

NEWS RELEASE

FOR RELEASE: December 31, 2013

Lou Ann Murphy & Company, P.L.L.C., of Osage today released an audit report on the City of Osage, Iowa.

The City's receipts totaled \$4,483,597 for the year ended June 30, 2013, a 5.0 percent increase from prior year. The receipts included \$1,270,544 from charges for services, \$1,154,294 from property tax, \$634,967 from operating grants, contributions and restricted interest, \$598,705 from tax increment financing, \$298,303 from local option sales tax, \$33,448 from unrestricted interest on investments, \$24,447 from capital grants, contributions and restricted interest, and \$468,889 from other general receipts.

Disbursements for the year totaled \$4,296,257 a 21.8 percent decrease from the prior year, and included \$690,123 for debt services, \$620,857 for public safety, and \$759,390, for culture and recreation. Also, disbursements for business type activities totaled \$1,052,633.

A copy of the report is available for review in the City Clerk's Office, in the Office of Auditor of State and on the Auditor of State's web site at: <http://auditor.iowa.gov/reports/index.html>.

CITY OF OSAGE

**INDEPENDENT AUDITOR'S REPORTS
PRIMARY GOVERNMENT FINANCIAL STATEMENTS
SUPPLEMENTARY AND OTHER INFORMATION
SCHEDULE OF FINDINGS**

JUNE 30, 2013

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City of Osage

<u>Name</u>	<u>Officials</u> <u>Title</u>	<u>Term</u> <u>Expires</u>
Steven Cooper	Mayor	Jan 2016
Rick Bodensteiner	Council Member	Jan 2014
Ken Boehmer	Council Member	Jan 2014
Larry Mork	Council Member	Jan 2014
Brian Adams	Council Member	Jan 2016
Kurt Elliott	Council Member	Jan 2016
Judy Voaklander	Council Member	Jan 2016
Cathy Penney	Clerk	Jan 2014
Bev Schuler	Treasurer	Jan 2014
Richard Gross	Attorney	Jan 2014
Jerry Dunlay	Director of Public Works	Jan 2014
Don Fox	Park Commissioner	Jan 2014
John Michels	Park Commissioner	Jan 2016
Angela Nasstrom	Park Commissioner	Jan 2018
Johanna Anderson	Library Trustee	Jul 2013
Pam Masmar	Library Trustee	Jul 2014
Lynn Haakenson	Library Trustee	Jul 2014
Mary Ann Carmody	Library Trustee	Jul 2017
Brad Weber	Library Trustee	Jul 2017
Dennis Johnson	Library Trustee	Jul 2018
Jerry Brandau	Library Trustee	Jul 2018

City of Osage

L LOU ANN MURPHY & COMPANY, P.L.L.C.

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Osage, IA 50461-1307

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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 the City of Osage, 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 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 risks 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 the City of Osage as of June 30, 2013, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

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

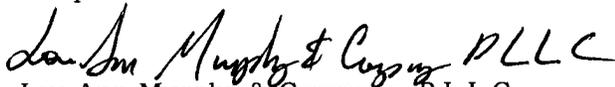
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Osage's basic financial statements. The financial statements for the six years ending June 30, 2009 (which are not presented herein), were audited by other auditors whose reports expressed unqualified opinions on financial statements from 2004-2006 and qualified opinions on financial statements from 2007-2009, which were prepared on the basis of cash receipts and disbursements. We previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the four years ended June 30, 2013 (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 our audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 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 primary government financial statements taken as a whole.

The other information, Management's Discussion and Analysis and the budgetary comparison information on pages 4 through 9 and 26 through 28 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 27, 2013 on our consideration of the City of Osage'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 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 the City of Osage's internal control over financial reporting and compliance.


Lou Ann Murphy & Company, P.L.L.C.
Certified Public Accountants
Osage, Iowa
December 27, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Osage 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 increased 5.9%, or approximately \$191,000, from fiscal 2012 to fiscal 2013. Grants and contributions not restricted to specific purposes increased approximately \$19,000, and property taxes increased by \$86,000.
- Disbursements of the City's governmental activities decreased 25%, or approximately \$1,092,000, in fiscal 2013 from fiscal 2012. Debt service disbursements decreased approximately \$755,000, and Capital equipment purchases decreased by \$477,000. Capital project disbursements increased \$92,000.
- The City's total cash basis net position increased 4.5%, or approximately \$187,000 from June 30, 2012 to June 30, 2013. Of this amount, the cash basis net position of the governmental activities increased approximately \$192,000 and the cash basis net position of the business type activities decreased approximately \$5,000.

USING THIS ANNUAL REPORT

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

Management's Discussion and Analysis introduces the basis 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 primary government 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, readers should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net 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, the sanitary sewer system and solid waste collections. 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 Tax Increment Financing, 3) the Debt Service Fund, 4) the Capital Projects Funds and 5) the Permanent Funds. 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.

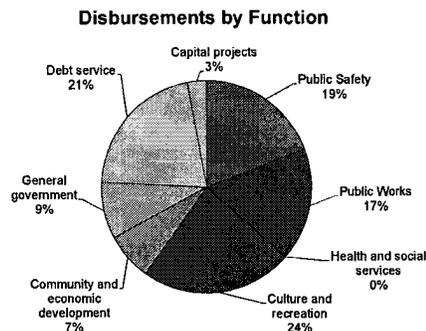
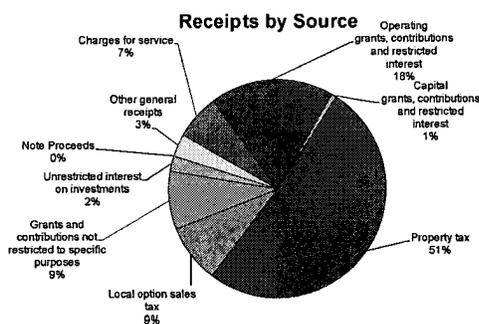
2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains three Enterprise Funds to provide separate information for the water, sewer and solid waste funds, considered to be major funds of the City.

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 increased from a year ago, increasing from \$2.878 million to \$3.069 million. The analysis that follows focuses on changes in cash basis net position of governmental activities.

Changes in Cash Basis Net Position of Governmental Activities (Expressed in Thousands)		
	Year ended June 30,	
	2013	2012
Receipts:		
Program receipts:		
Charges for service	\$ 226	\$ 241
Operating grants, contributions and restricted interest	631	640
Capital grants, contributions and restricted interest	24	5
General receipts:		
Property tax	1,753	1,641
Local option sales tax	298	288
Grants and contributions not restricted to specific purposes	296	277
Unrestricted interest on investments	21	36
Other general receipts	173	103
Total receipts	3,422	3,231
Disbursements:		
Public safety	621	980
Public works	561	669
Health and social services	-	1
Culture and recreation	759	693
Community and economic development	236	236
General government	281	308
Debt service	690	1,445
Capital projects	95	3
Total disbursements	3,243	4,335
Change in cash basis net position before transfers	179	(1,104)
Transfers, net	12	12
Change in cash basis net position	191	(1,092)
Cash basis net position beginning of year	2,878	3,970
Cash basis net position end of year	\$ 3,069	\$ 2,878



The City's total receipts for governmental activities increased 5.9%, or approximately \$191,000. The total cost of all programs and services decreased approximately \$1,092,000, or 25%. Increased revenues were derived from property taxes, Local Option Sales tax and Hotel/Motel taxes as well as loan repayment by the Cedar River Complex. Expenditures dropped in areas of Capital equipment and Debt Service.

