CITY OF ODEBOLT, 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

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

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City of Odebolt, Iowa

Officials

Name	Title	Term Expires
Ronald J. Rex	Mayor	Jan 2014
Keith Flink	Council Member	Jan 2014
Mike Hoefling	Council Member	Jan 2014
Todd Bengford	Council Member	Jan 2016
Butch Hemphill	Council Member	Jan 2016
Jim Scott	Council Member	Jan 2016
Christina Hoefling	City Clerk	Appointed
Dresselhuis & Heidenreich	Attorney	Appointed

Library

Kris Schroeder	Trustee	Jul 2013
Renae Babcock	Trustee	Jul 2015
Richard Duffy	Trustee	Jul 2015
Jane Heidenreich	Trustee	Jul 2015
Kristy Dewey	Trustee	Jul 2016
Tom Down	Trustee	Jul 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 Odebolt, Iowa, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design

audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Basis for Qualified Opinions

The cash transactions of Odebolt Fire Department have not been included in the cash transactions of the City of Odebolt's general fund. Governmental Accounting Standards state that all departments that are part of the primary government are to be included in the entity's financial statements. The amount by which the General fund's cash balances, cash receipts and cash disbursements would increase by the addition of this department is unknown. Also, as permitted by the Code of Iowa, the accounting records of the City have not been audited for all prior years. Accordingly, we were unable to satisfy ourselves as to the distribution, by fund of the cash balance as of July 1, 2012.

Qualified Opinions

In our opinion, except for the effects of the matters described in the "Basis for Qualified Opinions" paragraph, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Odebolt 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 Odebolt's basic financial statements. The supplementary information included in Schedules 1 through 3, 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 financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The other information, Management's Discussion and Analysis and the budgetary comparison information on pages 5 through 10 and 26 through 28 has not be 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 January 24, 2014 on our consideration of the City of Odebolt's internal control over financial reporting and 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 Odebolt's internal control over financial reporting and compliance.

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

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

January 24, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

City of Odebolt 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

- The City had received the last CDBG revenue of $66,221.00 in July of 2012 which had already been paid out previous fiscal year for the new Sewer Lagoon grant portion.
- Even with amendments and planning the City had gone over budget due to timing of the CDBG payment for the Housing project being in May 2013.
- The City has reserved funds for the Fire Dept. each year in which they did not use previous years. This fund reserve was depleted this year by paying extra on the fire truck debt service loan and additional budgeted items.

USING THIS ANNUAL REPORT

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

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

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

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

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

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

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

BASIS OF ACCOUNTING

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, 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 and the sanitary sewer system. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Urban Renewal Tax Increment, 3) the Debt Service Fund, 4) the Capital Projects Fund and 5) the Permanent 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 and the Internal Service Fund. Enterprise Funds are used to report business type activities. The City maintains two Enterprise Funds to provide separate information for the Water and Sewer Funds, considered to be major funds of the City. Internal Service Funds are an accounting device used to accumulate and allocate costs internally among the City's various functions.

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased $80,706 from a year ago, due to payoff of debt and road projects. See the following for additional analysis:

Change in Cash Basis Net Position of Governmental Activities
Year ended June 30, 2013

Receipts:	
Program receipts:	
Charges for services	$ 103,375
Operating grants, contributions and restricted interest	137,229
Capital grants, contribution and restricted interest	237,609
General receipts:	
Property tax	311,806
Local option sales tax	85,860
Sale of real estate	1,000
Unrestricted interest on investments	3,517
Miscellaneous	81,585
Total receipts	961,981
Disbursements:	
Public safety	110,389
Public works	296,225
Health and social services	2,895
Culture and recreation	187,402
Community and economic development	17,111
General government	91,500
Debt Service	108,247
Capital projects	228,918
Total disbursements	1,042,687
Change in cash basis net position	(80,706)
Cash basis net position beginning of year	365,748
Cash basis net position end of year	$ 285,042

Change in Cash Basis Net Position of Business Type Activities
Year ended June 30, 2013

