

CITY OF OSCEOLA, IOWA

Independent Auditor's Reports
Basic Financial Statements
Supplementary and Other Information
and Findings

June 30, 2013

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City of Osceola, Iowa
Officials

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

POLLARD AND COMPANY P.C.

CERTIFIED PUBLIC ACCOUNTANT

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PRIVATE COMPANIES PRACTICE SECTION
IOWA SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

I have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Osceola, Iowa as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements listed in the table of contents

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in Note 1. This includes determining the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express opinions on these financial statements based on my audit. I conducted the 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, I express no such opinion. An audit also includes evaluating the appropriateness of the accounting policies used and significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

Opinions

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Osceola as of June 30, 2013, and the respective changes in cash financial position for the year then ended in accordance with the basis of accounting described in Note 1.

Basis of Accounting

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles. My opinion is not modified with respect to this matter.

Other Matters- Supplementary Information and Other Information

My audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. I previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the five years ended June 30, 2012 and other auditors audited, in accordance with those standards, the financial statements for the three years ended June 30, 2007. Unqualified opinions were expressed on those financial statements (which are not presented herein) which were prepared on the basis of cash receipts and disbursements. The supplementary information included in Schedule 1 through 7 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the 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 basic financial statements or to the basic 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 Other Information, Management Discussion and Analysis and the Budgetary Comparison information has not been subjected to auditing procedures applied in the audit of the basic financial statements and, accordingly, I do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, I have also included my report on my consideration of the City's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of 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* in considering the City's internal control over financial reporting and compliance.

April 18, 2014

Pollard and Company P.C.

Management's Discussion and Analysis

The City of Osceola provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ending June 30, 2013. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

Financial Highlights

Government Activities total revenues decreased by \$2,118,138 from the previous fiscal year. The drop in revenues can be attributed to a decrease in bond proceeds from the previous fiscal year. In FY 2012, the city issued \$2,304,202 in bonds. In FY 2013, the city received \$48,795 in sewer revenue bonds.

Government Activities total expenditures increased by \$3,792,441. The increase in expenditures is due to the transfer of \$3,902,039 in restricted funds allocated to the reservoir project to the Clarke County Reservoir Commission. Net of the aforementioned transfer, disbursements for public safety, public works, culture and recreation, community and economic development, general government, debt service, and capital projects decreased by \$109,598 collectively.

The City's Governmental Activities total cash basis net assets decreased by \$5,065,407.

Using This Annual Report

The annual report consists of a series of financial statements as well as other requirements as follows:

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

The Government-wide Financial Statements consists of a statement of activities and changes in cash balances. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

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

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

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

Basis of Accounting

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

Reporting the City as a Whole

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

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

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

Fund Financial Statements

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

The City has two kinds of funds:

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

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

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

- 2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report the same functions presented as business-type activities in the government-wide statement of activities and changes in cash balance. The City maintains one Enterprise Fund to provide separate information for the sewer fund, considered to be a major fund of the City. The Sewer Fund is divided into several Sub-funds that include the Sewer Operating Fund, Sewer Sinking Fund, Sewer Replacement Fund, Sewer Rehab Fund and the Sewer Reserve Fund.

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

Government-Wide Financial Analysis

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased from a year ago, from \$7,113,253 to \$2,893,018. The analysis that follows focuses on the change in cash basis net assets of governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities		2013	<u>2012</u>
Receipts and Transfers:			
Program Receipts:	Charges for services and sales	\$ 698,339	\$ 739,856
	Operating Grants, Contributions & Restricted Interest	\$ 535,302	\$ 525,246
	Capital Grants, Contributions, and Restricted Interest	\$ 313,698	\$ 45,189
General Receipts:	Property Tax	\$ 1,571,277	\$ 1,860,959
	Tax Incremental Financing Collections	\$ 640,381	\$ 895,130
	Debt Service	\$ 744,102	\$ 365,524
	Local Option Sales Tax	\$ 852,533	\$ 895,632
	Hotel/Motel Tax	\$ 247,326	\$ 244,185
	Casino Fees	\$ 872,448	\$ 859,456
	Unrestricted Interest	\$ 20,271	\$ 12,805
	Miscellaneous	\$ 58,618	\$ 105,545
	Bond Proceeds	\$ 48,795	\$ 2,304,202
	Transfers	\$ 144,735	\$ 12,234
Total Receipts and Transfers		\$ 6,747,825	\$ 8,865,963
Disbursements:	Public Safety	\$ 1,102,342	\$ 993,430
	Public Works	\$ 1,083,128	\$ 1,158,217
	Culture and Recreation	\$ 744,244	\$ 770,405
	Community and Economic Development	\$ 5,066,991	\$ 1,497,676
	General Government	\$ 791,599	\$ 811,127
	Debt Service	\$ 1,478,480	\$ 1,541,536
	Capital Projects	\$ 1,546,448	\$ 1,248,400
Total Disbursements:		\$ 11,813,232	\$ 8,020,791
	Increase (decrease) in Cash Basis Net Assets	\$ (5,065,407)	\$ 845,172
	Cash Basis Net Assets Beginning of fiscal year.	\$ 7,958,425	\$ 7,113,253
	Cash Basis Net Assets, End of Fiscal year.	\$ 2,893,018	\$ 7,958,425
	Governmental Activities Receipts % Change	-24%	-\$2,118,138
	Governmental Activities Disbursements % Change	47%	\$3,792,441

The City's total receipts for governmental activities decreased by 24% or \$2,118,138. The total cost of all programs and services increased by 47%, or \$3,792,441. The decrease in

governmental activities receipts is due to reduction in bond proceeds received in FY 2013. The increase in governmental activities disbursements is due to the transfer of funds to the Clarke County Reservoir Commission.

The City did not change the property tax levy rate from FY 2012 to FY 2013. The taxable valuation increased from FY 2012 to FY 2013 by approximately 2% or \$3,128,268.

The cost of all governmental activities in FY 2013 was \$11,813,232 compared to \$8,020,971 in FY 2012. The total for governmental receipts and transfers was \$6,747,825 in FY 2013 compared to \$8,865,963 in FY 2012.