The cost of all governmental activities this year was \$3.243 million compared to \$4.335 million last year. However, as shown in the Statement of Activities and Net Position on pages 10-11, the amount taxpayers ultimately financed for these activities was only \$2.362 million because some of the cost was paid by those who directly benefited from the programs (\$226,000) or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest (\$655,000). Overall, the City's governmental activities program receipts, including intergovernmental aid and fees for service, decreased in 2013 from approximately \$886,000 to approximately \$881,000. The City paid for the remaining "public benefit" portion of governmental activities (\$2,362,000) with taxes (some of which could only be used for certain programs), with Local Option tax, Hotel/Motel taxes and other general revenues.

Changes in Cash Basis Net Position of Business Type Activities		
(Expressed in Thousands)		
	Year ended June 30,	
	2013	2012
Receipts:		
Program receipts:		
Charges for service:		
Water	\$ 411	\$ 394
Sewer	495	478
Solid waste	138	138
Operating grants, contributions and restricted interest	4	11
General receipts:		
Unrestricted interest on investments	12	17
Total receipts	<u>1,060</u>	<u>1,038</u>
Disbursements:		
Water	344	493
Sewer	567	528
Solid waste	142	135
Total disbursements	<u>1,053</u>	<u>1,156</u>
Change in cash basis net position before transfers	7	(118)
Transfers, net	<u>(12)</u>	<u>(12)</u>
Change in cash basis net position	(5)	(130)
Cash basis net position beginning of year	<u>1,286</u>	<u>1,416</u>
Cash basis net position end of year	<u>\$ 1,281</u>	<u>\$ 1,286</u>

Total business type activities receipts for the fiscal year were approximately \$1.060 million compared to approximately \$1.038 million last year. The cash balance decreased by approximately \$5,000 from the prior year. Total disbursements for the fiscal year decreased by 8.9% to a total of approximately \$1.053 million; mostly due to reduction in capital expenditures in the Water department.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Osage completed the year, its governmental funds reported a combined fund balance of \$3,069,140, an increase of \$191,531 above last year’s total of \$2,877,609. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance increased \$155,857 from the prior year to \$677,714. The increase was due to reduced spending and increased property tax collections.
- Road Use Tax Fund cash balance increased \$59,257 to \$330,544. This increase was due to reduced spending for capital equipment and completion of the Cherry Street improvements.
- Tax Increment Financing Fund cash balance decreased \$87,073 to \$446,112. The decrease was a result of a grant to a developer for construction of two buildings and CRC pool management contract payments.
- The Debt Service Fund cash balance decreased \$652 to \$149,745.
- The Capital Project Fund cash balance increased \$44,162 to \$724,123. This increase is due to receipt of a pledge payment from Osage Fire Fighters Association for the Public Safety building.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance increased \$78,209 to \$815,395, due primarily to completion of 7th Street Pump House improvements.
- The Sewer Fund cash balance decreased \$66,887 to \$383,514, primarily due to increased expenditures for labor and materials to install sewer main in Maple View Subdivision.
- The Solid Waste Fund cash balance decreased \$15,513 to \$83,337.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget one time. The amendment was approved on May 20, 2013 and resulted in an increase in operating disbursements related to expenditures in Health and Social Services, Culture and Recreation, Community and Economic Development, General Government, Capital Projects, and Business Type Actives.

The City’s receipts were \$84,696 more than budgeted.

Total disbursements were \$718,248 less than the amended budget. This was primarily due to fewer Main Street and Commercial loans, Hotel/Motel (tourism) spending, and delays in starting work on 2013 Street Project and City Park Trail.

DEBT ADMINISTRATION

At June 30, 2013, the City had approximately \$5,767,000 in bonds and other long-term debt, compared to approximately \$6,392,000 last year, as shown below.

Outstanding Debt at Year-End (Expressed in Thousands)		
	June 30,	
	2013	2012
General obligation notes	\$ 2,147	\$ 2,393
Revenue bonds	3,620	3,999
Total	<u>\$ 5,767</u>	<u>\$ 6,392</u>

The City continues to carry a general obligation bond rating of A1 assigned by national rating agencies to the City's debt. 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 \$2,147,000 is significantly below its constitutional debt limit of \$7.98 million. Additional information about the City's long-term debt is presented in Note 3 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City of Osage's elected and appointed officials consider many factors when setting the fiscal year budget, tax rates and fees. Property taxes and service fees provide 67% of the revenues necessary to provide services to the citizens of Osage.

The City property tax levy rate for fiscal year 2014 will drop from 13.32767 to 12.94752. City-wide, the taxable valuation of properties has increased in each of the past nine years. The growth allows the city to continue to provide a high level of services to our citizens and maintain and improve City facilities. Tax Increment Financing Districts continue to produce revenue to fund economic development activities and debt service payments for the Pool/CRC project and Public Safety Building. Local Option Tax revenues are used to reduce property tax asking and provide funding for street improvements. Hotel/Motel taxes provide supplemental funds for Recreation, Tourism, and other community enhancements. Water and Sewer usage rates were adjusted in September 2013 to reflect 2012 CPI increase of 1.7%.

A contract was signed April 1, 2013 for the 2013 Street Paving Project. The project will encompass approximately 13 blocks of concrete paving, primarily in the southwest quadrant of town. In April of 2011, Valent Biosciences Corporation announced plans to invest \$150 million in a new manufacturing facility in Mitchell County, adjacent to the Osage City limits. The company expects to add 90 jobs in the community. Construction on the Valent facility is underway. The City has extended water and sewer mains to serve the facility which is scheduled to open in 2014. Bids for the wastewater plant construction and improvements were received in April 2013 and work began August 2013.

The residents of Osage continue to be impacted by state, national and international economic issues. Local employment remains stable. Contractors are participating in the Community Development Block Grant Single Family New Construction Program. Building permits were issued in 2013 in four duplexes and twelve new residences. Three of these homes are located in the new Maple View sub-division.

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 Cathy Penney, City Clerk, 806 Main Street, City of Osage, Iowa.

