

CITY OF POCAHONTAS, IOWA

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

AS OF AND FOR THE YEAR ENDED JUNE 30, 2013

City of Pocahontas, Iowa

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City of Pocahontas, Iowa

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City of Pocahontas, Iowa

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Dick Gruber	Mayor	Jan 2014
Brian Stover	Council Member	Jan 2014
Gus Holzmueler	Council Member	Jan 2015
Rod Stoulil	Council Member	Jan 2014
John Dewall	Council Member	Jan 2014
Jeff Nielsen	Council Member	Jan 2014
Robert Donahoo	City Administrator	Appointed
Joan Dewall	Clerk	Jan 2014
Jeff Johnson	Treasurer	Appointed
James W. Hudson, Jr.	Attorney	Appointed
Shors & Thomas	Attorney	Appointed
Dennis Marten	Airport Commissioner	July 2017
Ray Krips	Airport Commissioner	July 2017
Ken DeYoung	Airport Commissioner	July 2013
Dr. Dennis Dahl	Airport Commissioner	July 2014
Gary McCarten	Airport Commissioner	July 2014
Mary Amm Dewall	Library Trustee	July 2014
Mary Kelly	Library Trustee	July 2014
Jada Hallberg	Library Trustee	July 2014
John Smith	Library Trustee	July 2014
Nancy Berte	Library Trustee	July 2014
Don Beneke	Library Trustee	July 2017
Chris Radig	Library Trustee	July 2017

Cornwell, Frideres, Maher & Associates, P.L.C.

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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 Pocahontas, 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 primary government 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 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 evaluation the overall presentation of the financial statements.

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

Basis for Adverse Opinion on Business-Type Activities

The financial statements referred to above do not include financial data for the City's legally separate component unit, the Pocahontas Community Hospital. Accounting principles generally accepted in the United States of America require financial data for this component unit to be reported with the financial data of the City's primary government unless the City also issues financial statements for the financial reporting entity that include the financial data for its component units. The City has not issued such reporting entity financial statements. Because of this departure from accounting principles generally accepted in the United States of America, the receipts, disbursements and net assets of the business type activities would have increased by \$9,795,365, \$9,7814,588 and \$8,557,146.

Adverse Opinion on Business-Type Activities

In our opinion, because of the significance of the matter described in "Basis for Adverse Opinion on Business-Type Activities", the financial statements referred to above do not present fairly, the cash basis financial position of the business type activities.

Unmodified 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, each major fund and the aggregate remaining fund information for the primary government of the City of Pocahontas, Iowa 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 Pocahontas' primary government's basic financial statements. We previously audited, in accordance with the standards referred to in the third paragraph of this report, the primary government's financial statements for the nine years ended June 30, 2012 (which are not presented herein) and expressed unqualified opinions on those financial statements, except for our opinions on the business type activities which were adverse due to the omission of the City's component unit, which were prepared in conformity with an other comprehensive basis of accounting. The supplementary information included in Schedules 1 through 6, 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 financial statements or to the financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The other information, Management's Discussion and Analysis and budgetary comparison information on pages 5 through 11 and 31 through 33 has not been subjected to the auditing procedures applied in the audit of the primary government 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 31, 2013 on our consideration of the City of Pocahontas' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contract 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 the City of Pocahontas' internal control over financial reporting and compliance.

Cornwell, Frideres, Maher & Associates, P.L.C.
Cornwell, Frideres, Maher & Associates, P.L.C.
Certified Public Accountants

December 31, 2013

Management's Discussion and Analysis

The City of Pocahontas 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. These financial statements only include the primary government. They do not include the Pocahontas Community Hospital. The hospital's financial statements are available at their business office.

2013 Financial Highlights

- Total receipts decreased 8%, or approximately \$477,312 from FY 2012 to FY 2013. Governmental Funds revenues decreased \$575,976 while Proprietary Funds revenues increased \$98,664 from the previous year.
- Total disbursements decreased 20% or approximately \$1,390,083 from FY 2012 to FY 2013. Governmental Fund expenditures decreased \$888,091 and Proprietary Funds expenditures decreased \$501,992 from the previous year.
- The City's total cash basis net assets increased 2.6% to \$2,513,594, or approximately \$63,670 from June 30, 2012 to June 30, 2013. Of this amount, the assets of the governmental activities increased \$61,900 and the assets of the business type activities increased \$1,770.

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 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.

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

Other Supplementary Information provides detailed information about the non-major governmental funds. In addition, the Schedule of Expenditures of Federal Awards (if applicable), provides details of various federal programs benefiting the City.

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

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

- Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the waterworks, sanitary sewer system, and the electric 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 Urban Renewal Tax Increment, 3) the Debt Service Fund, 4) the Revolving Loan Funds, 5) and 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 four Enterprise Funds to provide separate information for the water, sewer, electric, and telecommunications 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.

Reconciliations between government-wide statement and the fund financial statements follow the fund financial statements.

Government-wide Financial Analysis

Net assets may serve over time as a useful indicator of financial position. The City’s cash balance for governmental activities increased from a year ago, increasing from \$1.350 million to \$1.412 million. The analysis that follows focuses on the changes in cash basis net assets of governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities

	Year ended June 30	
	2013	2012
Receipts and Transfers		
Program Receipts:		
Charges for service	\$ 307,651	\$ 334,537
Operating Grants, contributions, restricted interest	\$ 973,161	\$ 927,207
Capital grants, contributions and restricted interest	\$ 0	\$ 547,278
General receipts:		
Property tax	\$ 812,437	\$ 824,914
Local Option Sales Tax	\$ 155,541	\$ 181,893
Unrestricted interest on investments	\$ 3,863	\$ 8,352
Bond Proceeds	\$ 0	\$ 352,006
Other general receipts	\$ 22,695	\$ 27,143
Transfers, net	\$ 237,500	\$ 202,500
Total receipts and transfers	\$ 2,512,848	\$ 2,407,447

Disbursements:		
Public Safety	\$ 296,497	\$ 292,373
Public Works	\$ 512,420	\$ 648,735
Culture and Recreation	\$ 240,133	\$ 225,115
Community and Economic Development	\$ 821,587	\$ 731,030
General Government	\$ 263,543	\$ 260,523
Debt Service	\$ 153,470	\$ 397,004
Capital Projects	\$ 163,298	\$ 784,259
Total Disbursements	\$ 2,450,948	\$ 3,339,039
Increase in cash basis net position	\$ 61,900	\$ 66,791
Cash Basis net position beginning of year	\$ 1,350,344	\$ 1,283,553
Cash basis net position end of year	\$ 1,412,244	\$ 1,350,344

The City's total receipts for governmental activities increased 4.4%, or \$105,401. The total cost of all programs and services decreased \$888,091 or 26.6%, with no new programs added this year. There was only moderate revenue increases in each of the program areas.

Property tax collections decreased 1.5%, or approximately \$12,477. Tax collections are expected to decrease at a steady pace in the future in the area of 1% to 5% growth per year as the property tax rollbacks enacted by the state legislature go into effect.

The cost of all governmental activities this year was \$2,451 million compared to \$3.339 million last year. The largest change was in Capital Projects which decreased 79.1%, or \$620,961. Other program increases generally reflected increases in the cost of salaries, health insurance and other benefits.