Receipts:	
Program receipts:	
Charges for services:	
Water	$ 116,703
Sewer	157,370
Other	5,963
Capital grants, contributions and restricted interest	66,221
General receipts:	
Miscellaneous	18,444
Total receipts	364,701
Disbursements:	
Water	144,427
Sewer	164,822
Other	625
Total disbursements	309,874
Change in cash basis net position	54,827
Cash basis net position beginning of year	218,411
Cash basis net position end of year	$ 273,238

Total business type activities operating receipts for the fiscal year were approximately $298,480 compared to approximately $309,745 last year which included garbage as proprietary. The garbage is now contracted out and is part of the general fund instead. Revenues for garbage fund when it was proprietary were $75,209. The change in water cash balance decreased $26,619 due to increased expenses. The water rates were increased to allow the revenue to increase.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City completed the year, its governmental funds reported a combined fund balance of $285,042, a decrease of more than $80,706 above last year's total of $365,748. 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 $109,889 from the prior year to a cash balance of $53,382. Approximately $29,500 was used from General Fund to pay Fire Dept. reserves on their debt service truck loan. Street project of $55,630 and Manholes were fixed @ $7,000 cost.

- The Special Revenue Fund cash balance increased $42,140 to $233,971. This balance is mostly Local Option Taxes that have been invested in the past for reserves. The City intends to utilize these funds for derelict buildings, continued pool expenses, repairs to City Hall among other public uses.

- The Debt Service Fund cash balance shows a negative balance of $2,311. This was due to paying more on the fire truck debt service loan. A transfer has since been done to relieve this negative balance

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Enterprise, Water Fund cash balance decreased $78,758 to $52,139. Even after two amendments and careful planning in this area expenses exceeded the fund. There has been a water rate in August 2013 to increase the revenues in this fund.

- The Enterprise, Sewer Fund cash balance increased $131,122 to $207,230 due to increasing the rates in August 2011 due to a new revenue sewer lagoon loan.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget two times. The first amendment was approved on February 04, 2013 and resulted in an increase and decrease in different areas due to changing over from a non computerized standard of budget to new software that is approved in budgeting procedures. The second amendment was approved on May 06, 2013 to provide for additional disbursements in certain City departments.

Even with the budget amendments, total disbursements were over the budget due to change in City Clerks and transitioning of a new software system. Transfers have since been completed both by software and by resolution as needed.

DEBT ADMINISTRATION

At June 30, 2013, the City had $2,312,577 of bonds and other long-term debt outstanding, compared to $2,457,660 last year.

Debt decreased as a result of payments of interest and principal amounts as levied.

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 $586,577 is below its constitutional debt limit of approximately $1,666,707.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

Odebolt City's elected and appointed officials and citizens considered many factors when setting the fiscal year 2014 budget, tax rates and fees charged for various City activities. One of those factors is the economy. It continues to be difficult to budget for increases that are unforeseeable and the Council does its best to try to accommodate the rate increase as knowledge of increases arise.

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 Christina Hoefling, City Clerk, 205 W 2nd Street, Odebolt, Iowa 50145-0433.

Basic Financial Statements

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

		Program Receipts		
	Disbursements	Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions/Programs:				
Governmental activities:				
Public safety	$ 110,389	-	20,936	-
Public works	296,225	91,927	97,011	-
Health and social services	2,895	-	-	-
Culture and recreation	187,402	9,217	17,862	23,055
Community and economic development	17,111	-	1,420	-
General government	91,500	2,231	-	-
Debt service	108,247	-	-	-
Capital projects	228,918	-	-	214,554
Total governmental activities	1,042,687	103,375	137,229	237,609
Business type activities:				
Water	144,427	116,703	-	-
Sewer	164,822	157,370	-	66,221
Other nonmajor	625	5,963	-	-
Total business type activities	309,874	280,036	-	66,221
Total	$ 1,352,561	383,411	137,229	303,830
General Receipts:				
Property tax and other taxes levied for:				
General purposes				
Debt service				
Local option sales tax				
Sale of real estate				
Unrestricted interest on investments				
Miscellaneous				
Total general receipts				
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:				
Expendable:				
Other purposes				
Unrestricted				
Total cash basis net position				

See notes to financial statements.

