

CITY OF BRITT

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

JUNE 30, 2013

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CITY OF BRITT

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
James Nelson	Mayor	Jan 2014
Douglas Weiland	Mayor Pro tem	Jan 2014
Dwight Leerar	Council Member	Jan 2016
Curt Gast	Council Member	Jan 2016
Bryan Aitchison	Council Member	Jan 2016
Michael Ostercamp	Council Member	Jan 2014
Jean Purvis	City Clerk	Jan 2014
Darcy Eisenman	Deputy City Clerk	Jan 2014
Jane Swenson	Treasurer	Jan 2014
Earl Hill	Attorney	Jan 2014



# Renner & Birchem, PC

Certified Public Accountants

"Where people who care make the difference"

DENNIS L. RENNER, CPA  
MICHAEL J. BIRCHEM, CPA, CFP®

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## Independent Auditor's Report

To the Honorable Mayor and  
Members of the City Council:

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of City of Britt, 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

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of City of Britt as of June 30, 2013, and the respective changes in cash basis 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. Our opinion is not modified with respect to this matter.

## Other Matters

### *Supplementary and Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise City of Britt's basic financial statements. We previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the nine years ended June 30, 2012 (which are not presented herein) and expressed unqualified opinions on those financial statements which were prepared on the basis of cash receipts and disbursements. The supplementary information included in Schedules 1 through 4, 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 our 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's Discussion and Analysis and the budgetary comparison information on pages 6 through 12 and 25 through 26 has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

## Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated December 10, 2013 on our consideration of City of Britt's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering City of Britt's internal control over financial reporting and compliance.

  
Renner & Birchem, P.C.  
Britt, Iowa

December 10, 2013

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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

### 2013 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities decreased 59.6%, or \$2,476,537, from fiscal 2012 to fiscal 2013. Bond proceeds decreased \$2,259,694 and capital grants, contributions and restricted interest decreased \$202,361.
- Disbursements decreased 24.4% or \$704,907 in fiscal 2013 from fiscal 2012. General government and capital projects disbursements decreased \$17,452, and \$1,353,821, respectively.
- The City's total cash basis net position decreased 13.8%, or \$445,376 from June 30, 2012 to June 30, 2013. Of this amount, the cash basis net position of the governmental activities decreased \$508,183 and the cash basis net position of the business type activities increased by \$62,807. The decrease is due mainly to the payoff of the March 15, 2007 general obligation bond.

### USING THIS ANNUAL REPORT

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

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

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

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

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

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

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

## **Basis of Accounting**

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of 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 the limitations resulting from the use of the cash basis of accounting.

## **REPORTING THE CITY'S FINANCIAL ACTIVITIES**

### *Government-wide Financial Statement*

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

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

The Cash Basis Statement of Activities and Net Position is divided into two kinds of activities:

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

*Fund Financial Statements*

The City has two kinds of funds:

- 1) Governmental funds account for most of the City’s basic services. These focus on how money flows into and out of those funds and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Revolving Loan, 3) the Debt Service Fund and 4) the Capital Projects Fund. The governmental fund financial statements provide a detailed, short-term view of the City’s general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City’s programs.

The required financial statement for governmental funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

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

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

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

Net position may serve over time as a useful indicator of financial position. The City’s cash balance for governmental activities decreased from a year ago, decreasing from \$2,607,504 to \$2,099,321. The analysis that follows focuses on the changes in cash basis net position of governmental activities.

	<b>Changes in Cash Basis Net Position of Governmental Activities</b>	
	<b>Year ended June 30,</b>	
	<b>2013</b>	<b>2012</b>
Receipts:		
Program receipts:		
Charges for service	\$74,879	64,542
Operating grants, contributions and restricted interest	258,052	248,697
Capital grants, contributions and restricted interest		211,716
General receipts:		
Property tax	813,705	750,512
Local option sales tax	173,672	165,470
Unrestricted investment earnings	11,898	17,112
Bond proceeds	231,479	2,491,173
Other general receipts	115,279	206,279
Total receipts	1,678,964	4,155,501

