

CITY OF LINDEN, IOWA
Independent Auditors' Report
Basic Financial Statements and
Supplemental Information and Findings

June 30, 2012

Table of Contents

	<u>Page</u>
Officials	1
Independent Auditor's Report	2-3
 Basic Financial Statements	
	<u>Exhibit</u>
Government-wide Financial Statement Statement of Activities and Net Assets – Cash Basis	A 4-5
Governmental Fund Financial Statement Statement of Cash Receipts, Disbursements and Changes in Cash Balances	B 6
Proprietary Fund Financial Statement Statement of Cash Receipts, Disbursements and Changes in Cash Balances	C 7
Notes to Financial Statements	8-11
 Required Supplementary Information	
Budgetary Comparison Schedule of Receipts, Disbursements, and Changes in Balances – Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Funds	12-13
Notes to Required Supplementary Information – Budgetary Reporting	14
 Other Supplementary Information	
	<u>Schedule</u>
Schedule of Indebtedness	1 15-16
Schedule of Expenditures of Federal Awards	2 17
 Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <u>Government Auditing Standards</u>	
	18-19
 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	
	20-21
Schedule of Findings and Questioned Costs	22-24

City of Linden, Iowa
Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Dave Hutchins	Mayor	December, 2014
Joe Norka	Council Member	December, 2014
Don Finnell	Council Member	December, 2016
Gay Norton	Council Member	December, 2016
Ken Smith	Council Member	December, 2014
Leon Daggett	Council Member	December, 2016
Cindy Perrigo	City Clerk	Indefinite
DuWayne Dalen	City Attorney	Indefinite

POLLARD AND COMPANY P.C.

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IOWA SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and Members of the City Council
City of Linden

I have audited the accompanying financial statements of the governmental activities, the business type activities, and each major fund of the City of Linden, 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 Linden's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my 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 I 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. I believe that my audit provides a reasonable basis for my opinion.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles. Also, as permitted by the Code of Iowa, the accounting records of the City were not audited prior to July 1, 2011. Accordingly, I was unable to satisfy myself to the distribution of the total fund balance at July 1, 2011.

In my opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had I 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 Linden 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, I am including herein my report on my consideration of the City of Linden's internal control over financial reporting and my 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 my testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of my audit.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Linden's basic financial statements. The supplementary information included in Schedules 1 and 2, 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 financial statements. The information has been subjected to the auditing procedures applied in my 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 my opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The City of Linden has not presented the Management's Discussion and Analysis that U.S. generally accepted accounting principles has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

November 14, 2013

Pollard and Company P.C.

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

Functions/Programs	Program Receipts			
	Disbursements	Charges for Services	Operating Grants, Contributions, and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Governmental Activities				
Public safety	\$ 10,487		\$ 7,322	
Public works	54,034		14,189	
Health and Social Services	560			
Culture and recreation	5,064		11,995	
General government	17,646			
Total governmental activities	<u>87,791</u>		<u>33,506</u>	
Business type activities				
Sewer	1,213,412	4,145		809,130
Total business type activities	<u>1,213,412</u>	<u>4,145</u>		<u>809,130</u>
Total	<u>\$ 1,301,203</u>	<u>\$ 4,145</u>	<u>\$ 33,506</u>	<u>\$ 809,130</u>
General Receipts				
Property tax levied for				
General purposes				
Interfund Loan Repayment				
Unrestricted interest on investments				
Bond proceeds				
Miscellaneous				
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				
Capital Projects				
Unrestricted				
Total cash basis net assets				

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

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

Governmental Activities	Business Type Activities	Total
\$ (3,165)	\$	\$ (3,165)
(39,845)		(39,845)
(560)		(560)
6,931		6,931
(17,646)		(17,646)
(54,285)		(54,285)
	(400,137)	(400,137)
	(400,137)	(400,137)
\$ (54,285)	(400,137)	(454,422)

29,846		29,846
76,137	(76,137)	
300		300
	529,670	529,670
438		438
106,721	453,533	560,254
52,436	53,396	105,832
70,225		70,225
\$ 122,661	\$ 53,396	\$ 176,057

\$ 23,338	\$	\$ 23,338
	49,251	49,251
99,323	4,145	103,468
\$ 122,661	\$ 53,396	\$ 176,057