Net (Disbursements) Receipts and Changes in Cash Basis Net Position		
Primary Government		
Governmental Activities	Business Type Activities	Total
(89,453)	-	(89,453)
(107,287)	-	(107,287)
(2,895)	-	(2,895)
(137,268)	-	(137,268)
(15,691)	-	(15,691)
(89,269)	-	(89,269)
(108,247)	-	(108,247)
(14,364)	-	(14,364)
(564,474)	-	(564,474)
-	(27,724)	(27,724)
-	58,769	58,769
-	5,338	5,338
-	36,383	36,383
(564,474)	36,383	(528,091)
$ 224,856	-	224,856
86,950	-	86,950
85,860	-	85,860
1,000	-	1,000
3,517	-	3,517
81,585	18,444	100,029
483,768	18,444	502,212
(80,706)	54,827	(25,879)
365,748	218,411	584,159
$ 285,042	273,238	558,280
		-
233,971	-	233,971
51,071	273,238	324,309
$ 285,042	273,238	558,280

City of Odebolt, Iowa

Exhibit B

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

As of and for the year ended June 30, 2013

	General	Capital Projects CDBG Housing	Other Nonmajor Governmental Funds	Total
Receipts:				
Property tax	$ 188,260	-	115,230	303,490
Other city tax	5,156	-	89,021	94,177
Licenses and permits	1,750	-	-	1,750
Use of money and property	26,882	-	1,908	28,790
Intergovernmental	10,484	214,554	97,010	322,048
Charges for service	101,625	-	-	101,625
Miscellaneous	110,101	-	-	110,101
Total receipts	444,258	214,554	303,169	961,981
Disbursements:				
Operating:				
Public safety:				
Police	77,087	-	-	77,087
Siren	1,664	-	-	1,664
Fire	29,921	-	46	29,967
Ambulance	1,552	-	-	1,552
Emergency management	119	-	-	119
	110,343	-	46	110,389
Public works:				
Street lighting	8,289	-	5,450	13,739
Snow removal	9,428	-	5,318	14,746
Traffic control & safety	137	-	-	137
Street sweeping	13,653	-	2,618	16,271
Garbage/recycling	87,160	-	-	87,160
Road/bridges/sidewalks	74,013	-	90,159	164,172
	192,680	-	103,545	296,225
Health and social services:				
Other	2,895	-	-	2,895
	2,895	-	-	2,895
Culture and recreation:				
Rural legacy	23,484	-	-	23,484
Park	22,590	-	7,216	29,806
Swimming pool	34,788	-	1,531	36,319
Library	79,424	-	-	79,424
Cemetery	2,000	-	-	2,000
Other	16,369	-	-	16,369
	178,655	-	8,747	187,402

City of Odebolt, Iowa

Exhibit B

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

As of and for the year ended June 30, 2013

	General	Capital Projects CDBG Housing	Other Nonmajor Governmental Funds	Total
Community and economic development:				
Economic development	6,077	-	-	6,077
Community beautification	11,034	-	-	11,034
	17,111	-	-	17,111
General government:				
Policy administration	36,891	-	11,225	48,116
Mayor/council/city manager	7,379	-	516	7,895
Tort liability	10,421	-	-	10,421
Other	25,068	-	-	25,068
	79,759	-	11,741	91,500
Debt service	-	-	108,247	108,247
Capital projects	2,021	226,897	-	228,918
Total disbursements	583,464	226,897	232,326	1,042,687
Excess (deficiency) of receipts over (under) disbursements	(139,206)	(12,343)	70,843	(80,706)
Other financing sources				
Operating transfers in	40,000	12,343	8,340	60,683
Operating transfers out	(10,683)	-	(50,000)	(60,683)
Total other financing sources (uses)	29,317	12,343	(41,660)	-
Change in cash balances	(109,889)	-	29,183	(80,706)
Cash balances beginning of year	163,271	-	202,477	365,748
Cash balances end of year	$ 53,382	-	231,660	285,042
Cash Basis Fund Balances				
Restricted for:				
Other purposes	-	-	233,971	233,971
Assigned for library expenditures	84,751	-	-	84,751
Unassigned	(31,369)	-	(2,311)	(33,680)
Total cash basis fund balances	$ 53,382	-	231,660	285,042

See notes to financial statements.