Disbursements:		
Public safety	280,695	289,096
Public works	365,894	233,872
Health and social services	5,500	5,000
Culture and recreation	208,234	212,764
Community and economic development	75,252	31,800
General government	185,002	202,454
Debt service	776,486	273,163
Capital projects	290,084	1,643,905
Total disbursements	<u>2,187,147</u>	<u>2,892,054</u>
Change in cash basis net position	(508,183)	1,263,447
Cash basis net position beginning of year	<u>2,607,504</u>	<u>1,344,057</u>
Cash basis net position end of year	<u><u>\$2,099,321</u></u>	<u><u>2,607,504</u></u>

The City's total receipts for governmental activities decreased by 59.6% or \$2,476,537. The total cost of all programs and services decreased by \$704,907 or 24.4%. The significant decrease in receipts was primarily the result of the issuance of advance refunding bonds in 2012.

The City's property tax receipts for 2013 increased by \$63,193 and bond proceeds decreased \$2,259,694.

The cost of all governmental activities this year was \$2.19 million compared to \$2.89 million last year. However, as shown in the Statement of Activities and Net Position on page 14, the amount taxpayers ultimately financed for these activities was \$1,854,216, because some of the cost was paid by those directly benefited from the programs (\$74,879) or by other governments and organizations which subsidized certain programs with grants, contributions and restricted interest (\$258,052). Overall, the City's governmental activities receipts, including intergovernmental aid and fees for service, decreased in fiscal year 2013 from \$524,955 to \$332,931.

<b>Changes in Cash Basis Net Position of Business Type Activities</b>		
	<b>Year ended June 30,</b>	
	<b>2013</b>	<b>2012</b>
Receipts:		
Program receipts:		
Charges for service:		
Water	\$181,271	177,068
Sewer	191,713	187,603
Total receipts	<u>372,984</u>	<u>364,671</u>
Disbursements:		
Water	156,187	225,624
Sewer	153,990	125,656
Total disbursements	<u>310,177</u>	<u>351,280</u>
Change in cash basis net position	62,807	13,391
Cash basis net position beginning of year	<u>624,917</u>	<u>611,526</u>
Cash basis net position end of year	<u><u>\$687,724</u></u>	<u><u>624,917</u></u>

Total business type activities receipts for the fiscal year were \$372,984 compared to \$364,671 last year. Total disbursements for the fiscal year decreased by 11.7% to a total of \$310,177. The cash balance increased by \$62,807 during the fiscal year compared to an increase of \$13,391 last year.

## **INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS**

As the City of Britt completed the year, its governmental funds reported a combined fund balance of \$2,099,321, a decrease of \$508,183 from last year's total of \$2,607,504. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance decreased \$51,214 from the prior year to \$163,288.
- The Road Use Tax Fund cash balance increased by \$50,508 to \$241,949 during the fiscal year.
- The Local Option Tax Fund cash balance decreased by \$22,627 to \$575,588.
- The Capital Projects Fund cash balance decreased by \$66,953 to \$4,944 during the fiscal year.
- The Debt Service Fund cash balance decreased by \$374,037 to \$889,228 during the fiscal year. The decrease is due primarily to the bond refunded in 2013.

## INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance increased by \$25,084 to \$289,600 during the fiscal year and will be used to maintain service and repair the water system.
- The Sewer Fund cash balance increased by \$37,723 to \$398,124 during the fiscal year and will be used to maintain service and repair the sewer system.

## BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget. The amendment was approved on May 6, 2013 and resulted in an increase in operating disbursements to provide for additional costs in certain City departments.

The City exceeded the amounts budgeted in the debt service function for the year ended June 30, 2013 due to additional disbursements for the capital loan notes refunded.

## DEBT ADMINISTRATION

At June 30, 2013, the City had \$3,391,000 in general obligation bonds, compared to \$3,820,000 last year, as shown below.

Outstanding Debt at Year-End	June 30,	
	2013	2012
	General obligation bonds and short-term borrowing	\$3,391,000

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$3,391,000 compared to its constitutional debt limit of \$3,962,702. The total debt includes \$1,290,000 in advance refunding capital loan notes.

## ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City of Britt's elected and appointed officials and citizens considered many factors when setting the fiscal year 2014 budget, tax rates, and fees that will be charged for various City activities.

