



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE

July 17, 2012

Contact: Andy Nielsen
515/281-5834

Auditor of State David A. Vaudt today released an audit report on the City of Oakville, Iowa.

The City's receipts totaled \$3,245,594 for the year ended June 30, 2011, a 45% increase from the prior year. The receipts included \$54,436 in property tax, \$89,118 from charges for service, \$2,891,365 from operating grants, contributions and restricted interest, \$160,568 from capital grants, contributions and restricted interest, \$30,302 from local option sales tax, \$898 from unrestricted interest on investments and \$18,907 from other general receipts.

Disbursements for the year totaled \$3,351,673, a 30% increase from the prior year, and included \$2,892,891 for community and economic development, \$217,626 for capital projects and \$49,956 for general government. Also, disbursements for business type activities totaled \$100,370.

The significant increase in receipts and disbursements is due primarily to federal grants received and disbursed to assist with disaster recovery from the floods of 2008.

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/1122-0561-B00F.pdf>.

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CITY OF OAKVILLE

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

JUNE 30, 2011

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City of Oakville

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Benita Grooms	Mayor	Jan 2012
Daniel Crow	Mayor Pro tem	Jan 2014
Bill Freitag	Council Member	(Resigned)
Dale Whitaker (Appointed)	Council Member	Nov 2011
Teresa Jennings	Council Member	Jan 2012
Mary Lanz	Council Member	Jan 2014
Richard Petty	Council Member	Jan 2014
Linda Avery	Clerk/Treasurer	Indefinite
William Matthews	Attorney	Indefinite

City of Oakville



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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 Oakville, Iowa, as of and for the year ended June 30, 2011, 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 Oakville's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Oakville as of June 30, 2011, 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.

In accordance with Government Auditing Standards, we have also issued our report dated May 23, 2012 on our consideration of the City of Oakville'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 26 through 28 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 Oakville's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the year ended June 30, 2010 (which are not presented herein) and expressed unqualified opinions on those financial statements which were prepared in conformity with an other comprehensive basis of accounting. Other supplementary information included in Schedules 1 through 3, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, 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, 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

May 23, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Oakville 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, 2011. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2011 FINANCIAL HIGHLIGHTS

- The cash basis net assets of the City's governmental activities decreased approximately \$80,000, due primarily to the City receiving federal grant proceeds in fiscal year 2010 which were disbursed in fiscal year 2011.
- The cash basis net assets of the City's business type activities decreased approximately \$26,100, due primarily to the painting of a water tower in fiscal year 2011.

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 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.

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

Other Supplementary Information provides comparative information about the City's receipts and disbursements in the governmental funds and detailed information about the City's indebtedness. In addition, the Schedule of Expenditures of Federal Awards provides details of various federal programs benefiting the City.

BASIS OF ACCOUNTING

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, readers should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net 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, 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, Community Disaster and Drainage Funds, and 3) the Capital Projects Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

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

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

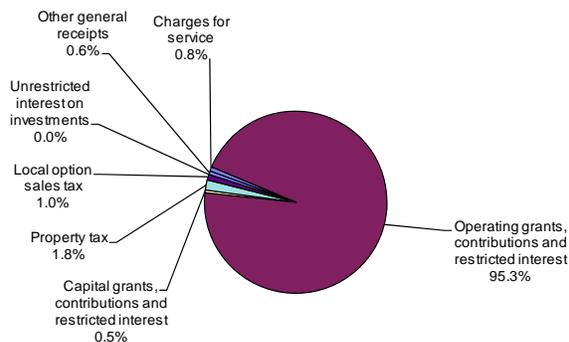
The required financial statement for proprietary funds is a statement of cash receipts, disbursements and changes in cash balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

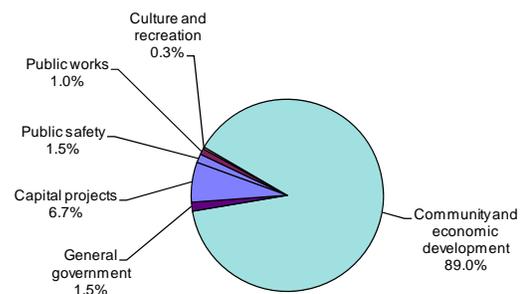
Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased from a year ago, decreasing from approximately \$389,000 to approximately \$309,000. The analysis that follows focuses on the changes in cash basis net assets of governmental activities.