Changes in Cash Basis Net Assets of Business-Type Activities			
		2013	2012
Receipts			
	Program Receipts:		
	Sewer Service and sales	\$ 1,179,533	\$1,125,407
	Water Service and sales	\$ 1,804,374	\$1,507,420
	Unrestricted Interest- Water	\$ 2,415	\$749
	Unrestricted Interest- Sewer	\$ -	\$39
	Casino Lake Lease- Water	\$ 246,021	\$200,681
	Transfer	\$ (144,735)	-\$12,234
	Bond Proceeds	\$ -	\$2,312,817
Total Revenues .		\$ 3,087,608	\$5,134,879
Disbursements and Transfers:			
	Sewer	\$ 1,048,387	\$3,115,841
	Water	\$ 1,816,626	\$1,908,715
Total Disbursements and transfers		\$ 2,865,013	\$5,024,556
Increase (decrease) in cash balance		\$ 222,595	\$110,323
Cash Balance Beginning of Fiscal Year		\$ 1,058,251	\$947,928
Cash Balance End of Fiscal Year		\$ 1,280,846	\$1,058,251

Total business-type activity receipts for the FY 2013 year were \$3,087,608 compared to \$5,134,879 in FY 2012. The revenue decrease was primarily due to bond refinancing that was completed in FY 2012.

The City’s Individual Major Governmental Fund Analysis

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

Governmental Funds

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, the cash balance in the General Fund was \$ 1,198,794, an increase of \$1,589.

The Employee Benefits Fund is a Special Revenue Fund that accounts for revenues received and expenditures paid in support of employee benefits. The types of revenues received are property taxes assessed for the employer contributions for health insurance, FICA, IPERS, and Unemployment Benefits. Expenditures from the fund include premiums and the employer contributions for FICA, IPERS, and Unemployment Benefits. The fund showed a net loss of \$363,919 during the fiscal year. The fund ended the fiscal year with a balance of \$194,130.

The Debt Service Fund is utilized to account for the payment of interest and principal on the City's general obligation and long-term debt. The City transferred \$734,378 from other funds to make payments for these obligations. The fund had a zero balance at the end of the fiscal year.

The Casino Special Project Fund is a Special Revenue Fund used to account for contributions and development activities for a new reservoir. The balance of this fund was transferred to the Clarke County Reservoir Commission and ended the year with a zero balance.

The Local Option Sales Tax Fund is used to account for the City's sales tax receipt for the Reservoir and the disbursements financed by such. All funds received in are paid out to the Clarke County Reservoir Commission. This funded ended the fiscal year with a zero balance.

The Hotel/Motel Tax Fund is used to account for the City's hotel/motel tax receipts and the disbursements financed by such. At the end of the current fiscal year, the cash balance in the fund was \$0, a decrease of \$26,943 from the prior fiscal year.

The Capital Projects Fund is used to account for the costs of various projects and the financing thereof. At the end of the current fiscal year, the cash balance in the fund was \$\$424,747, a decrease of \$690,170.

The Urban Renewal TIF Fund is used to account for the City's tax increment finance receipts and the disbursements financed by such. At the end of the current fiscal year, the cash balance in this fund was \$876,893, a decrease of \$108,520.

Proprietary Funds

The cash balance of the Sewer Fund at the end of the fiscal year was \$691,798, a decrease of \$13,589.

Fiduciary Funds

The cash balance of the Friends of the Depot was \$20,746 at the end of the current fiscal year. These funds have been purposed for the restoration of the train depot.

The cash balance of the Library Funds was \$329,571 at the end of the current fiscal year.

The cash balance of the Police Forfeiture Fund was \$9,624 at the end of the current fiscal year.

Debt Administration

At year-end, the City had approximately \$5,969,346 in General Obligation debt, \$3,480,000 in Annual Appropriation General Obligation Debt, and \$6,861,795 in SFR/Revenue note debt. The City redeemed \$1,051,558 in General Obligation Debt during FY 2013.

	Outstanding Debt at Year-End	
	2013	2012
General Obligation Corporate Purpose, 2009	\$ 2,135,000	\$ 2,295,000
General Obligation Corporate Purpose and Refunding, 2005	\$ -	\$ 395,000
Annual Appropriation General Obligation, 2007	\$ 3,480,000	\$ 3,750,000
Capital Lease, Road Grader, 2009	\$ 34,075	\$ 50,013
General Obligation Note- Fire Truck, 2010	\$ 315,271	\$ 465,891
General Obligation Corporate Purpose, 2003	\$ 125,000	\$ 185,000
General Obligation Refunding 2011	\$ 3,360,000	\$ 3,360,000
Sewer Revenue Bond 2012	\$ 4,500,000	\$ 4,700,000
SRF- Water, 2002	\$ 2,332,000	\$ 2,529,000
General Obligation Sewer Improvement	\$ 29,795	
GO Debt	\$5,969,346	
Annual Appropriation Debt	\$3,480,000	
Revenue Bond Debt	\$6,861,795	

The City Debt Service levy fiscal year ending June 30, 2013 was \$4.33/1000. The Constitution of the State of Iowa limits the amount of general obligation debt that cities can issue to five percent (5%) of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation of \$5,969,346 is well below the City's \$12,740,359 legal debt limit.

Economic Factors and Next Year's Budget and Rates

The City of Osceola was able to maintain a stable tax rate for the FY 2014 budget, thanks to steady growth in taxable valuation. However, the FY 2015 budget process was complicated by changes from SF 295, locally referred to as the commercial property tax rollback law, and by the equalization process completed by the county assessor. Residential building valuations dropped

by 15% for the FY 2015 budget and commercial/industrial taxable valuations were rolled back to 95%. Despite the state backfill, the 8.10 general fund levy did not produce the same level of funding from FY 14 to FY 15. The Council took steps to backfill the loss in revenue by increasing garbage fees to cover landfill costs and charging the sewer utility for administration. The overall tax levy was bumped to \$14.68; however, the bottom line tax dollar request did not change from FY 2014. In order to keep the over-all levy as low as possible, the Council shifted casino dollars to the employee benefits fund and used the debt service levy to service the bonds which were once paid for with casino dollars.

Long term plans for future fiscal years include reducing fulltime staff and taking a far more proactive approach to managing the residential housing stock of the city.