These among other economic factors were taken into account when adopting the budget for fiscal year 2014. Amounts available for appropriation in the operating budget are \$2.3 million, an increase of 13.2% from the final 2013 budget. Budgeted disbursements are expected to increase by approximately \$121,000 over 2013 actual.

If these estimates are realized, the City's budgeted cash balance is expected to decrease approximately \$303,000 by the close of 2014. Actual amounts can and usually do differ from budgeted amounts.

## **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 Jeanie Purvis, City Clerk, 170 Main Avenue South, Britt, Iowa.

## BASIC FINANCIAL STATEMENTS

## Cash Basis Statement of Activities and Net Position

As of and for the year ended June 30, 2013

	Program Receipts			Net (Disbursements) Receipts and Changes in Cash Basis Net Position		
	Disbursements	Operating Grants,		Governmental Activities	Business Type Activities	Total
		Charges for Service	Contributions and Restricted Interest			
<b>Functions / Programs:</b>						
Governmental activities:						
Public safety	\$ 280,695		29,983	(250,712)		(250,712)
Public works	365,894	27,363	200,793	(137,738)		(137,738)
Health and social services	5,500			(5,500)		(5,500)
Culture and recreation	208,234	47,516	23,070	(137,648)		(137,648)
Community and economic development	75,252			(75,252)		(75,252)
General government	185,002			(185,002)		(185,002)
Debt service	776,486		4,206	(772,280)		(772,280)
Capital projects	290,084			(290,084)		(290,084)
Total governmental activities	2,187,147	74,879	258,052	(1,854,216)		(1,854,216)
Business type activities:						
Water	156,187	181,271			25,084	25,084
Sewer	153,990	191,713			37,723	37,723
Total business type activities	310,177	372,984			62,807	62,807
Total	\$ 2,497,324	447,863	258,052	(1,854,216)	62,807	(1,791,409)
<b>General Receipts and Transfers:</b>						
Property tax levied for:						
General purposes				389,419		389,419
Employee benefits and insurance				61,562		61,562
Debt service				362,724		362,724
Local option sales tax				173,672		173,672
Unrestricted interest on investments				11,898		11,898
Miscellaneous				115,279		115,279
Bond proceeds				231,479		231,479
Total general receipts and transfers				1,346,033		1,346,033
Change in cash basis net position				(508,183)	62,807	(445,376)
Cash basis net position beginning of year				2,607,504	624,917	3,232,421
Cash basis net position end of year				\$ 2,099,321	687,724	2,787,045
<b>Cash Basis Net Position</b>						
Restricted:						
Expendable:						
Streets				\$ 241,949		241,949
Debt service				889,228		889,228
Other purposes				749,676		749,676
Unrestricted				218,468	687,724	906,192
Total cash basis net position				\$ 2,099,321	687,724	2,787,045

See notes to financial statements.

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	Road Use Tax	Local Option	Debt Service	Capital Projects	Nonmajor	
<b>Receipts:</b>							
Property tax	\$ 389,419			362,724		61,562	813,705
Other city tax	1,799		171,873				173,672
Licenses and permits	21,935						21,935
Use of money and property	14,358			4,206			18,564
Intergovernmental	55,708	198,138					253,846
Charges for services	74,879						74,879
Special assessments				26,040	1,131		27,171
Miscellaneous	53,782					9,931	63,713
<b>Total receipts</b>	<b>611,880</b>	<b>198,138</b>	<b>171,873</b>	<b>392,970</b>	<b>1,131</b>	<b>71,493</b>	<b>1,447,485</b>
<b>Disbursements:</b>							
<b>Operating:</b>							
Public safety	238,777					41,918	280,695
Public works	31,978	147,630	171,107			15,179	365,894
Health and social services	5,500						5,500
Culture and recreation	197,054					11,180	208,234
Community and economic development	20,325		23,393			31,534	75,252
General government	169,460					15,542	185,002
Debt service				776,486			776,486
Capital projects					290,084		290,084
<b>Total disbursements</b>	<b>663,094</b>	<b>147,630</b>	<b>194,500</b>	<b>776,486</b>	<b>290,084</b>	<b>115,353</b>	<b>2,187,147</b>
Excess (deficiency) of receipts over (under) disbursements	(51,214)	50,508	(22,627)	(383,516)	(288,953)	(43,860)	(739,662)
<b>Other financing sources (uses):</b>							
Bond proceeds				9,479			9,479
Note proceeds					222,000		222,000
<b>Total other financing sources (uses)</b>				<b>9,479</b>	<b>222,000</b>		<b>231,479</b>
Change in cash balances	(51,214)	50,508	(22,627)	(374,037)	(66,953)	(43,860)	(508,183)
Cash balances beginning of year	214,502	191,441	598,215	1,263,265	71,897	268,184	2,607,504
Cash balances end of year	\$ 163,288	241,949	575,588	889,228	4,944	224,324	2,099,321
<b>Cash Basis Fund Balances</b>							
<b>Restricted For:</b>							
Debt service				889,228			889,228
Streets		241,949					241,949
Other purposes	\$ 1,093		575,588		4,944	168,051	749,676
Unassigned	162,195					56,273	218,468
<b>Total cash basis fund balances</b>	<b>\$ 163,288</b>	<b>241,949</b>	<b>575,588</b>	<b>889,228</b>	<b>4,944</b>	<b>224,324</b>	<b>2,099,321</b>