	Changes in Cash Basis Net Assets of Governmental Activities	
	Year ended June 30,	
	2011	2010
Receipts:		
Program receipts:		
Charges for service	\$ 25	21
Operating grants, contributions and restricted interest	2,891	47
Capital grants, contributions and restricted interest	161	2,009
General receipts:		
Property tax	54	69
Local option sales tax	30	19
Unrestricted interest on investments	1	1
Other general receipts	19	8
Total receipts	<u>3,181</u>	<u>2,174</u>
Disbursements:		
Public safety	49	36
Public works	33	35
Culture and recreation	9	11
Community and economic development	2,893	272
General government	50	114
Capital projects	217	2,018
Total disbursements	<u>3,251</u>	<u>2,486</u>
Change in cash basis net assets before transfers	(70)	(312)
Transfers, net	(10)	-
Change in cash basis net assets	(80)	(312)
Cash basis net assets beginning of year	389	701
Cash basis net assets end of year	<u>\$ 309</u>	<u>389</u>

Receipts by Source



Disbursements by Function



The City's total receipts for governmental activities increased 46.3%, or approximately \$1,007,000. The total cost of all programs and services increased approximately \$765,000, or 30.8%. The significant increase in receipts was primarily the result of federal grant proceeds received.

The cost of all governmental activities this year was approximately \$3.25 million compared to approximately \$2.49 million last year. However, as shown in the Statement of Activities and Net Assets on pages 14-15, the amount taxpayers ultimately financed for these activities was approximately \$174,000 because some of the cost was paid by those directly benefited from the programs (approximately \$25,000) or by other governments and organizations which subsidized certain programs with grants, contributions and restricted interest (approximately \$3,052,000). Overall, the City's governmental activities program receipts, including intergovernmental aid and fees for service, increased in fiscal year 2011 from approximately \$2,077,000 to approximately \$3,077,000, principally due to receiving grant proceeds related to disaster recovery from the floods of 2008.

The decrease in cash basis net assets is due primarily to the City receiving federal grant proceeds in fiscal year 2010 which were disbursed in fiscal year 2011.

Changes in Cash Basis Net Assets of Business Type Activities		
(Expressed in Thousands)		
	Year ended June 30,	
	2011	2010
Receipts:		
Program receipts:		
Charges for service:		
Water	\$ 26	26
Sewer	38	33
General receipts:		
Intergovernmental	-	1
Unrestricted interest on investments	-	1
Total receipts	<u>64</u>	<u>61</u>
Disbursements:		
Water	49	29
Sewer	51	66
Total disbursements	<u>100</u>	<u>95</u>
Change in cash basis net assets before transfers	(36)	(34)
Transfers, net	10	-
Change in cash basis net assets	<u>(26)</u>	<u>(34)</u>
Cash basis net assets beginning of year	90	124
Cash basis net assets end of year	<u>\$ 64</u>	<u>90</u>

Total business type activities receipts for the fiscal year were approximately \$64,000 compared to approximately \$61,000 last year. The cash balance decreased 29% from a year ago, decreasing from approximately \$90,000 at June 30, 2010 to approximately \$64,000 at June 30, 2011. The decrease is due primarily to painting a water tower.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Oakville completed the year, its governmental funds reported a combined fund balance of approximately \$309,000, a decrease of approximately \$80,000 from last year's total of approximately \$389,000. 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 approximately \$7,000 from the prior year to a year-end balance of approximately \$76,000. This increase is due to the City incurring less FEMA-related disbursements in fiscal year 2011 than in fiscal year 2010.
- The Special Revenue, Road Use Tax Fund cash balance increased approximately \$12,000 to approximately \$122,000. This increase was due to road use tax collected not being entirely spent during the year.
- The Special Revenue, Community Disaster Fund cash balance decreased approximately \$3,000 to approximately \$51,000 during the fiscal year. The decrease was due to grant proceeds received in fiscal year 2010 which were disbursed in fiscal year 2011.
- The Capital Projects Fund cash balance decreased approximately \$100,000 to approximately \$45,000 during the fiscal year. The decrease was due to the disbursement of federal funds received for disaster recovery.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Enterprise, Water Fund cash balance decreased approximately \$24,000 to approximately \$28,000, due primarily to the painting of a water tower.
- The Enterprise, Sewer Fund cash balance decreased approximately \$2,000 to approximately \$36,000.