City of Osage

City of Osage

Cash Basis Statement of Activities and Net Position

As of and for the year ended June 30, 2013

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions / Programs:				
Governmental activities:				
Public safety	\$ 620,857	14,763	27,363	4,500
Public works	561,351	59,898	346,576	-
Health and social services	363	270	200	-
Culture and recreation	759,390	100,163	221,534	-
Community and economic development	235,672	546	-	19,947
General government	280,446	50,534	-	-
Debt service	690,123	-	35,644	-
Capital projects	95,422	-	-	-
Total governmental activities	3,243,624	226,174	631,317	24,447
Business type activities:				
Water	343,996	411,381	3,542	-
Sewer	566,509	495,112	108	-
Solid waste	142,128	137,877	-	-
Total business type activities	1,052,633	1,044,370	3,650	-
Total	\$ 4,296,257	1,270,544	634,967	24,447

General Receipts:

Property tax and other city tax levied for:
 General purposes
 Tax increment financing
 Local option sales tax
 Grants and contributions not restricted to specific purposes
 Unrestricted interest on investments
 Bond Proceeds
 Miscellaneous
 Transfers

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:
 Streets
 Urban renewal purposes

Debt Service
 Other purposes

Unrestricted

Total cash basis net position

See notes to financial statements.

Exhibit A

Net (Disbursements) Receipts and Changes in Cash Basis Net Position		
Governmental Activities	Business Type Activities	Total
\$ (574,231)	-	\$ (574,231)
(154,877)	-	(154,877)
107	-	107
(437,693)	-	(437,693)
(215,179)	-	(215,179)
(229,912)	-	(229,912)
(654,479)	-	(654,479)
(95,422)	-	(95,422)
<u>(2,361,686)</u>	<u>-</u>	<u>(2,361,686)</u>
-	70,927	70,927
-	(71,289)	(71,289)
-	(4,251)	(4,251)
<u>-</u>	<u>(4,613)</u>	<u>(4,613)</u>
<u>(2,361,686)</u>	<u>(4,613)</u>	<u>\$ (2,366,299)</u>
\$ 1,154,294	-	\$ 1,154,294
598,705	-	598,705
298,303	-	298,303
296,495	-	296,495
21,026	12,422	33,448
-	-	-
172,394	-	172,394
12,000	(12,000)	-
<u>2,553,217</u>	<u>422</u>	<u>2,553,639</u>
191,531	(4,191)	187,340
<u>2,877,609</u>	<u>1,286,437</u>	<u>4,164,046</u>
<u>\$ 3,069,140</u>	<u>1,282,246</u>	<u>\$ 4,351,386</u>
\$ 109,190	-	\$ 109,190
338,391	-	338,391
3,044	-	3,044
592,813	-	592,813
70,812	-	70,812
1,954,890	1,282,246	3,237,136
<u>\$ 3,069,140</u>	<u>1,282,246</u>	<u>\$ 4,351,386</u>

City of Osage

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

As of and for the year ended June 30, 2013

	General	Special Revenue		Debt Service
		Road Use Tax	Tax Increment Financing	
Receipts:				
Property tax	\$ 714,499	-	-	-
Tax increment financing	-	-	598,705	-
Other city tax	40,373	-	-	-
Licenses and permits	9,184	-	-	-
Use of money and property	19,963	-	3,258	1,030
Intergovernmental	175,269	346,576	-	35,644
Charges for service	112,390	-	-	-
Special assessments	13,695	-	-	28,513
Miscellaneous	376,386	-	60,000	-
Total receipts	1,461,759	346,576	661,963	65,187
Disbursements:				
Operating:				
Public safety	618,460	-	-	-
Public works	274,032	287,319	-	-
Health and social services	-	-	-	-
Culture and recreation	657,004	-	102,386	-
Community and economic development	77,063	-	102,285	-
General government	279,146	-	-	-
Debt service	-	-	330,422	359,701
Capital projects	-	-	-	-
Total disbursements	1,905,705	287,319	535,093	359,701
Excess (deficiency) of receipts over (under) disbursements	(443,946)	59,257	126,870	(294,514)
Other financing sources (uses):				
Operating transfers in	603,149	-	-	293,862
Operating transfers out	(3,346)	-	(213,943)	-
Total other financing sources (uses)	599,803	-	(213,943)	293,862
Change in cash balances	155,857	59,257	(87,073)	(652)
Cash balances beginning of year	521,857	271,287	533,185	150,397
Cash balances end of year	677,714	330,544	446,112	149,745
Cash Basis Fund Balances				
Nonspendable	\$ -	-	-	-
Restricted for:				
Urban Renewal purposes	-	-	3,044	-
Debt service	-	-	443,068	149,745
Streets	-	330,544	-	-
Other purposes	-	-	-	-
Committed	-	-	-	-
Assigned	19,954	-	-	-
Unassigned	657,760	-	-	-
Total cash basis fund balances	\$ 677,714	330,544	446,112	149,745

See notes to financial statements.

Exhibit B

Capital Projects	Nonmajor	Total
-	338,128	\$ 1,052,627
-	-	598,705
-	359,597	399,970
-	-	9,184
4,604	64,975	93,830
-	250	557,739
-	15,123	127,513
21,572	-	63,780
44,176	39,245	519,807
<u>70,352</u>	<u>817,318</u>	<u>3,423,155</u>
-	2,397	620,857
-	-	561,351
-	363	363
-	-	759,390
-	56,324	235,672
-	1,300	280,446
-	-	690,123
95,422	-	95,422
<u>95,422</u>	<u>60,384</u>	<u>3,243,624</u>
<u>(25,070)</u>	<u>756,934</u>	<u>179,531</u>
174,458	26,601	1,098,070
(105,226)	(763,555)	(1,086,070)
<u>69,232</u>	<u>(736,954)</u>	<u>12,000</u>
44,162	19,980	191,531
<u>679,961</u>	<u>720,922</u>	<u>2,877,609</u>
<u>724,123</u>	<u>740,902</u>	<u>\$ 3,069,140</u>
-	109,190	\$ 109,190
-	-	3,044
-	-	592,813
7,847	-	338,391
-	70,812	70,812
-	560,900	560,900
716,276	-	736,230
-	-	657,760
<u>724,123</u>	<u>740,902</u>	<u>\$ 3,069,140</u>

City of Osage

City of Osage

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	Solid Waste	Total
Operating receipts:				
Charges for service	\$ 411,381	495,112	137,877	\$ 1,044,370
Operating disbursements:				
Business type activities	343,996	350,925	142,128	837,049
Excess (deficiency) of operating receipts over (under) operating disbursements	67,385	144,187	(4,251)	207,321
Non-operating receipts (disbursements):				
Interest on investments	7,282	4,402	738	12,422
Miscellaneous	3,542	108	-	3,650
Debt Service	-	(215,584)	-	(215,584)
Net non-operating receipts (disbursements)	10,824	(211,074)	738	(199,512)
Excess (deficiency) of receipts over (under) disbursements	78,209	(66,887)	(3,513)	7,809
Other financing sources (uses):				
Transfers out	-	-	(12,000)	(12,000)
Total other financings sources (uses)	-	-	(12,000)	(12,000)
Change in cash balances	78,209	(66,887)	(15,513)	(4,191)
Cash balances beginning of year	737,186	450,401	98,850	1,286,437
Cash balances end of year	\$ 815,395	383,514	83,337	\$ 1,282,246
Cash Basis Fund Balances				
Unrestricted	\$ 815,395	383,514	83,337	\$ 1,282,246
Total cash basis fund balances	\$ 815,395	383,514	83,337	\$ 1,282,246

See notes to financial statements.