See notes to financial statements.

## City of Britt

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

As of and for the year ended June 30, 2013

	Enterprise Funds		
	Water	Sewer	Total
Operating receipts:			
Charges for service	\$ 181,271	191,713	372,984
Total operating receipts	181,271	191,713	372,984
Operating disbursements:			
Business type activities	156,187	153,990	310,177
Total operating disbursements	156,187	153,990	310,177
Excess (deficiency) of receipts over (under) disbursements	25,084	37,723	62,807
Cash balances beginning of year	264,516	360,401	624,917
Cash balances end of year	\$ 289,600	398,124	687,724
<b>Cash Basis Fund Balances</b>			
Unreserved	\$ 289,600	398,124	687,724
Total cash basis fund balances	\$ 289,600	398,124	687,724

See notes to financial statements.

# CITY OF BRITT

## Notes to Financial Statements

June 30, 2013

### (1) Summary of Significant Accounting Policies

The City of Britt is a political subdivision of the State of Iowa located in Hancock County. It was first incorporated in 1878 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, culture and recreation, community and economic development and general government services. The City of Britt also provides water and sewer utilities for its citizens.

#### A. Reporting Entity

For financial reporting purposes, City of Britt has included all funds, organizations, agencies, commissions and authorities. The City has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City. The City of Britt has no component units which meet the Governmental Accounting Standards Board criteria.

#### Jointly Governed Organizations

The City also participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Hancock County Assessor's Conference Board and Hancock County Development Commission, Hancock County Disaster/911 and Hancock County Task Force.

#### 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 position. Net position is reported in the following categories/components:

*Nonexpendable restricted net position* are subject to externally imposed stipulations which require the cash balance to be maintained permanently by the City, including the City's Permanent Fund.

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

## CITY OF BRITT

### Notes to Financial Statements (continued)

June 30, 2013

*Unrestricted net position* consists of cash balances not meeting the definition of the preceding categories. Unrestricted net position often have 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 the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

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

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts 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 Local Option Tax Fund is used to account for local option sales tax collected.

The Road Use Tax Fund is used to account for the road use tax allocation from the State of Iowa to be used for road construction and maintenance.

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

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

The City reports the following major proprietary funds:

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

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

## CITY OF BRITT

### Notes to Financial Statements (continued)

June 30, 2013

#### C. Measurement Focus and Basis of Accounting

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

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

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

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

#### D. Governmental Cash Basis Fund Balances:

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

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

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

Assigned – Amounts the Council intends to use for specific purposes

Unassigned – All amounts not included in the preceding classifications.

#### E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information. During the year ended June 30, 2013, disbursements exceeded the amounts budgeted in the debt service function.

CITY OF BRITT  
Notes to Financial Statements (continued)  
June 30, 2013

**(2) Cash and Pooled Investments**

The City's deposits in banks 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.

At June 30, 2013 the City had investments in U.S. Government Obligations with a carrying amount and fair market value of \$862,663.