Contacting the City's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Ty Wheeler, City Administrator/City Clerk, Box 465, 115 N Fillmore, Osceola, Iowa 50213.

City of Osceola, Iowa
Cash Basis Statement of Activities and Net Position
As of and for the year ended June 30, 2013

Exhibit A

Functions/Programs	Program Receipts			
	Disbursements	Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Governmental Activities				
Public safety	\$ 1,102,342		\$ 32,303	
Public works	1,083,128	413,639	472,030	
Culture and recreation	744,244	158,170		
Community and economic development	5,066,991		30,969	
General government	791,599	126,530		
Debt service	1,478,480			
Capital projects	1,546,448			313,698
Total government activities	<u>11,813,232</u>	<u>698,339</u>	<u>535,302</u>	<u>313,698</u>
Business Type Activities				
Sewer	1,048,387	1,179,533		
Component unit- Water	1,816,626	1,804,374		
Component unit- Library Foundation	8,499			
Total business type activities	<u>2,873,512</u>	<u>2,983,907</u>		
Total	<u>\$ 14,686,744</u>	<u>\$ 3,682,246</u>	<u>\$ 535,302</u>	<u>\$ 313,698</u>
General receipts and transfers				
Property tax levied for				
General purposes				
Debt service				
Tax increment financing				
Local option sales tax				
Hotel/motel tax				
Casino fees				
Unrestricted interest				
Miscellaneous				
Casino lease				
Transfers				
Bond proceeds				
Total general receipts and transfers				
Change in cash basis net position				
Cash basis net position beginning of year				
Cash basis net position end of year				
Cash basis net position				
Restricted:				
Nonexpendable- Cemetery perpetual care				
Expendable:				
Urban renewal purposes				
Debt service				
Other purposes				
Unrestricted				
Total cash basis net position				

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

Exh A Stmt Activities

Net (Disbursements) Receipts and Changes in Cash Basis			Discretely Presented Component		
Net Position			Units		
Governmental Activities	Business Type Activities	Total	Water	Public Library Foundation	
\$ (1,070,039)	\$	\$ (1,070,039)	\$	\$	
(197,459)		(197,459)			
(586,074)		(586,074)			
(5,036,022)		(5,036,022)			
(665,069)		(665,069)			
(1,478,480)		(1,478,480)			
(1,232,750)		(1,232,750)			
(10,265,893)		(10,265,893)			
	131,146	131,146	(12,252)		
				(8,499)	
	131,146		(12,252)	(8,499)	
\$ (10,265,893)	\$ 131,146	\$ (10,134,747)	\$ (12,252)	\$ (8,499)	
1,571,277		1,571,277			
744,102		744,102			
640,381		640,381			
852,533		852,533			
247,326		247,326			
872,448		872,448			
20,271		20,271	2,415	18,683	
58,618		58,618			
			246,021		
144,735	(144,735)				
48,795		48,795			
5,200,486	(144,735)	5,055,751	248,436	18,683	
(5,065,407)	(13,589)	(5,078,996)	236,184	10,184	
7,958,425	705,387	8,663,812	352,864	1,205,075	
\$ 2,893,018	\$ 691,798	\$ 3,584,816	\$ 589,048	\$ 1,215,259	
\$ 102,848	\$	\$ 102,848			
876,893		876,893			
	309,336	309,336			
1,433,653		1,433,653			
479,624	382,462	862,086			
\$ 2,893,018	\$ 691,798	\$ 3,584,816			

City of Osceola, Iowa
 Statement of Cash Receipts, Disbursements and Changes in Cash Balances
 Governmental Funds
 As of and for the year ended June 30, 2013

	Special Revenue										Total
	General	Casino Special Project	Employee Benefits	Tax Increment Financing	Local Option Tax Reservoir	Hotel/Motel Tax	Capital Projects	Debt Service	Other Nonmajor Governmental		
Receipts											
Property taxes	\$ 1,481,619	\$	\$ 89,658	\$	\$	\$	\$	\$ 744,102	\$	\$ 2,315,379	
Tax increment financing				640,381						640,381	
Casino fees	872,448									872,448	
Other city tax					852,533	247,326				1,099,859	
Licenses and permits	126,530									126,530	
Use of money and property	17,011						15			20,271	
Intergovernmental	63,272	3,245					313,698		472,630	849,000	
Charges for services	571,809									571,809	
Miscellaneous	51,348									51,348	
Total Receipts	3,184,037	3,245	89,658	640,381	852,533	247,326	313,713	744,102	479,300	6,534,295	
Disbursements											
Operating											
Public safety	895,523		206,819							1,102,342	
Public works	590,104		74,562					418,462		1,083,128	
Culture and recreation	653,470		90,774							744,244	
Community and economic development		3,905,284		280,250	852,533	22,764		6,160		5,066,991	
General government	710,177		81,422							791,599	
Debt service							1,546,448	1,478,480		3,024,928	
Capital projects						22,764	1,546,448			1,569,212	
Total Disbursements	2,849,274	3,905,284	453,577	280,250	852,533	22,764	1,546,448	1,478,480	424,622	11,813,230	
Excess (deficiency) of receipts over (under) disbursements	334,763	(3,902,039)	(363,919)	360,131		224,562	(1,232,735)	(734,378)	54,678	(5,258,937)	
Other financing sources (uses)											
Bond proceeds							48,795			48,795	
Operating transfers in	217,645						1,618,716	734,378		2,570,739	
Operating transfers out	(550,819)			(468,651)		(251,505)	(1,124,946)	(30,083)		(2,425,004)	
Total other financing sources (uses)	1,589	(3,902,039)	(363,919)	(108,520)		(26,943)	(696,170)	24,595		(3,065,407)	
Net change in cash balances											
Cash balance - beginning of year	1,197,205	3,902,039	558,049	985,413		26,943	1,114,917	173,859		7,958,425	
Cash balance - end of year	1,198,794		194,130	876,893			424,747	198,454		2,893,018	
Cash basis fund balances											
Nonspendable- Cemetery perpetual									102,848	102,848	
Restricted for:											
Urban renewal purposes			876,893							876,893	
Other purposes	1,198,794		194,130		1,143,917		(719,170)	95,606		1,433,653	
Unassigned	1,198,794		194,130	876,893		424,747	198,454			2,893,018	
Total cash basis fund balances											

See notes to financial statements

City of Osceola, Iowa
Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Proprietary Fund
As of and for the year ended June 30, 2013

	Sewer
Operating receipts	
Charges for service	\$ 766,601
Surcharge	412,932
Total operating receipts	1,179,533
Operating disbursements	
Business type activities	717,890
Excess of operating receipts over operating disbursements	461,643
Non-operating receipts (disbursements)	
Debt service	(330,497)
Total non-operating receipts (disbursements)	(330,497)
Excess of receipts over disbursements	131,146
Transfers out	(144,735)
Cash balances - beginning of year	705,387
Cash balances - end of year	\$ 691,798
Cash basis fund balances	
Restricted for debt service	\$ 309,336
Unrestricted	382,462
Total cash basis fund balances	\$ 691,798

See notes to financial statements.