Changes in Cash Basis Net Assets of Business Type Activities

Year ended June 30,

	<u>2013</u>	<u>2012</u>
Receipts and Transfers		
Program Receipts:		
Charges for service:		
Electric	\$ 2,256,185	\$ 2,135,753
Water	\$ 458,926	\$ 445,487
Sewer	\$ 463,125	\$ 413,605
Telecommunications (Internet)	\$ 6,060	\$ 6,825
Capital grants, contributions and restricted interest	\$ 0	\$ 0
Miscellaneous	\$ 11,262	\$ 95,224
Bond proceeds	\$ 177,317	\$ 1,026,701
Total receipts and transfers	\$ 3,372,875	\$ 4,123,595

Disbursements:		
Electric	\$ 2,199,831	\$ 2,208,289
Water	\$ 514,368	\$ 798,348
Sewer	\$ 381,117	\$ 613,540
Telecommunications (Internet)	\$ 28,177	\$ 7,500
Miscellaneous	\$ 10,112	\$ 7,920
Transfers	\$ 237,500	\$ 202,500
Total Disbursements	\$ 3,371,105	\$ 3,838,097
Increase in cash basis net position	\$ 1,770	\$ 285,498
Cash Basis net position beginning of year	\$ 1,099,580	\$ 814,082
Cash Basis net position end of year	\$ 1,101,350	\$ 1,099,580

Total business type activities receipts for the fiscal year were \$3.373 million compared to \$4.124 million last year. The decrease was due primarily to the decreased receipts from bond revenues received for the various construction projects in FY 2012. The cash balance increased by approximately \$1,770 from the prior year. Total disbursements for the fiscal year creased to \$3.371 million compared to \$3.838 million last year.

Individual Major Governmental Fund Analysis

As the City of Pocahontas completed the year, its governmental funds reported a combined fund balance of \$1,412,244, an increase of \$61,900 above last year's total of \$1,350,344. 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 to \$150,306 from the prior year of \$190,431. This has been a continuing trend over the last several years. The City will need to take a look at possibly increasing solid waste and user fees to increase revenues and also look at reducing budget transfers out of the General Fund.
- The three City Revolving Loan Funds cash balances decreased to \$338,755 from the prior year of \$479,431. This fund has loaned out money to new and existing businesses causing the drop in cash basis. The City will continue to loan out this money on a case-by-case basis.
- The Industrial Development Fund cash balance increased to -\$292,346 from the prior year of -\$354,092. Regular budget transfers and contracted building payments decreased the total cash basis deficit.

Individual Major Business Type Fund Analysis

- The Water Fund cash balance decreased \$100,879 to \$133,936, due primarily to the receipt of bond proceeds in FY 2012 for capital project and their subsequent expenditure in FY 2013.
- The Electric Fund cash balance increased \$76,671 to \$727,505. The expiration of an electric revenue bond in FY 2012 has helped the cash basis of the Electric Fund. City will need to review rates in FY14-15.
- The Sewer Fund cash balance increased \$53,860 to \$230,517. The City will continue to monitor expenditures to allow the cash basis of the Sewer Fund to increase in the coming years.

Budgetary Highlights

Over the course of the year, the City amended its budget one time. The amendment increased revenues by \$319,000 and increased expenditures by \$1,400,200. The City had sufficient cash balances to absorb the additional costs estimated under the budget amendment.

The City's receipts were \$360,007 over budgeted expectations. This was primarily due to the City receiving additional revenue in various programs and services as well as conservative budgeting in revenue estimates. Actual use of money revenue greatly exceeded estimated amount.

The City's total expenditures were \$390,031 under budgeted expectations. Most individual programs were under budget with the exception of costs from business type activities and debt service.

Debt Administration

At June 30, 2013 the City had \$3,596,121 in bonds and other long-term debt outstanding, compared to \$3,720,061 last year, as shown below.

	Outstanding Debt At Year-End	
	June 30	
	<u>2013</u>	<u>2012</u>
General obligation bonds	\$ 685,000	\$ 810,000
Revenue Bonds	\$ 1,814,000	\$ 1,913,347
Promissory Notes	\$ 1,097,121	\$ 996,714
Total	\$ 3,596,121	\$ 3,720,061

Annual payments on the general obligation bonds, revenue bonds, and promissory notes decreased the outstanding amounts; however increased loan money on the electrical promissory note increased its overall outstanding amount. 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 \$685,000 less than half its constitutional debt limit of \$2.07 million.

Economic Factors and Next Year's Budget and Rates

The elected and appointed officials and citizens of Pocahontas considered many factors when setting the fiscal year 2013 budget, tax rates, and fees charged for various City activities. One of those factors is the economy. The unemployment in the county now stands at 3.3%. This compares with the State's unemployment rate of 4.6% and the national rate of 7.3%. Inflation was at approximately 1.0% from October 2012 to October 2013.

Economic conditions in Pocahontas and the surrounding area remain stable, compared to the national economy since the Great Recession. Local Option Sales Tax Revenues decreased considerably this past year which represents a decrease in overall spending in Pocahontas. The Highway 20 expansion to Twin Lakes brought significantly more travelers to Pocahontas. However, since the expansion to Hwy. 71 there has been a reduction in the day-to-day travelers through Pocahontas. Many local companies are hiring and are actually having a difficult time recruiting employees. Pocahontas has benefited from strong performance in the agricultural and manufacturing sectors. While economic crisis has struck much of the country, Pocahontas has weathered the storm quite well. The strong farm economy, boosted by high commodity prices, benefits the local economy. However, with lower expected grain prices for the coming year, we anticipate reduced farm spending in Pocahontas. The City will continue to work with local businesses and residents to expand housing and employment opportunities in Pocahontas. These indicators were taken into account when adopting the budget for Fiscal Year 2013. Total revenues of \$5.471 million decreased \$477,312 from the previous year primarily due to less bond monies for construction projects received in FY13. Property tax revenue decreased \$42,769 from reduced TIF revenue asking by the City. Total expenditures of \$5.585 million, excluding transfers, decreased approximately \$1,390,083 from the previous year due to construction projects. The City has added no major new programs or initiatives to the FY 2013 budget. The City's cash balance increased approximately \$63,670 in Fiscal Year 2013.

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 any questions about this report or need additional financial information, contact Robert Donahoo, City Administrator, or Joan DeWall, City Clerk, 23 West Elm Avenue, Pocahontas, IA 50574.