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

**(3) Bonds Payable**

Annual debt service requirements to maturity for general obligation indebtedness is as follows:

Year Ending June 30,	General Obligation Bonds		Total	
	Principal	Interest	Principal	Interest
2014	\$ 281,000	90,706	281,000	90,706
2015	287,000	84,941	287,000	84,941
2016	412,000	78,619	412,000	78,619
2017	427,000	70,325	427,000	70,325
2018	333,000	61,054	333,000	61,054
2019-2024	1,651,000	157,867	1,651,000	157,867
	<u>\$ 3,391,000</u>	<u>543,512</u>	<u>3,391,000</u>	<u>543,512</u>

General Obligation Refunding Bonds

On May 22, 2013, the City issued \$1,290,000 of general obligation refunding bonds for the crossover advance refunding of \$380,000 of general obligation capital loan, dated March 15, 2007 and \$845,000 of general obligation aquatic center bonds, series 2008, dated August 1, 2008. The City entered into an escrow agreement whereby the proceeds from the general obligation refunding bonds were converted into U.S. government securities. These securities were placed in an escrow account for the express purpose of paying the interest on the general obligation refunding bonds as due until the cross over dates of June 1, 2013, at which time the refunded general obligation capital loan, dated March 15, 2007, become callable, and June 1,

CITY OF BRITT

Notes to Financial Statements (continued)

June 30, 2013

2015, at which time the refunded general obligation aquatic center bonds, series 2008, of \$845,000 become callable. After the principal and interest on all of the outstanding notes have been paid, any remaining funds in the escrow account, together with any interest thereon, shall be returned to the City. The transactions and balances of the escrow account are recorded by the City since the refunded debt is not considered extinguished.

The refunding resulted in an economic gain of \$64,817.

**(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 5.78% 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 \$37,195, \$32,958 and \$28,021 respectively, equal to the required contribution for each year.

**(5) Compensated Absences**

City employees accumulate a limited amount of earned but unused vacation and comp time hours for subsequent use or for payment upon termination, retirement or death. Sick leave hours are accumulated for subsequent use but are not paid upon termination, retirement, or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation and comp time termination payments payable to employees at June 30, 2013, primarily relating to the General Fund, is as follows:

<u>Type of Benefit</u>	<u>Amount June 30, 2013</u>
Vacation and Comp Time	\$ <u>21,285</u>

This liability has been computed based on rates of pay as of June 30, 2013.

**(6) Related Party Transactions**

No transactions between the City and City officials occurred during the year ended June 30, 2013.

**(7) Risk Management**

The City is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 679 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability,

CITY OF BRITT

Notes to Financial Statements (continued)

June 30, 2013

automobile physical damage, public officials liability, police professional liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 300 percent of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The City's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The City's annual contributions to the Pool for the year ended June 30, 2013 were \$44,233.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000 per claim. For members requiring specific coverage from \$3,000,000 to \$15,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$250,000 each occurrence, each location, with excess coverage reinsured by the Lexington Insurance Company.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event that a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. As of June 30, 2013, settled claims have not exceeded the risk pool or reinsurance company coverage since the Pool's inception.

Members agree to continue membership in the Pool for the period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all casualty claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their casualty capital contributions. If a member withdraws after the sixth year, the member is refunded 100 percent of its casualty capital contributions. However, the refund is reduced by the amount of capital distributions previously received by the withdrawing member and an amount equal to the annual casualty operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

CITY OF BRITT

Notes to Financial Statements (continued)

June 30, 2013

The City also carries commercial insurance purchased from other insurers for coverage associated with fidelity bonding. The City assumes liability for any deductibles, and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**(8) Other Postemployment Benefits (OPEB)**

Plan Description – The City operates a single-employer retiree benefit plan which provides medical/prescription drug and dental benefits for retirees and their spouses. There are 8 active members in the plan. Participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with Principal. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees. The dental benefits are provided through a fully-insured plan with Delta Dental. Retirees pay the same premium for the dental benefits as active employees.

