



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE _____

July 5, 2011

Contact: Andy Nielsen
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Auditor of State David A. Vaudt today released an audit report on the City of Olin, Iowa.

The City's receipts totaled \$2,869,709 for the year ended June 30, 2010. The receipts included \$271,748 from charges for service, \$255,115 from operating grants, contributions and restricted interest, \$349,876 from capital grants, contributions and restricted interest, \$126,360 from property tax, \$53,823 from local option sales tax, \$853 from unrestricted interest on investments, \$9,467 from other general receipts and \$1,802,467 from bond, note and loan proceeds.

Disbursements for the year totaled \$2,972,863, and included \$324,965 for public safety, \$151,755 for debt service and \$134,575 for public works. Also, disbursements for business type activities totaled \$2,216,191.

A copy of the audit report is available for review in the City Clerk's office, in the Office of Auditor of State and on the Auditor of State's web site at <http://auditor.iowa.gov/reports/1022-0497-B00F.pdf>.

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CITY OF OLIN

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

JUNE 30, 2010

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City of Olin

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January 2010)		
Greg Gerdes	Mayor	Jan 2010
Frank Wood	Mayor Pro tem	Jan 2010
Brett D. Anderson	Council Member	(Resigned November 2009)
Jan Sweet (Appointed November 2009)	Council Member	Nov 2009
Zach Borst	Council Member	Jan 2010
Michael Greene	Council Member	Jan 2012
Robyn Strawn	Council Member	Jan 2012
Jean McPherson	City Clerk	Indefinite
Adrian Knuth	Attorney	Indefinite
(After January 2010)		
Greg Gerdes	Mayor	Jan 2012
Zach Borst	Mayor Pro tem	Jan 2014
Michael Greene	Council Member	Jan 2012
Robyn Strawn	Council Member	Jan 2012
Jan Sweet	Council Member	(Resigned March 2010)
Ron Zimmerman (Appointed March 2010)	Council Member	Nov 2013
David Cavey	Council Member	Jan 2014
Jean McPherson	City Clerk	Indefinite
Adrian Knuth	Attorney	Indefinite

City of Olin



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Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

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 Olin, Iowa, as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Olin's management. Our responsibility is to express opinions on these financial statements based on our audit.

Except as discussed in the following paragraph, 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles. 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 total fund balance at July 1, 2009.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2009, as discussed in the preceding 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 Olin as of June 30, 2010, 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.

The City's General Fund had a deficit of \$157,186 at June 30, 2010, a decrease in fund balance of \$175,101 during the four year period since the City was last audited for the year ended June 30, 2006. The deficit is approximately 52% of the City's recurring General Fund receipts of \$303,039 during the year ended June 30, 2010. The City has stated it would investigate alternatives to eliminate this deficit.

In accordance with Government Auditing Standards, we have also issued our report dated June 13, 2011 on our consideration of the City of Olin'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 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 and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 12 and 28 through 30 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Olin's basic financial statements. Other 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. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2009, as discussed in the third paragraph, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

June 13, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Olin 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, 2010. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

Because the City is not required to be audited annually, much of the information is not easily comparable to prior years. Comparative data has been provided if available.

2010 FINANCIAL HIGHLIGHTS

- The cash basis net assets of the City's governmental activities decreased approximately \$13,500, due primarily to disbursements exceeding receipts in several governmental funds.
- The cash basis net assets of the City's business type activities decreased 56.3%, or approximately \$89,600.

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 Assets. 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 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 Assets reports information which helps answer this question.

The Statement of Activities and Net Assets 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 Assets 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 and debt service. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the water and sewer systems. 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 Local Option Sales Tax and Emergency Management, and 3) the Debt Service Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

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

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

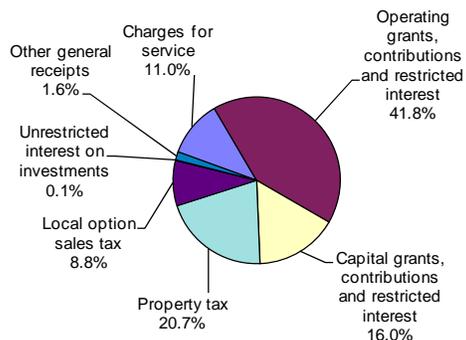
The required financial statement for proprietary funds is a statement of cash receipts, disbursements and changes in cash balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

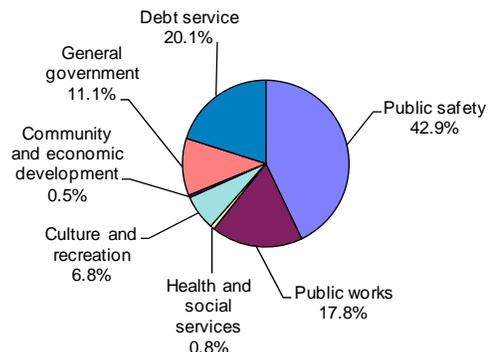
Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased from a year ago, decreasing from \$11,065 to a deficit of \$2,453. The analysis that follows focuses on the changes in cash basis net assets of governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities	
	Year ended June 30, 2010
Receipts:	
Program receipts:	
Charges for service	\$ 67,188
Operating grants, contributions and restricted interest	255,115
Capital grants, contributions and restricted interest	97,593
General receipts:	
Property tax	126,360
Local option sales tax	53,823
Unrestricted interest on investments	853
Other general receipts	9,467
Total receipts	<u>610,399</u>
Disbursements:	
Public safety	324,965
Public works	134,575
Health and social services	6,348
Culture and recreation	51,707
Community and economic development	3,520
General government	83,802
Debt service	151,755
Total disbursements	<u>756,672</u>
Change in cash basis net assets before transfers	(146,273)
Transfers, net	<u>132,755</u>
Change in cash basis net assets	(13,518)
Cash basis net assets beginning of year	<u>11,065</u>
Cash basis net assets end of year	<u>\$ (2,453)</u>

Receipts by Source



Disbursements by Function



The cash basis net assets for the City's governmental funds decreased primarily due to disbursements and transfers out exceeding receipts in several funds.