Basic Financial Statements

City of Pocahontas, Iowa

Cash Basis Statement of Activities and Net Position

As of and for the year ended June 30, 2013

	<u>Disbursements</u>	<u>Program Receipts</u>		
		<u>Charges for Service</u>	<u>Operating Grants, Contributions, and Restricted Interest</u>	<u>Capital Grants, Contributions, and Restricted Interest</u>
Functions/Programs:				
Governmental activities:				
Public safety	\$ 296,497	1,516	-	-
Public works	512,420	261,569	172,750	-
Culture and recreation	240,133	39,216	14,915	-
Community and economic development	821,587	-	650,863	-
General government	263,543	5,350	-	-
Debt service	153,470	-	28,941	-
Capital projects	<u>163,298</u>	<u>-</u>	<u>105,692</u>	<u>-</u>
Total governmental activities	<u>2,450,948</u>	<u>307,651</u>	<u>973,161</u>	<u>-</u>
Business type activities:				
Water	514,368	458,926	-	-
Electric	2,199,831	2,256,185	-	-
Sewer	381,117	463,125	-	-
Other non-major	<u>38,289</u>	<u>13,407</u>	<u>-</u>	<u>-</u>
Total business type activities	<u>3,133,605</u>	<u>3,191,643</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 5,584,553</u>	<u>3,499,294</u>	<u>973,161</u>	<u>-</u>

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
Governmental Activities	Business Type Activities	Total
(294,981)	-	(294,981)
(78,101)	-	(78,101)
(186,002)	-	(186,002)
(170,724)	-	(170,724)
(258,193)	-	(258,193)
(124,529)	-	(124,529)
<u>(57,606)</u>	<u>-</u>	<u>(57,606)</u>
<u>(1,170,136)</u>	<u>-</u>	<u>(1,170,136)</u>
-	(55,442)	(55,442)
-	56,354	56,354
-	82,008	82,008
<u>-</u>	<u>(24,882)</u>	<u>(24,882)</u>
<u>-</u>	<u>58,038</u>	<u>58,038</u>
<u>(1,170,136)</u>	<u>58,038</u>	<u>(1,112,098)</u>

(continued)

Statement of Activities and Net Position - Cash Basis

As of and for the year ended June 30, 2013

	Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
	Governmental Activities	Business Type Activities	Total
General Receipts:			
Property and other city taxes levied for:			
General purposes	\$ 646,167	-	646,167
Debt service	109,511	-	109,511
Tax increment financing	56,759	-	56,759
Local options sales tax	155,541	-	155,541
Unrestricted interest on investments	3,863	3,915	7,778
Miscellaneous	22,695		22,695
Bond proceeds	-	177,317	177,317
Transfers	237,500	(237,500)	-
Total general receipts and transfers	<u>1,232,036</u>	<u>(56,268)</u>	<u>1,175,768</u>
Change in cash basis net position	61,900	1,770	63,670
Cash basis net position beginning of year	<u>1,350,344</u>	<u>1,099,580</u>	<u>2,449,924</u>
Cash basis net position end of year	<u>1,412,244</u>	<u>1,101,350</u>	<u>2,513,594</u>
Cash Basis Net Position			
Restricted:			
Nonexpendable:			
Culture and recreation	150,000	-	150,000
Expendable:			
Hotel/Motel	8,604	-	8,604
Streets	171,495	-	171,495
Debt service	3,409		3,409
Other purposes	1,229,380		1,229,380
Unrestricted	<u>(150,644)</u>	<u>1,101,350</u>	<u>950,706</u>
Total cash basis net position	<u>\$ 1,412,244</u>	<u>1,101,350</u>	<u>2,513,594</u>

See notes to financial statements.

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

	<u>General</u>	<u>Special Revenue REGD Revolving Loan Fund</u>
Receipts:		
Property tax	\$ 394,951	-
Tax increment financing	-	-
Other city tax	31,784	-
Licenses and permits	2,030	-
Use of money and property	40,437	106,013
Intergovernmental	16,430	300,000
Charges for service	259,573	-
Special assessments	-	-
Miscellaneous	31,099	-
Total receipts	776,304	406,013
Disbursements:		
Operating:		
Public safety	230,651	-
Public works	266,882	-
Culture and recreation	192,644	-
Community and economic development	82,003	444,370
General government	209,172	-
Debt service	-	-
Capital projects	-	-
Total disbursements	981,352	444,370
Excess (deficiency) of receipts over (under) disbursements	(205,048)	(38,357)
Other financing sources (uses):		
Operating transfers in	210,000	-
Operating transfers out	(45,077)	-
Total other financing sources (uses)	164,923	-
Net change in cash balances	(40,125)	(38,357)
Cash balances beginning of year	190,431	279,998
Cash balances end of year	\$ 150,306	241,641
Cash Basis Fund Balances		
Nonspendable - Permanent funds	\$ -	-
Restricted:		
Debt service	-	-
Hotel/Motel	8,604	-
Streets	-	-
Other purposes	-	241,641
Unassigned	141,702	-
Total cash basis fund balances	\$ 150,306	241,641

See notes to financial statements.

Exhibit B

Other Nonmajor Governmental Funds	<u>Total</u>
325,058	720,009
56,759	56,759
159,428	191,212
-	2,030
262,854	409,304
240,950	557,380
-	259,573
-	-
47,982	79,081
<u>1,093,031</u>	<u>2,275,348</u>
65,846	296,497
245,538	512,420
47,489	240,133
295,214	821,587
54,371	263,543
153,470	153,470
163,298	163,298
<u>1,025,226</u>	<u>2,450,948</u>
<u>67,805</u>	<u>(175,600)</u>
102,577	312,577
<u>(30,000)</u>	<u>(75,077)</u>
<u>72,577</u>	<u>237,500</u>
140,382	61,900
879,915	1,350,344
<u>1,020,297</u>	<u>1,412,244</u>
150,000	150,000
3,409	3,409
-	8,604
171,495	171,495
987,739	1,229,380
<u>(292,346)</u>	<u>(150,644)</u>
<u>1,020,297</u>	<u>1,412,244</u>

City of Pocahontas, Iowa

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

As of and for the year ended June 30, 2013

	Enterprise Funds		
	<u>Water</u>	<u>Electric</u>	<u>Sewer</u>
Operating receipts:			
Use of money and property	\$ 3,765	-	-
Charges for service	453,227	2,238,248	430,496
Miscellaneous	1,934	17,937	32,629
Total operating receipts	<u>458,926</u>	<u>2,256,185</u>	<u>463,125</u>
Operating disbursements:			
Business type activities	<u>279,810</u>	<u>1,982,948</u>	<u>223,544</u>
Total operating disbursements	<u>279,810</u>	<u>1,982,948</u>	<u>223,544</u>
Excess (deficiency) of operating receipts over (under) operating disbursements	<u>179,116</u>	<u>273,237</u>	<u>239,581</u>
Non-operating receipts (disbursements):			
Bond proceeds	-	162,317	15,000
Interest on investments	1,563	-	2,352
Debt service	(111,068)	(76,929)	(65,838)
Capital projects	(123,490)	(139,954)	(91,735)
Total non-operating receipts (disbursements)	<u>(232,995)</u>	<u>(54,566)</u>	<u>(140,221)</u>
Excess (deficiency) of receipts over (under) disbursements	(53,879)	218,671	99,360
Operating transfers out	<u>(47,000)</u>	<u>(142,000)</u>	<u>(45,500)</u>
Net change in cash balances	(100,879)	76,671	53,860
Cash balances beginning of year	<u>234,815</u>	<u>650,834</u>	<u>176,657</u>
Cash balances end of year	<u>\$ 133,936</u>	<u>727,505</u>	<u>230,517</u>
Cash Basis Fund Balances			
Unrestricted	<u>133,936</u>	<u>727,505</u>	<u>230,517</u>
Total cash basis fund balances	<u>\$ 133,936</u>	<u>727,505</u>	<u>230,517</u>

See notes to financial statements.