BUDGETARY HIGHLIGHTS

The City's receipts were approximately \$3,129,000 more than budgeted, primarily due to the City not budgeting for the receipt of \$2,806,685 of federal funds.

Total disbursements were \$3,168,088 more than budgeted. This was primarily due to the City not properly budgeting for state and federal grant proceeds which were disbursed. However, disbursements in the debt service function were \$18,395 less than budgeted because the City defaulted on the repayment of sewer revenue capital loan notes in fiscal year 2011.

DEBT ADMINISTRATION

On July 1, 2010, the City defaulted on the payment of \$28,925 of principal and interest on the sewer revenue capital loan notes issued August 1, 1996. The City owed \$446,710 of principal on the loan as of July 1, 2010. The City entered into a Workout Agreement (Agreement) with the U.S. Department of Agriculture on February 8, 2011. The Agreement allowed the City to work with Midwest Assistance Program to research alternatives for making debt service payments proportionate to the number of remaining customers and establish a financial tracking system. The Agreement established a deadline of June 30, 2011 for the City to complete these actions. The City did not complete these actions by June 30, 2011 and entered into a new Agreement on November 2, 2011. The new Agreement established a deadline of April 2, 2012 for the City to complete the listed actions.

For the current year, the City made a "good faith" payment of \$10,530 in June 2011 which the U.S. Department of Agriculture applied to interest owed.

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 does not have any debt that applies against its constitutional debt limit of approximately \$413,000.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City of Oakville's elected and appointed officials and citizens considered many factors when setting the fiscal year 2012 budget, tax rates and fees charged for various City activities. The City's fiscal year 2012 taxable property valuation has decreased approximately \$569,000 from fiscal year 2011.

The fiscal year 2012 budget contains total receipts of \$155,732 and disbursements of \$154,032. This budget is lower than the fiscal year 2011 budget which contained total disbursements of \$183,585. These budgets do not take into account several state and federal aid programs the City is receiving.

Under the budget, the levy for fiscal year 2012 will remain at \$8.10 per \$1,000 of taxable property valuation. The debt service levy also remained the same at \$3.00375 per \$1,000 of taxable property valuation for 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 Linda Avery, City Clerk, P.O. Box 116, Oakville, IA 52646.

Basic Financial Statements

City of Oakville

Statement of Activities and Net Assets – Cash Basis

As of and for the year ended June 30, 2011

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions/Programs:				
Governmental activities:				
Public safety	\$ 48,644	-	-	-
Public works	32,939	11,304	33,035	-
Culture and recreation	9,247	625	50,000	-
Community and economic development	2,892,891	4,400	2,808,330	-
General government	49,956	9,065	-	-
Capital projects	217,626	-	-	160,568
Total governmental activities	3,251,303	25,394	2,891,365	160,568
Business type activities:				
Water	49,464	25,860	-	-
Sewer	50,906	37,864	-	-
Total business type activities	100,370	63,724	-	-
Total	\$ 3,351,673	89,118	2,891,365	160,568

General Receipts and Transfers:

Property and other city tax levied for general purposes

Local option sales tax

Unrestricted interest on investments

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:

 Fire department

 Streets

 Capital projects

 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
(48,644)	-	(48,644)
11,400	-	11,400
41,378	-	41,378
(80,161)	-	(80,161)
(40,891)	-	(40,891)
(57,058)	-	(57,058)
(173,976)	-	(173,976)
-	(23,604)	(23,604)
-	(13,042)	(13,042)
-	(36,646)	(36,646)
(173,976)	(36,646)	(210,622)
54,436	-	54,436
30,302	-	30,302
752	146	898
18,907	-	18,907
(10,394)	10,394	-
94,003	10,540	104,543
(79,973)	(26,106)	(106,079)
389,255	89,855	479,110
\$ 309,282	63,749	373,031
\$ 18,974	-	18,974
122,139	-	122,139
45,254	-	45,254
65,404	-	65,404
57,511	63,749	121,260
\$ 309,282	63,749	373,031