City of Osage

City of Osage

Notes to Financial Statements

June 30, 2013

(1) Summary of Significant Accounting Policies

The City of Osage is a political subdivision of the State of Iowa located in Mitchell County. It was first incorporated in 1871 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, health and social services, culture and recreation, community and economic development, and general government services. The City also provides water, sewer and solid waste utilities for its citizens.

A. Reporting Entity

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

These financial statements present the City of Osage (the primary government) and exclude the City's component unit. The component unit discussed below is included in the City's reporting entity because of the significance of its operational or financial relationship with the City. It has not been included in these primary government financial statements which present the primary government only. Complete financial statements of the individual component unit, which issued separate financial statements as noted below, can be obtained from its respective administrative office.

Component Unit

Osage Municipal Utilities is a component unit of the City of Osage and is not presented in these primary government financial statements. It is legally separate from the City, but is financially accountable to the City. A five-member board, appointed by the Mayor, governs the Utilities. The Utilities operating budget is subject to the approval of the City Council.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no known ongoing financial interest or responsibility by the participating governments except for Floyd-Mitchell-Chickasaw County Solid Waste Management Agency and Upper Cedar Watershed Management Improvement Authority (see Note 11). City officials are members of the following boards and commissions: Mitchell County Assessor's Conference Board, Mitchell County Emergency Management Commission, Floyd-Mitchell-Chickasaw County Solid Waste Management Agency, Mitchell County Joint E911 Service Board, Floyd County Joint E911 Service Board, Cedar River Recreation and Fine Arts Complex, and Osage Community and Surrounding Areas Fire Service Agreement.

B. Basis of Presentation

Government-wide Financial Statement – 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 is subject to externally imposed stipulations which require the cash balance to be maintained permanently by the City, including the City's Cemetery Perpetual Care Fund.

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 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 emergency levies and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue:

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

The Tax Increment Financing Fund is used to account for urban renewal projects financed by tax increment financing.

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

The Capital Projects Fund is utilized to account for projects related to the construction of capital assets.

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.

The Enterprise, Solid Waste Fund is used to account for garbage collection services to the citizens of Osage.

C. Measurement Focus and 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.

Under the terms of grant agreements, the City of Osage 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 placed on the use of the resources are either externally imposed by creditors, grantors, or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

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

Unassigned – All amounts not included in the preceding 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 did not exceed the amounts budgeted.

(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 the following investments:

Type	Carrying Amount	Fair Value	Maturity
U.S. treasury securities	<u>\$10,288</u>	<u>\$13,787</u>	August 2019

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 and Notes Payable

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

Year Ending June 30,	General Obligation Notes		Revenue Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2014	\$ 251,000	\$ 103,118	190,000	152,855	\$ 441,000	\$ 255,973
2015	121,000	95,295	215,000	146,018	336,000	241,313
2016	126,000	91,343	240,000	138,055	366,000	229,398
2017	131,000	87,158	250,000	128,780	381,000	215,938
2018	131,000	82,408	275,000	119,405	406,000	201,813
2019-2023	602,000	332,439	1,635,000	412,665	2,237,000	745,104
2024-2028	640,000	165,170	815,000	57,410	1,455,000	222,580
2029-2033	145,000	8,990	-	-	145,000	8,990
Total	<u>\$ 2,147,000</u>	<u>\$ 965,921</u>	<u>3,620,000</u>	<u>1,155,188</u>	<u>\$ 5,767,000</u>	<u>\$ 2,121,109</u>

Urban Renewal Revenue Annual Appropriation Bonds

The City issued two urban renewal revenue annual appropriation bonds for a total of \$4,145,000 in September 2010 for the purpose of redeeming the Urban Renewal Revenue Annual Appropriation Capital Loan Notes, Series 2008 and to pay project expenses related to the Cedar River Complex in the urban renewal district. The bonds are payable solely out of the net revenues of the project area, including the tax increment revenue. Total principal and interest remaining on the bonds is \$4,775,188, payable through June 2025. For the current year principal/interest paid and total TIF receipts were \$330,422 and \$661,963, respectively.

Sewer Revenue Notes

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay \$797,000 of sewer revenue notes issued in April 2009. Proceeds from the notes provided financing to refund prior debt. The notes are payable solely from sewer customer net receipts and are payable through 2013. During the year ended June 30, 2013, the sewer revenue notes were paid in full.

(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 contributions to IPERS for the years ended June 30, 2013, 2012 and 2011 were \$86,187, \$77,800, and \$70,226, respectively, equal to the required contributions for each year.

(5) Other Postemployment Benefits (OPEB)

Plan Description – The City operates a single-employer retiree benefit plan which provides medical/prescription drug benefits for employees, retirees and their spouses in the form of a traditional plan and a high deductible plan each costing the City the same amount. There are 18 active and 2 retired 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 Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees.

Funding Policy – The contribution requirements of plan members are established and may be amended by the City. The City currently finances the retiree benefit plan on a pay-as-you-go basis. The City currently has 8 options available through their Wellmark policy – 4 in the traditional plan and 4 in the high deductible plan. The most recent active member monthly premiums for the traditional plan for the City and plan members are \$544.65 for single, \$1,115.44 for employee and spouse, \$1,031.02 for employee and child, and \$1,671.52 for family coverage. The most recent active member monthly premiums for the high deductible plan for the City and plan members are \$471.15 for single, \$964.91 for employee and spouse, \$891.88 for employee and child, and \$1,445.95 for family coverage. The same monthly premiums apply to retirees. For the year ended June 30, 2013, the City contributed \$254,669.13 and plan members eligible for benefits contributed \$13,853.60 to the plan.

(6) Compensated Absences

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

Type of Benefit	Amount
Vacation	\$38,941
Compensatory	<u>5,614</u>
Total	<u>\$44,555</u>

This liability has been computed based on rates of pay in effect at June 30, 2013.

City employees also accumulate a limited amount of earned but unused sick leave hours for subsequent use. However, sick leave time is canceled if an employee leaves his or her employment with the City.

(7) Interfund Transfers

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

Transfer to	Transfer from	Amount	
General	Special Revenue:		
	Employee Benefits	\$ 317,652	
	Emergency Levy	21,378	
	Library Building Equipment Materials	85,341	
	Local Option Sales Tax	105,241	
	Park and Recreation	40,798	
	Police Special Project/DARE	3,172	
	Hotel/Motel	17,263	
	Permanent:		
	Ingeborg Hallingby Memorial	304	
	Enterprise:		
	Solid Waste	12,000	
		<u>\$ 603,149</u>	
Debt Service	Special Revenue:		
	Tax Increment Financing	188,636	
	Capital Projects	105,226	
	<u>\$ 293,862</u>		
Capital Projects	Special Revenue:		
	Local Option Sales Tax	149,151	
	Tax Increment Financing	25,307	
	<u>\$ 174,458</u>		
Special Revenue:	General	200	
	Jaws of Life	General	3,146
	Library Building Equipment Materials	Special Revenue:	
	Main Street Loan	Commercial Loan	23,255
		<u>\$ 26,601</u>	
		<u>\$ 1,098,070</u>	

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

(8) Related Party Transactions

The City had business transactions between the City and City officials totaling \$5,060 during the fiscal year ended June 30, 2013.