Exhibit C

<u>Other Nonmajor</u>	<u>Total</u>
-	3,765
13,407	3,135,378
<u>-</u>	<u>52,500</u>
<u>13,407</u>	<u>3,191,643</u>
<u>38,289</u>	<u>2,524,591</u>
<u>38,289</u>	<u>2,524,591</u>
<u>(24,882)</u>	<u>667,052</u>
-	177,317
-	3,915
-	(253,835)
<u>-</u>	<u>(355,179)</u>
<u>-</u>	<u>(427,782)</u>
(24,882)	239,270
<u>(3,000)</u>	<u>(237,500)</u>
(27,882)	1,770
<u>37,274</u>	<u>1,099,580</u>
<u>9,392</u>	<u>1,101,350</u>
<u>9,392</u>	<u>1,101,350</u>
<u>9,392</u>	<u>1,101,350</u>

City of Pocahontas, Iowa

Notes to Financial Statements

June 30, 2013

(1) Summary of Significant Accounting Policies

The City of Pocahontas is a political subdivision of the State of Iowa located in Pocahontas County. It was first incorporated in 1870 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 also provides water, sewer and electric utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Pocahontas has included only the primary government of the City of Pocahontas, which consists of all funds, organizations, agencies, boards, commissions and authorities that comprise the City's primary government. The financial statements do not include financial data for the City's legally separate component unit, the Pocahontas Community Hospital, which U.S. generally accepted accounting principles require to be reported with the financial data of the City's primary government. The audited financial statements of the Pocahontas Community Hospital can be obtained at their business office.

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: Pocahontas County Emergency Management Commission, Pocahontas County Joint E911 Service Board, and Pocahontas County Solid Waste Commission.

City of Pocahontas, Iowa
Notes to Financial Statements
June 30, 2013

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 Assets 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 them to be maintained permanently by the City, including the City's Permanent Funds.

Expendable restricted net position result when constraints placed on the use for 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 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.

City of Pocahontas, Iowa

Notes to Financial Statements

June 30, 2013

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

The City reports the following major governmental funds:

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

Special Revenue:

The REDG Revolving Loan fund is used to account for economic development loans disbursed and repaid, including those funded with grant awards.

The City reports the following major proprietary funds:

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

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

The Electric Fund accounts for the operation and maintenance of the City's electric system.

City of Pocahontas, Iowa

Notes to Financial Statements

June 30, 2013

C. Measurement Focus and Basis of Accounting

The City of Pocahontas 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.

City of Pocahontas, Iowa

Notes to Financial Statements

June 30, 2013

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 other spendable classifications.

(2) Cash

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.

The City has no investments at June 30, 2013. During the year, the City deposited excess funds in certificates of deposit.

City of Pocahontas, Iowa

Notes to Financial Statements

June 30, 2013

(3) Bonds Payable

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

Year Ending	General		Revenue Bonds		Total	
	<u>Obligation Bonds</u>		<u>Revenue Bonds</u>		<u>Total</u>	
<u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2014	\$ 130,000	7,328	118,000	54,420	248,000	61,748
2015	105,000	5,648	123,000	50,880	228,000	56,528
2016	110,000	5,017	126,000	47,190	236,000	52,207
2017	110,000	3,918	130,000	43,410	240,000	47,328
2018	115,000	2,817	134,000	39,510	249,000	42,327
2019-2023	115,000	1,495	733,000	134,730	848,000	136,225
2024-2028	---	---	273,000	41,430	273,000	41,430
2029-2033	---	---	105,000	20,430	105,000	20,430
2034-2036	---	---	<u>72,000</u>	<u>4,380</u>	<u>72,000</u>	<u>4,380</u>
Total	\$ 685,000	26,223	1,814,000	436,380	2,499,000	462,603
	=====	=====	=====	=====	=====	=====

The resolutions providing for the issuance of the revenue bonds include the following provisions.

- (a) The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the funds.
- (b) The Water and Sewer Revenue Funds must produce and maintain net revenues at a level not less than 110% of the amount of principal and interest on the revenue bond due in any one year.

City of Pocahontas, Iowa
Notes to Financial Statements
June 30, 2013

Revenue Bonds

The City has pledged future water customer receipts, net of specified operating disbursements, to repay \$1,418,582 in water revenue notes issued in April 2004. Proceeds from the notes provided financing for water improvements. The notes are payable through 2024. Annual principal and interest payments on the notes are expected to require less than 90 percent of net receipts. The total principal and interest remaining to be paid on the notes is \$1,192,330. For the current year, principal and interest paid and total customer net receipts were \$111,068 and \$179,116, respectively.

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay \$1,630,000 in sewer revenue notes issued in July 2004 and August 2011. Proceeds from the notes provided financing for the construction of improvements to the sewer treatment plant and other sewer improvements. The notes are payable solely from sewer customer net receipts and are payable through 2036. Annual principal and interest payments on the notes are expected to require less than 90 percent of net receipts. The total principal and interest remaining to be paid on the notes is \$1,058,050. For the current year, principal and interest paid and total customer net receipts were \$65,838 and \$239,581, respectively.

(4) Promissory Notes

The City entered into a loan agreement dated February 8, 2006 for \$1,000,000 secured by electric utility revenue and receivables. This agreement was renewed June 1, 2013 for \$920,424.13. This agreement has an interest rate of 3.75% and matures July 5, 2019. A payment of \$52,517 is due July 2013 and semi-annual payments of \$62,914 are due until July 5, 2019 at which time any remaining principle is due.

Future payments are due as follows:

Year ending <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>
2014	\$ 100,342	15,088
2015	103,534	22,293
2016	107,453	18,374
2017	111,521	14,307
2018	115,742	10,085
2019-2020	<u>181,872</u>	<u>6,869</u>
Total	<u>\$ 720,464</u>	<u>87,016</u>

City of Pocahontas, Iowa

Notes to Financial Statements

June 30, 2013

The City also entered into a loan agreement for \$402,939 with the United States Department of Agriculture secured by the portfolio of investments derived from the proceeds of this loan award. This agreement carries an interest rate of 1%, with interest only paid for the first three years. This loan has a due date of 2-1-2038.

Future payments are due as follows:

<u>Year Ending</u> <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>
2014	\$ 13,338	3,767
2015	13,472	3,633
2016	13,607	3,498
2017	13,743	3,362
2018	13,880	3,225
2019-2023	71,511	14,014
2023-2028	75,157	10,368
2029-2033	78,992	6,533
2034-2038	<u>82,957</u>	<u>2,504</u>
Total	\$ 376,657	50,904
	=====	=====

(5) Pension and Retirement Benefits

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

City of Pocahontas, Iowa
Notes to Financial Statements
June 30, 2013

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 \$75,108, \$69,056 and \$60,507, respectively, equal to the required contributions for each year.

(6) Other Postemployment Benefits (OPEB)

Plan Description – The City of Pocahontas operates a single-employer health benefit plan which provides medical/prescription drug benefits for employees and retirees and their spouses. There are 16 active and 0 retired members in the plan. The city will pay 100% of premiums for single coverage and up to the amount of the single premium rate for family coverage. 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 benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the City and plan members are \$446 for single coverage and \$1,115 for family coverage. The same monthly premiums apply to retirees. For the year ended June 30, 2013, the City contributed \$132,370 and plan members eligible for benefits contributed \$16,157 to the plan.