City of Odebolt, Iowa

Exhibit C

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	Other Nonmajor Funds	Total
Operating receipts:				
Charges for service	$ 116,703	157,370	5,963	280,036
Use of money and property	-	16,777	-	16,777
Miscellaneous	1,105	562	-	1,667
Total operating receipts	117,808	174,709	5,963	298,480
Operating disbursements:				
Business type activities	111,347	75,056	625	187,028
Total operating disbursements	111,347	75,056	625	187,028
Excess (deficiency) of operating receipts over (under) operating disbursements	6,461	99,653	5,338	111,452
Non-operating receipts (disbursements):				
Capital projects	-	(9,756)	-	(9,756)
Intergovernmental	-	66,221	-	66,221
Debt service:				
Principal redemption	(26,000)	(33,000)	-	(59,000)
Interest payments	(7,080)	(47,010)	-	(54,090)
Total non-operating receipts (disbursements)	(33,080)	(23,545)	-	(56,625)
Change in cash balances	(26,619)	76,108	5,338	54,827
Cash balances beginning of year	78,758	131,122	8,531	218,411
Cash balances end of year	$ 52,139	207,230	13,869	273,238
Cash Basis Fund Balances				
Unrestricted	52,139	207,230	13,869	273,238
Total cash basis fund balances	$ 52,139	207,230	13,869	273,238

See notes to financial statements.

(1) Summary of Significant Accounting Policies

The City of Odebolt is a political subdivision of the State of Iowa located in Sac County. It was first incorporated in 1877 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 Odebolt has included all funds, organizations, agencies, boards, commissions and authorities, except for the Odebolt Fire Department. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City. The City has no component units which meet the Governmental Accounting Standards Board criteria.

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 ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Sac County Assessor's Conference Board, Sac County Emergency Management Commission, Sac County E911 Service Board, and Sac County Landfill Commission.

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 them to be maintained permanently by the City.

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

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

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

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

The City reports the following major governmental funds:

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

Capital Projects:

The CDBG Housing Fund is used to account for all the resources expended on improvements made with proceeds from a development block grant.

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 waste water treatment and sanitary sewer system.

C. Measurement Focus and Basis of Accounting

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

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

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

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

D. Governmental Cash Basis Fund Balances:

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

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

Restricted – Amounts restricted to specific purposes when constraints 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 other spendable classifications.

E. Budgets and Budgetary Accounting

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

(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 had no investments at June 30, 2013. During the year ended June 30, 2013 the City invested its excess funds in savings accounts and certificates of deposit.

(3) Bonds and Notes Payable

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

	General Obligation Bonds & Notes		Revenue Notes		Total	
Year Ending June 30,	Principal	Interest	Principal	Interest	Principal	Interest
2014	$ 48,000	16,673	61,000	49,695	109,000	66,368
2015	51,000	14,931	64,000	48,203	115,000	63,134
2016	56,666	14,369	66,000	46,632	122,666	61,001
2017	66,239	12,313	68,000	42,015	134,239	57,328
2018	51,628	9,942	70,000	43,350	121,628	53,292
2019-2023	216,761	28,392	280,000	191,735	496,761	220,127
2024-2028	78,283	4,500	253,000	155,580	331,283	160,080
2029-2033	-	-	296,000	115,080	296,000	115,080
2034-2038	-	-	348,000	67,710	348,000	67,710
2039-2041	-	-	238,000	14,430	238,000	14,430
Total	$ 568,577	101,120	1,744,000	774,430	2,312,577	878,550

Revenue Notes

The City has pledged future water customer receipts, net of specified operating disbursements, to repay $504,000 or water revenue notes issued in December 1999. Proceeds from the notes provided financing for water improvement projects. The notes are payable solely from water customer net receipts and are payable through 2020. Annual principal and interest payments on the notes are expected to require less than 90% of net receipts. The total principal and interest remaining to be paid on the notes is $225,190. For the current year, principal and interest paid and total customer net receipts were $33,080 and $6,461 respectively.

