements were \$1,279,000 less than budgeted. This was primarily due to the City over budgeting for sewer plant capital project expenses.

DEBT ADMINISTRATION

At June 30, 2013, the City had \$2,064,000 of bonds and other long-term debt outstanding, compared to \$308,000 last year, as shown below.

	Outstanding Debt at Year End	
	(Expressed in thousands)	
	June 30,	
	2012	2011
General Obligation bonds	\$ 30	60
Revenue notes	2,034	248
Total	\$ 2,064	308

Debt increased as a result of issuing revenue notes for a sewer plant construction project.

The City continues to carry a general obligation bond rating of A3 assigned by national rating agencies to the City's debt since 1995. The City's outstanding general obligation debt of \$30,000 is below its constitutional debt limit of approximately \$2300,000.

ECONOMIC FACTORS AND NEXT YEARS BUDGET AND RATES

Neola's elected and appointed official 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 utility rate increases to help defray operating costs. No new projects are planned.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

The City's financial statements are designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional financial information, please contact Deb Schierbrock, City Clerk, at 105 Pearl Street, P.O. Box 67, Neola, IA 51559 or telephone 712-485-2307.

Basic Financial Statements

City of Neola
Statement of Activities and Net Assets – Cash Basis
As of and for the year ended June 30, 2012

	Program Receipts			
	Disbursements	Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions/Programs:				
Governmental activities:				
Public safety	\$ 79,451	-	42,079	-
Public works	181,783	48,739	144,965	-
Health and social services	2,400	-	-	-
Culture and recreation	69,647	-	1,500	-
Community and economic development	7,050	-	-	-
General government	76,083	3,435	450	-
Debt service	50,095	-	-	-
Total governmental activities	<u>466,509</u>	<u>52,174</u>	<u>188,994</u>	<u>-</u>
Business type activities:				
Water	146,077	145,691	-	-
Sewer	2,032,608	43,762	-	-
Electrical	522,922	438,542	-	-
Total business type activities	<u>2,701,607</u>	<u>627,995</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 3,168,116</u>	<u>680,169</u>	<u>188,994</u>	<u>-</u>
General Receipts:				
Property tax levied for:				
General purposes				
Tax increment financing				
Local option sales tax				
Grants and contributions restricted to specific purpose				
Unrestricted interest on investments				
Note proceeds				
Miscellaneous				
Transfers				
Total general receipts and transfers				
Change in cash basis net assets				
Cash basis net assets beginning of year				
Cash basis net assets end of year				
Cash Basis Net Assets				
Restricted:				
Expendable:				
Streets				
Employee benefits				
Urban renewal purposes				
Debt service				
Unrestricted				
Total cash basis net assets				

See notes to financial statements

Net (Disbursement) Receipts and
Changes in Cash Basis Net Assets

	Governmental Activities	Business Type Activities	Total
	(37,372)	-	(37,372)
	11,921	-	11,921
	(2,400)	-	(2,400)
	(68,147)	-	(68,147)
	(7,050)	-	(7,050)
	(72,198)	-	(72,198)
	(50,095)	-	(50,095)
	<u>(225,341)</u>	-	<u>(225,341)</u>
	-	(386)	(386)
	-	(1,988,846)	(1,988,846)
	-	(84,380)	(84,380)
	<u>-</u>	<u>(2,073,612)</u>	<u>(2,073,612)</u>
	(225,341)	(2,073,612)	(2,298,953)
\$	222,895	-	222,895
	18,878	-	18,878
	95,803	-	95,803
	4,205	-	4,205
	746	1,898	2,644
	-	1,777,000	1,777,000
	9,768	5,668	15,436
	<u>33,105</u>	<u>(33,105)</u>	<u>-</u>
	<u>385,400</u>	<u>1,751,461</u>	<u>2,136,861</u>
	160,059	(322,151)	(162,092)
	<u>71,318</u>	<u>350,738</u>	<u>422,056</u>
\$	<u>231,377</u>	<u>28,587</u>	<u>259,964</u>
\$	59,122	-	59,122
	3,604	-	3,604
	3,158	-	3,158
	-	10,200	10,200
	<u>165,493</u>	<u>18,387</u>	<u>183,880</u>
\$	<u>231,377</u>	<u>28,587</u>	<u>259,964</u>