<u>Changes in Cash Basis Net Assets of Business Type Activities</u>	
	<u>Year ended June 30, 2010</u>
Receipts:	
Program receipts:	
Charges for service:	
Water	\$ 76,844
Sewer	127,716
Capital grants, contributions and restricted interest	252,283
General receipts:	
Bond, note and loan proceeds	1,802,467
Total receipts	<u>2,259,310</u>
Disbursements:	
Water	65,004
Sewer	2,151,187
Total disbursements	<u>2,216,191</u>
Change in cash basis net assets before transfers	43,119
Transfers, net	<u>(132,755)</u>
Change in cash basis net assets	(89,636)
Cash basis net assets beginning of year	<u>159,230</u>
Cash basis net assets end of year	<u>\$ 69,594</u>

The cash basis net assets of the City's business type activities decreased approximately \$89,600, or 56.3%. The decrease in net assets is due primarily to disbursements associated with the municipal sewer project and the related debt.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Olin completed the year, its governmental funds reported a combined fund balance of \$(2,453), a decrease of \$13,518 from last year's total of \$11,065. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance increased \$77,596 over the prior year to (\$157,186). The increase is, in part, due a transfer from the Special Revenue, Local Option Sales Tax Fund.
- The Special Revenue, Local Option Sales Tax Fund cash balance decreased \$75,477 to \$196,614 during the fiscal year. The decrease was due to a transfer to the General Fund during the year.
- The Special Revenue, Emergency Management Fund cash balance decreased \$13,524 to \$26,648. This decrease is due to disbursements exceeding receipts for the year.
- The Debt Service Fund cash balance decreased \$6,258 to \$(69,236) during the fiscal year. The decrease is primarily due to principal and interest payments exceeding property tax and transfers in from the Enterprise, Sewer Fund. Also, the City did not levy a debt service levy in fiscal year 2010 or transfer funds from the Enterprise, Sewer Fund to cover the \$15,876 of principal, interest and fees due on the 2009 general obligation sewer improvement bonds.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance increased \$11,840 to \$79,470, due primarily to reduced spending.
- The Sewer Fund cash balance decreased \$101,476 to \$(9,876), due primarily to disbursements for the municipal sewer project.

BUDGETARY HIGHLIGHTS

Total receipts were \$1,655,910 less than budgeted, primarily due to the City budgeting state revolving loan proceeds as an “Intergovernmental” receipt. These proceeds represent an “other financing source” to the City and are reflected as such in the Budgetary Comparison Schedule.

Total disbursements were \$269,510 more than budgeted. Disbursements in the public safety function were \$214,754 more than budgeted, primarily due to the City not budgeting for activity for the Olin Hose Company, a separately maintained account, and unexpected costs related to cleanup from the 2008 flood buyout program. Disbursements in the capital projects function were approximately \$2.2 million less than budgeted while disbursements in the business type activities function were approximately \$2.1 million greater than budgeted. The City budgeted the municipal sewer project in the capital projects function, a governmental activities function. However, payments on the project were made from and recorded in the Enterprise, Sewer Fund, which may only report disbursements in the business type activities function.

Over the course of the year, the City did not amend its budget. During the year ended June 30, 2010, disbursements exceeded the amounts budgeted in the public safety, public works, health and social services, culture and recreation, general government, debt service and business type activities functions.

DEBT ADMINISTRATION

At June 30, 2010, the City had \$2,525,572 in long-term debt outstanding, compared to \$1,212,105 outstanding at June 30, 2009. The table below segregates the City’s debt into its component parts.

	Outstanding Debt at Year-End	
	June 30,	
	2010	2009
General obligation note	\$ 110,686	110,686
General obligation bonds	190,886	-
Revenue notes	117,000	375,000
Revenue bonds	2,107,000	726,419
Total	\$ 2,525,572	1,212,105

Debt increased as a result of issuing general obligation and revenue bonds/notes for sewer improvements.

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 \$301,572 is significantly below its constitutional debt limit of approximately \$1,136,000.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City of Olin's elected and appointed officials and citizens considered many factors when setting the fiscal year 2011 tax rates and fees charged for various City activities.

The fiscal year 2011 budget contains receipts totaling \$1,464,832 and disbursements totaling \$1,462,338. The budgeted cash balance is expected to increase \$2,494 to \$53,327.

The fiscal year 2011 levy is \$12.87473 per \$1,000 of taxable valuation, an increase of \$1.78641 per \$1,000 of taxable valuation over fiscal year 2010. The City levied the amounts necessary for insurance, totaling approximately \$8,500, and other employee benefits, totaling approximately \$11,500.

The City applied for Community Development Block Grant (CDBG) program funding totaling approximately \$226,000 for housing rehabilitation improvements. The grant was awarded in June 2009. An outside administrator was hired to administer the grant. However, due to low staffing and inexperience, the project moved slowly. Funding has not been received as of April 2011. The process is moving and a small portion will be received in fiscal year 2011 with the majority taking place in fiscal year 2012.

Due to flooding in 2008, the City applied for another CDBG grant for funding the acquisition and demolition of properties with recurring flooding. To date, funding has not been received. A portion is expected to be received during fiscal year 2011 with the majority to conclude in fiscal year 2012.

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 Jean McPherson, City Clerk, PO Box 301, 303 Jackson Street, Olin, Iowa 52320-0301.

Basic Financial Statements

City of Olin

Statement of Activities and Net Assets – Cash Basis

As of and for the year ended June 30, 2010

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions/Programs:				
Governmental activities:				
Public safety	\$ 324,965	21,663	160,463	97,593
Public works	134,575	39,174	66,851	-
Health and social services	6,348	-	-	-
Culture and recreation	51,707	1,539	27,801	-
Community and economic development	3,520	-	-	-
General government	83,802	4,812	-	-
Debt service	151,755	-	-	-
Total governmental activities	756,672	67,188	255,115	97,593
Business type activities:				
Water	65,004	76,844	-	-
Sewer	2,151,187	127,716	-	252,283
Total business type activities	2,216,191	204,560	-	252,283
Total	\$ 2,972,863	271,748	255,115	349,876
General Receipts and Transfers:				
Property and other city tax levied for:				
General purposes				
Debt service				
Local option sales tax				
Unrestricted interest on investments				
Bond, note and loan proceeds				
Miscellaneous				
Transfers				
Total general receipts and transfers				
Change in cash basis net assets				
Cash basis net assets beginning of year				
Cash basis net assets end of year				
Cash Basis Net Assets				
Restricted:				
Customer deposits				
Debt service				
Infrastructure and economic development				
Other purposes				
Unrestricted				
Total cash basis net assets				

See notes to financial statements.

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
Governmental Activities	Business Type Activities	Total
(45,246)	-	(45,246)
(28,550)	-	(28,550)
(6,348)	-	(6,348)
(22,367)	-	(22,367)
(3,520)	-	(3,520)
(78,990)	-	(78,990)
(151,755)	-	(151,755)
(336,776)	-	(336,776)
-	11,840	11,840
-	(1,771,188)	(1,771,188)
-	(1,759,348)	(1,759,348)
(336,776)	(1,759,348)	(2,096,124)
113,618	-	113,618
12,742	-	12,742
53,823	-	53,823
853	-	853
-	1,802,467	1,802,467
9,467	-	9,467
132,755	(132,755)	-
323,258	1,669,712	1,992,970
(13,518)	(89,636)	(103,154)
11,065	159,230	170,295
\$ (2,453)	69,594	67,141
\$ -	4,528	4,528
-	12,800	12,800
196,614	-	196,614
27,355	-	27,355
(226,422)	52,266	(174,156)
\$ (2,453)	69,594	67,141