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay $1,599,000 of sewer revenue notes issued in May 2011. Proceeds from the notes provided financing for sewer improvements. The notes are payable solely from sewer customer net receipts and are payable through 2041. Annual principal and interest payments on the notes are expected to require less than 90% of net receipts. The total principal and interest remaining to be paid on the notes is $2,296,240. For the current year, principal and interest paid and total customer net receipts were $80,010 and $99,653, respectively.

The resolutions providing for the issuance of the revenue notes 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) Sufficient monthly transfers shall be made to separate water and sewer revenue note sinking accounts within the Enterprise Funds for the purpose of making the note principal and interest payments when due.

(c) The City shall establish rates at a sufficient amount for both the water and sewer utilities so that there will be a balance of net revenues equal to at least 110% of the principal and interest of the bonds due in such fiscal year.

(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 year ended June 30, 2013 was $14,022, equal to the required contributions for the year.

(5) Other Post Employment Benefits (OPEB)

Plan Description – The City operates a single-employer health benefit plan which provides medical/prescription drug benefits for employees and retirees and their spouses. As of June 2013, there are three active and no 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 benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the City are $767 for family coverage. The same monthly premiums apply to retirees. For the year ended June 30, 2013, the City contributed $28,752 and plan members eligible for benefits contributed $36 to the plan.

(6) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation 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 payable to employees at June 30, 2013, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Vacation	$ 3,100

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

(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:	
	Local Option Sales Tax	40,000
Debt Service	General	8,340
Capital Projects:	Special Revenue:	
CDBG Housing	Local Option Sales Tax	10,000
	General	2,343
		12,343
Total		$ 60,683

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

(8) Risk Management

The City is exposed to various risks of loss related to torts; thefts, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have note exceed commercial insurance coverage in any of the past three fiscal years.

(9) Deficit Balances

The Debt Service Fund had a deficit fund balance of $2,311 at June 30, 2013. The deficit should be eliminated by collection of property tax or transfer of local option sales tax.

The General Fund has an unassigned deficit fund balance of $31,369 at June 30, 3013. The deficit should be eliminated by transfer of local option sales tax.

(10) Subsequent Events

Subsequent events have been evaluated through January 24, 2014, which is the date the financial statements were available to be issued.

Other Information

City of Odebolt, Iowa

Budgetary Comparison Schedule
of Receipts, Disbursements, and Changes in Balances -
Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Funds

Required Supplementary Information

Year ended June 30, 2013

	Governmental Funds Actual	Proprietary Funds Actual
Receipts:		
Property tax	$ 303,490	-
Other city tax	94,177	-
Licenses and permits	1,750	-
Use of money and property	28,790	16,777
Intergovernmental	322,048	66,221
Charges for service	101,625	280,036
Miscellaneous	110,101	1,667
Total receipts	961,981	364,701
Disbursements:		
Public safety	110,389	-
Public works	296,225	-
Health and social services	2,895	-
Culture and recreation	187,402	-
Community and economic development	17,111	-
General government	91,500	-
Debt service	108,247	-
Capital Projects	228,918	-
Business type activities	-	309,874
Total disbursements	1,042,687	309,874
Excess (deficiency) of receipts over (under) disbursements	(80,706)	54,827
Other financing sources	-	-
Excess (deficiency) of receipts and other financing sources over (under) disbursements	(80,706)	54,827
Balances beginning of year	365,748	218,411
Balances end of year	$ 285,042	273,238

See accompanying independent auditor's report.