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

	Special Revenue			
	General	Road Use Tax	Employee Benefits	Urban Renewal Tax Increment
Receipts				
Property tax	\$ 200,463	-	21,960	-
Tax increment financing collections	-	-	-	18,878
Other city tax	472	-	-	-
Licenses and permits	3,435	-	-	-
Use of money and property	4,856	-	-	-
Intergovernmental	98,161	89,913	-	-
Charges for service	48,739	-	-	-
Miscellaneous	10,783	-	-	-
Total receipts	<u>366,909</u>	<u>89,913</u>	<u>21,960</u>	<u>18,878</u>
Disbursements				
Operating:				
Public safety	79,451	-	-	-
Public works	106,224	75,559	-	-
Health and social services	2,400	-	-	-
Culture and recreation	69,647	-	-	-
Community and economic development	7,050	-	-	-
General government	57,727	-	18,356	-
Debt service	-	-	-	16,990
Total disbursements	<u>322,499</u>	<u>75,559</u>	<u>18,356</u>	<u>16,990</u>
Excess (deficiency) of receipts over (under) disbursements	44,410	14,354	3,604	1,888
Other financing sources (uses):				
Operating transfers in	95,803	-	-	-
Operating transfers out	-	-	-	-
Total other financing sources (uses)	<u>95,803</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in cash balances	140,213	14,354	3,604	1,888
Cash balances beginning of year	<u>25,280</u>	<u>44,768</u>	<u>-</u>	<u>1,270</u>
Cash balances end of year	<u>\$ 165,493</u>	<u>59,122</u>	<u>3,604</u>	<u>3,158</u>
Cash Basis Fund Balances				
Restricted for:				
Streets	\$ -	59,122	-	-
Employee benefits	-	-	3,604	-
Urban renewal purposes	-	-	-	3,158
Unassigned	<u>165,493</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total cash basis fund balances	<u>\$ 165,493</u>	<u>59,122</u>	<u>3,604</u>	<u>3,158</u>

See notes to financial statements

Local Option Sales Tax	Debt Service	Total
-	-	222,423
-	-	18,878
95,803	-	96,275
-	-	3,435
-	-	4,856
-	-	188,074
-	-	48,739
-	-	10,783
<u>95,803</u>	<u>-</u>	<u>593,463</u>
-	-	79,451
-	-	181,783
-	-	2,400
-	-	69,647
-	-	7,050
-	-	76,083
-	33,105	50,095
<u>-</u>	<u>33,105</u>	<u>466,509</u>
95,803	(33,105)	126,954
-	33,105	128,908
(95,803)	-	(95,803)
<u>(95,803)</u>	<u>33,105</u>	<u>33,105</u>
-	-	160,059
<u>-</u>	<u>-</u>	<u>71,318</u>
<u>-</u>	<u>-</u>	<u>231,377</u>
-	-	59,122
-	-	3,604
-	-	3,158
<u>-</u>	<u>-</u>	<u>165,493</u>
<u>-</u>	<u>-</u>	<u>231,377</u>

City of Neola
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>Sewer</u>	<u>Sewer Capital Project</u>
Operating receipts:			
Charges for service	\$ 145,691	43,762	-
Operating disbursements:			
Business type activities	<u>125,777</u>	<u>88,910</u>	<u>-</u>
Excess (deficiency) of operating receipts over (under) operating disbursements	23,114	(45,148)	-
Non-operating receipts (disbursements):			
Interest on investments	54	256	-
Miscellaneous	357	-	-
Capital projects	-	-	(1,934,199)
Debt service	<u>(23,500)</u>	<u>(9,499)</u>	<u>-</u>
Total non operating receipts (disbursements)	<u>(23,089)</u>	<u>(9,243)</u>	<u>(1,934,199)</u>
Excess (deficiency) of receipts over (under) disbursements	(23,089)	(54,391)	(1,934,199)
Other financing sources (uses)			
Loan proceeds	-	-	1,777,000
Operating transfers in	-	-	-
Operating transfers out	<u>(33,015)</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	<u>(33,105)</u>	<u>-</u>	<u>1,777,000</u>
Net change in cash balances	(33,080)	(54,391)	(157,199)
Cash balances beginning of year	<u>139,528</u>	<u>147,351</u>	<u>(200,603)</u>
Cash balances end of year	\$ <u>106,448</u>	<u>92,960</u>	<u>(357,802)</u>
 Cash Basis Fund Balances			
Restricted for:			
Debt service	\$ 1,950	8,250	-
Unrestricted	<u>104,498</u>	<u>84,710</u>	<u>(357,802)</u>
Total cash basis fund balances	\$ <u>106,448</u>	<u>92,960</u>	<u>(357,802)</u>