(9) Risk Management

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.

(10) Component Unit

Osage Municipal Utilities is a component unit of the City of Osage. It is not included in this report. Following are the transactions between the City and the Utilities:

City paid to Utilities:

Utilities	\$ 133,542
Billing services (bookkeeping)	18,762
Phone and internet	7,036
Miscellaneous	<u>57,387</u>
Total	<u>\$ 216,727</u>

Utilities paid to City:

Collections for water, sewer, and garbage	\$ 1,023,618
Donations in lieu of taxes	97,028
Pool Support Donations	125,000
Cable franchise fee	28,742
Miscellaneous	<u>14,420</u>
Total	<u>\$ 1,288,808</u>

(11) Floyd-Mitchell-Chickasaw Solid Waste Management Agency

The City, in conjunction with fourteen other municipalities, has created the Floyd-Mitchell-Chickasaw Solid Waste Management Agency. The Agency was established for the primary purpose of providing for the collection and disposal of solid waste produced or generated by each participant. On dissolution of the corporation, the net assets of the Agency will be prorated among the municipalities. The Agency is governed by a board composed of an elected or appointed representative of the governing body of each participating governmental jurisdiction.

The Agency may not be accumulating sufficient financial resources and the participating governments are obligated for a proportionate share of the debt, therefore, the City of Osage may have an ongoing financial responsibility. The City is also obligated to remit a share of the operating and administration costs. During the year ended June 30, 2013, the City of Osage paid Jendro Sanitation \$122,602 for residential trash collection. The sanitation company is then responsible for paying all landfill fees for the City's share of the cost. Completed financial statements for the Agency can be obtained from the Floyd-Mitchell-Chickasaw Solid Waste Management Agency.

Upper Cedar Watershed Management Improvement Authority

The City, in conjunction with twenty four other municipalities, county governments, and Iowa soil and water conservation districts, entered into an agreement called the Upper Cedar Watershed Management Improvement Authority Agreement. The agreement was established for the primary purpose of providing the manner in which the parties shall cooperate with one another to successfully plan for and implement watershed improvements within the Iowa portion of the Upper Cedar Watershed.

(12) Economic Development

The City provided funds to Osage Manufacturing, Inc. (OMI), under the provisions of Chapter 15A of the Code of Iowa in the form of a loan with 2.5% to 5% interest, payable at \$741 of principle plus interest per month. The balance owed to the City at June 30, 2013 by OMI was \$73,332. The City also provided funds to A to Z Drying, Inc. under the provisions of Chapter 15A of the Code of Iowa in the form of a loan with 1% interest payable and principle of \$1,401 per month. The balance owed to the City at June 30, 2013 by A to Z Drying, Inc. was \$15,335.

Under the Main Street Loan Program, the City provides funds to small businesses along Main Street, in accordance with the provisions of Chapter 15A of the Code of Iowa. The Main Street Loan Program is currently made up of twelve loans with no interest. The balance of the loans at June 30, 2013 was \$105,700. Payments are to be made on January 10th or the anniversary date for the first four years in the amount of one tenth of the original issue. A balloon payment for the remaining balance is due on January 10th or the anniversary date of the fifth year.

The Commercial Loan Program expands on the Main Street Loan Program to include small business off of Main Street and outside the Tax Increment Financing District under provisions of Chapter 15A of the Code of Iowa. The Commercial Loan Program is currently made up of ten loans with no interest. The balance of these loans at June 30, 2013 was \$63,500 and payments are handled in the same manner as the Main Street Loans mentioned in the preceding paragraph.

In May of 2004, the City approved an agreement with A to Z Drying, Inc. in connection with the company's development of an expanded facility in the Urban Renewal Area. The agreement entitles the Company to receive assistance in the form of a rebate by the City of 80% of Tax Increment received from the Minimum Improvements. The rebate extends until June 30, 2016 and at no time shall exceed \$14,000 annually.

In August of 2011, the City approved an agreement with A to Z Drying, Inc. in connection with the company's development of an expanded facility in the Urban Renewal Area. The agreement entitles the Company to receive assistance in the form of a rebate by the City of 80% of Tax Increment received from the Minimum Improvements. The rebate shall begin on October 1, 2014 and extends until June 30, 2024 and at no time shall exceed \$26,000 annually.

In November of 2011, the City approved an agreement with Osage Hotel & Suites, LLC in connection with the company's development of a facility in the Urban Renewal Area. The agreement entitles the Company to receive assistance in the form of a rebate by the City of 80% of Tax Increment received from the Minimum Improvements. The rebate begins on October 1, 2014 and extends until June 30, 2024 and at no time shall exceed \$45,000 annually.

In March of 2013, the City approved an agreement with Tower Properties LLC in connection with the company's proposal to purchase and to lease a vacant industrial building in the Urban Renewal Area. The agreement entitles the Company to receive assistance in the form of payments by the City for five fiscal years or until total payments equal to \$52,500 have been made. The annual payments will be equal to 80% of Tax Increment received from the Project. If the property was purchased and leased by July 1, 2013 the first payment could begin on June 30, 2015 and at no time shall exceed \$10,500 annually.

(13) Housing Revenue Bonds

The City has previously issued \$1,600,000 of housing revenue bonds under the provisions of Chapter 419 of the Code of Iowa of which \$718,041 is outstanding at June 30, 2013. The bonds and related interest are payable solely from the rents payable by tenants of the property constructed, and the bond principal and interest do not constitute liabilities of the City. The bonds were issued for the benefit of Martin Luther Homes, Inc., Evergreen Senior Housing.

(14) Leases

The City leases tower space and property to U.S. Cellular, Osage Municipal Utilities and Verizon Wireless under three and five-year renewable operating leases. The City receives monthly payments of \$113, \$227 and \$619 from U.S. Cellular, Osage Municipal Utilities and Verizon Wireless, respectively. Under the terms of the current lease agreements, annual payments for each of the following four fiscal years are as follows:

2014	11,516
2015	9,465
2016	1,352
2017	1,127

The Osage Public Library leases approximately 1,000 square feet of space to North Iowa Area Community College (NIACC) under a two-year renewable lease. The City of Osage received a payment of \$4,000 for year one of the two-year renewable lease in fiscal year 2013.

Total income from leases for fiscal year ending June 30, 2013 was \$15,559.

Also, the City leases the parking lot property from Mayer's Digging Company at the soccer field. The City pays \$1 per year for the property renewable annually.