City of Olin

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

As of and for the year ended June 30, 2010

	General	Special Revenue	
		Local Option Sales Tax	Emergency Management
Receipts:			
Property tax	\$ 96,567	-	-
Other city tax	3,873	53,823	-
Licenses and permits	3,676	-	-
Use of money and property	2,292	-	-
Intergovernmental	116,142	-	122,077
Charges for service	64,529	-	-
Miscellaneous	15,960	-	956
Total receipts	303,039	53,823	123,033
Disbursements:			
Operating:			
Public safety	66,398	-	136,557
Public works	62,075	-	-
Health and social services	6,348	-	-
Culture and recreation	42,590	-	-
Community and economic development	3,520	-	-
General government	76,219	-	-
Debt service	65,267	-	-
Total disbursements	322,417	-	136,557
Excess (deficiency) of receipts over (under) disbursements	(19,378)	53,823	(13,524)
Other financing sources (uses):			
Operating transfers in	194,567	-	-
Operating transfers out	(97,593)	(129,300)	-
Total other financing sources (uses)	96,974	(129,300)	-
Net change in cash balances	77,596	(75,477)	(13,524)
Cash balances beginning of year	(234,782)	272,091	40,172
Cash balances end of year	\$ (157,186)	196,614	26,648
Cash Basis Fund Balances			
Unreserved:			
General fund	\$ (157,186)	-	-
Special revenue funds	-	196,614	26,648
Debt service fund	-	-	-
Total cash basis fund balances	\$ (157,186)	196,614	26,648

See notes to financial statements.

Debt Service	Nonmajor	Total
12,252	12,665	121,484
490	513	58,699
-	-	3,676
-	-	2,292
-	72,540	310,759
-	-	64,529
-	32,044	48,960
12,742	117,762	610,399
-	122,010	324,965
-	72,500	134,575
-	-	6,348
-	9,117	51,707
-	-	3,520
-	7,583	83,802
86,488	-	151,755
86,488	211,210	756,672
(73,746)	(93,448)	(146,273)
67,488	97,593	359,648
-	-	(226,893)
67,488	97,593	132,755
(6,258)	4,145	(13,518)
(62,978)	(3,438)	11,065
(69,236)	707	(2,453)
-	-	(157,186)
-	707	223,969
(69,236)	-	(69,236)
(69,236)	707	(2,453)

City of Olin

City of Olin

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

As of and for the year ended June 30, 2010

	Enterprise		
	Water	Sewer	Total
Operating receipts:			
Charges for service	\$ 74,017	127,716	201,733
Miscellaneous	2,827	-	2,827
Total operating receipts	76,844	127,716	204,560
Operating disbursements:			
Business type activities	65,004	103,240	168,244
Excess of operating receipts over operating disbursements	11,840	24,476	36,316
Non-operating receipts (disbursements):			
Community development block grant	-	252,283	252,283
Bond, note and loan proceeds	-	1,802,467	1,802,467
Capital projects	-	(1,643,092)	(1,643,092)
Debt service	-	(404,855)	(404,855)
Total non-operating receipts (disbursements)	-	6,803	6,803
Excess of receipts over disbursements	11,840	31,279	43,119
Other financing uses:			
Operating transfers out	-	(132,755)	(132,755)
Net change in cash balances	11,840	(101,476)	(89,636)
Cash balances beginning of year	67,630	91,600	159,230
Cash balances end of year	\$ 79,470	(9,876)	69,594
Cash Basis Fund Balances			
Reserved for:			
Customer deposits	\$ 4,528	-	4,528
Debt service	-	12,800	12,800
Unreserved	74,942	(22,676)	52,266
Total cash basis fund balances	\$ 79,470	(9,876)	69,594

See notes to financial statements.

City of Olin

Notes to Financial Statements

June 30, 2010

(1) Summary of Significant Accounting Policies

The City of Olin is a political subdivision of the State of Iowa located in Jones County. It was first incorporated in 1835 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 and sewer utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Olin has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City. 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: Jones County Assessor's Conference Board, Jones County Emergency Management Commission and Jones County Joint E911 Service Board.

B. Basis of Presentation

Government-wide Financial Statement - The Statement of Activities and 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 service.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in the following categories:

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets not meeting the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

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

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

The City reports the following major governmental funds:

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

Special Revenue:

The Local Option Sales Tax Fund is used to account for the 40% of local option sales tax collections to be used for infrastructure improvements and the 20% of collections to be used for economic development, with the remaining 40% of collections to be used for property tax relief being accounted for in the General Fund.

The Emergency Management Fund is used to account for a federal emergency management (FEMA) grant provided to assist the City in repairing damage caused by the 2008 flood.

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

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 wastewater treatment and sanitary sewer system.

C. Measurement Focus and Basis of Accounting

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

Under the terms of grant agreements, the City 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.

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. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2010, disbursements exceeded the amounts budgeted in the public safety, public works, health and social services, culture and recreation, general government, debt service and business type activities functions.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2010 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 meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3, as amended by Statement No. 40.

(3) Notes Payable

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

Ending June 30,	General Obligation Note		Sewer Revenue Note		Revenue Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2011	\$ 18,474	5,834	9,000	7,271	44,000	63,191	71,474	76,296
2012	9,237	5,310	10,000	6,210	47,000	61,890	66,237	73,410
2013	9,237	4,764	10,000	5,635	48,000	60,480	67,237	70,879
2014	9,237	4,240	11,000	5,060	49,000	59,040	69,237	68,340
2015	9,237	3,708	11,000	4,428	51,000	57,570	71,237	65,706
2016 - 2020	55,264	10,580	66,000	11,672	280,000	263,910	401,264	286,162
2021 - 2025	-	-	-	-	329,000	219,090	329,000	219,090
2026 - 2030	-	-	-	-	388,000	166,260	388,000	166,260
2031 - 2035	-	-	-	-	453,000	104,370	453,000	104,370
2036 - 2039	-	-	-	-	418,000	31,890	418,000	31,890
Total	\$ 110,686	34,436	117,000	40,276	2,107,000	1,087,691	2,334,686	1,162,403

General Obligation Note

On March 1, 2002, the City issued a \$175,500 general obligation sewer improvement note to provide funds to pay the costs of financing the 2001 lift station replacement and sewer maintenance project. The note bears interest at 5.75% per annum and matures June 1, 2020. During fiscal year 2010, the City paid no principal on the note and paid \$3,124 interest on the note. The balance on the note at June 30, 2010 was \$110,686. On July 20, 2010, the City paid \$9,173 of principal and \$4,039 of interest on the note which was due in June 2010.

General Obligation Bonds

On December 30, 2009, the City entered into an agreement with the Iowa Finance Authority and the Iowa Department of Natural Resources for the issuance of up to \$350,000 of general obligation sewer improvement bonds with interest at 3% per annum. The agreement also requires the City to annually pay a .25% servicing fee on the outstanding principal balance. The bonds were issued pursuant to the provisions of Chapter 384.24A of the Code of Iowa to pay a portion of the costs of constructing improvements and extensions to the municipal sewer system. The City will draw down funds from the DNR upon request to reimburse the City for costs as they are incurred. At June 30, 2010, the City had drawn \$203,886 of the authorized amount. An initiation fee of \$3,500 (1% of the authorized borrowing for the general obligation bond) was charged by the Iowa Finance Authority. The total initiation fee was withheld from the first proceeds of the general obligation bond drawn by the City during the year ended June 30, 2010. A final repayment schedule has not been adopted. However, during the year ended June 30, 2010, the City paid principal of \$13,000 and interest of \$2,001 on the bonds under a preliminary repayment schedule. The balance on the bonds at June 30, 2010 was \$190,886.