See notes to financial statements

<u>Electric</u>	<u>Total</u>
438,542	627,995
<u>522,922</u>	<u>734,409</u>
(84,380)	(106,414)
1,588	1,898
5,311	5,668
-	(1,934,199)
-	(32,999)
<u>6,899</u>	<u>(1,959,632)</u>
(77,481)	(2,066,046)
-	1,777,000
-	-
-	(33,105)
<u>-</u>	<u>1,743,895</u>
(77,481)	(322,151)
<u>264,462</u>	<u>350,738</u>
<u>186,981</u>	<u>28,587</u>
-	10,200
<u>186,981</u>	<u>19,387</u>
<u>186,981</u>	<u>29,587</u>

City of Neola
Notes to Financial Statements
June 30, 2012

NOTE (1) Summary of Significant Accounting Policies

The City of Neola is a political subdivision of the State of Iowa located in Pottawattamie County, 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, health and social services, culture and recreation, 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 Neola 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. The City has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations

The City 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: Pottawattamie County Landfill Association, Pottawattamie County Assessor's Conference Board, Pottawattamie County Emergency Management Commission, and Pottawattamie County E911 Service Board.

B. Basis of Presentation

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

City of Neola
Notes to Financial Statements
June 30, 2012

NOTE (1) Summary of Significant Accounting Policies - Continued

B. Basis of Presentation - Continued

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

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

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

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

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

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts 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 Employee Benefits Fund accounts for the tax levy to support City employee benefits.

City of Neola
Notes to Financial Statements
June 30, 2012

NOTE (1) Summary of Significant Accounting Policies – Continued

B. Basis of Presentation – Continued

The Urban Renewal Tax Increment Fund is used to account for tax increment financing collections and the repayment of tax increment financing indebtedness.

The Local Option Sales Tax Fund is used to account for the receipts from the tax authorized by referendum and used for street construction and repairs.

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

The City reports the following major proprietary funds:

The Enterprise, Water Fund accounts for the operation and

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

The Enterprise, Sewer Fund – Capital Projects Account accounts for all resources used in the construction of capital facilities for the sewer enterprise fund.

The Enterprise, Electric Fund accounts for the operation and maintenance of the City's electrical system.

C. Measurement Focus and Basis of Accounting

The City of Neola 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.

City of Neola
Notes to Financial Statements
June 30, 2012

NOTE (1) Summary of Significant Accounting Policies – Continued

C. Measurement Focus and Basis of Accounting - Continued

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:

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 City Council intends to use for specific purposes.

Unassigned – All amounts not included in the preceding classification.

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 public safety, health and social services, debt service, and capital projects functions.

NOTE (2) Cash and Pooled Investments

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.

City of Neola
Notes to Financial Statements
June 30, 2012

NOTE (2) Cash and Pooled Investments - Continued

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.

Cash, which consists of cash on hand, cash in bank and certificates of deposit, totaled \$259,964 at June 30, 2012.

The City had no investments meeting the disclosure requirements of Governmental Accounting Standards Board No. 3, as amended by Statement No. 40.