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

Exhibit B

	General	Road Use Tax	Total
Receipts			
Property Taxes	\$ 29,846	\$	\$ 29,846
Use of Money and Property	300		300
Intergovernmental	23,885	9,621	33,506
Miscellaneous	438		438
Total Receipts	54,469	9,621	64,090
Disbursements			
Operating			
Public Safety	10,487		10,487
Public Works	54,034		54,034
Health and Social Services	560		560
Culture and Recreation	5,064		5,064
General Government	17,646		17,646
Total Disbursements	87,791		87,791
Excess (deficiency) of receipts over (under) disbursements	(33,322)	9,621	(23,701)
Other financing sources			
Interfund loan repayment	76,137		76,137
Total other financing sources	76,137		76,137
Net change in cash balances	42,815	9,621	52,436
Cash balance - beginning of year	56,508	13,717	70,225
Cash balance - end of year	\$ 99,323	\$ 23,338	\$ 122,661
Cash basis fund balances			
Restricted for:			
Streets	\$	\$ 23,338	\$ 23,338
Unassigned	99,323		99,323
Total cash basis fund balances	\$ 99,323	\$ 23,338	\$ 122,661

See notes to financial statements

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

	Sewer Capital Project	Sewer Operations	Total
Operating receipts			
Charges for service	\$	\$ 4,145	\$ 4,145
Operating disbursements			
Business-type activities			
Excess of operating receipts over operating disbursements		4,145	4,145
Non-operating receipts (disbursements)			
Intergovernmental	809,130		809,130
Bond Proceeds	529,670		529,670
Capital Projects	(1,213,412)		(1,213,412)
Interfund loan repayment	(76,137)		(76,137)
Total non-operating receipts (disbursements)	49,251		49,251
Excess of receipts over operating disbursements	49,251	4,145	53,396
Cash balances - beginning of year			
Cash balances - end of year	\$ 49,251	\$ 4,145	\$ 53,396
Cash basis fund balances			
Restricted for capital projects	\$ 49,251	\$	\$ 49,251
Unrestricted		4,145	4,145
Total cash basis fund balances	\$ 49,251	\$ 4,145	\$ 53,396

See notes to financial statements

City of Linden, Iowa
Notes To Financial Statements
June 30, 2012

1/ Summary of Significant Accounting Policies

The City of Linden is a political subdivision of the State of Iowa located in Dallas County. It was first incorporated in 1893 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 nonpartisan basis. The City provides numerous services to citizens including public safety, public works, culture, recreation, public improvements, general administrative services and sewer utility..

A. Reporting Entity

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

Jointly Governed Organizations

The City and Dallas County entered into a 28E agreement to define the duties and responsibilities regarding the maintenance and reconstruction of the Farm to Market road extensions located within the City's corporate limits. In consideration for the City's duties the County will reimburse the City 50% of the annual road use taxes allocated to the Farm to Market extension.

B. Basis of Presentation

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

The Statement of Activities and Net Assets presents the City's non-fiduciary net assets. Net Assets are reported in three categories:

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

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

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

The Statement of Activities and Net Assets demonstrates the degree to which direct disbursements of a given function are offset by program receipts. Direct disbursements are those which are 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

The City reports the following major governmental funds:

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

Special Revenue:

The Road Use Tax Fund is used to account for road construction and maintenance.

The City reports the following major proprietary fund:

The Sewer Fund accounts for the operation and maintenance of the City's sanitary sewer system and its capital improvements disbursements and financing sources. The system began operation in May, 2012 after completing the facility.

C. Measurement Focus and Basis of Accounting

The City of Linden maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operation of the funds in accordance with U.S. generally accepted accounting principles.

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 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 less restrictive classifications- committed, assigned and the 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 propriety fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Budget and Budgetary Accounting

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

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.

Interest Rate Risk – the City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but maturities shall be consistent with the needs and use of the City.

3/ Loans and Notes Payable

Sewer Revenue Loan Agreement Anticipation Project Note

On September 6, 2011, the City issued an anticipation project note to a local bank to fund sewer construction costs. As of June 30, 2012, the principal balance was \$523,407. The note was repaid, including interest at 2.75%, with the proceeds of the Sewer Revenue Note described below.

Sewer Revenue Note

On September 20, 2012 the City issued a taxable sewer revenue note for \$601,000. The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay the note. Proceeds from the note provided financing for the repayment of the above anticipation project note and sewer system construction and improvement costs. The bonds are payable solely from future sewer customer net receipts and are payable through 2052. Annual principal and interest, at 2.125%, on the note are expected to require less than 60 percent of net receipts. The monthly principal and interest payment is scheduled to be \$1,924 commencing October 20, 2014.

State Revolving Fund Loan

The SRF Planning and Design Loan was issued in December 2010 and is due in December 2013. At June 30, 2012, the balance was \$121,703 and will be paid from the balance of the United States Department of Agriculture Rural Utilities Service Grant.