City of Osceola, Iowa
Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Fiduciary Funds
As of and for the Year Ended June 30, 2013

NON EXPENDABLE FUND		
	Friends of Depot	
	<u> </u>	
Receipts		
Interest and contributions	\$ 17,255	
Total receipts	<u>17,255</u>	
Disbursement	<u> </u>	
Excess of receipts over disbursements	<u>17,255</u>	
Cash balance - beginning of year	3,491	
Cash balance - end of year	<u><u>\$ 20,746</u></u>	
EXPENDABLE FUNDS		
	Library	Police Forfeiture
	<u> </u>	<u> </u>
Receipts		
Interest and contributions	\$ 4,637	\$ 106
Total receipts	<u>4,637</u>	<u>106</u>
Disbursements		
Culture and Recreation	<u>5,619</u>	<u> </u>
Excess (deficiency) of receipts over (under) disbursements	<u>(982)</u>	<u>106</u>
Cash balance - beginning of year	330,553	9,518
Cash balance - end of year	<u><u>\$ 329,571</u></u>	<u><u>\$ 9,624</u></u>

See notes to financial statements

CITY OF OSCEOLA, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

1/ Summary of Significant Accounting Policies

The City of Osceola is a political subdivision of the State of Iowa located in Clarke County. It was first incorporated in 1866 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, culture and recreation, public improvements, economic development and general administrative services. The City also provides water, sewer and sanitation services to its citizens.

A. Reporting Entity

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

The Osceola Municipal Waterworks is presented in a separate column to emphasize that it is legally separate from the City, but is financially accountable to the City, or whose relationship with the City is such that exclusion would cause the City's financial statements to be misleading or incomplete. The Waterworks is governed by a five member board appointed by the Osceola City council and its operating budget is subject to approval of the city council.

In November 2008, the Osceola Public Library Foundation became an IRC 501(c) 3 organization. The City transferred the non-expendable fiduciary funds which had been received from various bequests to the Foundation. Five out of seven members of the Board are appointed by the City. Therefore, its relationship is such that exclusion would cause the City's financial statements to be misleading or incomplete. The Foundation is presented in a separate column to emphasize that it is legally separate from the City.

Jointly Governed Organizations

The City also participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards, commissions and 28E agreements, Clarke County Reservoir Commission, Clarke County Assessor's Conference Board, Emergency Management Commission, Clarke County Development Corporation, the Main Street Board, Clarke County Jail and Law Enforcement Center, Osceola/Chariton Building Inspection and the Southwest Iowa Coalition.

B. Basis of Presentation

Government-wide Financial Statements – The Cash Basis Statement of Activities and Net Position (previously referred to as 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 Cash Basis Statement of Activities and Net Position presents the City's nonfiduciary net assets. Net position is reported in three categories:

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

Expendable restricted net position results when constraints placed on the use of cash balances are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position consists of cash balances not meeting the definition of the preceding categories. Unrestricted net position often has constraints on cash balances imposed by management, which can be removed or modified.

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

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 Casino Special Project is used to account for contributions and development activities for a new reservoir and regional recreation facility. During the year, the fund was transferred to the Clarke County Reservoir Commission.

The Employee Benefits Fund is used to account for the tax levy and disbursement for the benefits.

The Tax Increment Financing is used to account for tax increment financing collections and the disbursements financed by such.

The Local Option Tax Fund is used to account for the City's sales tax receipts for the Reservoir and the disbursements financed by such.

The Hotel/Motel Tax Fund is used to account for the City's hotel/motel tax receipts and the disbursements financed by such.

Capital Projects-The Capital Project Fund was established to account for the costs of various projects and the financing thereof.

Debt Service-The Debt Service Fund is utilized to account for property tax 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 fund:

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

C. Measurement Focus and Basis of Accounting

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

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

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

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

D. Governmental Cash Basis Fund Balances

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

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

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

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

Unassigned- All amounts not included in the preceding classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information.

2/ Cash and Pooled Investments

The City's deposits at June 30, 2013 were entirely covered by Federal depository insurance, or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

The City had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$192,953 pursuant to Rule 2a-7 under the Investment Company Act of 1940. In addition, the City held 1,828 shares of Principal Financial Group, Inc. which was received in the demutualization of that insurance company and is carried at no cost in the financial statements. The City's investment in the Iowa Public Agency Investment Trust is unrated.

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/ Bonds and Notes Payable

On February 15, 2013, the City issued a \$101,000 general obligation sewer improvement bond to the State Revolving Fund. By June 30, 2013, the City had received \$48,795 but the complete repayment schedule was not established therefore it is not included in the schedule below.