NOTE (3) Bonds and Notes Payable

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

Year Ending June 30,	General Obligation Bonds		Revenue Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2013	\$ 30,000	\$ 1,560	\$ 61,000	\$ 60,960	\$ 91,000	\$ 62,520
2014	-	-	64,000	59,130	64,000	59,130
2015	-	-	65,000	57,210	65,000	57,210
2016	-	-	68,000	55,260	68,000	55,260
2017	-	-	70,000	53,220	70,000	53,220
2018-2022	-	-	385,000	233,220	385,000	233,220
2023-2027	-	-	376,000	174,240	376,000	174,240
2028-2032	-	-	389,000	119,160	389,000	119,160
2033-2037	-	-	456,000	56,880	456,000	56,880
2038	-	-	100,000	3,000	100,000	3,000
	<u>\$ 30,000</u>	<u>\$ 1,560</u>	<u>\$ 2,034,000</u>	<u>\$ 872,280</u>	<u>\$ 2,064,000</u>	<u>\$ 873,840</u>

The Code of Iowa requires principal and interest on general obligation bonds be paid from the Debt Service Fund.

The City has a general obligation debt limit of approximately \$2,300,000, which was not exceeded during the year ended June 30, 2012.

City of Neola
Notes to Financial Statements
June 30, 2012

NOTE (3) Bonds and Notes Payable - Continued

Revenue Notes

The City has pledged future water customer receipts, net of specified operating disbursements, to repay \$350,000 in water revenue notes issued in March 2004. Proceeds from the notes provided financing for the construction of a water tower. The notes are payable solely from water customer net receipts and are payable through 2024. Annual principal and interest payments on the notes are expected to require less than 60 percent of net receipts. The total principal and interest remaining to be paid on the notes is \$30,000. For the current year, principal and interest paid and total customer net receipts were \$23,500 and \$23,114, respectively.

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay \$1,800,000 of sewer revenue notes issued in February 2012. Proceeds from the notes provided financing for the construction of improvements to the sewer treatment plant. The notes are payable solely from sewer customer net receipts and are payable through 2028. Annual principal and interest payments on the notes are expected to require less than 50% of net receipts. The total principal and interest remaining to be paid on the notes is \$1,800,000. For the current year, principal and interest paid and total customer net disbursements were \$9,499, and (\$45,148), respectively.

The resolutions providing for the issuance of the revenue notes 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) Sufficient monthly transfers shall be made to separate water and sewer revenue note sinking accounts within the Enterprise Funds for the purpose of making the note principal and interest payments when due.
- (c) Additional monthly transfers of \$1,913 shall be made to a water reserve account and monthly transfers of \$8,250 shall be made to a sewer revenue reserve account within the Enterprise Funds until specific minimum balances have been accumulated in the accounts. These accounts are restricted for the purpose of paying for any additional improvements, extensions or repairs to the system.
- (d) All funds remaining in the sewer account after the payment of all maintenance and operating expenses and required transfers shall be placed in a sewer revenue surplus account within the Enterprise Funds. This account is restricted for the purpose of paying for any improvements, extension or repair to the system or for note and interest payments which the other accounts might be unable to make.

City of Neola
Notes to Financial Statements
June 30, 2012

NOTE (4) Related Party Transactions

The City had business transactions between the City and City officials totaling approximately \$4,200 during the year ended June 30, 2012.

NOTE (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.

Plan members are required to contribute 5.38% of their annual covered salary and the City is required to contribute 8.07% of annual covered payroll. Contribution requirements are established by state statute. The City's contribution to IPERS for the year ended June 30, 2012 was \$11,802, equal to the required contribution for the year.

NOTE (6) 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: Local Option Sales Tax	\$ 95,803
Debt Service	Enterprise: Water	<u>33,105</u>
		<u>\$ 128,908</u>

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

NOTE (7) Deficit Balance

The Sewer – Capital Projects Fund had a deficit balance of \$357,802 at June 30, 2012. The deficit balance was a result of project costs incurred prior to availability of funds. The deficit will be eliminated upon receipt of state grants.

City of Neola
Notes to Financial Statements
June 30, 2012

NOTE (8) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation 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 earned vacation termination payments payable to employees at June 30, 2012, relating to the General Fund and Enterprise Fund, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	<u>\$ 7,328</u>

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

NOTE (9) 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, automotive 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% 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 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.