Net	Budgeted Amounts Original	Budgeted Amounts Final	Final to Net Variance
303,490	289,152	289,152	14,338
94,177	76,313	76,313	17,864
1,750	1,400	1,400	350
45,567	6,725	47,225	(1,658)
388,269	134,971	167,271	220,998
381,661	376,207	567,240	(185,579)
111,768	38,270	48,100	63,668
1,326,682	923,038	1,196,701	129,981
110,389	98,873	108,873	(1,516)
296,225	190,660	317,361	21,136
2,895	5,400	5,400	2,505
187,402	118,772	187,772	370
17,111	85,000	85,000	67,889
91,500	92,700	95,200	3,700
108,247	93,000	104,000	(4,247)
228,918	-	212,132	(16,786)
309,874	476,350	398,749	88,875
1,352,561	1,160,755	1,514,487	161,926
(25,879)	(237,717)	(317,786)	291,907
-	-	-	-
(25,879)	(237,717)	(317,786)	291,907
584,159	584,159	584,159	-
558,280	346,442	266,373	291,907

City of Odebolt, 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 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, two budget amendments increased budgeted disbursements by $353,732, and budgeted receipts by $273,663. The budget amendments are reflected in the final budgeted amount.

During the year ended June 30, 2013, disbursements exceeded the amounts budgeted in the public safety, debt service and capital projects functions.

Supplementary Information

City of Odebolt, Iowa

Schedule 1

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 Use	Employee Benefits	Local Option Tax	Debt Service	Total
Receipts:					
Property tax	$ -	30,601	-	84,629	115,230
Other city tax	-	840	85,860	2,321	89,021
Use of money and property	-	-	1,908	-	1,908
Intergovernmental	97,010	-	-	-	97,010
Miscellaneous	-	-	-	-	-
Total receipts	97,010	31,441	87,768	86,950	303,169
Disbursements:					
Operating:					
Public safety:					
Fire	-	46	-	-	46
	-	46	-	-	46
Public works					
Street lighting	5,450	-	-	-	5,450
Roads/bridges/sidewalks	84,437	5,722	-	-	90,159
Snow removal	3,815	1,503	-	-	5,318
Street sweeping	-	2,618	-	-	2,618
	93,702	9,843	-	-	103,545
Culture and recreation:					
Park	-	7,216	-	-	7,216
Swimming pool	-	1,531	-	-	1,531
	-	8,747	-	-	8,747
General government					
Mayor/council/city manager	-	516	-	-	516
Policy administration	-	11,225	-	-	11,225
	-	11,741	-	-	11,741
Debt service	-	-	-	108,247	108,247
Total disbursements	93,702	30,377	-	108,247	232,326
Other Financing Sources (Uses)					
Operating Transfers In	-	-	-	8,340	8,340
Operating Transfers Out	-	-	(50,000)	-	(50,000)
Total Other Financing Sources (Uses)	-	-	(50,000)	8,340	(41,660)
Change in cash balances	3,308	1,064	37,768	(12,957)	29,183
Cash balances beginning of year	-	-	191,831	10,646	202,477
Cash balances end of year	3,308	1,064	229,599	(2,311)	231,660
Cash Basis Fund Balances					
Restricted for other purposes	3,308	1,064	229,599	-	233,971
Unassigned	-	-	-	(2,311)	(2,311)
Total cash basis fund balances	$ 3,308	1,064	229,599	(2,311)	231,660

See accompanying independent auditor's report.

City of Odebolt, Iowa

Schedule of Indebtedness

Year ended June 30, 2013

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation notes:			
Water note	Oct 1, 1997	5.75 %	$ 200,000
Fire truck note	Jan 13, 2008	3.38 %	300,000
Sewer improvement note	Feb 22, 2011	2.45 %	660,000
Total			
General obligation bonds:			
Sewer improvement bond	Nov 18, 2011	3.00 %	$ 500,000
Total			
Revenue bonds:			
Sewer bond	May 20, 2011	3.00 %	$ 1,599,000
Water bond	Dec 21, 1999	3.00 %	504,000
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
74,000	-	13,000	61,000	4,223	-
78,377	-	40,083	38,294	2,609	-
180,000	-	14,000	166,000	4,410	-
$ 332,377	-	67,083	265,294	11,242	-
322,283	-	19,000	303,283	9,669	-
$ 322,283	-	19,000	303,283	9,669	-
1,567,000	-	33,000	1,534,000	47,010	-
236,000	-	26,000	210,000	7,080	-
$ 1,803,000	-	59,000	1,744,000	54,090	-