(7) 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 accumulate and are paid only when used. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned compensated absences payable to employees at June 30, 2013, primarily relating to the General Fund, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation and comp time	\$ <u>54,700</u>

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

City of Pocahontas, Iowa

Notes to Financial Statements

June 30, 2013

(8) Interfund Transfers

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

<u>Transfer To</u>	<u>Transfer From</u>	<u>Amount</u>
General	Enterprise:	
	Water	\$ 45,000
	Sewer	45,000
	Electric	117,000
	Internet	<u>3,000</u>
		<u>210,000</u>
Special Revenue:		
Hotel/Motel Tax	General	<u>10,000</u>
Capital Projects:		
Capital Improvements	General	<u>5,000</u>
Capital Equipment	General	30,077
	Enterprise:	
	Water	1,000
	Sewer	500
	Electric	2,500
	Special Revenue:	
	Road Use	<u>30,000</u>
		<u>64,077</u>
Special Revenue:		
Industrial Development	Enterprise:	
	Water	1,000
	Electric	<u>22,500</u>
		<u>23,500</u>
Total		\$ <u>312,577</u>

City of Pocahontas, Iowa

Notes to Financial Statements

June 30, 2013

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

(9) Related Party Transactions

The City had business transactions between the City and City officials totaling \$19,281 during the year ended June 30, 2013.

(10) Risk Management

The City of Pocahontas 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.

(11) Deficit Balances

The Special Revenue, Industrial Development Revenue Fund had a deficit balance of \$292,346 at June 30, 2013. This deficit will be eliminated upon repayment of loans, interfund transfers, and sale of property.

The Capital Projects Fund, Airport Account had a deficit balance of \$21,221 at June 30, 2013. This deficit will be eliminated upon receipt of grant reimbursements.

(12) Economic Development Loans Receivable

The City has various long-term loans receivable totaling \$1,481,508 as of June 30, 2013 due from various business in Pocahontas. The loans were financed with the proceeds from various grant agreements, matching contribution from the City and repayments from the businesses. Interest rates on these loans vary from 0% - 4.5% with monthly payments varying from \$221 to \$1,520.

City of Pocahontas, Iowa

Notes to Financial Statements

June 30, 2013

(13) Subsequent Events

The City has evaluated subsequent events through December 31, 2013, the date the financial statements were available to be issued.

Other Information

City of Pocahontas, Iowa
 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 <u>Actual</u>	Proprietary Funds <u>Actual</u>
Receipts:		
Property tax	\$ 720,009	-
Tax increment financing collections	56,759	-
Other city tax	191,212	-
Licenses and permits	2,030	-
Use of money and property	409,304	7,680
Intergovernmental	557,380	-
Charges for service	259,573	3,135,378
Special assessments	-	-
Miscellaneous	79,081	52,500
Total receipts	<u>2,275,348</u>	<u>3,195,558</u>
Disbursements:		
Public safety	296,497	-
Public works	512,420	-
Culture and recreation	240,133	-
Community and economic development	821,587	-
General government	263,543	-
Debt service	153,470	-
Capital projects	163,298	-
Business type activities	-	3,133,605
Total disbursements	<u>2,450,948</u>	<u>3,133,605</u>
Excess (deficiency) of receipts over (under) disbursements	(175,600)	61,953
Other financing sources (uses), net	<u>237,500</u>	<u>(60,183)</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	61,900	1,770
Balances beginning of year	<u>1,350,344</u>	<u>1,099,580</u>
Balances end of year	<u>\$ 1,412,244</u>	<u>1,101,350</u>
See accompanying independent auditor's report.		

<u>Total</u>	<u>Budgeted Amounts</u>		<u>Final to Total Variance</u>
	<u>Original</u>	<u>Final</u>	
720,009	717,099	717,099	2,910
56,759	63,000	63,000	(6,241)
191,212	180,031	180,031	11,181
2,030	1,125	1,125	905
416,984	135,470	135,470	281,514
557,380	395,724	395,724	161,656
3,394,951	3,263,650	3,275,650	119,301
-	-	-	-
<u>131,581</u>	<u>35,800</u>	<u>342,800</u>	<u>(211,219)</u>
<u>5,470,906</u>	<u>4,791,899</u>	<u>5,110,899</u>	<u>360,007</u>
296,497	297,150	304,850	8,353
512,420	649,450	664,700	152,280
240,133	223,732	253,732	13,599
821,587	276,700	855,950	34,363
263,543	280,250	280,250	16,707
153,470	135,000	135,000	(18,470)
163,298	178,300	590,300	427,002
<u>3,133,605</u>	<u>2,533,802</u>	<u>2,889,802</u>	<u>(243,803)</u>
<u>5,584,553</u>	<u>4,574,384</u>	<u>5,974,584</u>	<u>390,031</u>
(113,647)	217,515	(863,685)	750,038
<u>177,317</u>	<u>-</u>	<u>415,165</u>	<u>(237,848)</u>
63,670	217,515	(448,520)	512,190
<u>2,449,924</u>	<u>2,146,690</u>	<u>2,146,690</u>	<u>303,234</u>
<u><u>2,513,594</u></u>	<u><u>2,364,205</u></u>	<u><u>1,698,170</u></u>	<u><u>815,424</u></u>

City of Pocahontas, Iowa

Notes to Other Information – Budgetary Reporting

June 30, 2013

The budgetary comparison is presented in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not 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. 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 Fund, 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 \$1,400,200, increased budgeted revenues by \$319,000 and increased budgeted other financing sources by \$415,165. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2013, disbursements exceeded the amounts budgeted in the debt service and business type activities functions.

Supplementary Information

City of Pocahontas, Iowa

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				
	Road <u>Use</u>	Employee <u>Benefits</u>	Local Option Sales <u>Tax</u>	Hotel/Motel <u>Tax</u>	Tax Increment <u>Fund (TIF)</u>
Receipts:					
Property tax	\$ -	216,806	-	-	-
Tax increment financing	-	-	-	-	56,759
Other city tax	-	2,628	155,541	-	-
Use of money and property	-	-	-	-	-
Intergovernmental	172,750	-	-	-	-
Special assessments	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Total receipts	<u>172,750</u>	<u>219,434</u>	<u>155,541</u>	<u>-</u>	<u>56,759</u>
Disbursements:					
Operating:					
Public safety	-	65,846	-	-	-
Public works	127,168	56,048	62,322	-	-
Culture and recreation	-	29,929	5,298	10,000	-
Community and economic development	-	16,640	-	-	41,026
General government	-	54,371	-	-	-
Debt Service	-	-	-	-	-
Capital projects	-	-	-	-	39,647
Total disbursements	<u>127,168</u>	<u>222,834</u>	<u>67,620</u>	<u>10,000</u>	<u>80,673</u>
Excess (deficiency) of receipts over (under) disbursements	<u>45,582</u>	<u>(3,400)</u>	<u>87,921</u>	<u>(10,000)</u>	<u>(23,914)</u>