Revenue Notes

On December 30, 2008, the City issued a \$375,000 sewer revenue loan agreement anticipation project note to provide funds to pay a portion of the costs of constructing improvements and extensions to the municipal sewer system. The note bears interest at 5.00% per annum and matured on September 1, 2009. During fiscal year 2010, the City paid principal of \$375,000 and interest of \$17,909 on the note, leaving no balance at June 30, 2010.

On May 4, 2010, the City issued an \$117,000 sewer revenue note to provide funds to pay a portion of the costs of constructing improvements and extensions to the municipal sewer system. The note bears interest at 5.75% per annum and matures on June 1, 2020. During fiscal year 2010, the City paid no principal or interest on the note.

Sewer Revenue Bonds

On May 6, 2009, the City entered into an agreement with the Iowa Finance Authority and the Iowa Department of Natural Resources for the issuance of a sewer revenue bond of up to \$1,800,000 with interest at 3.0% per annum. The agreement also requires the City to annually pay a .25% servicing fee on the outstanding principal balance. The bond was issued pursuant to the provisions of Chapters 384.24A and 384.83 of the Code of Iowa to pay the cost of constructing improvements and extensions to the municipal sewer system. The City will draw down funds from the DNR upon request to reimburse the City for costs as they are incurred. At June 30, 2010, the City had drawn down \$1,800,000 of the authorized amount. An initiation fee of \$18,000 (1% of the authorized borrowing for the sewer revenue bond) was charged by the Iowa Finance Authority. The total initiation fee was withheld from the first proceeds of the sewer revenue bond drawn by the City during the year ended June 30, 2009. During the year ended 2010, the City transferred \$67,488 from the Enterprise, Sewer Fund and paid principal of \$36,000, interest of \$26,988 and fees of \$4,500 on the bond. The balance on the bond at June 30, 2010 was \$1,764,000.

On December 9, 2009, the City entered into an agreement with the Iowa Finance Authority and the Iowa Department of Natural Resources for the issuance of a sewer revenue bond of up to \$350,000 with interest at 3.0% per annum. The agreement also requires the City to annually pay a .25% servicing fee on the outstanding principal balance. The bond was issued pursuant to the provisions of Chapters 384.24A and 384.83 of the Code of Iowa to pay the cost of constructing improvements and extensions to the municipal sewer system. The City will draw down funds from the DNR upon request to reimburse the City for costs as they are incurred. At June 30, 2010, the City had drawn \$350,000 of the authorized amount. An initiation fee of \$3,500 (1% of the authorized borrowing for the sewer revenue bond) was charged by the Iowa Finance Authority. The total initiation fee was withheld from the first proceeds of the sewer revenue bond drawn by the City during the year ended June 30, 2010. During the year ended June 30, 2010, the City paid principal of \$7,000 and interest of \$4,071 on the bond. The balance on the bond at June 30, 2010 was \$343,000.

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay the sewer revenue note and bonds. The note and bonds are payable solely from sewer customer net receipts. Current year principal and interest payments on the bonds required more than 100% of net receipts. The total amount of principal and interest remaining to be paid on the note and bonds at June 30, 2010 is \$3,351,967. For the current year, principal and interest paid and total customer net receipts were \$74,059 and \$24,476, respectively.

The resolutions providing for the issuance of the sewer revenue note and bonds issued under loan agreements between the City, the Iowa Finance Authority and the Iowa Department of Natural Resources include the following provisions:

- 1) The note and bonds will only be redeemed from the future earnings of the enterprise activity and the note/bond holder holds a lien on the future earnings of the funds.
- 2) Sufficient monthly transfers shall be made to a separate sewer revenue note/bond sinking account for the purpose of making the note/bond principal and interest payments when due.

- 3) User rates shall be established at a level which produces and maintains net revenues at a level not less than 110% of the amount of principal and interest on the note/bonds falling due in the same year.

The City has not established and made the required transfers to a sewer revenue note/bond sinking account as required. The City's net receipts for the year ended June 30, 2010 were less than the required 110% of note/bond principal and interest falling due during the year. During the year ended June 30, 2010, the City paid principal, interest and fees of \$9,552 on the May 6, 2009 revenue bond from the Debt Service Fund. As of June 30, 2010, the City recorded a corrective transfer from the Enterprise, Sewer Fund to the Debt Service Fund.

Bank Loan

On June 3, 2010, the City obtained a bank loan for \$65,000, with interest at 6% per annum, for cash flow purposes to help cover \$67,488 of principal, interest and fees on sewer revenue bonds due June 1, 2010. The bank loan matured on June 29, 2010. During the year ended June 30, 2010, the City paid \$65,000 of principal and \$267 of interest on the loan, leaving no balance at June 30, 2010. The City transferred \$65,267 from the Enterprise, Sewer Fund and paid the principal and interest from the General Fund rather than the Enterprise, Sewer Fund.

(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 4.30% of their annual covered salary and the City is required to contribute 6.65% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contribution to IPERS for the year ended June 30, 2010 was \$7,537, equal to the required contribution for the year.

(5) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation payable to employees at June 30, 2010, primarily relating to the General Fund, is \$3,500. This liability has been computed based on rates of pay in effect at June 30, 2010.

(6) Risk Management

The City is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in the year ended June 30, 2010.

(7) Deficit Balances

Deficit balances at June 30, 2010 were as follows:

<u>Fund</u>	<u>Amount</u>
General	\$ (157,186)
Special Revenue:	
Road Use Tax	(24,493)
Debt Service	(69,236)
Enterprise:	
Sewer	(9,876)

The General Fund deficit will be eliminated through spending cuts and future property tax collections.

The Special Revenue, Road Use Tax Fund deficit will be eliminated through future collections of road use tax from the State of Iowa and transfers from the Special Revenue, Local Option Sales Tax Fund.

The Debt Service Fund deficit is the result of general obligation and sewer revenue debt payments made in the prior and current fiscal years from the Debt Service Fund with no corresponding transfers from the Enterprise, Sewer Fund to cover the payments. The City will review current and past payments of principal, interest and fees on sewer and water general obligation and sewer revenue debt and make corrective transfers if the debt was incorrectly paid from the Debt Service Fund. The deficit will be eliminated through future transfers from the Enterprise, Sewer Fund.

The Enterprise, Sewer Fund deficit will be eliminated through future collections of sewer fees.

(8) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2010 are as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Special Revenue: Local Option Sales Tax	\$ 129,300
Special Revenue: Olin Hose Company	General	97,593
General	Enterprise: Sewer	65,267
Debt Service	Enterprise: Sewer	67,488
Total		<u>\$ 359,648</u>

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

(9) Operation and Maintenance Agreement for Water and Wastewater Treatment Facilities

On November 1, 2009, the City entered into a one-year agreement with Waste Management Services to provide all routine operation and maintenance of the City's water and wastewater treatment facilities on a seven day per week basis. Pursuant to the agreement, the City will pay \$1,500 per month for those services.