The annual debt service requirement to maturity for general obligation bonds and notes, and the sewer revenue bonds is as follows:

Year Ending	General Obligation Bonds and Notes		Sewer Revenue Bonds		Primary Government Total	
	Principal	Interest	Principal	Interest	Principal	Interest
June 30,						
2014	1,142,093	311,968	200,000	106,004	1,342,093	417,972
2015	1,172,253	283,259	200,000	104,504	1,372,253	387,763
2016	950,000	251,667	205,000	102,704	1,155,000	354,371
2017	980,000	226,222	205,000	100,449	1,185,000	326,671
2018	1,005,000	198,142	210,000	97,784	1,215,000	295,926
2019-2023	3,965,000	510,550	1,100,000	432,137	5,065,000	942,687
2024-2028	235,000	10,340	1,245,000	292,683	1,480,000	303,023
2029-2032			1,135,000	92,927	1,135,000	92,927
Total	\$ 9,449,346	\$ 1,792,148	\$ 4,500,000	\$ 1,329,192	\$ 13,949,346	\$ 3,121,340

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

Water Revenue Bonds		
Year Ending		
June 30,	Principal	Interest
2014	203,000	69,960
2015	210,000	63,870
2016	216,000	57,570
2017	222,000	51,090
2018	229,000	44,430
2018-2023	1,252,000	114,870
Total	\$ 2,332,000	\$ 401,790

The City has pledged future sewer receipts, net of specified operating disbursements, to repay \$ 4,700,000 in Sewer Revenue Improvement and Refunding Bonds issued on May 31, 2012. Proceeds were used to finance construction of improvements and refund revenue bonds issued in prior years. The obligations are payable solely from sewer customer net receipts and are payable through 2032. The total principal and interest remaining to be paid on the obligations is \$5,829,192. For the current year, principal and interest paid was \$330,497 and total customer net receipts were \$461,643.

The Component Unit has pledged future water receipts, net of specified operating disbursements, to repay \$4,066,000 in water revenue bonds issued in May 2002. Proceeds were used to provide financing for drinking water facilities. The obligations are payable solely from water customer net receipts and are payable through 2023. The total principal and interest remaining to be paid on the obligations is \$2,733,790. For the current year, principal and interest paid was \$279,192, and total customer net receipts and lease payments were \$545,140.

The resolutions providing for the issuance of the note and bond include the following provisions:

- a. The notes or bonds will only be redeemed from the future earnings of the enterprise activity and the holders hold a lien on the future earnings of the funds.
- b. Sufficient monthly transfers shall be made to a separate water bond sinking account for the purpose of making the next principal and interest payments.
- c. The City shall establish, impose, adjust and provide for the sewer and water rates to produce gross revenues at least sufficient to leave a balance, after specified operating disbursements, equal to 110% of the principal and interest due in any fiscal year.

On November 30, 2011, the City issued \$3,360,000 in General Obligation Bonds with an interest rate range of .65 to 2.10% to advance refund \$3,215,000 of outstanding September 1, 2005 General Obligation Bonds with an average interest rate of 3.85%. The net proceeds were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide principal and interest payments on the September 1, 2005 bonds from December 1, 2013 to June 1, 2020. As a result, the balance of the September 1, 2005 bonds are considered to be defeased and the liability for those bonds have been removed from the general long-term debt.

4/ Tax Increment Financing

In 2003, the City consolidated seven urban renewal districts into one and established a residential urban renewal area. Subsequently, the CT 8 Western was established in 2008. The City has made agreements with the county, school and other taxing jurisdictions, in accordance with Chapter 403.19 of the Code of Iowa, to divide the increase in taxes, as a result of the incremental property tax valuation in those districts. The taxes so collected are paid into the City's Special Revenue Fund and are to be expended for project costs or debt service associated with the projects affecting the districts.

5/ Local Option Sales Tax

In 2001, the City, Clarke County and the cities of Murray and Woodburn entered into a 28E agreement to build the Clarke County Jail and Law Enforcement Center. The participants committed the 1% local option sales tax passed by the 2000 referendum towards the construction of the facility. During the year ended June 30, 2009, the final payment on the Center was made. The balance in the Local Option Tax LEC fund is committed to be paid for expenditures which benefit County constituents. The activity is reflected as a nonmajor fund.

In 2007, a referendum directed that the taxes earned after January 1, 2008, would be used for the acquisition of land, planning, design, construction, equipping and maintenance, while any project debt is outstanding, for the Clarke County Reservoir Project. The activity is reflected in the Local Option Tax Reservoir Fund as a major fund.

6/ Pension and Retirement Benefits

The City contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Most regular plan members are required to contribute 5.78% of their annual covered salary and the City is required to contribute 8.67% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contribution to IPERS for the years ended June 30, 2013, 2012, and 2011, were \$152,977, \$153,162, and \$123,663, respectively, equal to the required contributions for each year.

7/ Other Postemployment Benefits (OPEB)

Plan Description- The City participates in a single-employer benefit plan which provides medical/prescription drug and dental benefits for active employees, retirees and their spouses. There are 37 active and no retired members in the plan. Participants must be age 55 or older at retirement. The benefits are provided through a fully-insured plan with United Healthcare. Retirees under age 65 pay the full premium for the benefits while the City contributes to the premium of active employees.

Funding Policy- The City currently finances the benefit plan on a pay-as-you-go- basis. The most recent active member monthly premiums for the City and the plan members are \$502 for single coverage, \$1,003 for employee and spouse, \$953 for employee and dependent children and \$1,505 for family coverage. The City pays the full cost of the single coverage and 85% of the difference between single coverage and any other coverage the employee elects. The contribution requirements of plan members are established and may be amended by the City. For the year ended June 30, 2013, the City contributed \$397,468 and plan members eligible for benefits contributed \$29,772 to the plan.

8/ Compensated Absences

City employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, retirement, or death. These accumulations are not recognized as disbursements by the City until used or paid. The liability is computed based on the rate of pay as of June 30, 2013. The City's approximate liability for earned compensated absences payable to employees at June 30, 2013, primarily relating to the General Fund, was \$152,000.

9/ Lease

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

During the year, the lease was renewed and the Municipal Waterworks is to receive \$245,000 per year beginning January 1, 2012, plus a 1% increase per year, offset by certain credits for certain improvements. During the year, the Waterworks received \$246,021.

The City receives 1.25% of the casino's adjusted gambling receipts on a monthly basis. During the year ended June 30, 2013, the City received \$872,448.

10/ Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2013 is as follows:

<u>Transfer From</u>	<u>Transfer To</u>	<u>Amount</u>
General	Debt Service	\$ 167,948
General	Capital Projects	382,871
Road Use	Capital Projects	30,083
Motel/Hotel Tax	Debt Service	97,779
Motel/Hotel Tax	General	153,726
Sewer Pump Plant	Capital Project	1,124,946
Residential TIF	Debt Service	67,775
Consolidated TIF	Debt Service	400,876
Sewer Fund	General	63,919
Sewer Fund	Capital Projects	80,816

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

11/ Risk Management

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

b) The City is a member of the Iowa Municipalities Workers' Compensation Association (IMWCA) which provides workers' compensation coverage to its members. IMWCA is governed by a board of directors elected by representatives of the governing bodies of each participating governmental jurisdiction. The City has executed a Workers' Compensation Coverage Agreement with IMWCA which extends through June 30, 2013 and has authorized IMWCA to issue general obligation bonds to provide funds to pay claims. During the year ended June 30, 2013, the City paid IMWCA insurance premiums of \$ 43,256.