Funding Policy – The contribution requirements of plan members are established and may be amended by the City. The City currently finances the retiree benefit plan on pay-as-you-go basis. The most recent active member monthly premiums for the City and plan members are \$517.75 for single coverage for medical/prescription drug benefits and \$37.17 for single coverage and \$127.97 for family coverage for dental benefits. The same monthly premiums apply to retirees. For the year ended June 30, 2013 the city contributed \$61,230 to the plan.

**(9) Accounting Change/Restatement**

Governmental Accounting Standards Board Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, was implemented during the year ended June 30, 2013. The effect of fund type reclassifications is as follows:

	Capital Projects	Special Revenue, Housing Rehabilitation
Balance June 30, 2012, as previously reported	\$ 132,584	
Change in fund type classification per implementation of GASB Statement No. 54	(60,687)	60,687
Balance July 1, 2012, as restated	<u>\$ 71,897</u>	<u>60,687</u>

## OTHER INFORMATION

City of Britt

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	Total	Budgeted Amounts		Final to Total Variance
				Original	Final	
				Receipts:		
Property tax	\$ 813,705		813,705	778,221	778,221	35,484
Other city tax	173,672		173,672	180,025	180,025	(6,353)
Licenses and permits	21,935		21,935	3,978	3,978	17,957
Use of money and property	18,564		18,564	22,478	22,478	(3,914)
Intergovernmental	253,846		253,846	248,097	248,097	5,749
Charges for services	74,879	372,984	447,863	431,055	431,055	16,808
Special assessment	27,171		27,171		295,615	(268,444)
Miscellaneous	63,713		63,713	77,648	77,648	(13,935)
Total receipts	1,447,485	372,984	1,820,469	1,741,502	2,037,117	(216,648)
Disbursements:						
Public safety	280,695		280,695	295,929	303,429	22,734
Public works	365,894		365,894	418,389	418,389	52,495
Health and social services	5,500		5,500	5,500	5,500	
Culture and recreation	208,234		208,234	241,929	241,929	33,695
Community and economic development	75,252		75,252	105,000	105,000	29,748
General government	185,002		185,002	245,207	245,207	60,205
Debt service	776,486		776,486	344,856	344,856	(431,630)
Capital projects	290,084		290,084		295,615	5,531
Business type activities		310,177	310,177	342,622	342,622	32,445
Total disbursements	2,187,147	310,177	2,497,324	1,999,432	2,302,547	(194,777)
Excess (deficiency) of receipts over (under) disbursements	(739,662)	62,807	(676,855)	(257,930)	(265,430)	(411,425)
Other financing sources net	231,479		231,479		7,500	223,979
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(508,183)	62,807	(445,376)	(257,930)	(257,930)	(187,446)
Balances beginning of year	2,607,504	624,917	3,232,421	1,660,777	1,660,777	1,571,644
Cash balances end of year	\$ 2,099,321	687,724	2,787,045	1,402,847	1,402,847	1,384,198

See accompanying independent auditor's report.

City of Britt

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 being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

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

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund 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, one budget amendment increased budget disbursements by \$303,115. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2013, disbursements exceeded the amounts budgeted in the debt service function.

SUPPLEMENTARY INFORMATION

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

As of and for the year ended June 30, 2013

	Special Revenue				
	Housing Rehabilitation	Revolving Loan	Employee Benefits	Sunset Ridge	Total
Receipts:					
Property tax			61,562		61,562
Miscellaneous	\$ 396	9,535			9,931
Total receipts	396	9,535	61,562		71,493
Disbursements:					
Public safety			41,918		41,918
Public works			15,179		15,179
Culture and recreation			11,180		11,180
Community and economic development	5,530	25,000	816	188	31,534
General government			15,542		15,542
Total disbursements	5,530	25,000	84,635	188	115,353
Change in cash balances	(5,134)	(15,465)	(23,073)	(188)	(43,860)
Cash balances beginning of year	60,687	108,825	42,211	56,461	268,184
Cash balances end of year	\$ 55,553	93,360	19,138	56,273	224,324
<b>Cash Basis Fund Balances</b>					
Restricted For:					
Other purposes	\$ 55,553	93,360	19,138		168,051
Unassigned				56,273	56,273
Total Cash Basis Fund Balances	\$ 55,553	93,360	19,138	56,273	224,324

See accompanying independent auditor's report.