City of Odebolt, Iowa

Bond and Note Maturities

June 30, 2013

Year Ending June 30,	General Obligation Bonds/Notes			
	Water Note Issued Oct 1, 1997		Fire Truck Issued Jan 13, 2008	
	Interest Rates	Amount	Interest Rates	Amount
2014	5.75 %	$ 14,000	- %	$ -
2015	5.75	15,000	-	-
2016	5.75	16,000	3.38	2,666
2017	5.75	16,000	3.38	11,239
2018		-	3.38	11,628
2019		-	3.38	12,030
2020		-	3.38	731
2021		-		-
2022		-		-
2023		-		-
2024		-		-
2025		-		-
2026		-		-
Total		$ 61,000		$ 38,294

See accompanying independent auditor's report.

Schedule 3

Sewer Improvement Note Issued Feb 22, 2011		Sewer Improvement Bond Issued Nov 18, 2011		
Interest Rates	Amount	Interest Rates	Amount	Total
2.45 %	$ 15,000	3.00 %	$ 19,000	48,000
2.45	16,000	3.00	20,000	51,000
2.45	17,000	3.00	21,000	56,666
2.45	18,000	3.00	21,000	66,239
2.45	18,000	3.00	22,000	51,628
2.45	19,000	3.00	23,000	54,030
2.45	20,000	3.00	24,000	44,731
2.45	21,000	3.00	24,000	45,000
2.45	22,000	3.00	25,000	47,000
	-	3.00	26,000	26,000
	-	3.00	27,000	27,000
	-	3.00	28,000	28,000
	-	3.00	23,283	23,283
	$ 166,000		$ 303,283	568,577

City of Odebolt, Iowa

Schedule 3

Bond and Note Maturities

June 30, 2013

Year Ending June 30,	Revenue Bonds: Sewer Bond Issued May 5, 2011 Interest Rates	Amount	Revenue Bonds: Water Revenue Bonds Issued Dec 21, 1999 Interest Rates	Amount	Total
2014	3.00 %	$ 34,000	3.00 %	$ 27,000	61,000
2015	3.00	36,000	3.00	28,000	64,000
2016	3.00	37,000	3.00	29,000	66,000
2017	3.00	38,000	3.00	30,000	68,000
2018	3.00	39,000	3.00	31,000	70,000
2019	3.00	40,000	3.00	32,000	72,000
2020	3.00	42,000	3.00	33,000	75,000
2021	3.00	43,000		-	43,000
2022	3.00	44,000		-	44,000
2023	3.00	46,000		-	46,000
2024	3.00	47,000		-	47,000
2025	3.00	49,000		-	49,000
2026	3.00	51,000		-	51,000
2027	3.00	52,000		-	52,000
2028	3.00	54,000		-	54,000
2029	3.00	56,000		-	56,000
2030	3.00	57,000		-	57,000
2031	3.00	59,000		-	59,000
2032	3.00	61,000		-	61,000
2033	3.00	63,000		-	63,000
2034	3.00	65,000		-	65,000
2035	3.00	67,000		-	67,000
2036	3.00	70,000		-	70,000
2037	3.00	72,000		-	72,000
2038	3.00	74,000		-	74,000
2039	3.00	77,000		-	77,000
2040	3.00	79,000		-	79,000
2041	3.00	82,000		-	82,000
Total		$ 1,534,000		$ 210,000	1,744,000

See accompanying independent auditor's report.