Required Supplementary Information

City of Olin

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, 2010

	Governmental Funds Actual	Proprietary Funds Actual	Total
Receipts:			
Property tax	\$ 121,484	-	121,484
Other city tax	58,699	-	58,699
Licenses and permits	3,676	-	3,676
Use of money and property	2,292	-	2,292
Intergovernmental	310,759	252,283	563,042
Charges for service	64,529	201,733	266,262
Miscellaneous	48,960	2,827	51,787
Total receipts	610,399	456,843	1,067,242
Disbursements:			
Public safety	324,965	-	324,965
Public works	134,575	-	134,575
Health and social services	6,348	-	6,348
Culture and recreation	51,707	-	51,707
Community and economic development	3,520	-	3,520
General government	83,802	-	83,802
Debt service	151,755	-	151,755
Capital projects	-	-	-
Business type activities	-	2,216,191	2,216,191
Total disbursements	756,672	2,216,191	2,972,863
Excess (deficiency) of receipts over (under) disbursements	(146,273)	(1,759,348)	(1,905,621)
Other financing sources, net	132,755	1,669,712	1,802,467
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(13,518)	(89,636)	(103,154)
Balances beginning of year	11,065	159,230	170,295
Balances end of year	\$ (2,453)	69,594	67,141

See accompanying independent auditor's report.

Original and Final Budget	Final to Total Variance
121,314	170
56,479	2,220
650	3,026
1,800	492
2,300,779	(1,737,737)
238,960	27,302
3,170	48,617
<u>2,723,152</u>	<u>(1,655,910)</u>
110,211	(214,754)
129,750	(4,825)
4,930	(1,418)
40,220	(11,487)
6,400	2,880
49,400	(34,402)
15,602	(136,153)
2,219,403	2,219,403
127,437	(2,088,754)
<u>2,703,353</u>	<u>(269,510)</u>
19,799	(1,925,420)
-	1,802,467
	-
19,799	(122,953)
65,185	105,110
<u>84,984</u>	<u>(17,843)</u>

City of Olin

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2010

The budgetary comparison is presented as Required Supplementary Information 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. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund and the Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. The City did not amend its budget during the year ended June 30, 2010.

During the year ended June 30, 2010, disbursements exceeded the amounts budgeted in the public safety, public works, health and social services, culture and recreation, general government, debt service and business type activities functions.

Other Supplementary Information

City of Olin

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

As of and for the year ended June 30, 2010

	Road Use Tax	Employee Benefits	Tax Increment Financing	Special Olin Hose Company
Receipts:				
Property tax	\$ -	12,665	-	-
Other city tax	-	513	-	-
Intergovernmental	66,851	-	-	-
Miscellaneous	-	-	-	24,081
Total receipts	<u>66,851</u>	<u>13,178</u>	<u>-</u>	<u>24,081</u>
Disbursements:				
Operating:				
Public safety	-	-	-	121,593
Public works	65,578	6,922	-	-
Culture and recreation	-	-	-	-
General government	-	7,583	-	-
Total disbursements	<u>65,578</u>	<u>14,505</u>	<u>-</u>	<u>121,593</u>
Excess (deficiency) of receipts over (under) disbursements	1,273	(1,327)	-	(97,512)
Other financing sources:				
Operating transfers in	-	-	-	97,593
Net change in cash balances	1,273	(1,327)	-	81
Cash balances beginning of year	<u>(25,766)</u>	<u>2,036</u>	<u>560</u>	<u>5,259</u>
Cash balances end of year	<u>\$ (24,493)</u>	<u>709</u>	<u>560</u>	<u>5,340</u>
Cash Basis Fund Balances				
Unreserved:				
Special revenue funds	<u>\$ (24,493)</u>	<u>709</u>	<u>560</u>	<u>5,340</u>

See accompanying independent auditor's report.

Revenue				
Olin Volunteer Ambulance	Olin Library Memorial	Friends of Olin Heritage Center	Olin Horizons	Total
-	-	-	-	12,665
-	-	-	-	513
-	-	-	5,689	72,540
60	1,237	3,736	2,930	32,044
60	1,237	3,736	8,619	117,762
417	-	-	-	122,010
-	-	-	-	72,500
-	767	1,635	6,715	9,117
-	-	-	-	7,583
417	767	1,635	6,715	211,210
(357)	470	2,101	1,904	(93,448)
-	-	-	-	97,593
(357)	470	2,101	1,904	4,145
1,473	1,138	3,559	8,303	(3,438)
1,116	1,608	-	5,660	707
1,116	1,608	5,660	10,207	707

City of Olin
Schedule of Indebtedness
Year ended June 30, 2010

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation note: Sewer improvement	Mar 1, 2002	5.75%	\$ 175,500
General obligation bonds: Sewer improvement	Dec 30, 2009	3.00%	* \$ 350,000
Revenue notes: Sewer revenue anticipation project note	Dec 30, 2008	5.00%	\$ 375,000
Sewer	May 4, 2010	5.75	117,000
Total			
Revenue bonds: Sewer	May 6, 2009	3.00%	* \$ 1,800,000
Sewer	Dec 9, 2009	3.00	* 350,000
Total			
Bank loan: Sewer improvement	Jun 3, 2010	6.00%	\$ 65,000

* The agreement also requires the City to annually pay a .25% servicing fee on the outstanding principal balance.

See accompanying independent auditor's report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
110,686	-	-	110,686	3,124
-	203,886	13,000	190,886	2,001
375,000	-	375,000	-	17,909
-	117,000	-	117,000	-
\$ 375,000	117,000	375,000	117,000	17,909
726,419	1,073,581	36,000	1,764,000	26,988
-	350,000	7,000	343,000	4,071
\$ 726,419	1,423,581	43,000	2,107,000	31,059
-	65,000	65,000	-	267

City of Olin
Bond and Note Maturities
June 30, 2010

Year Ending June 30,	General Obligation Note		Revenue Note		Sewer	
	Sewer Improvements		Sewer		Sewer	
	Issued Mar 1, 2002		Issued May 4, 2010		Issued May 6, 2009	
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount
2011	5.75%	\$ 18,474	5.75%	\$ 9,000	3.00%	\$ 37,000
2012	5.75	9,237	5.75	10,000	3.00	39,000
2013	5.75	9,237	5.75	10,000	3.00	40,000
2014	5.75	9,237	5.75	11,000	3.00	41,000
2015	5.75	9,237	5.75	11,000	3.00	43,000
2016	5.75	9,237	5.75	12,000	3.00	44,000
2017	5.75	9,237	5.75	13,000	3.00	45,000
2018	5.75	9,237	5.75	13,000	3.00	47,000
2019	5.75	9,237	5.75	14,000	3.00	48,000
2020	5.75	18,316	5.75	14,000	3.00	50,000
2021		-		-	3.00	52,000
2022		-		-	3.00	53,000
2023		-		-	3.00	55,000
2024		-		-	3.00	57,000
2025		-		-	3.00	59,000
2026		-		-	3.00	61,000
2027		-		-	3.00	63,000
2028		-		-	3.00	65,000
2029		-		-	3.00	67,000
2030		-		-	3.00	69,000
2031		-		-	3.00	71,000
2032		-		-	3.00	73,000
2033		-		-	3.00	76,000
2034		-		-	3.00	78,000
2035		-		-	3.00	81,000
2036		-		-	3.00	83,000
2037		-		-	3.00	86,000
2038		-		-	3.00	89,000
2039		-		-	3.00	92,000
Total		<u>\$ 110,686</u>		<u>\$ 117,000</u>		<u>\$ 1,764,000</u>

See accompanying independent auditor's report.