City of Neola
Notes to Financial Statements
June 30, 2012

NOTE (9) Risk Management - Continued

The City's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The City's annual contributions to the Pool for the year ended June 30, 2012 were approximately \$31,500.

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 on an individual-member basis.

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 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 capital contributions. If a member withdraws after the sixth year, the member is refunded 100% of its capital contributions. However, the refund is reduced by an amount equal to the annual operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

The City also carries worker's compensation insurance purchased from a commercial vendor. The City assumes liability for any deductions, and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in the past fiscal year.

City of Neola
Notes to Financial Statements
June 30, 2012

NOTE (10) Construction Project Commitments

The City has entered into a construction contract for the construction of wastewater treatment facility improvements. As of June 30, 2012, the following amounts have been paid in connection with this project:

	<u>Contract Amount</u>	<u>Amount Paid in Current year</u>	<u>Balance to be Paid</u>
Construction Contract	\$ 3,176,188	\$ <u>1,861,502</u>	\$ <u>1,314,686</u>

This project is being paid for by a revenue bond and state grants.

NOTE (11) Subsequent Events

In July 2012, the City was awarded a \$500,000 Iowa West Cities Grant for a Wastewater Project.

Other Information

City of Neola
 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

	Government Funds Actual	Proprietary Funds Actual	Total
Receipts			
Property tax	\$ 222,423	-	222,423
Tax increment financing collections	18,878	-	18,878
Other city tax	96,275	-	96,275
Licenses and permits	3,435	-	3,435
Use of money and property	4,856	1,898	6,754
Intergovernmental	133,022	-	133,022
Charges for services	48,739	627,995	676,734
Miscellaneous	65,835	5,668	71,503
Total receipts	<u>593,463</u>	<u>635,561</u>	<u>1,229,024</u>
Disbursements			
Public safety	79,451	-	79,451
Public works	181,783	-	181,783
Health and social services	2,400	-	2,400
Culture and recreation	69,647	-	69,647
Community and economic development	7,050	-	7,050
General government	76,083	-	76,083
Debt service	50,095	32,999	83,094
Capital projects	-	1,934,199	1,934,199
Business type activities	-	734,409	734,409
Total disbursements	<u>466,509</u>	<u>2,701,607</u>	<u>3,168,116</u>
Excess (deficiency) of receipts over (under) disbursements	126,954	(2,066,046)	(1,939,092)
Other financing sources (uses), net	<u>33,105</u>	<u>1,743,895</u>	<u>1,777,000</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing sources (uses)	160,059	(322,151)	(162,092)
Balances beginning of year	<u>71,318</u>	<u>350,738</u>	<u>422,056</u>
Balances end of year	<u>\$ 231,377</u>	<u>28,587</u>	<u>259,964</u>

See accompanying independent auditors' report

	Budgeted Amounts		Final to Total Variance
	Original	Final	
\$	221,304	221,304	1,119
	17,128	17,128	1,750
	101,061	101,061	(4,786)
	2,500	2,500	935
	10,250	10,250	(3,496)
	113,000	113,000	20,022
	3,956,000	3,956,000	(3,279,266)
	26,750	26,750	44,753
	<u>4,447,993</u>	<u>4,447,993</u>	<u>(3,218,969)</u>
	74,200	74,200	(5,251)
	186,500	186,500	4,717
	-	-	(2,400)
	77,400	77,400	7,753
	28,128	28,128	21,078
	95,000	95,000	18,917
	33,105	33,105	(49,989)
	-	-	(1,934,199)
	<u>3,953,500</u>	<u>3,953,500</u>	<u>3,219,091</u>
	<u>4,447,833</u>	<u>4,447,833</u>	<u>1,279,717</u>
	160	160	(1,939,252)
	-	-	1,777,000
	160	160	(162,252)
	<u>737,679</u>	<u>737,679</u>	<u>(315,623)</u>
\$	<u>737,839</u>	<u>737,839</u>	<u>(477,875)</u>

City of Neola
Notes to Other Information – Budgetary Reporting
June 30, 2012

The budgetary comparison is presented in accordance with Governmental Accounting Standards Board (GASB) 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 and Fiduciary 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. The City of Neola's functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, the Capital Projects Fund, and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, there were no budget amendments.