12/ Use of Estimates

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

13/ Deficit Fund Balances

At June 30, 2013, Grade Lake and Airport Capital Project Funds had deficits of \$ 697,776 and \$21,394, respectively, which will be reduced by grants and/or bond proceeds as the projects are completed.

14/ Commitments

At June 30, 2013, the City has entered into construction contracts for Sewer Plant improvements totaling \$67,500 which will be paid as work progresses.

The City entered into an agreement with the South Central Landfill Agency which permits the City's solid waste pickup contractor to dispose of the waste at the Landfill. Since the City is not liable for any closing or post-closing landfill costs but its waste will shorten the Landfill's life span, the City will pay \$5,000 per month until the amount of \$350,000 is paid. Through June 30, 2013, the City has paid \$120,000 toward the obligation.

City of Osceola
 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, 2013

	Governmental Funds Actual	Proprietary Funds Actual	Component Unit Included in Budget	Net	Budgeted Amounts		Final to Net Variance
					Original	Final	
Receipts							
Property Taxes	\$ 2,315,379	\$	\$	\$ 2,315,379	\$ 2,254,577	\$ 2,254,577	\$ 60,802
Tax increment financing collections	640,381			640,381	730,811	730,811	(90,430)
Other city tax	1,972,307			1,972,307	1,193,296	1,193,296	779,011
Licenses and permits	126,530			126,530	40,200	40,200	86,330
Use of money and property	20,271		248,436	268,707	10,000	10,000	258,707
Intergovernmental	849,000			849,000	2,641,277	2,641,277	(1,792,277)
Charges for service	571,809	1,179,533	1,804,374	3,555,716	3,694,570	3,694,570	(138,854)
Miscellaneous	58,618			58,618	90,600	90,600	(31,982)
Total Receipts	6,554,295	1,179,533	2,052,810	9,786,638	10,655,331	10,655,331	(868,693)
Disbursements							
Public safety	1,102,342			1,102,342	1,318,870	1,318,870	216,528
Public works	1,083,128			1,083,128	1,101,109	1,101,109	17,981
Culture and recreation	744,244			744,244	761,016	761,016	16,772
Community and economic development	5,066,991			5,066,991	277,909	277,909	(4,789,082)
General government	791,599			791,599	722,453	722,453	(69,146)
Debt service	1,478,480	330,497		1,808,977	1,537,893	1,537,893	(271,084)
Capital projects	1,546,448			1,546,448	3,972,564	7,877,848	6,331,400
Business type activities		717,890	1,816,626	2,534,516	3,297,206	3,297,206	762,690
Total Disbursements	11,813,232	1,048,387	1,816,626	14,678,245	12,989,020	16,894,304	2,216,059
Excess (deficiency) of receipts over (under) disbursements	(5,258,937)	131,146	236,184	(4,891,607)	(2,333,689)	(6,238,973)	(1,347,366)
Other financing sources: net Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	193,530	(144,735)		48,795	2,880,997	2,880,997	(2,832,202)
Balances - beginning of year	(5,065,407)	(13,589)	236,184	(4,842,812)	547,308	(3,357,976)	(1,484,836)
Balances - end of year	7,958,425	705,387	352,864	9,016,676			9,016,676
	\$ 2,893,018	\$ 691,798	\$ 589,048	\$ 4,173,864	\$ 547,308	\$ (3,357,976)	\$ 7,531,840

See accompanying independent auditors' report.

City of Osceola, Iowa
Notes to Other Information – Budgetary Reporting
June 30, 2013

The budgetary comparison is presented in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not been 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 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, one amendment increased budgeted disbursements by \$ 3,905,284. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2013, disbursements exceeded the amounts budgeted in the Community and Economic Development function because the expenditures were classified as capital projects in the budget whereas they were classified as community and economic development expenditures in the financial statements. In addition, disbursements exceeded the amounts budgeted in general government and debt service functions.

City of Osceola, Iowa
Schedule of Cash Receipts, Disbursements, and Changes in Cash Balances
Nonmajor Governmental Funds
As of and for the year ended June 30, 2013

Schedule I

	Special Revenue			Total
	Local Option	Road Use Tax	Cemetery	
	Sales Tax LEC		Perpetual Care	
Receipts				
Intergovernmental	\$	\$ 472,030	\$	\$ 472,030
Miscellaneous		3,519	3,751	7,270
Total Receipts		475,549	3,751	479,300
Disbursements				
Public Works		418,462		418,462
Community and economic development	6,160			6,160
Total Disbursements	6,160	418,462		424,622
Excess (deficiency) of receipts over (under) disbursements	(6,160)	57,087	3,751	54,678
Other financing sources (uses)				
Operating Transfers Out		(30,083)		(30,083)
Change in cash balances	(6,160)	27,004	3,751	24,595
Cash balance (Deficit) - beginning of year	100,932	(26,170)	99,097	173,859
Cash balance - end of year	\$ 94,772	\$ 834	\$ 102,848	\$ 198,454
Cash basis fund balances				
Nonspendable	\$	\$	\$ 102,848	\$ 102,848
Restricted- other purposes	94,772	834		95,606
Total cash basis fund balances	\$ 94,772	\$ 834	\$ 102,848	\$ 198,454

See accompanying independent auditor's report.