(15) USDA Loan Guarantee

On June 9, 2000, the Osage Community Daycare received \$200,000 in note proceeds under United States Department of Agriculture (USDA) Notes. The proceeds were received from two separate \$100,000 notes. The notes are not a general obligation of the City but are payable solely and only from pledges of private funds to be donated to the Osage Community Daycare. The notes bear interest at 5.00% and 4.75% per year, respectively. Interest and principal is paid monthly beginning on July 9, 2002 and each month thereafter until maturity. Monthly interest and principal payments of \$491 and \$475, respectively, are due until maturity on May 9, 2040. The City has guaranteed to pay from its General Fund, up to \$200,000 of the principal amount if revenues from the Osage Community Daycare are not sufficient to make such payment. The Osage Community Daycare was current on their payments as of June 30, 2013.

(16) Commitments

As of June 30, 2013, the City had the following commitments with respect to the following project:

	<u>Remaining Commitment</u>	<u>Expected Date of Completion</u>
2013 Street Construction	\$ 721,467	November 2013
Total	\$ <u>721,467</u>	

(17) Partial Self Funded Insurance

The City will pay up to \$500 for a single and up to \$1,000 for a family for each employee's deductible on his or her health insurance plan. For the period ending June 30, 2013 the City had six employees on the partial self funded insurance plan with a maximum liability of \$5,500 and expenditures of \$500 leaving a remaining liability of \$5,000 thru the end of December 2013.

(18) Subsequent Events

In preparing these financial statements, management has evaluated events and transactions for potential recognition or disclosure through December 27, 2013.

City of Osage

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	Less Funds not Required to be Budgeted
Receipts:			
Property tax	\$ 1,052,627	-	-
Tax increment financing	598,705	-	-
Other city tax	399,970	-	-
Licenses and permits	9,184	-	-
Use of money and property	93,830	12,422	-
Intergovernmental	557,739	-	-
Charges for service	127,513	1,044,370	-
Special assessments	63,780	-	-
Miscellaneous	519,807	3,650	2,490
Total receipts	<u>3,423,155</u>	<u>1,060,442</u>	<u>2,490</u>
Disbursements:			
Public safety	620,857	-	-
Public works	561,351	-	-
Health and Social Services	363	-	-
Culture and recreation	759,390	-	-
Community and economic development	235,672	-	-
General government	280,446	-	-
Debt service	690,123	-	-
Capital projects	95,422	-	-
Business type activities	-	1,052,633	-
Total disbursements	<u>3,243,624</u>	<u>1,052,633</u>	<u>-</u>
Excess (deficiency) of receipts over (under) disbursements	179,531	7,809	2,490
Other financing sources (uses), net	12,000	(12,000)	(304)
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	191,531	(4,191)	2,186
Balances beginning of year	<u>2,877,609</u>	<u>1,286,437</u>	<u>107,004</u>
Balances end of year	<u>\$ 3,069,140</u>	<u>1,282,246</u>	<u>109,190</u>

See accompanying independent auditor's report.

Total	Budgeted Amounts		Final to Total Variance
	Original	Final	
\$ 1,052,627	1,049,577	1,049,577	\$ 3,050
598,705	589,000	599,000	(295)
399,970	366,277	391,077	8,893
9,184	6,710	8,160	1,024
106,252	52,080	106,590	(338)
557,739	574,819	554,966	2,773
1,171,883	1,108,500	1,131,250	40,633
63,780	39,670	59,480	4,300
520,967	455,660	496,311	24,656
<u>4,481,107</u>	<u>4,242,293</u>	<u>4,396,411</u>	<u>84,696</u>
620,857	707,464	700,501	79,644
561,351	652,202	648,902	87,551
363	-	2,000	1,637
759,390	765,875	894,914	135,524
235,672	205,455	299,955	64,283
280,446	293,800	312,247	31,801
690,123	718,475	689,995	(128)
95,422	220,000	325,000	229,578
<u>1,052,633</u>	<u>1,362,991</u>	<u>1,140,991</u>	<u>88,358</u>
<u>4,296,257</u>	<u>4,926,262</u>	<u>5,014,505</u>	<u>718,248</u>
184,850	(683,969)	(618,094)	802,944
<u>304</u>	<u>27,600</u>	<u>27,600</u>	<u>(27,296)</u>
185,154	(656,369)	(590,494)	775,648
<u>4,057,042</u>	<u>3,951,067</u>	<u>4,057,042</u>	<u>-</u>
<u>\$ 4,242,196</u>	<u>3,294,698</u>	<u>3,466,548</u>	<u>\$ 775,648</u>

Required Supplementary Information

City of Osage

Notes to Other Information – Budgetary Reporting

June 30, 2013

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

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

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Funds, the Permanent Fund and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$88,243 and increased budgeted receipts by \$154,118. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2013, disbursements exceeded the amount budgeted in debt service by \$128.

Other Supplementary Information

City of Osage

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				
	Local Option Sales Tax	Forfeited Property	Employee Benefits	Emergency Levy	Hotel/Motel
Receipts:					
Property Tax	\$ -	-	316,807	21,321	-
Other City Tax	298,303	-	845	57	60,392
Use of Money & Property	1,218	19	-	-	157
Intergovernmental	-	-	-	-	-
Charges for Service	-	-	-	-	270
Miscellaneous	-	-	-	-	200
Total receipts	<u>299,521</u>	<u>19</u>	<u>317,652</u>	<u>21,378</u>	<u>61,019</u>
Disbursements:					
Operating					
Public Safety	-	-	-	-	2,000
Health and social services	-	-	-	-	363
Community and economic development	-	-	-	-	16,264
General government	-	-	-	-	1,300
Total disbursements	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>19,927</u>
Excess (deficiency) of receipts over (under) disbursements	<u>299,521</u>	<u>19</u>	<u>317,652</u>	<u>21,378</u>	<u>41,092</u>
Other Financing Sources (uses)					
Operating Transfers in	-	-	-	-	-
Operating Transfers out	<u>(254,392)</u>	<u>-</u>	<u>(317,652)</u>	<u>(21,378)</u>	<u>(17,263)</u>
Total other financing sources (uses)	<u>(254,392)</u>	<u>-</u>	<u>(317,652)</u>	<u>(21,378)</u>	<u>(17,263)</u>
Change in cash balances	45,129	19	-	-	23,829
Cash balances beginning of year	<u>176,282</u>	<u>4,966</u>	<u>-</u>	<u>-</u>	<u>24,281</u>
Cash balances end of year	<u>\$ 221,411</u>	<u>4,985</u>	<u>-</u>	<u>-</u>	<u>48,110</u>
Cash Basis Fund Balances					
Nonspendable	\$ -	-	-	-	-
Restricted for:					
Other purposes	-	4,985	-	-	-
Committed	<u>221,411</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>48,110</u>
Total cash basis fund balances	<u>\$ 221,411</u>	<u>4,985</u>	<u>-</u>	<u>-</u>	<u>48,110</u>

See accompanying independent auditor's report.