During the year ended June 30, 2012, disbursements exceeded the amounts budgeted in public safety, health and social services, debt service, and capital projects functions.

Supplementary Information

City of Neola
 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:			
Water treatment plant	Feb 1, 1998	4.55% - 5.20%	\$ 350,000
Revenue notes:			
Water	Mar 3, 2004	3.00%	\$ 350,000
Sewer	Feb 24, 2012	3.00%	1,800,000

See accompanying independent auditors' report

Schedule 1

<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>60,000</u>	<u>-</u>	<u>30,000</u>	<u>30,000</u>	<u>3,105</u>
\$ 250,000	-	16,000	234,000	7,500
<u>-</u>	<u>1,800,000</u>	<u>-</u>	<u>1,800,000</u>	<u>9,499</u>
\$ <u>250,000</u>	<u>1,800,000</u>	<u>16,000</u>	<u>2,034,000</u>	<u>16,999</u>

City of Neola
 Bond and Note Maturities
 Year ended June 30, 2012

General Obligation Bonds					
Water Treatment Issued Feb 1, 1998					
Year Ending June 30,	Interest Rates	Amount			
2013	5.20 %	\$	30,000		
		\$	30,000		
Revenue Notes					
Water Tower Issued Mar 3, 2004			Sewer Plant Issued Feb 24, 2012		
Year Ending June 30,	Interest Rates	Amount	Interest Rates	Amount	Total
2013	3.00 %	\$ 16,000	3.00%	\$ 45,000	\$ 61,000
2014	3.00 %	17,000	3.00%	47,000	64,000
2015	3.00 %	17,000	3.00%	48,000	65,000
2016	3.00 %	18,000	3.00%	50,000	68,000
2017	3.00 %	19,000	3.00%	51,000	70,000
2018	3.00 %	19,000	3.00%	53,000	72,000
2019	3.00 %	20,000	3.00%	55,000	75,000
2020	3.00 %	20,000	3.00%	57,000	77,000
2021	3.00 %	21,000	3.00%	58,000	79,000
2022	3.00 %	22,000	3.00%	60,000	82,000
2023	3.00 %	22,000	3.00%	62,000	84,000
2024	3.00 %	23,000	3.00%	64,000	87,000
2025			3.00%	66,000	66,000
2026			3.00%	68,000	68,000
2027			3.00%	71,000	71,000
2028			3.00%	73,000	73,000
2029			3.00%	75,000	75,000
2030			3.00%	78,000	78,000
2031			3.00%	80,000	80,000
2032			3.00%	83,000	83,000
2033			3.00%	86,000	86,000
2034			3.00%	88,000	88,000
2035			3.00%	91,000	91,000
2036			3.00%	94,000	94,000
2037			3.00%	97,000	97,000
2038			3.00%	100,000	100,000
		\$ 234,000		\$ 1,800,000	\$ 2,034,000



Diane McGrain, CPA
Jim Menard, CPA

January 12, 2013

Independent Auditors' Report on Internal Control over Financial Reporting
and on Compliance and Other Matters Based on an Audit 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 and each major fund, of the City of Neola, Iowa, as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements listed in the table of contents and have issued our report thereon dated January 12, 2013. Our report expressed a qualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting, as we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2011. Except as noted in the Independent Auditors' Report, 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 Neola is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered City of Neola'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 an opinion on the effectiveness of City of Neola's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of City of Neola'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. 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 a certain deficiency in internal control over financial reporting that we consider to be a material weakness and one other deficiency we consider to be a significant deficiency.

Continued...

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City of Neola
Report on Compliance and Internal Control

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 Neola's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency described in Part I of the accompanying Schedule of Findings as item I-A-12 to be a material weakness.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in Part I of the accompanying Schedule of Findings as item I-B-12 to be a significant deficiency.

Compliance and Other Matters

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

City of Neola'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 Neola's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Neola and other parties to whom the City of Neola may report. 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 Neola 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.

Schroer & Associates, P.C.