City of Osceola, Iowa
 Schedule of Capital Project Funds
 As of and for the year ended June 30, 2013

Schedule 2

	2009 Paving	Grade Lake	Sewer Pump Plant	South Fillmore	BSNF Building	BSNF Depot	Babyland	Fillmore	Recreation Center	Airport Projects	Total
Receipts											
Use of money and property											
Intergovernmental											
Total receipts	15	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Disbursements											
Capital projects	133	350	1,340,033	68,736	5,433	18,640	11,965	101,178	1,546,448		
Total disbursements	133	330	1,340,033	68,736	5,433	18,640	11,965	101,178	1,546,448		
Excess(deficiency) of receipts over (under) disbursements	(118)	(330)	(1,105,033)	(68,736)	(5,433)	(18,640)	(11,965)	(22,480)			
Other financing sources											
Bond proceeds											
Operating transfers in	83	80,816	48,785	186,815	27,826	143,156	6,112	1,124,946	1,943	47,019	48,795
Operating transfers out											
Total other financing sources (uses)	83	80,816	(1,076,151)	186,815	27,826	143,156	6,112	1,124,946	1,943	47,019	(1,124,946)
Change in cash balances	(35)	80,486	(2,181,184)	118,079	27,826	143,156	679	1,106,306	(10,022)	24,539	(690,170)
Cash balance (Deficit) beginning of year	35	(798,262)	2,248,642	(118,079)	(27,826)	(143,156)	(679)	(30,526)	10,022	(45,933)	1,114,917
Cash balance (Deficit) end of year	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Cash basis fund balances (Deficit)											
Restricted for other purposes											
Unassigned											
Total cash basis fund balances	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$

See accompanying independent auditor's report.

City of Osceola, Iowa
 Schedule of Tax Increment Financing Funds
 As of and for the year ended June 30, 2013

Schedule 3

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

See accompanying independent auditors' report.

City of Osceola, Iowa
Schedule of Indebtedness
For the year ended June 30, 2013

Schedule 4

	Date of Issue	Interest Rates	Amount Originally Issued
<u>Obligation</u>			
<u>Primary Government</u>			
General Obligation Bond and Notes			
General Corporate Purpose	August 1, 2009	1.25-4.40%	\$2,750,000
General Corporate Purpose and Refunding	September 1, 2005	3.50 - 4.00%	5,800,000
General Corporate Purpose	August 1, 2007	4.00 - 5.00%	4,500,000
Capital Lease- Road Grader	September 22, 2009	4.50%	79,800
General Obligation Note - Fire Truck	April 2, 2010	3.36%	751,533
General Corporate Purpose	September 12, 2003	2.50 - 4.30%	500,000
General Obligation Refunding	November 30, 2011	.65- 2.10%	3,360,000
Totals			
General Obligation Sewer Improvement Bond	February 15, 2013	2.00%	101,000
Sewer Revenue Bonds	May 31, 2012	.60-3.25%	4,700,000
Totals			
Total City of Osceola			
<u>Component Unit</u>			
Water Revenue Bonds	May 14, 2002	3.00%	4,066,000

See accompanying independent auditor's report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
\$ 2,295,000	\$	\$ 160,000	\$ 2,135,000	\$ 86,120
395,000		395,000		137,104
3,750,000		270,000	3,480,000	176,868
50,013		15,938	34,075	2,288
465,891		150,620	315,271	15,402
185,000		60,000	125,000	7,882
3,360,000			3,360,000	
<u>\$ 10,500,904</u>	<u>\$</u>	<u>\$ 1,051,558</u>	<u>\$ 9,449,346</u>	<u>\$ 425,664</u>
\$	\$ 48,795	\$ 19,000	\$ 29,795	\$ 291
4,700,000		200,000	4,500,000	107,752
<u>\$ 4,700,000</u>	<u>\$ 48,795</u>	<u>\$ 219,000</u>	<u>\$ 4,529,795</u>	<u>\$ 108,043</u>
<u>\$ 15,200,904</u>	<u>\$ 48,795</u>	<u>\$ 1,270,558</u>	<u>\$ 13,979,141</u>	<u>\$ 533,707</u>
<u>\$ 2,529,000</u>	<u>\$</u>	<u>\$ 197,000</u>	<u>\$ 2,332,000</u>	<u>\$ 82,192</u>

City of Osceola, Iowa
 Bond and Note Maturities- Governmental
 For the year ended June 30, 2013

Schedule 5

Year Ending June 30,	General Corporate Purpose Issued October 1, 2007		General Corporate Purpose Issued September 12, 2003		General Obligation Refunding Issued November 30, 2011	
	Interest Rates (%)	Amount	Interest Rates (%)	Amount	Interest Rates (%)	Amount
2014	4.40	280,000	4.20	60,000	0.90	470,000
2015	4.50	295,000	4.30	65,000	1.15	470,000
2016	4.60	310,000			1.40	480,000
2017	4.65	320,000			1.65	485,000
2018	4.70	335,000			1.90	490,000
2019	4.75	355,000			2.10	500,000
2020	4.80	370,000				
2021	4.90	385,000				
2022	4.95	405,000				
2023	5.00	425,000				
2024						
Totals		<u>\$ 3,480,000</u>		<u>\$ 125,000</u>		<u>\$ 2,895,000</u>

	General Corporate Purpose Issued August 1, 2009		Road Grader Issued April 2, 2010		Fire Truck Issued April 2, 2010		Total
	Interest Rates(%)	Amount	Interest Rates(%)	Amount	Interest Rates (%)	Amount	
2014	2.90	165,000	4.50	16,650	3.36	155,433	1,147,083
2015	3.15	165,000	4.50	17,425	3.36	159,838	1,172,263
2016	3.40	170,000					960,000
2017	3.60	180,000					985,000
2018	3.75	185,000					1,010,000
2019	3.90	190,000					1,045,000
2020	4.00	200,000					570,000
2021	4.10	205,000					590,000
2022	4.20	215,000					620,000
2023	4.30	225,000					650,000
2024	4.40	235,000					235,000
		<u>\$ 2,135,000</u>		<u>\$ 34,075</u>		<u>\$ 315,271</u>	<u>\$ 8,984,346</u>

City of Osceola
 Revenue Bond Maturities
 For the year ended June 30, 2013

Schedule 6

<u>Issued May 31, 2012</u>		
2014	0.75	200,000
2015	0.90	200,000
2016	1.10	205,000
2017	1.30	205,000
2018	1.50	210,000
2019	1.80	210,000
2020	1.80	215,000
2021	2.10	220,000
2022	2.25	225,000
2023	2.40	230,000
2024	2.63	235,000
2025	2.63	240,000
2026	3.00	250,000
2027	3.00	255,000
2028	3.00	265,000
2029	3.00	270,000
2030	3.25	280,000
2031	3.25	290,000
2032	3.25	295,000
Total	<u>\$</u>	<u>4,500,000</u>

<u>Water Revenue Bonds</u>		
2014	3.00	203,000
2015	3.00	210,000
2016	3.00	216,000
2017	3.00	222,000
2018	3.00	229,000
2019	3.00	236,000
2020	3.00	243,000
2021	3.00	250,000
2022	3.00	258,000
2023	3.00	265,000
Totals	<u>\$</u>	<u>2,332,000</u>

See accompanying independent auditor's report.