Schedule 1

						<u>Capital Projects</u>	
<u>Revolving Loan Fund</u>	<u>Intermediary Relending Loan Fund</u>	<u>Industrial Development Revenue Fund</u>	<u>"Irma Elbert Bequest"</u>	<u>"Charlotte Lenore Zech Bequest"</u>	<u>Debt Service</u>	<u>Capital Equipment</u>	<u>Capital Improvement</u>
-	-	-	-	-	108,252	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	1,259	-	-
65,651	89,428	87,520	1,804	-	-	-	18,451
-	-	-	-	-	-	9,489	58,711
-	-	-	-	-	-	-	-
-	-	-	-	-	28,941	4,955	14,086
<u>65,651</u>	<u>89,428</u>	<u>87,520</u>	<u>1,804</u>	<u>-</u>	<u>138,452</u>	<u>14,444</u>	<u>91,248</u>
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	2,262	-	-	-	-
69,300	118,974	49,274	-	-	-	-	-
-	-	-	-	-	-	-	-
-	17,105	-	-	-	136,365	-	-
-	-	-	-	-	-	23,944	99,707
<u>69,300</u>	<u>136,079</u>	<u>49,274</u>	<u>2,262</u>	<u>-</u>	<u>136,365</u>	<u>23,944</u>	<u>99,707</u>
<u>(3,649)</u>	<u>(46,651)</u>	<u>38,246</u>	<u>(458)</u>	<u>-</u>	<u>2,087</u>	<u>(9,500)</u>	<u>(8,459)</u>

(continued)

City of Pocahontas, Iowa

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				
	Road <u>Use</u>	Employee <u>Benefits</u>	Local Option Sales <u>Tax</u>	Hotel/Motel <u>Tax</u>	Tax Increment Fund (TIF) <u>Fund (TIF)</u>
Other financing sources (uses):					
Operating transfers in	-	-	-	10,000	-
Operating transfers out	<u>(30,000)</u>	-	-	-	-
Total other financing sources (uses)	<u>(30,000)</u>	-	-	<u>10,000</u>	-
Net change in cash balances	15,582	(3,400)	87,921	-	(23,914)
Cash balances beginning of year	<u>155,913</u>	<u>129,487</u>	<u>129,682</u>	-	<u>219,489</u>
Cash balances end of year	<u>\$ 171,495</u>	<u>126,087</u>	<u>217,603</u>	-	<u>195,575</u>
Cash Basis Fund Balances					
Nonspendable - Permanent funds	-	-	-	-	-
Restricted:					
Debt service	-	-	-	-	-
Streets	171,495	-	-	-	-
Other purposes	-	126,087	217,603	-	195,575
Unassigned	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total cash basis fund balances	<u>\$ 171,495</u>	<u>126,087</u>	<u>217,603</u>	<u>-</u>	<u>195,575</u>

See accompanying independent auditor's report.

						<u>Capital Projects</u>	
<u>Revolving Loan Fund</u>	<u>Intermediary Relending Loan Fund</u>	<u>Industrial Development Revenue Fund</u>	<u>"Irma Elbert Bequest</u>	<u>"Charlotte Lenore Zech Bequest</u>	<u>Debt Service</u>	<u>Capital Equipment</u>	<u>Capital Improvement</u>
-	-	23,500	-	-	-	64,077	5,000
-	-	-	-	-	-	-	-
-	-	<u>23,500</u>	-	-	-	<u>64,077</u>	<u>5,000</u>
(3,649)	(46,651)	61,746	(458)	-	2,087	54,577	(3,459)
<u>33,747</u>	<u>113,667</u>	<u>(354,092)</u>	<u>8,717</u>	<u>4,254</u>	<u>1,322</u>	<u>219,386</u>	<u>68,343</u>
<u>30,098</u>	<u>67,016</u>	<u>(292,346)</u>	<u>8,259</u>	<u>4,254</u>	<u>3,409</u>	<u>273,963</u>	<u>64,884</u>
-	-	-	-	-	-	-	-
-	-	-	-	-	3,409	-	-
-	-	-	-	-	-	-	-
30,098	67,016	-	8,259	4,254	-	273,963	64,884
-	-	<u>(292,346)</u>	-	-	-	-	-
<u>30,098</u>	<u>67,016</u>	<u>(292,346)</u>	<u>8,259</u>	<u>4,254</u>	<u>3,409</u>	<u>273,963</u>	<u>64,884</u>

(continued)

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

As of and for the year ended June 30, 2012

	Permanent			Total
	"Jean Wallace Perry Memorial"	"Charlotte Lenore Zech Bequest"	"Irma Elbert Bequest"	
Receipts:				
Property tax	\$ -	-	-	325,058
Tax increment financing collections	-	-	-	56,759
Other city tax	-	-	-	159,428
Use of money and property	-	-	-	262,854
Intergovernmental	-	-	-	240,950
Special assessments	-	-	-	-
Miscellaneous	-	-	-	47,982
Total receipts	-	-	-	1,093,031
Disbursements:				
Operating:				
Public safety	-	-	-	65,846
Public works	-	-	-	245,538
Culture and recreation	-	-	-	47,489
Community and economic development	-	-	-	295,214
General government	-	-	-	54,371
Debt Service	-	-	-	153,470
Capital projects	-	-	-	163,298
Total disbursements	-	-	-	1,025,226
Excess (deficiency) of receipts over (under) disbursements	-	-	-	67,805

(continued)

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

As of and for the year ended June 30, 2012

	Permanent			Total
	"Jean Wallace Perry Memorial"	"Charlotte Lenore Zech Bequest"	"Irma Elbert Bequest"	
Other financing sources (uses):				
Operating transfers in	-	-	-	102,577
Operating transfers out	-	-	-	(30,000)
Total other financing sources (uses)	-	-	-	67,577
Net change in cash balances	-	-	-	135,382
Cash balances beginning of year	\$ 2,500	87,500	60,000	879,915
Cash balances end of year	\$ 2,500	\$ 87,500	\$ 60,000	\$ 1,015,297
Cash Basis Fund Balances				
Nonspendable - Permanent funds	2,500	87,500	60,000	150,000
Restricted:				
Debt service	-	-	-	3,409
Streets	-	-	-	171,495
Other purposes	-	-	-	987,739
Unassigned	-	-	-	(292,346)
Total cash basis fund balances	\$ 2,500	87,500	60,000	1,020,297

See accompanying independent auditor's report.

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

As of and for the year ended June 30, 2013

	Enterprise Funds		
	Meter <u>Deposits</u>	<u>Internet</u>	<u>Total</u>
Operating receipts:			
Charges for service	\$ 7,347	6,060	13,407
Total operating receipts	<u>7,347</u>	<u>6,060</u>	<u>13,407</u>
Operating disbursements:			
Business type activities	<u>10,112</u>	<u>28,177</u>	<u>38,289</u>
Total operating disbursements	<u>10,112</u>	<u>28,177</u>	<u>38,289</u>
Excess (deficiency) of operating receipts over (under) operating disbursements	<u>(2,765)</u>	<u>(22,117)</u>	<u>(24,882)</u>
Operating transfers in (out)	<u>-</u>	<u>(3,000)</u>	<u>(3,000)</u>
Net change in cash balances	(2,765)	(25,117)	(27,882)
Cash balances beginning of year	<u>18,033</u>	<u>19,241</u>	<u>37,274</u>
Cash balances end of year	<u>\$ 15,268</u>	<u>(5,876)</u>	<u>9,392</u>
Cash Basis Fund Balances			
Unrestricted			
Total cash basis fund balances	<u>\$ 15,268</u>	<u>(5,876)</u>	<u>9,392</u>

See notes to financial statements.