Revenue Bonds			
Sewer			
Issued Dec 9, 2009			
Interest			
Rates		Amount	Total
3.00%	\$	7,000	44,000
3.00		8,000	47,000
3.00		8,000	48,000
3.00		8,000	49,000
3.00		8,000	51,000
3.00		9,000	53,000
3.00		9,000	54,000
3.00		9,000	56,000
3.00		9,000	57,000
3.00		10,000	60,000
3.00		10,000	62,000
3.00		10,000	63,000
3.00		11,000	66,000
3.00		11,000	68,000
3.00		11,000	70,000
3.00		12,000	73,000
3.00		12,000	75,000
3.00		13,000	78,000
3.00		13,000	80,000
3.00		13,000	82,000
3.00		14,000	85,000
3.00		14,000	87,000
3.00		15,000	91,000
3.00		15,000	93,000
3.00		16,000	97,000
3.00		16,000	99,000
3.00		17,000	103,000
3.00		17,000	106,000
3.00		18,000	110,000
	\$	<u>343,000</u>	<u>2,107,000</u>

City of Olin



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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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 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 Olin, Iowa, as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated June 13, 2011. Our report on the financial statements, which were prepared in conformity with an other comprehensive basis of accounting, expressed qualified opinions since we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2009. Except as noted in the Independent Auditor's Report, 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Olin's internal control over financial reporting as a basis for designing our auditing procedures 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 Olin's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Olin's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control over financial reporting we consider to be material weaknesses and other deficiencies we consider to be 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 Olin's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in of the accompanying Schedule of Findings as items (A) through (D) to be material weaknesses.

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

Compliance and Other Matters

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

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2010 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 Olin's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the City's responses, we did not audit the City of Olin's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Olin and other parties to whom City of Olin may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Olin 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.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

June 13, 2011

City of Olin
Schedule of Findings
Year ended June 30, 2010

Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

- (A) 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. Generally, one person has control over each of the following areas for the City:
- (1) Cash – reconciling bank accounts, initiating cash receipt and disbursement transactions and handling and recording cash.
 - (2) Investments – investing, recording and custody.
 - (3) Long-term debt – recording and reconciling.
 - (4) Receipts – collecting, depositing, journalizing and posting.
 - (5) Utility receipts – billing, collecting, depositing, post and reconciling.
 - (6) Disbursements – purchasing, check signing, recording and reconciling.
 - (7) Payroll – preparing and distributing.
 - (8) Transfers – recording and reconciling.
 - (9) Financial reporting – preparing, reconciling and distributing.
 - (10) Accounting system – performing all general accounting functions, including journal entries, and having custody of City assets.
 - (11) Computer system – performing all general accounting functions and controlling all data input and output.

For the Olin Hose Company, Olin Volunteer Ambulance, Olin Library Memorial, Friends of Olin Heritage Center and Olin Horizons accounts, one individual has control over each of the following areas:

- (1) Cash – handling, reconciling and recording.
- (2) Receipts – collecting, depositing, posting and reconciling.
- (3) Disbursements – preparing, recording and reconciling.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available personnel, including elected officials. Evidence of review of reconciliations should be indicated by initials of the independent reviewer and the date of the review.

City of Olin

Schedule of Findings

Year ended June 30, 2010

Response – An Assistant Clerk is now in place and will be trained in all areas. She will be entering data into the system allowing the Clerk to review and verify that entries are correct. New procedures are being trained and the review process will begin by May 1, 2011.

Conclusion – Response accepted.

(B) Financial Reporting – During the audit, we identified the following material errors in the City's financial records. Adjustments were subsequently made by the City to properly report the amounts in the City's financial statements, as follows:

- A \$17,899 ACH withdrawal to the Iowa Finance Authority for principal, interest and fees on revenue bonds was incorrectly recorded as a receipt.
- ACH withdrawals totaling \$30,474 from the Enterprise, Sewer Fund for sewer revenue debt payments were not posted to the general ledger.
- A \$22,015 ACH receipt from the Iowa Finance Authority for a sewer revenue bond draw was not posted to the general ledger.
- The City incorrectly paid \$9,552 of revenue bond principal, interest and fees from the Debt Service Fund rather than from the Enterprise, Sewer Fund. As of June 30, 2010, the City recorded a corrective transfer from the Enterprise, Sewer Fund to the Debt Service Fund.
- \$65,000 of proceeds from a sewer improvement bank loan issued to provide funds to pay principal, interest and fees due on June 1, 2010 on a revenue bond were properly recorded in the Enterprise, Sewer Fund. However, repayment of the bank loan, including \$65,000 of principal and \$267 of interest, was incorrectly made from the General Fund rather than the Enterprise, Sewer Fund. As of June 30, 2010, the City recorded a corrective transfer from the Enterprise, Sewer Fund to the General Fund.

Recommendation – The City should implement procedures to ensure receipts and disbursements are properly recorded in the City's financial statements.

Response – New procedures are already in place to verify and reconcile with bank statements to the general ledger. Using electronic banking will allow the Clerk to verify, a minimum of once per week, any electronic transactions and document prior to bank statement receipt on first of following month.

Conclusion – Response acknowledged. The City should also establish procedures to ensure sewer loan and revenue bond principal, interest and fees are paid from the Enterprise, Sewer Fund.

City of Olin

Schedule of Findings

Year ended June 30, 2010

- (C) Monthly Bank Reconciliations – The cash and investment balances on the City’s general ledger balance sheet are not properly reconciled to the bank and investment balances monthly. Variances are not investigated and resolved timely by the City. Lists of outstanding checks are not prepared and retained monthly.

Recommendation – The City should ensure the bank and investment balances are reconciled monthly to the general ledger balance sheet and all variances are investigated and resolved in a timely manner. The City should prepare and retain monthly outstanding check listings.

Response – July and August 2010 book and bank balances have been reconciled. July through current will be presented to the Council at the May 9, 2011 Council meeting. From that point forward, the Council will receive the reconciliation reports monthly.

Conclusion – Response accepted.

- (D) Reconciliation of Utility Billings, Collections and Delinquencies – Utility billings, collections and delinquent accounts were not reconciled throughout the year.

Recommendation – Procedures should be established to reconcile utility billings, collections and delinquencies for each billing period. The Council or a Council-designated independent person should receive the reconciliation and monitor delinquencies.