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

Part I: Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

I-A-12 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. The cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal are all done by the same person.

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

Response - We will consider this.

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

I-B-12 Payroll Error - We noted the payroll rate for one employee was entered in error by \$0.25/hr more than authorized by the council resulting in an overpayment to that employee of \$326.

Recommendation - The employee should be informed of the error and should refund the overpayment through an agreed monthly garnishment. The City should correct the rate of pay in its system.

Response - We will correct the rate of pay and request the employee refund the City for the overpayment.

Conclusion - Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

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

Part II: Findings Related to the Financial Statements:

II-A-12 Certified Budget

Comment – Disbursements during the year ended June 30, 2012 exceeded the amounts budgeted in public safety, health and social services, debt service, and capital projects functions. Chapter 384.20 of the Code of Iowa states in part that “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

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

Response – We will do this in the future.

Conclusion – Response accepted.

II-B-12 Official Depositories – A resolution naming official depositories has been approved by the City. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2012.

II-C-12 Entertainment Expense – We noted no disbursements for parties, banquets, or other entertainment for employees that we believe may constitute an unlawful expenditure from public funds as defined in an Attorney General’s opinion dated April 25, 1979.

II-D-12 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

II-E-12 Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

Name, Title, and Business Connection	Transaction Description	Amount
Herb Brich, Council Member, Owner of Brich Plumbing	Plumbing supplies and Trencher work	\$ 4,212

The transactions with the Council Member appears to represent a conflict of interest since they exceeded \$2,500 during the year and were not entered into through competitive bidding.

Recommendation – The City should contact legal counsel to determine the disposition of this matter.

Response – We will consult our attorney.

Conclusion – Response accepted.

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

Part II: Findings Related to the Financial Statements - Continued:

- II-F-12 Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- II-G-12 Council Minutes

No transactions were found that we believe should have been approved in the Council minutes but were not.
- II-H-12 Deposits and Investments – We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the City’s investment policy.
- II-I-12 Revenue Bonds and Notes

Comment – The Sewer Fund had total customer net disbursements of (\$45,145). The sewer revenue notes are to be paid solely from sewer customer net receipts.

Recommendation – The City should monitor spending or consider increasing sewer rates to ensure total customer net receipts are sufficient enough to cover the principal and interest payments.

Response – We will do this.

Conclusion – Response accepted.
- II-J-12 Financial Condition

Comment – The Sewer – Capital Projects Fund had a deficit balances at June 30, 2012.

Recommendation – The City should monitor activity in this fund in order to eliminate the deficit.

Response – We will do this.

Conclusion – Response accepted.
- II-K-12 Disbursements

Comment – The City received only the front image of electronically retained checks from the bank.

Recommendation – The City should request both the front and back images of checks in accordance with Chapter 554D.114(5) of the Code of Iowa.

Response – We will contact the bank to request this.

Conclusion – Response accepted

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

Part II: Findings Related to the Financial Statements - Continued:

II-L-12 Compensated Time Policy – The City Council has established a policy for the use of compensated time; however, the policy does not state whether the time is paid upon retirement, death or termination.

Recommendation – The City should address this issue in their Compensated Time Policy.

Response – We will do this.

Conclusion – Response accepted.

II-M-12 Public Property

Comment – The City Council has not established a policy of vehicle usage for other than City purposes. Private use of public property is prohibited by Article III Section 31 of the constitution of the State of Iowa which states in part, "...no public money or property shall be appropriated for local or private purpose."

Recommendation – The City should establish a policy prohibiting private usage of public vehicles.

Response – We will consider adopting a policy.

Conclusion – Response acknowledged.

II-N-12 Statistical Information

Gallons of water pumped during the year ended June 30, 2012: 28,428,000

Gallons of water billed during the year ended June 30, 2012: 20,251,820

Comment – For the year ended June 30, 2012 water loss was approximately 29%.

Recommendation – As this loss represents considerable lost revenues for the City, we suggest that the City monitor the situation to determine the causes for the loss.

Response – There was excess water loss due to several leaks including two water main breaks. We feel the leaks have been addressed and water loss should return to normal levels.

Conclusion – Response accepted.