City of Pocahontas, Iowa

Schedule of Indebtedness

Year ended June 30, 2013

<u>Obligation</u>	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount Originally Issued</u>
General obligation bonds:			
G.O. refunding bonds, series 2001	Nov 1, 2001	3.00-4.40%	\$ 1,715,000
G.O. corporate purpose bonds, series 2012	Jun 28, 2012	0.50-1.30%	710,000
Revenue bonds:			
Water	Apr 23, 2004	3.00%	\$ 1,418,582
Sewer	Jul 7, 2004	3.00%	1,200,000
Sewer	Aug 5, 2011	3.00%	430,000
Promissory notes:			
Electric	Feb 8, 2006	4.75%	\$ 1,000,000
United States Department of Agriculture	Feb 1, 2008	1.00%	402,939

See accompanying independent auditor's report.

Schedule 3

<u>Balance Beginning of Year</u>	<u>Issued During Year</u>	<u>Redeemed During Year</u>	<u>Balance End of Year</u>	<u>Interest Paid</u>	<u>Interest Due and Unpaid</u>
100,000	-	50,000	50,000	4,350	-
710,000	-	75,000	635,000	6,015	-
<u>\$ 810,000</u>	<u>-</u>	<u>125,000</u>	<u>685,000</u>	<u>10,365</u>	<u>-</u>
1,079,000	-	76,000	1,003,000	32,370	-
431,000	-	27,000	404,000	12,930	-
403,347	15,000	11,347	407,000	12,570	-
<u>\$ 1,913,347</u>	<u>15,000</u>	<u>114,347</u>	<u>1,814,000</u>	<u>57,870</u>	<u>-</u>
606,851	162,317	48,704	720,464	28,226	-
389,863	-	13,206	376,657	3,899	-
<u>\$ 996,714</u>	<u>162,317</u>	<u>61,910</u>	<u>1,097,121</u>	<u>32,125</u>	<u>-</u>

Bond Maturities- General Obligation Bonds

June 30, 2013

Year Ending <u>June 30,</u>	<u>General Obligation</u> <u>Refunding Bonds Series 2001</u> <u>Issued November 1, 2001</u>		<u>General Obligation</u> <u>Corporate Purpose Bonds Series 2012</u> <u>Issued June 28, 2012</u>		<u>Total</u>
	Interest		Interest		
	<u>Rates</u>	<u>Amount</u>	<u>Rates</u>	<u>Amount</u>	
2014	4.40 %	50,000	0.60 %	80,000	130,000
2015	-	-	0.60	105,000	105,000
2016	-	-	1.00	110,000	110,000
2017	-	-	1.00	110,000	110,000
2018	-	-	1.15	115,000	115,000
2019	-	-	1.30	115,000	115,000
Total		<u>\$ 50,000</u>		<u>\$ 635,000</u>	<u>\$ 685,000</u>

See accompanying independent auditor's report.

Bond Maturities - Revenue Bonds

June 30, 2013

Year Ending June 30,	Water Revenue Bonds		Sewer Revenue Bonds	
	Series 2004		Series 2004	
	Issued April 23, 2004		Issued July 7, 2004	
	Interest		Interest	
	Rates	Amount	Rates	Amount
2014	3.00	78,000	3.00	28,000
2015	3.00	81,000	3.00	29,000
2016	3.00	83,000	3.00	30,000
2017	3.00	86,000	3.00	31,000
2018	3.00	88,000	3.00	32,000
2019	3.00	91,000	3.00	33,000
2020	3.00	94,000	3.00	34,000
2021	3.00	96,000	3.00	35,000
2022	3.00	99,000	3.00	36,000
2023	3.00	102,000	3.00	37,000
2024	3.00	105,000	3.00	39,000
2025	-	-	3.00	40,000
Total		\$ 1,003,000		\$ 404,000

Year Ending June 30,	Sewer Revenue Bonds		Total
	Series 2011		
	Issued August 5, 2011		
	Interest		
	Rates	Amount	
2014	3.00	12,000	118,000
2015	3.00	13,000	123,000
2016	3.00	13,000	126,000
2017	3.00	13,000	130,000
2018	3.00	14,000	134,000
2019	3.00	14,000	138,000
2020	3.00	15,000	143,000
2021	3.00	15,000	146,000
2022	3.00	16,000	151,000
2023	3.00	16,000	155,000
2024	3.00	17,000	161,000
2025	3.00	17,000	57,000
2026	3.00	18,000	18,000
2027	3.00	18,000	18,000
2028	3.00	19,000	19,000
2029	3.00	20,000	20,000
2030	3.00	20,000	20,000
2031	3.00	21,000	21,000
2032	3.00	22,000	22,000
2033	3.00	22,000	22,000
2034	3.00	23,000	23,000
2035	3.00	24,000	24,000
2036	3.00	25,000	25,000
Total		\$ 407,000	\$ 1,814,000

See accompanying independent auditor's report.

City of Pocahontas, Iowa

Schedule of Receipts By Source and Disbursements by Function -
All Government Funds

For the Last Ten Years

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Receipts:					
Property tax	\$ 720,009	654,840	658,174	625,289	612,206
Tax increment financing collections	56,759	164,697	149,068	152,318	154,619
Other city tax	191,212	191,068	125,896	158,312	154,096
Licenses and permits	2,030	2,815	1,210	1,625	1,675
Use of money and property	409,304	628,529	503,230	336,879	366,456
Intergovernmental	557,380	779,969	338,244	935,842	419,799
Charges for service	259,573	271,567	258,819	241,916	259,374
Special assessments	-	1,892	5,417	5,281	7,514
Miscellaneous	<u>79,081</u>	<u>155,947</u>	<u>109,069</u>	<u>98,395</u>	<u>105,673</u>
 Total	 <u>\$ 2,275,348</u>	 <u>2,851,324</u>	 <u>2,149,127</u>	 <u>2,555,857</u>	 <u>2,081,412</u>
Disbursements:					
Operating:					
Public safety	\$ 296,497	292,373	267,040	255,329	247,291
Public works	512,420	648,735	637,173	471,823	603,095
Culture and recreation	240,133	225,115	203,491	212,045	259,503
Community and economic development	821,587	731,030	276,744	749,291	876,815
General government	263,543	260,523	252,285	257,534	242,584
Debt service	153,470	397,004	197,367	199,405	195,905
Capital projects	<u>163,298</u>	<u>784,259</u>	<u>303,883</u>	<u>450,620</u>	<u>197,178</u>
 Total	 <u>\$ 2,450,948</u>	 <u>3,339,039</u>	 <u>2,137,983</u>	 <u>2,596,047</u>	 <u>2,622,371</u>

See accompanying independent auditor's report.