## City of Britt

## Schedule of Indebtedness

Year ended June 30, 2013

Obligation	Date of Issue	Interest Rate	Amount Originally Issued	Balance Beginning of Year	Issued During the Year	Redeemed During Year	Balance End of Year	Interest Paid
General Obligation Bonds:								
Capital Loan	3-15-07	3.9-4.3%	\$ 845,000	465,000		465,000		19,548
Aquatic Center	8-1-08	4.5-4.6%	1,550,000	1,135,000		95,000	1,040,000	51,273
First Street	9-29-11	.95-3.70%	930,000	930,000		70,000	860,000	23,035
Refunding Capital Loan Notes,								
Series 2012	5-22-12	.60-2.25%	1,290,000	1,290,000			1,290,000	18,506
Street Improvement	9-18-12	.75-2.55%	222,000		222,000	21,000	201,000	564
Total				\$ 3,820,000	222,000	651,000	3,391,000	112,926

See accompanying independent auditor's report.

City of Britt  
Bond and Note Maturities  
June 30, 2013

General Obligation Bond									
Year Ending June 30,	Street Improvement Issued September 18, 2012		Aquatic Center Issued August 1, 2008		1st Street Issued September 29, 2011		Refunding Capital Loan Notes, Series 2012 Issued May 7, 2012		Total
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	
2014	.75%	\$ 16,000	4.50%	95,000	1.10%	70,000	.60%	100,000	281,000
2015	.75	17,000	4.50	100,000	1.35	70,000	.75	100,000	287,000
2016	1.05	17,000	4.50	105,000	1.70	70,000	1.00	220,000	412,000
2017	1.05	17,000	4.55	110,000	2.00	75,000	1.15	225,000	427,000
2018	1.45	18,000	4.55	115,000	2.30	75,000	1.45	125,000	333,000
2019	1.45	18,000	4.40	120,000	2.65	75,000	1.65	125,000	338,000
2020	1.95	18,000	4.50	125,000	2.95	80,000	1.85	130,000	353,000
2021	1.95	19,000	4.55	130,000	3.15	80,000	2.00	130,000	359,000
2022	1.95	20,000	4.60	140,000	3.35	85,000	2.25	135,000	380,000
2023	2.55	20,000			3.55	90,000			110,000
2024	2.55	21,000			3.70	90,000			111,000
<b>Total</b>		<b>\$ 201,000</b>		<b>1,040,000</b>		<b>860,000</b>		<b>1,290,000</b>	<b>3,391,000</b>

See accompanying independent auditor's report.

## City of Britt

Schedule of Receipts by Source and Disbursements by Function –  
All Governmental Funds

For the Last Ten Years

	2013	2,012	2,011	2010	2009	2008	2007	2006	2005	2004
Receipts:										
Property tax	\$ 813,705	750,512	725,597	722,995	712,536	704,736	587,176	527,179	452,456	424,817
Tax increment financing						525	86,642	57,755	46,303	19,110
Other city tax	173,672	165,470	125,675	178,531	162,349	127,991	134,871	142,126	122,940	126,438
Licenses and permits	21,935	22,367	6,514	22,364	24,020	23,992	22,291	2,651	1,981	3,969
Use of money and property	18,564	19,523	31,936	34,314	36,907	39,846	39,016	7,787	22,930	25,352
Intergovernmental	253,846	460,413	1,325,123	535,380	434,906	206,767	233,654	292,596	262,084	321,789
Charges for service	74,879	64,542	112,807	88,157	73,814	39,329	46,713	38,844	43,713	36,732
Special assessments	27,171	71,895								
Miscellaneous	63,713	109,606	56,279	55,288	262,375	301,394	149,765	147,244	92,955	116,808
Total	\$ 1,447,485	1,664,328	2,383,931	1,637,029	1,706,907	1,444,580	1,300,128	1,216,182	1,045,362	1,075,015
Disbursements:										
Operating:										
Public safety	\$ 280,695	289,096	240,802	217,064	231,053	219,589	236,671	246,957	215,160	210,273
Public works	365,894	233,872	197,451	210,408	285,650	282,552	319,535	285,894	381,731	180,968
Health and social services	5,500	5,000	3,570	3,500	3,500					
Culture and recreation	208,234	212,764	219,759	207,378	205,604	114,609	162,517	164,626	153,489	117,531
Community and economic development	75,252	31,800	68,488	45,583	64,894	87,336	95,011	156,537	117,946	165,503
General government	185,002	202,454	174,926	203,231	193,162	190,036	233,067	223,085	164,539	78,845
Debt service	776,486	273,163	251,038	247,600	325,867	107,319	158,533	183,818	159,815	54,692
Capital projects	290,084	1,643,905	1,317,184	400,161	2,024,181	128,333	279,726	694,880	91,982	126,410
Total	\$ 2,187,147	2,892,054	2,473,218	1,534,925	3,333,911	1,129,774	1,485,060	1,955,797	1,284,662	934,222