4/ Pension and Retirement Benefits

The City contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits, which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required

supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

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 year ended June 30, 2012, was \$678 , equal to the required contributions for the year.

6/ Risk Management

The City of Linden 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.

8/ Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that effect the reported amounts and disclosure of liabilities, contingent liabilities, and commitments at the date of the financial statements, and the classification of receipts and disbursements during the reporting period. Actual results could differ from the estimates that were used.

12/ Commitments and Contingencies

During the year, the City has committed to the completion of the construction of sewer improvements totaling approximately \$217,000 which were to be financed by the remaining proceeds of the Rural Utilities Service and Community Development Block Grants.

City of Linden, Iowa
 Budgetary Comparison Schedule of Receipts, Disbursements, and Changes in Balances
 Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Funds
 Required Supplementary Information
 Year ended June 30, 2012

	Governmental Funds Actual	Enterprise Funds Actual	Net
Receipts			
Property Taxes	\$ 29,846	\$	\$ 29,846
Use of money and property	300		300
Intergovernmental	33,506	809,130	842,636
Charges for Service		4,145	4,145
Miscellaneous	438		438
Total Receipts	64,090	813,275	877,365
Disbursements			
Public safety	10,487		10,487
Public works	54,034		54,034
Health and Social Services	560		560
Culture and recreation	5,064		5,064
Community and economic development			
General government	17,646		17,646
Business type activities		1,213,412	1,213,412
Total Disbursements	87,791	1,213,412	1,301,203
Excess (deficiency) of receipts over (under) disbursements	(23,701)	(400,137)	(423,838)
Other financing sources, net	76,137	453,533	529,670
Excess of receipts and other financing sources over disbursements and other financing uses	52,436	53,396	105,832
Balance - beginning of year	70,225		70,225
Balance - end of year	\$ 122,661	\$ 53,396	\$ 176,057

See accompanying independent auditors' report.

Budgeted-		
Original and	Final to Net	
Final	Variance	
\$ 29,030	\$ 816	
1,094	(794)	
17,000	825,636	
48,800	(44,655)	
1,804	(1,366)	
<u>97,728</u>	<u>779,637</u>	
10,000	(487)	
50,000	(4,034)	
	(560)	
9,000	3,936	
4,000	4,000	
21,000	3,354	
	(1,213,412)	
<u>94,000</u>	<u>(1,207,203)</u>	
3,728	(427,566)	
	<u>529,670</u>	
3,728	102,104	
248,529	(178,304)	
<u>\$ 252,257</u>	<u>\$ (76,200)</u>	

City of Linden, Iowa
Notes to Required Supplementary 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 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 or fund type. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund.

During the year ended June 30, 2012, disbursements exceeded the amounts budgeted in the public safety, public works, health and social services and business type activities functions.

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

	Date of Issue	Interest Rates	Amount Originally Issued	Balance Beginning of Year
Anticipatory warrants Sewer construction	Various	2.75%	\$ 657,000	\$
SRF Planning and Design Loan	December 22, 2010	0.00%	250,000	115,440
Totals				<u>\$ 115,440</u>

See accompanying independent auditor's report.

Schedule 1

Issued During Year	Redeemed During Year	Balance End of Year	Unpaid Interest
\$ 523,407	\$	\$ 523,407	\$ 10,531
6,263		121,703	
<u>\$ 529,670</u>	<u>\$</u>	<u>\$ 645,110</u>	<u>\$ 10,531</u>

City of Linden, Iowa
 Schedule of Expenditures of Federal Awards
 For the Year Ended June 30, 2012

Schedule 2

Grantor/Program	CFDA Number	Program Expenditures
Pass- Through Program From:		
U.S. Department of Agriculture		
Rural Utilities Service		
Community Facilities Loans and Grants		
Loan	10.766	\$ 523,407
Grant	10.766	678,836
U.S. Department of Housing and Urban Development		
Iowa Department of Economic Development		
Community Development Block Grants/ State's		
Program and Non- Entitlement Grants in Hawaii		
08-WS-037	14.228	<u>135,326</u>
		<u>\$ 1,337,569</u>

Basis of presentation- The Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Linden and is presented in conformity with an other comprehensive basis of accounting. The information in 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.

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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

I have audited the accompanying financial statements of the governmental activities, the business type activities, and each major fund of the City of Linden, 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 my report thereon as dated below. My report expressed qualified opinions on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. I conducted my 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 is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, I considered the City of Linden's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on effectiveness of the City's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the City's internal control over financial reporting.

My consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, I identified deficiencies in internal control over financial reporting, described in Part II of the accompanying Schedule of Findings and Questioned Costs, that I considered to be a material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned function, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City's financial statements will not be prevented or detected and corrected on a timely basis.

Compliance and Other Matters

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

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2012 are based exclusively on knowledge obtained from procedures performed during my audit of the financial statements of the City. Since my 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 Linden's responses to findings identified in my audit are described in the accompanying Schedule of Findings and Questioned Costs. While I have expressed a conclusion on the City's responses, I did not audit the City's responses and, accordingly, express no opinion on them.

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

November 14, 2013

Pollard and Company P.C.

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IOWA SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Honorable Mayor and Members of the City Council

Compliance

I have audited the compliance of the City of Linden with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on its major federal program for the year ended June 30, 2012. The City's 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 grants applicable to its major federal program is the responsibility of the City's management. My responsibility is to express an opinion on the City's compliance based on my audit.

I conducted my 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 I 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's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination on the City's compliance with those requirements.

In my opinion, the City of Linden complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2012.

Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing my audit, I considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine my auditing procedures for the purpose of expressing my 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, I do not express an opinion on the effectiveness of the City's internal control over compliance.

My consideration of the internal control over compliance was for the limited purpose described in the preceding paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, I identified a deficiency in internal control over compliance, described in Part III of the accompanying Schedule of Findings and Questioned Costs that I considered to be material weaknesses.

A deficiency in internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned function, to prevent or detect 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 a 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.

The City of Linden's responses to findings in my audit are described in the accompanying Schedule of Findings and Questioned Costs. While I have expressed my conclusion on the City's responses, I did not audit the City's responses and, accordingly 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 Linden and other parties, including and 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

Pollard and Company P.C.

November 14, 2013

CITY OF LINDEN, IOWA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2012

PART I- SUMMARY OF AUDITOR'S RESULTS

- a. Qualified opinion was issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
- b. Material weaknesses in internal control over financial reporting were disclosed by the audit of the financial statements.
- c. The audit did not disclose any non-compliance which is material to the financial statements.
- d. A material weakness in internal control over the major program was disclosed by the audit of the financial statements.
- e. An unqualified opinion was issued on compliance with the requirements applicable to the major program.
- f. The audit did not disclose any findings which are required to be reported in accordance with Circular A-133, Section .510(a).
- g. The major program was CFDA Number 10.766 Community Facilities Loans and Grants.
- h. The dollar threshold used to distinguish between Type A and B programs was \$ 300,000.
- i. The City did not qualify as a low-risk auditee.

PART II Findings Related to the Financial Statements

INTERNAL CONTROL DEFICIENCIES:

II-A-12 Segregation of Duties

One important aspect of internal accounting control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The posting of the cash receipts and disbursements to the general ledger, reconciliations and securities control and custody are all done by the same person.

Recommendation

I realize that with a one person office, segregation of duties is difficult. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials..

Response

The City will attempt to segregate duties to the extent possible to provide additional control through review of financial transactions and reports and segregation of duties.

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

III-A-12 Segregation of Duties Over Federal Receipts and Disbursements- The City did not segregate duties including those related to federal programs. Even though the City hired an outside project administrator, the actual receipts and disbursements were processed by the City. See items II-A-12.

PART IV Other Findings Related to Required Statutory Reporting

IV-A-12 Certified Budget

Disbursements during the year ended June 30, 2012 exceeded the amounts budgeted in the public safety, public works, health and social services and business type activities functions. Chapter 384.20 of the Code of Iowa states, in part, "Public monies may not be expended or encumbered except under an annual or continuing appropriation."

Recommendation

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

Response

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

Conclusion- Response accepted.

IV-B-12 Questionable Disbursements

No disbursements for parties, banquets or other entertainment expenses that do not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.

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

There were no business transactions between the City and City officials or employees during the year.

IV-E-12 Bond Coverage

Surety bond coverage of City officials and employees is in accordance with statutory provisions.

IV-F-12 Council Minutes

No transactions were found that I believe should have been approved in the Council minutes but were not.

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

Although minutes of Council proceedings were posted, as permitted by cities under 200 population, they did not include a list of claims and summary of receipts and total disbursement by fund as required by Chapter 372.13(6) of the Code of Iowa.

Recommendation- The City should comply with Chapter 21 of the Code of Iowa and should post minutes, claims, receipts and disbursements as required.

Response- We will comply with Chapter 21 of the Code of Iowa and will post minutes as required and include claims, receipts and disbursements.

Conclusion- Response accepted.

IV-G-12 Deposits and Investments

No instances of noncompliance with deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa were noted.