Schedule 6

<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
578,796	578,775	592,328	569,770	582,771
98,695	60,937	51,243	16,831	5,506
129,935	141,821	111,680	173,693	57,090
1,425	2,717	2,290	2,005	5,978
306,949	132,945	138,368	70,116	79,805
1,037,160	264,837	413,845	349,556	217,340
261,607	223,168	198,951	208,711	197,975
12,616	6,489	10,446	13,873	23,054
<u>93,906</u>	<u>137,713</u>	<u>179,061</u>	<u>80,092</u>	<u>57,168</u>
<u>2,521,089</u>	<u>1,549,402</u>	<u>1,698,212</u>	<u>1,484,647</u>	<u>1,226,687</u>
243,031	236,813	226,559	245,152	235,853
566,239	471,068	452,681	345,215	330,161
188,648	181,058	174,088	188,266	172,439
1,233,174	473,909	637,418	350,567	537,037
249,901	226,240	240,394	236,556	215,623
212,467	224,068	224,455	219,784	225,130
<u>165,423</u>	<u>48,605</u>	<u>45,882</u>	<u>286,398</u>	<u>34,135</u>
<u>2,858,883</u>	<u>1,861,761</u>	<u>2,001,477</u>	<u>1,871,938</u>	<u>1,750,378</u>

Cornwell, Frideres, Maher & Associates, P.L.C.

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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 the City of Pocahontas, Iowa, as of and for the year ended June 30, 2013, and the related notes to financial statements, which collectively comprise the primary government's basic financial statements, and have issued our report thereon dated December 31, 2013. Our report expressed unmodified opinions on the financial statements, except for the business type activities, which was adverse due to the omission of the City's component unit, 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 Pocahontas' 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 Pocahontas' internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Pocahontas' internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City of Pocahontas' financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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. Given these limitation, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings that we consider to be significant deficiencies in internal control over financial reporting as items I-A-13 and I-B-13.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Pocahontas' 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 Pocahontas's Responses to Findings

The City of Pocahontas' responses to the findings identified in our audit are described in the accompanying Schedule of Findings. The City of Pocahontas' 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 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 Pocahontas 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.

Cornwell, Frideres, Maher & Associates, P.L.C.
Cornwell, Frideres, Maher & Associates, P.L.C.
Certified Public Accountants

December 31, 2013

City of Pocahontas, Iowa

Schedule of Findings

Year ended June 30, 2013

Part I: Findings Related to the Financial Statements:

SIGNIFICANT DEFICIENCIES:

I-A-13 Segregation of Duties - Community Center - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the same person writes checks, signs checks, posts receipts and disbursements and reconciles the bank account.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, we recommend that the Community Center Board review its control procedures to obtain the maximum internal control possible under the circumstances.

Response – We will investigate possible alternatives.

Conclusion – Response accepted.

I-B-13 Preparation of Financial Statements – Management is responsible for establishing and maintaining internal controls over financial reporting and procedures related to the fair presentation of the financial statements in accordance with the cash basis of accounting. The City of Pocahontas does not have an internal control system designed to provide for the preparation of the financial statements, including the accompanying footnotes, as required by generally accepted accounting principles. The guidance in Statement of Auditing Standards No. 115, *Communicating Internal Control Related Matters Identified in an Audit*, requires us to communicate this matter to those charged with governance.

As auditors, we were requested to draft the financial statements and accompanying notes to the financial statements. The outsourcing of these services is not unusual in an organization of your size.

City of Pocahontas, Iowa

Schedule of Findings and Questioned Costs

Year ended June 30, 2013

Recommendation – We realize that obtaining the expertise necessary to prepare the financial statements, including all necessary disclosures, in accordance with generally accepted accounting principles can be considered costly and effective. However, it is the responsibility of the City’s 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.

Response – Management feels that committing the resources necessary to remain current on GAAP and GASB reporting requirements and corresponding footnote disclosures would lack benefit in relation to the cost, but will continue evaluating on a going forward basis.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

Part II: Other Findings Related to Statutory Reporting:

II-A-13 Certified Budget – Disbursements during the year ended June 30, 2013 exceeded the amounts budgeted in the debt service and business type activities functions. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

Recommendation – The budget should be amended in sufficient amounts before the disbursements exceed the budget.

Response – The budget will be amended in sufficient amounts in the future, if applicable. We budgeted for our business type activities capital projects under the wrong category, which explains the large discrepancy noted on the Budgetary Comparison Schedule.

Conclusion – Response accepted.

City of Pocahontas, Iowa

Schedule of Findings

Year ended June 30, 2013

II-B-13 Questionable Disbursements – No disbursements were noted 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 - Business transactions between the City and City officials or employees are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Gus Holzmueller – Council Member Owner of Pocahontas Ford	Auto repairs	\$12,025
Brian Stover – Council Member Owner of Stover Construction	Repairs	6,749
Ray Krips – Airport Commissioner Owner of Ray Krips Construction	Repairs	<u>506</u>
		<u>19,280</u>

In accordance with Chapter 362.5 of the Code of Iowa, the transactions with Pocahontas Ford and Stover Construction appear to represent conflicts of interest as they were not entered into through competitive bidding procedures. The transaction with Ray Krips Construction does not appear to represent a conflict of interest as it was less than \$2,500 during the fiscal year.

Recommendation – City officials should review their procedures to insure they are in compliance with the code of Iowa.

Response – This was an oversight this year. We will review our procedures to insure we have bids for transactions in excess of \$2,500 during a fiscal year.

Conclusion – Response accepted.

City of Pocahontas, Iowa

Schedule of Findings

Year ended June 30, 2013

- II-E-13 Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage is reviewed annually to insure that coverage is adequate for current operations.
- II-F-13 City Council Minutes - No transactions were found that we believe should have been approved in the minutes but were not.
- II-G-13 Deposits and Investments - No instances of non-compliance with the deposit and investments provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.
- II-H-13 Revenue Bonds and Notes – No instances of non-compliance with the revenue bond and note resolutions were noted.
- II-I-13 Telecommunications Services – No instances of non-compliance with Chapter 388.10 of the Code of Iowa were noted.
- II-J-13 Deficit Balances – There were two deficit balances noted as of June 30, 2013.

Recommendation – City officials should review these deficits in order to return these accounts to a sound financial position.

Response – See footnote #11 in notes to financial statements for our plans to eliminate these deficits.

Conclusion – Response accepted.

City of Pocahontas, Iowa

Schedule of Findings

Year ended June 30, 2013

- II-K-13 Tax Increment Financing (TIF) – There is approximately \$196,000 of cash in the TIF Special Revenue Fund at June 30, 2013. However, City officials were unable to determine if there was excess cash on hand as the county auditor does not prepare a reconciliation of TIF remittances with the amount of debt certified.

Recommendation - The City should decertify the cash on hand on with the next report filed with the County Auditor. In addition, City should work with the county auditor to determine a resolution to this matter. A copy of this report should be filed with the county auditor.

Response – We have been using cash on hand to pay for previously certified TIF rebate agreements. Eventually, this will utilize the City’s cash balance on hand.

Conclusion – Response accepted.

- II-L-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.