Response – We have the spreadsheets and the procedures figured out to reconcile each month. The reconciliation for July 2010 through current will be completed and given to Council at the May 9th Council meeting.

Conclusion – Response accepted.

- (E) Computer Systems – During our review of internal control, the existing control activities in the City’s computer systems were evaluated in order to determine activities, from a control standpoint, were designed to provide reasonable assurance regarding the achievement of objectives in the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations. The following weaknesses in the City’s computer systems were noted:

The City does not have written policies for:

- Requiring staff to log off unattended computers.
- Requiring the maintenance of password privacy and confidentiality.
- Requiring passwords be changed at least every 60-90 days.
- Requiring password length of a minimum of 8 characters, including special characters.
- Requiring a lockout function for incorrectly entered passwords.
- Requiring backups be stored at an offsite location.

City of Olin

Schedule of Findings

Year ended June 30, 2010

- Proper disposal of sensitive media.
- Installing software from a vendor and ensuring only software licensed to the City is installed on computers.
- Running an anti-virus program on computers.
- Usage of the internet.
- Personal use of computer equipment and software.

Also, the City does not have a written disaster recovery plan and does not perform backups of its computer systems and information.

Recommendation – The City should develop written policies addressing the above items in order to improve the City’s control over computer systems. A written disaster recovery plan should be developed. At a minimum, the plan should identify a listing of computer equipment needed for temporary processing, extra stocks of paper supplies, such as checks, warrants, purchase orders, etc., and be located off-site. Additionally, copies of user documentation and the disaster recovery plan should be maintained at an off-site location. Also, the City should perform backups of the computer system daily, weekly and monthly. The backup tapes should be stored at an offsite location.

Response – City policies will be reviewed and revised as well as new policies will be created for all of the above items and included in employee handbook by June 30, 2011. A disaster recovery plan committee will be formed at the Council meeting scheduled for April 11, 2011 and a plan will be created and approved at the July 11, 2011 Council meeting.

Conclusion – Response accepted.

- (F) Accounting Policies and Procedures Manual – The City does not have an accounting policies and procedures manual.

Recommendation – An accounting policies and procedures manual should be developed to provide the following benefits:

- 1) Aid in training additional or replacement personnel.
- 2) Help achieve uniformity in accounting and in the application of policies and procedures.
- 3) Save supervisory time by recording decisions so they will not have to be made each time the same, or a similar, situation arises.

Response – Some accounting procedures are already documented. All procedures will be documented and an accounting manual will be created by June 30, 2011.

Conclusion – Response accepted.

City of Olin

Schedule of Findings

Year ended June 30, 2010

- (G) Charge Account – The City has a charge account for use by employees while on City business. The City has not adopted a formal policy to regulate the use of the charge account and to establish procedures for the proper accounting of the charge account.

Recommendation – The City should adopt a formal written policy regulating the use of the City's charge account. The policy, at a minimum, should address who is authorized to use the charge account and for what purposes, as well as the types of supporting documentation required to substantiate charges.

Response – A written policy will be created for Council review and approval at the May 9, 2011 Council meeting.

Conclusion – Response accepted.

- (H) Initial Listing – A listing of cash and checks received in the mail is not prepared.

Recommendation – A listing of all cash and receipts received in the mail should be prepared by a person other than accounting personnel. The listing should be compared to the receipt records by an independent person.

Response – Effective today, a list has been created of all receipts received. At least once per week, a comparison will be completed to verify accuracy.

Conclusion – Response accepted.

- (I) Olin Hose Company – The book and bank balances are not reconciled monthly. Also, prenumbered receipts were not issued for collections and invoices were not properly cancelled to prevent duplicate payment.

Recommendation – To improve financial accountability and control, monthly reconciliations of the book and bank balances should be prepared. The reconciliations should be reviewed monthly by an independent person. Prenumbered receipts should be issued at the time of collection to provide additional control over the proper collection and recording of all money. Invoices should be properly cancelled to prevent the possibility of duplicate payments.

Response – The Clerk will work with Treasurer of Olin Hose Company and share any additional techniques learned to make this an easier process for them. The Olin Hose Company has a numbered receipt book ready for any new receipts. This will be in place by May 31, 2011.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

City of Olin

Schedule of Findings

Year ended June 30, 2010

Findings Related to Required Statutory Reporting:

- (1) Certified Budget – Disbursements during the year ended June 30, 2010 exceeded the amounts budgeted in the public safety, public works, health and social services, culture and recreation, general government, debt service and business type activities 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 accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – The City understands the Code and should have followed the amendment procedures. Much closer attention will be paid to these balances and amendments will be made going forward.

Conclusion – Response accepted.

- (2) Questionable Disbursements – No disbursements we believe may not meet the requirement of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 were noted.
- (3) Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- (4) Business Transactions – No business transactions between the City and City officials or employees were noted.
- (5) Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure the coverage is adequate for current operations.
- (6) Council Minutes – Except as noted, no transactions were found which we believe should have been approved in the Council minutes but were not.

Although certain transfers were approved through the certified budget or Council resolutions, other transfers were not approved in the certified budget or minutes record.

Recommendation – The Council should ensure all transfers are approved through the certified budget, resolutions or minutes record.

Response – The Clerk will prepare the paperwork for all transfers for FY 2011 for the approval at the May 9, 2011 Council meeting. Procedures will be added to the accounting manual to require Council approval for all transfers.

Conclusion – Response accepted.

City of Olin

Schedule of Findings

Year ended June 30, 2010

- (7) Deposits and Investments – Except as noted, no instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City’s investment policy were noted.

Although the City has adopted an investment policy, Section 9 of the policy states the investment policy shall be reviewed every two years. The investment policy was adopted in 2001 and has not been reviewed as required.

Recommendation – The City should review the investment policy and take appropriate actions to review and update the policy, if necessary.

Response – The written investment policy will be ready for review and approval at the May 9, 2011 Council meeting.

Conclusion – Response accepted.

- (8) Revenue Note/Bonds – The following were noted:

(a) The City has not made the required transfers to a revenue note/bond sinking account as required by the note/bond resolutions.

(b) The City’s sewer revenue note/bond resolutions require the City to establish, impose, adjust and provide for the collection of rates to be charged to utility customers that produce net operating receipts equal to at least 110% of the principal and interest coming due in each fiscal year. The City’s fiscal year 2010 net sewer operating receipts of \$24,476 were less than 110% of the \$74,059 of sewer revenue bond principal and interest due during fiscal year 2010.

(c) The City’s sewer revenue note/bond resolutions require all principal and interest on the sewer revenue note/bonds be paid solely and only from net sewer receipts. During the year ended June 30, 2010, the City paid \$67,488 of principal, interest and fees on the revenue bonds from the Debt Service Fund. The City subsequently transferred \$57,936 from the Enterprise, Sewer Fund to the Debt Service Fund to reimburse the Debt Service Fund for a portion of these payments. The reimbursement was \$9,552 short of covering the entire revenue note/bond payments and, accordingly, the City is in violation of the revenue bond covenants. It is unclear why the revenue note/bond principal, interest and fees were initially paid from the Debt Service Fund rather than being paid directly from the Enterprise, Sewer Fund via a sinking account, as required. The City subsequently recorded a corrective transfer from the Enterprise, Sewer Fund to the Debt Service Fund.