City of Oakville

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

As of and for the year ended June 30, 2011

	Special Revenue			
	General	Road Use Tax	Community Disaster	Nonmajor Drainage
Receipts:				
Property tax	\$ 54,436	-	-	-
Other city tax	30,302	-	-	-
Licenses and permits	30	-	-	-
Use of money and property	1,430	-	4,400	20
Intergovernmental	50,000	29,649	2,806,685	3,366
Charges for service	11,251	-	-	-
Miscellaneous	27,942	-	1,645	-
Total receipts	175,391	29,649	2,812,730	3,386
Disbursements:				
Operating:				
Public safety	48,644	-	-	-
Public works	15,705	17,234	-	-
Culture and recreation	9,247	-	-	-
Community and economic development	50,212	-	2,842,679	-
General government	49,956	-	-	-
Capital projects	-	-	-	-
Total disbursements	173,764	17,234	2,842,679	-
Excess (deficiency) of receipts over (under) disbursements	1,627	12,415	(29,949)	3,386
Other financing sources (uses):				
Operating transfers in	5,707	-	27,180	-
Operating transfers out	-	-	(394)	-
Total other financing sources (uses)	5,707	-	26,786	-
Net change in cash balances	7,334	12,415	(3,163)	3,386
Cash balances beginning of year	69,151	109,724	54,290	10,891
Cash balances end of year	\$ 76,485	122,139	51,127	14,277
Cash Basis Fund Balances				
Restricted for:				
Fire department	\$ 18,974	-	-	-
Streets	-	122,139	-	-
Capital projects	-	-	-	45,254
Other purposes	-	-	51,127	-
Unassigned	57,511	-	-	-
Total cash basis fund balances	\$ 76,485	122,139	51,127	45,254

See notes to financial statements.

Capital Projects	Total
-	54,436
-	30,302
-	30
-	5,850
160,568	3,050,268
-	11,251
-	29,587
<u>160,568</u>	<u>3,181,724</u>

-	48,644
-	32,939
-	9,247
-	2,892,891
-	49,956
<u>217,626</u>	<u>217,626</u>
<u>217,626</u>	<u>3,251,303</u>

<u>(57,058)</u>	<u>(69,579)</u>
-----------------	-----------------

-	32,887
<u>(42,887)</u>	<u>(43,281)</u>
<u>(42,887)</u>	<u>(10,394)</u>
(99,945)	(79,973)
<u>145,199</u>	<u>389,255</u>
<u>45,254</u>	<u>309,282</u>

-	18,974
-	122,139
14,277	45,254
-	65,404
-	57,511
<u>14,277</u>	<u>309,282</u>

Exhibit C

City of Oakville

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

As of and for the year ended June 30, 2011

	Enterprise		
	Water	Sewer	Total
Operating receipts:			
Charges for service	\$ 25,724	28,491	54,215
Miscellaneous	136	9,373	9,509
Total operating receipts	25,860	37,864	63,724
Operating disbursements:			
Business type activities	49,464	40,376	89,840
Deficiency of operating receipts under operating disbursements	(23,604)	(2,512)	(26,116)
Non-operating receipts (disbursements):			
Interest on investments	76	70	146
Debt service	-	(10,530)	(10,530)
Net non-operating receipts (disbursements)	76	(10,460)	(10,384)
Deficiency of receipts under disbursements	(23,528)	(12,972)	(36,500)
Other financing sources (uses):			
Operating transfers in	-	10,693	10,693
Operating transfers out	(299)	-	(299)
Total other financing sources (uses)	(299)	10,693	10,394
Net change in cash balances	(23,827)	(2,279)	(26,106)
Cash balances beginning of year	51,566	38,289	89,855
Cash balances end of year	\$ 27,739	36,010	63,749
Cash Basis Fund Balances			
Unrestricted	\$ 27,739	36,010	63,749

See notes to financial statements.

City of Oakville

Notes to Financial Statements

June 30, 2011

(1) Summary of Significant Accounting Policies

The City of Oakville is a political subdivision of the State of Iowa located in Louisa County. It was first incorporated in 1902 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, culture and recreation, community and economic development and general government services. The City also provides water and sewer utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Oakville 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: Louisa County Assessor's Conference Board, Louisa County Emergency Management Commission and Louisa County Joint E911 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 from general and emergency levies and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs not paid from other funds.

Special Revenue:

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

The Community Disaster Fund is used to account for state aid received for disaster recovery and its uses.

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

The City reports the following major proprietary funds:

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

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

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.

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:

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

Unassigned – All amounts not included in the preceding classification.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2011, disbursements exceeded the amounts budgeted in the public safety, public works, community and economic development, capital projects and business type activities functions.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2011 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) Long-Term Debt

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay \$522,000 of sewer revenue capital loan notes issued in August 1996. Proceeds from the notes provided financing for the establishment of a municipal sanitary sewer system. The notes are payable solely from sewer customer net receipts and are payable through 2037. Annual principal and interest payments on the notes are expected to require more than 100% of net receipts. The total principal and interest remaining to be paid on the notes is \$779,219. A final schedule of annual maturities is in the process of being established.