Schedule 7

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

	2013	2012	2011	2010	2009	2008	2007	2006	2005
Receipts									
Property taxes	\$ 2,315,379	\$ 2,226,483	\$ 1,892,950	\$ 2,102,099	\$ 1,895,269	\$ 1,712,784	\$ 1,682,743	\$ 1,592,606	\$ 1,638,777
Tax increment financing collections	640,381	895,130	1,781,622	1,657,921	1,404,735	789,314	678,536	603,981	513,847
Other city tax	1,972,307	1,999,273	1,757,377	1,149,150	1,091,088	769,961	753,174	552,620	620,895
Licenses and permits	126,530	90,066	74,672	82,916	12,608	13,051	11,677	15,773	19,346
Use of money and property	20,271	35,812	120,671	221,638	150,883	357,239	1,382,319	1,197,582	1,041,928
Intergovernmental	849,000	547,428	1,277,390	1,004,665	905,952	873,023	825,723	851,667	1,003,840
Charges for service	571,809	649,790	496,799	1,408,787	1,474,333	1,379,026	530,078	435,661	393,136
Miscellaneous	38,618	105,545	249,634	605,676	114,691	222,955	340,819	915,980	3,382,729
Total	\$ 6,554,295	\$ 6,549,527	\$ 7,651,115	\$ 7,632,852	\$ 7,049,559	\$ 6,117,353	\$ 6,205,069	\$ 6,165,870	\$ 8,614,498
Disbursements									
Operating									
Public safety	\$ 1,102,342	\$ 995,430	\$ 925,005	\$ 895,638	\$ 806,140	\$ 920,333	\$ 778,792	\$ 748,843	\$ 776,541
Public works	1,083,128	1,158,217	1,516,706	948,194	886,624	1,185,219	1,327,025	1,528,242	1,317,761
Culture and recreation	744,244	770,405	724,842	734,817	674,463	761,378	829,558	726,759	671,715
Community and economic development	5,066,991	1,497,676	1,261,826	1,309,821	1,712,442	609,503	310,974	165,339	322,661
General government	791,599	811,127	666,588	614,904	615,453	574,462	919,082	745,378	753,168
Debt service	1,478,480	1,541,536	1,547,240	1,351,643	1,080,663	1,188,129	931,079	2,087,209	502,784
Capital projects	1,546,448	1,248,400	2,785,860	2,072,884	1,471,827	4,172,811	1,629,160	4,152,489	1,483,962
Total	\$ 11,813,232	\$ 8,020,791	\$ 9,428,067	\$ 7,927,901	\$ 7,247,612	\$ 9,411,835	\$ 6,725,670	\$ 10,154,259	\$ 5,828,592

See accompanying independent auditors' report.

POLLARD AND COMPANY P.C.

CERTIFIED PUBLIC ACCOUNTANT

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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 in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in the *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Osceola, Iowa, as of and for the year ended June 30, 2013, and the related notes to financial statements, which collectively comprise the City's basic financial statements, and have issued my report thereon as dated below. My report expressed unmodified opinions on the financial statements which were prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the City of Osceola's internal control over financial reporting as a basis for designing my auditing procedures to determine the audit procedures appropriate in the circumstances for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, I do not express an opinion on the effectiveness of the City's internal control.

My consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, I have identified a deficiency in internal control, described in Part I of the accompanying Schedule of Findings that I consider to be a material weakness.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned 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 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 Osceola's financial statements are free of material misstatement, I 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 my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*. However, I noted certain immaterial instances of non-compliance or other matters which are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2013 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.

City's Responses to Findings

The City of Osceola's responses to findings identified in my audit are described in the accompanying Schedule of Findings. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly I express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of my testing of internal control and compliance and the result of that testing and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

April 18, 2014

Pollard and Company P.C.

CITY OF OSCEOLA
Schedule of Findings
Year ended June 30, 2013

Part I -Findings Related to the Financial Statements

INTERNAL CONTROL DEFICIENCY:

I-A-13 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. I noted that generally one person has control over each of the following areas:

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

Recommendation

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

Response

We are attempting to involve management and department heads to produce more segregation of duties of the above functions. We will continue to review the internal control procedures and continue to segregate duties to the extent possible.

Conclusion

Response accepted.

Part II-Other Findings Related to Required Statutory Reporting

II-A-13 Certified Budget

Disbursements during the year ended June 30, 2013 exceeded the amounts budgeted in the General Government and Debt Service functions. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

Recommendation

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

Response

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

Conclusion

Response accepted.

- II-B-13 Questionable Disbursements
I noted no disbursements for parties, banquets or other entertainment expenses that do not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- II-C-13 Travel Expense
I noted no disbursements of City money for travel expenses of spouses of City officials or employees during the year.
- II-D-13 Business Transactions
No business transactions between the City and City officials or employees were noted.
- II-E-13 Bond Coverage
Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- II-F-13 Council Minutes
Although minutes of the Council meetings were published some were not published within 15 days as required by Chapter 372.13(6) of the Code of Iowa. Also, they did not contain a summary of receipts.
- Recommendation
The City should comply with Chapter 372 of the Code of Iowa and include the above in the minutes.
- Response
We will comply with the Code requirements.
- Conclusion
Response accepted.
- II-G-13 Deposits and Investments
I noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa.
- II-H-13 Financial Condition
Certain funds had deficit balances at June 30, 2013.
- Recommendation
The City should investigate alternatives to eliminate these deficits in order to return these funds to a sound financial position.
- Response
Note 13 of the financial statements describes the amount of the deficits and the City's plans to eliminate the deficits.
- Conclusion
Response accepted.