Recommendation –

(a) The City should establish a sewer sinking account and make the necessary transfers as required by the note/bond resolutions.

(b) The City should review sewer rates and consult bond counsel to determine the disposition of this matter.

City of Olin

Schedule of Findings

Year ended June 30, 2010

- (c) Future revenue bonds, principal, interest and fees should be paid directly from the Enterprise, Sewer Sinking Fund (account) as required.

Response – The City will establish a sewer sinking fund account in the accounting system and create procedures for the accounting manual prior to April 30, 2011. A review of all transactions made regarding the payment of the revenue note/bonds will be corrected. This will be corrected and process in place by May 31, 2011.

Conclusion – Response accepted.

- (9) Financial Condition – At June 30, 2010, the General, Special Revenue, Road Use Tax, Debt Service and Enterprise, Sewer Funds had deficit balances of \$157,186, \$24,493, \$69,236 and \$9,876, respectively. See item (10) below for further discussion of the Debt Service Fund deficit.

Recommendation – The City should investigate alternatives to eliminate these deficits in order to ensure they return to a sound financial condition.

Response – The Finance Committee of Council Members and Clerk will set up a meeting to review and analyze issues and develop strategies for eliminating the deficits. A formal plan will be presented to Council at the June 13, 2011 Council Meeting.

Conclusion – Response accepted.

- (10) Debt Service Fund Deficit – The Debt Service Fund had a deficit balance of \$69,236 at June 30, 2010. While it is unclear how this deficit rose to this significant amount, below are items noted during the fiscal year 2010 audit which contributed to the deficit:

- a) In the fiscal year 2010 budget, the City levied a debt service levy of \$12,602 for the 2002 general obligation sewer improvement note. The budget also included \$3,000 to be “paid from funds other than current year property taxes”. During the year, the City paid \$3,191 of interest and fees due on the note from the Debt Service Fund and paid the remaining \$12,411 of principal, interest and fees due during the current fiscal year in July 2010. As no other funds were transferred to the Debt Service Fund to cover the \$3,000 intended to be paid from sources other than property tax, the Debt Service Fund deficit increased \$3,000.
- b) During the fiscal year ended June 30, 2010, the City issued \$350,000 of general obligation sewer improvement bonds and paid \$15,876 of principal, interest and fees coming due during the fiscal year from the Debt Service Fund. However, the City did not levy a debt service levy in fiscal year 2010 to cover the amounts coming due on these bonds during the year. Accordingly, these payments increased the Debt Service Fund deficit at June 30, 2010.

City of Olin

Schedule of Findings

Year ended June 30, 2010

c) As noted in (8)(c) above, the City paid \$67,488 of principal, interest and fees on the series 2009 sewer revenue bonds from the Debt Service Fund during the year ended June 30, 2010 and subsequently transferred \$57,936 from the Enterprise, Sewer Fund to the Debt Service Fund to reimburse a portion of the amount paid. The transfer was \$9,552 short of covering the total amount paid, thereby contributing to the Debt Service Fund deficit. As of June 30, 2010, the City recorded a corrective transfer of \$9,552 from the Enterprise, Sewer Fund to the Debt Service Fund to cover the shortage. However, we were unable to determine how much, if any, principal, interest and fees due on revenue debt were incorrectly paid by the Debt Service Fund prior to fiscal year 2010.

Recommendation – The City should consult bond counsel to determine the disposition of the above matters, including levying a future debt service levy to cover the shortages noted in (a) and (b). The City should also review the propriety of all payments made from the Debt Service Fund in years prior to fiscal year 2010 with bond counsel to identify and correct inappropriate payments, if any, made from the Debt Service Fund and insufficient debt service levies to cover appropriate payments.

Response – The wastewater treatment project was the first large project for which the City has incurred debt since the new City Clerk started. There was confusion as to which fund certain notes and bonds were to be paid from. That has since been cleared up and the debt service levy has been set for the fiscal years going forward. Funds will be allocated within the Enterprise, Sewer Fund for future payments on the revenue debt.

Conclusion – Response accepted.

(11) Records of Accounts – The Olin Library Memorial, Olin Volunteer Ambulance, Olin Hose Company, Friends of the Olin Heritage Center and Olin Horizons all maintain accounts separate from the City’s accounting records. The transactions and resulting balances of these accounts were not recorded in the City Clerk’s accounting records and were not reported to the City Council each month.

Recommendation – Chapter 384.20 of the Code of Iowa 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.” For better accountability, financial and budgetary control, the financial activity and balances of all City accounts should be included in the City’s accounting records, including budget reports, and should be reported to the City Council on a monthly basis.

Response – The City Clerk is working with the custodians of these accounts to receive copies of bank statements to be able to enter information into the accounting system to keep accurate balances in the system. All accounts will be reflected in reports to the City Council at the May 9, 2011 City Council meeting.

Conclusion – Response accepted.

City of Olin

Schedule of Findings

Year ended June 30, 2010

- (12) Mileage Reimbursement – Chapter 70A.9 of the Code of Iowa states, in part, “When a public officer or employee...is entitled to be paid for expenses in performing a public duty, a charge shall be made, allowed and paid for the use of an automobile, as determined by the local governing body, in an amount which may be the maximum allowable under federal internal revenue service rules per mile...”. City policy allows for mileage reimbursement at \$.395 per mile. During fiscal year 2010, employees were reimbursed \$.55 per mile, an amount in excess of the rate allowed by Chapter 70A.9 of the Code of Iowa (\$.50 per mile) for the period January 1, 2010 through June 30, 2010 and in excess of the reimbursement rate allowed by City policy.

Recommendation – Mileage rates should be paid in accordance with City policy and within the limits of Chapter 70A.9 of the Code of Iowa.

Response – The City Council has passed a resolution to amend the mileage rate to \$.50 per mile. There was previous discussion at a Council meeting regarding the change. However, the formal resolution process to approve the change did not occur.

Conclusion – Response accepted.

- (13) Cell Phone Allowance – The City provides a cell phone allowance to two employees for use of their personal cell phone while on City business under a nonaccountable plan. In accordance with Internal Revenue Service (IRS) guidelines, the employee must substantiate (account for) the difference between personal use and business use. If the use is not substantiated, the entire cell phone allowance is taxable to the employee and should be included in wages.

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

Response – The City will research this further to put in place the proper procedures to be in compliance with IRS guidelines.

Conclusion – Response accepted.

City of Olin

Staff

This audit was performed by:

Marlys K. Gaston, CPA, Manager
Daniel L. Grady, Senior Auditor
Jacqueline E. Gulick, Staff Auditor

A handwritten signature in black ink that reads "Andrew E. Nielsen". The signature is written in a cursive style with a large initial "A" and "N".

Andrew E. Nielsen, CPA
Deputy Auditor of State