See accompanying independent auditor's report.



**Renner &  
Birchem, PC**

**Certified Public Accountants**

*"Where people who care make the difference"*

DENNIS L. RENNER, CPA  
MICHAEL J. BIRCHEM, CPA, CFP®

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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:

We 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 City of Britt, 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 our report thereon dated December 10, 2013. Our 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 our audit of the financial statements, we considered the City of Britt's internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Britt's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Britt's internal control.

Our 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 significant deficiencies or material weaknesses and, therefore, significant deficiencies or material weaknesses may exist that were not identified. However, as described in the accompanying Schedule of Findings, we identified deficiencies in internal control we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of City of Britt's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in Part I of the accompanying Schedule of Findings as items I-A-13 and I-B-13 to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in Part I of the accompanying Schedule of Findings as item I-C-13 to be a significant deficiency.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Britt's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters which are described in Part 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 our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

### City of Britt's Responses to Findings

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

### Purpose of this Report

The purpose of this report is solely to describe the scope of our 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.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Britt during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

December 10, 2013

  
Renner & Birchem, P.C.  
Britt, Iowa

City of Britt

Schedule of Findings

Year ended June 30, 2013

Part I: Findings Related to the Financial Statements:

**Internal Control Deficiencies:**

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. The areas of cash receipts, cash disbursements, investments, and payroll under ideal conditions would be segregated.

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

Response - We will investigate this.

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

I-B-13 Preparation of Financial Statements – The City does not have an internal control system designed to provide for the preparation of the financial statements on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Therefore, as auditors, we were requested to draft the financial statements and accompanying notes to the financial statements. This circumstance is not unusual for a governmental entity similar in population to the City of Britt. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Recommendation – We realize that obtaining the expertise necessary to prepare the financial statements, including all necessary disclosures, can be considered costly and ineffective. However, the City’s management and those charged with governance should decide whether to accept the degree of risk associated with this condition because of cost or other considerations.

Response – The city will continue to review and monitor procedures currently in place and evaluate the risks to be accepted in preparation of the financial statements.

Conclusion - Response accepted.

City of Britt

Schedule of Findings

Year ended June 30, 2013

Part I: Findings Related to the Financial Statements (continued):

I-C-13 Posting of Financial Transactions – Receipts and disbursements were not always posted to the correct accounts.

Recommendation – More care should be exercised when posting transactions to reduce the incidence of mispostings.

Response – In the future, more care will be exercised when posting transactions.

Conclusion – Response accepted.

**Instances of Non-compliance:**

No matters were noted.

City of Britt  
Schedule of Findings  
Year ended June 30, 2013

Part II: Other Findings Related to Statutory Reporting:

II-A-13 Certified Budget – Disbursements during the year ended June 30, 2013 exceed the amounts budgeted in the debt service function. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.

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 expense of the March 15, 2007 bond refunded caused the disbursement to exceed budgeted amounts.

Conclusion - Response accepted.

II-B-13 Questionable Disbursements - We noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

II-C-13 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

II-D-13 Business Transactions - No transactions between the City and City officials 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 - No transactions were found that we believe should have been approved in the Council minutes but were not.

II-G-13 Deposits and Investments - We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy.

II-H-13 Urban Renewal Annual Report – The urban renewal annual report was properly approved and certified to the Iowa Department of Management on or before December 1 and no exceptions were noted.