	Jaws of Life	Parks and Recreation	Commercial Loan	Library Building Equipment Materials	Special Main Street Loan
Receipts:					
Property Tax	-	-	-	-	-
Other City Tax	-	-	-	-	-
Use of Money & Property	66	384	36,570	4,731	21,487
Intergovernmental	-	-	-	-	-
Charges for Service	-	14,853	-	-	-
Miscellaneous	400	33,280	-	1,000	-
Total receipts	<u>466</u>	<u>48,517</u>	<u>36,570</u>	<u>5,731</u>	<u>21,487</u>
Disbursements:					
Operating					
Public Safety	397	-	-	-	-
Health and social services	-	-	-	-	-
Community and economic development	-	-	10,036	-	30,024
General government	-	-	-	-	-
Total disbursements	<u>397</u>	<u>-</u>	<u>10,036</u>	<u>-</u>	<u>30,024</u>
Excess (deficiency) of receipts over (under) disbursements	<u>69</u>	<u>48,517</u>	<u>26,534</u>	<u>5,731</u>	<u>(8,537)</u>
Other Financing Sources (uses)					
Operating Transfers in	200	-	-	3,146	23,255
Operating Transfers out	-	(40,798)	(23,255)	(85,341)	-
Total other financing sources (uses)	<u>200</u>	<u>(40,798)</u>	<u>(23,255)</u>	<u>(82,195)</u>	<u>23,255</u>
Change in cash balances	269	7,719	3,279	(76,464)	14,718
Cash balances beginning of year	<u>9,545</u>	<u>92,978</u>	<u>42,670</u>	<u>180,745</u>	<u>27,162</u>
Cash balances end of year	<u>9,814</u>	<u>100,697</u>	<u>45,949</u>	<u>104,281</u>	<u>41,880</u>
Cash Basis Fund Balances					
Nonspendable	-	-	-	-	-
Restricted for:					
Other purposes	-	23,947	-	-	41,880
Committed	<u>9,814</u>	<u>76,750</u>	<u>45,949</u>	<u>104,281</u>	<u>-</u>
Total cash basis fund balances	<u>9,814</u>	<u>100,697</u>	<u>45,949</u>	<u>104,281</u>	<u>41,880</u>

Schedule 1 Con't

Capital Improvement Revolving	Revenue	Permanent		Total
	Police Special Project /DARE	Cemetery Perpetual Care	Ingeborg Hallingby Memorial	
-	-	-	-	\$ 338,128
-	-	-	-	359,597
295	48	-	-	64,975
-	250	-	-	250
-	-	-	-	15,123
375	1,500	2,490	-	39,245
<u>670</u>	<u>1,798</u>	<u>2,490</u>	<u>-</u>	<u>817,318</u>
-	-	-	-	2,397
-	-	-	-	363
-	-	-	-	56,324
-	-	-	-	1,300
-	-	-	-	<u>60,384</u>
<u>670</u>	<u>1,798</u>	<u>2,490</u>	<u>-</u>	<u>756,934</u>
-	-	-	-	26,601
-	(3,172)	-	(304)	(763,555)
-	<u>(3,172)</u>	<u>-</u>	<u>(304)</u>	<u>(736,954)</u>
670	(1,374)	2,490	(304)	19,980
<u>47,446</u>	<u>7,843</u>	<u>106,700</u>	<u>304</u>	<u>720,922</u>
<u>48,116</u>	<u>6,469</u>	<u>109,190</u>	<u>-</u>	<u>\$ 740,902</u>
-	-	109,190	-	\$ 109,190
-	-	-	-	70,812
<u>48,116</u>	<u>6,469</u>	<u>-</u>	<u>-</u>	<u>560,900</u>
<u>48,116</u>	<u>6,469</u>	<u>109,190</u>	<u>-</u>	<u>\$ 740,902</u>

City of Osage
Schedule of Indebtedness
Year ended June 30, 2013

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation notes:			
2008A G.O. Capital Loan Notes	6/1/2008	2.75-4.00%	1,345,000
2009 BAB G.O. Capital Loan Notes	7/1/2009	2.80-6.20%	2,010,000
2010 REDLG Public Safety	8/6/2010	0.00%	360,000
Total			
Revenue bonds:			
2009 Sewer Revenue Refunding Capital Loan Notes	4/30/2009	2.75-3.15%	797,000
2010A Urban Renewal Revenue Annual Appropriation	9/1/2010	1.00-4.70%	3,770,000
2010B Urban Renewal Revenue Annual Appropriation	9/1/2010	4.75%	375,000
Total			

See accompanying independent auditor's report.

Schedule 2

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
255,000	-	125,000	130,000	8,738	-
1,850,000	-	85,000	1,765,000	101,840	-
288,000	-	36,000	252,000	-	-
<u>2,393,000</u>	<u>-</u>	<u>246,000</u>	<u>\$ 2,147,000</u>	<u>\$ 110,578</u>	<u>-</u>
209,000	-	209,000	-	6,584	-
3,530,000	-	110,000	3,420,000	146,105	-
260,000	-	60,000	200,000	12,350	-
<u>3,999,000</u>	<u>-</u>	<u>379,000</u>	<u>\$ 3,620,000</u>	<u>\$ 165,039</u>	<u>-</u>

Other Supplementary Information

City of Osage
Bond and Note Maturities
June 30, 2013

General Obligation Notes							
Year Ending June 30,	2008BAB G.O. Capital Loan Notes		2008A G.O. Capital Loan Notes		2010 REDLG Public Safety		Total
	Issued Jul 1, 2009		Issued Jun 1, 2008		Issued Aug 6, 2010		
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	
2014	3.85	85,000	3.50	130,000	0.00	36,000	251,000
2015	4.65	85,000	-	-	0.00	36,000	121,000
2016	4.65	90,000	-	-	0.00	36,000	126,000
2017	5.00	95,000	-	-	0.00	36,000	131,000
2018	5.00	95,000	-	-	0.00	36,000	131,000
2019	5.35	100,000	-	-	0.00	36,000	136,000
2020	5.35	100,000	-	-	0.00	36,000	136,000
2021	5.75	105,000	-	-	-	-	105,000
2022	5.75	110,000	-	-	-	-	110,000
2023	5.90	115,000	-	-	-	-	115,000
2024	5.90	120,000	-	-	-	-	120,000
2025	6.00	125,000	-	-	-	-	125,000
2026	6.00	125,000	-	-	-	-	125,000
2027	6.20	130,000	-	-	-	-	130,000
2028	6.20	140,000	-	-	-	-	140,000
2029	6.20	145,000	-	-	-	-	145,000
Total		<u>\$ 1,765,000</u>		<u>\$ 130,000</u>		<u>\$ 252,000</u>	<u>\$ 2,147,000</u>

Revenue Bonds					
Year Ending June 30,	2010A Urban Renewal		2010B Urban Renewal		Total
	Revenue Annual Appropriation		Revenue Annual Appropriation		
	Issued Sep 1, 2010		Issued Sep 1, 2010		
	Interest Rates	Amount	Interest Rates	Amount	
2014	3.00	125,000	4.75	65,000	190,000
2015	3.25	150,000	4.75	65,000	215,000
2016	3.50	170,000	4.75	70,000	240,000
2017	3.75	250,000	-	-	250,000
2018	4.00	275,000	-	-	275,000
2019	4.10	285,000	-	-	285,000
2020	4.20	310,000	-	-	310,000
2021	4.30	330,000	-	-	330,000
2022	4.40	345,000	-	-	345,000
2023	4.50	365,000	-	-	365,000
2024	4.60	400,000	-	-	400,000
2025	4.70	415,000	-	-	415,000
Total		<u>\$ 3,420,000</u>		<u>\$ 200,000</u>	<u>\$ 3,620,000</u>

See accompanying independent auditor's report.