The resolution providing for the issuance of the notes includes the following provisions:

- a. The notes will only be redeemed from future earnings of the enterprise activity and the note holders hold a lien on future earnings of the funds.
- b. Sufficient monthly transfers shall be made to a separate sewer revenue note reserve account for the purpose of making the note principal and interest payments when due.
- c. An annual audit will be conducted at the end of each fiscal year.

The City had deficit net operating receipts of \$2,513 for the year ended June 30, 2011. Therefore, the earnings of the enterprise activity did not support the principal and interest paid. The City has not established the sewer revenue note reserve account in the amount required by the resolution.

On July 1, 2010, the City defaulted on the payment of \$28,925 of principal and interest on the sewer revenue capital loan notes issued August 1, 1996. The City owed \$446,710 of principal on the loan as of July 1, 2010. The City entered into a Workout Agreement (Agreement) with the U.S. Department of Agriculture on February 8, 2011. The Agreement allowed the City to work with Midwest Assistance Program to research alternatives for making debt service payments proportionate to the number of remaining customers and establish a financial tracking system. The Agreement established a deadline of June 30, 2011 for the City to complete these actions. The City did not complete these actions by June 30, 2011 and entered into a new Agreement on November 2, 2011. The new Agreement established a deadline of April 2, 2012 for the City to complete the listed actions. The City worked in conjunction with Midwest Assistance Program and met the April 2, 2012 deadline.

For the current year, the City made a "good faith" payment of \$10,530 in June 2011 which the U.S. Department of Agriculture applied to the interest owed.

(4) Community Disaster Loan

Community disaster loans are available through the Federal Emergency Management Agency to any local government or other eligible jurisdiction in a designated disaster area which has demonstrated a substantial tax loss and a need for financial assistance to perform its governmental functions. The City applied for and received a community disaster loan of up to \$51,588. During the year ended June 30, 2010, the City borrowed \$12,551 at 1.625% interest per annum. The outstanding balance of this loan was \$12,551 at June 30, 2011. When applicable, part or all of the loan may be canceled if it is determined the receipts of the applicant in the three fiscal years following the year of the disaster are insufficient to meet the operations budget because of disaster related receipt losses and unreimbursed disaster related disbursements. Therefore, a final debt repayment schedule has not yet been adopted and a final determination of whether part, or all, of the loan may be canceled has not been made.

(5) Pension and Retirement Benefits

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

Most regular plan members are required to contribute 4.50% of their annual covered salary and the City is required to contribute 6.95% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2011 and 2010 were \$2,518 and \$4,549, respectively, equal to the required contributions for each year.

(6) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2011 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Special Revenue:	
	Community Disaster	\$ 394
	Capital Projects	5,313
		<u>5,707</u>
Special Revenue:		
Community Disaster	Capital Projects	<u>27,180</u>
Enterprise:		
Sewer	Capital Projects	10,394
	Enterprise:	
	Water	299
		<u>10,693</u>
Total		<u>\$ 43,580</u>

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

(7) Risk Management

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

City of Oakville

Required Supplementary Information

City of Oakville
 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, 2011

	Governmental Funds Actual	Proprietary Funds Actual	Total
Receipts:			
Property tax	\$ 54,436	-	54,436
Other city tax	30,302	-	30,302
Licenses and permits	30	-	30
Use of money and property	5,850	146	5,996
Intergovernmental	3,050,268	-	3,050,268
Charges for service	11,251	54,215	65,466
Miscellaneous	29,587	9,509	39,096
Total receipts	<u>3,181,724</u>	<u>63,870</u>	<u>3,245,594</u>
Disbursements:			
Public safety	48,644	-	48,644
Public works	32,939	-	32,939
Culture and recreation	9,247	-	9,247
Community and economic development	2,892,891	-	2,892,891
General government	49,956	-	49,956
Debt service	-	10,530	10,530
Capital projects	217,626	-	217,626
Business type activities	-	89,840	89,840
Total disbursements	<u>3,251,303</u>	<u>100,370</u>	<u>3,351,673</u>
Deficiency of receipts under disbursements	(69,579)	(36,500)	(106,079)
Other financing sources, net	<u>(10,394)</u>	<u>10,394</u>	<u>-</u>
Deficiency of receipts and other financing sources under disbursements and other financing uses	(79,973)	(26,106)	(106,079)
Balances beginning of year	<u>389,255</u>	<u>89,855</u>	<u>479,110</u>
Balances end of year	<u>\$ 309,282</u>	<u>63,749</u>	<u>373,031</u>

See accompanying independent auditor's report.