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

Certified Public Accountants

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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 Governmental 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 Odebolt, 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, and have issued our report thereon dated January 24, 2014. Our report expressed qualified 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 Odebolt'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 our opinion on the effectiveness of the City of Odebolt's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Odebolt's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be 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 certain deficiencies in internal control we consider to be material weaknesses and significant deficiencies.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Odebolt's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that 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.

The City of Odebolt's Responses to Findings

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

January 24, 2014

City of Odebolt, Iowa

Schedule of Findings

Year ended June 30, 2013

Part I: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

SIGNIFICANT DEFICIENCIES:

I-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. We noted that the majority of the financial duties are performed by one individual.

Recommendation – We realize that with a city your size, segregation of duties is difficult. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response – We have hired a part time office person and the council reviews bills and reports monthly. We feel this helps mitigate the lack of segregation of duties.

Conclusion – Response acknowledged.

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 Odebolt 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.

Recommendation – We realize that obtaining the expertise necessary to prepare the financial statements, including all necessary disclosures, in accordance with the cash basis of accounting can be considered costly and ineffective. 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 to remain current on 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.

I-C-13 Outside Departments – The Fire department and a couple of smaller departments Currently maintain separate bank accounts which are not included in the City's financial records. These are not separate non-profit corporations, but are departments established by a City ordinance. Chapter 384.20 of the Iowa Code states in part, "A City shall keep accounts which show an accurate and detailed statement of all public funds collected, received, or expended for any city purpose, by any city officer, employee or other person, and which show the receipt, use, and disposition of all city property. Public moneys may not be expended or encumbered except under an annual or continuing appropriation."

Recommendation – These funds should be included in the City's financial records and any disbursements should be budgeted and properly supported by adequate documentation of public purpose.

Response – We will add the smaller departments to our financial records in the future and recommend that the fire department organize their own non-profit corporation to record their fund raising activities.

Conclusion – Response accepted.

Part II: Other Findings Related to Statutory Reporting:

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

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

Response – The budget was amended, but we will make sure it is amended in Sufficient amounts in the future, if applicable.

Conclusion – Response accepted.

II-B-13 Questionable Disbursements – There was one disbursement we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 since the public benefits to be derived have not been clearly documented. This disbursement is detailed below:

Paid to	Purpose	Amount
The Bowling Alley	Meals for annual meeting	$424

According to the opinion, it is possible for such disbursements to meet the test of serving a public purpose under certain circumstances, although such items will certainly be subject to a deserved close scrutiny. The line to be drawn between a proper and an improper purpose is very thin.

Recommendation – The City Council should determine and document the public purpose served by these disbursements before authorizing any further payments. If this practice is continued, the City should establish written policies and procedures, including the requirements for proper documentation.

Response – We will comply with this recommendation.

Conclusion – Response accepted.

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

II-D-13 Business Transactions –No business transactions between the City and City officials or employees were noted.

II- E-13 Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage is reviewed annually to insure that coverage is adequate for current operations.

II-F-13 Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not.

II-G-13 Deposits and Investments - 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 Bond and Notes - The City's water system did not maintain net revenues of 110% of the principal and interest due on the water revenue bond as stated in the loan agreement.

Recommendation – City officials should review this to make insure they are in compliance with their loan agreement.

Response – We are reviewing this. We are considering performing a rate study to make sure we have adequate income to meet our bond resolution.

Conclusion – Response accepted.

II-I-13 Financial Condition – The Debt Service Fund, and the unassigned General Fund balance had deficit balances of $2,311, and $31,369 respectively at June 30, 2013.

Recommendation – The City should investigate alternatives to return these funds to a sound financial position.

Response – See footnote #9 in notes to the financial statements for an explanation how the City intends to eliminate these deficits.

Conclusion – Response accepted.

II-J-13 Local Option Sales Tax – Although the City had properly adopted a resolution allocating 20% of the proceeds towards property tax relief, we could not determine if this percentage was allocated in this manner in the current fiscal year.

Recommendation – City personnel should review their procedures to insure this requirement is met.

Response – This was an oversight this year due to the change in accounting software and city clerks. We will keep track of this in the future.

Conclusion – Response accepted.