City of Osage

Schedule of Receipts By Source and Disbursements By Function -
All Governmental Funds

For the Last Ten Years

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Receipts:				
Property tax	\$ 1,052,627	975,652	910,338	862,795
Tax increment financing	598,705	590,639	589,220	546,172
Other city tax	399,970	362,729	339,082	373,545
Licenses and permits	9,184	7,979	8,049	5,989
Use of money and property	93,830	50,892	79,327	107,632
Intergovernmental	557,739	516,672	470,221	737,768
Charges for service	127,513	126,352	100,715	55,769
Special assessments	63,780	69,584	264,414	136,036
Miscellaneous	519,807	530,853	775,559	337,540
Total	<u>\$ 3,423,155</u>	<u>3,231,352</u>	<u>3,536,925</u>	<u>3,163,246</u>
Disbursements:				
Operating:				
Public safety	\$ 620,857	980,618	544,783	541,641
Public works	561,351	668,607	532,216	579,328
Health and social services	363	717	-	-
Culture and recreation	759,390	693,260	631,683	426,520
Community and econ. development	235,672	236,150	297,984	585,756
General government	280,446	308,360	271,159	246,146
Debt service	690,123	1,444,619	3,688,210	633,140
Capital projects	95,422	3,323	1,565,687	2,258,179
Total	<u>\$ 3,243,624</u>	<u>4,335,654</u>	<u>7,531,722</u>	<u>5,270,710</u>

See accompanying independent auditor's report.

Schedule 4

<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
839,252	816,163	986,053	948,134	924,410	929,385
522,457	504,941	474,680	433,742	400,831	372,459
338,849	351,569	281,002	245,649	222,034	235,857
4,596	8,414	6,424	6,245	7,033	7,100
170,001	163,946	130,831	111,443	61,027	37,216
1,667,691	636,485	405,980	432,009	645,194	450,225
54,749	61,844	62,590	62,099	50,849	61,464
372,699	77,316	302,380	60,104	198,032	95,373
223,881	188,078	153,387	182,660	191,797	203,630
<u>4,194,175</u>	<u>2,808,756</u>	<u>2,803,327</u>	<u>2,482,085</u>	<u>2,701,207</u>	<u>2,392,709</u>
539,751	601,197	439,691	451,189	414,667	422,064
469,604	508,426	399,694	351,946	356,906	458,405
-	-	-	-	-	-
418,306	481,000	422,427	413,221	413,562	380,765
1,424,797	616,383	368,506	125,515	100,988	452,292
223,844	238,329	217,936	257,076	209,121	190,628
453,268	138,241	539,631	431,218	462,534	1,447,522
3,774,284	569,203	285,069	580,557	193,032	404,607
<u>7,303,854</u>	<u>3,152,779</u>	<u>2,672,954</u>	<u>2,610,722</u>	<u>2,150,810</u>	<u>3,756,283</u>

City of Osage

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 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 Osage, 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 27, 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 Osage'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 Osage's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Osage's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness and one deficiency we consider to be a significant deficiency.

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 Osage's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency in internal control described in Part II of the accompanying Schedule of Findings as item II-A-13 to be a material weakness.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Osage’s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, 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 that are described in Part III 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.

The City of Osage’s Responses to Findings

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



Lou Ann Murphy & Company, P.L.L.C.
Certified Public Accountants
Osage, Iowa
December 27, 2013

City of Osage

Schedule of Findings

Year ended June 30, 2013

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

- (a) Unqualified opinions were issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
- (b) A significant deficiency and a material weakness in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the primary government financial statements.

City of Osage

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

Part II: Findings Related to the Primary Government Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

II-A-13 Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal are all done by the same person.

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

Response – We will consider this.

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

II-B-13 Credit card policy – The Library uses a credit card but does not have a written credit card policy.

Recommendation – The Library should have a written credit card policy.

Response – We will do so.

Conclusion – Response accepted.

II-C-13 Fire protection – It was noted that the City does not have adequate fire protection in the form of smoke detectors and/or non-water base fire suppression systems.

Recommendation – The City should place smoke detectors in all appropriate locations.

Response – We did so on September 20th, 2013.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

City of Osage

City of Osage

Schedule of Findings

Year ended June 30, 2013

Part III: Other Findings Related to Statutory Reporting:

III-A-13 Certified Budget – Disbursements for the year ended June 30, 2013 exceeded the amount budgeted in debt service activities. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

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

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

Conclusion – Response accepted.

III-B-13 Questionable Disbursements – No disbursements that we believe may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 were noted.

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

III-D-13 Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

Name, Title, and Business Connection	Transaction Description	Amount
Brian Adams, Council Member, Brother is owner of Adams Plumbing and Heating	Maintenance, parts and labor	\$ 4,605
Steven Cooper, Mayor, Owner of Coopers Auto	Parts and labor	374
John Michels, Park Board Member	Umpire	81

In accordance with Chapter 362.5(3)(j) of the Code of Iowa, the first amount appears to represent a conflict of interest since total transactions were greater than \$1,500. The rest of the transactions do not appear to represent a conflict of interest since the amounts were less than \$1,500.

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

Response – The City will contact legal counsel.

Conclusion – Response accepted.

City of Osage

Schedule of Findings

Year ended June 30, 2013

- III-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.
- III-F-13 Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.
- III-G-13 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.
- III-H-13 Revenue Bonds – The City has complied with the revenue bonds resolutions.
- III-I-13 Telecommunications Utility – Osage Municipal Utilities, a component unit of the City, has been audited separately and its financial statements are under a separate cover. The report dated July 18, 2013 indicated that no instances of non-compliance with Chapter 388.10 of the Code of Iowa were noted.
- III-J-13 Revenue Classification -- Revenue from the sale of two vehicles was placed into a Miscellaneous revenue account, the Sale of Salvage account, should have been placed into the Sale of Personal Property account of Other Financing Sources.

Recommendation – Revenue from the sale of fixed assets should be recorded as Other Financing Sources.

Response – We will do so going forward.

Conclusion – Response accepted.