Original and Final Budget	Final to Total Variance
50,027	4,409
18,669	11,633
110	(80)
2,800	3,196
39,193	3,011,075
-	65,466
6,000	33,096
<u>116,799</u>	<u>3,128,795</u>
32,105	(16,539)
19,624	(13,315)
11,150	1,903
-	(2,892,891)
52,381	2,425
28,925	18,395
-	(217,626)
39,400	(50,440)
<u>183,585</u>	<u>(3,168,088)</u>
(66,786)	(39,293)
-	-
(66,786)	(39,293)
<u>246,922</u>	<u>232,188</u>
<u>180,136</u>	<u>192,895</u>

City of Oakville

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2011

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 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 Capital Projects 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. The budget was not amended during the year.

During the year ended June 30, 2011, disbursements exceeded the amounts budgeted in the public safety, public works, community and economic development, capital projects and business type activities functions.

Other Supplementary Information

City of Oakville
Schedule of Indebtedness
Year ended June 30, 2011

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
Revenue notes: Sewer capital loan	Aug 1, 1996	4.50%	<u>\$ 522,000</u>

See accompanying independent auditor's report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
446,710	-	-	446,710	10,530

Schedule 2

City of Oakville

Schedule of Receipts by Source and Disbursement by Function -
All Governmental Funds

For the Last Two Years

	<u>2011</u>	<u>2010</u>
Receipts:		
Property tax	\$ 54,436	68,604
Other city tax	30,302	18,631
Licenses and permits	30	25
Use of money and property	5,850	2,703
Intergovernmental	3,050,268	2,056,481
Charges for service	11,251	9,144
Miscellaneous	29,587	18,989
Total	<u>\$ 3,181,724</u>	<u>2,174,577</u>
Disbursements:		
Operating:		
Public safety	\$ 48,644	36,226
Public works	32,939	34,402
Culture and recreation	9,247	10,573
Community and economic development	2,892,891	271,919
General government	49,956	114,379
Capital projects	217,626	2,018,284
Total	<u>\$ 3,251,303</u>	<u>2,485,783</u>

See accompanying independent auditor's report.

City of Oakville
 Schedule of Expenditures of Federal Awards
 Year ended June 30, 2011

Grantor/Program	CFDA Number	Agency Pass-through Number	Program Expenditures
Indirect:			
U.S. Department of Housing and Urban Development:			
Iowa Department of Economic Development:			
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	14.228	08-DRHB-228	<u>\$2,834,672</u>
U.S. Department of Homeland Security:			
Iowa Department of Public Defense:			
Iowa Homeland Security and Emergency Management Division:			
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	FEMA-1763-DR-IA	107,153
Hazard Mitigation Grant	97.039		<u>56,846</u>
			<u>163,999</u>
Total			<u>\$2,998,671</u>

Basis of Presentation – The Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Oakville and is presented in conformity with an other comprehensive basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

See accompanying independent auditor's report.

City of Oakville



OFFICE OF AUDITOR OF STATE
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David A. Vaudt, CPA
Auditor of State

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 Oakville, Iowa, as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated May 23, 2012. Our report expressed unqualified opinions on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. 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

Management of the City of Oakville is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City of Oakville'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 Oakville's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Oakville'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 and Questioned Costs, 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 Oakville's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in Part II of the accompanying Schedule of Findings and Questioned Costs as items II-A-11 through II-G-11 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 Part II of the accompanying Schedule of Findings and Questioned Costs as items II-H-11 through II-M-11 to be significant deficiencies.

Compliance and Other Matters

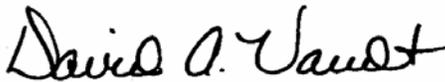
As part of obtaining reasonable assurance about whether the City of Oakville's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material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

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2011 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 Oakville's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the City's responses, we did not audit the City of Oakville'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 Oakville and other parties to whom the City of Oakville may report, including federal awarding agencies and pass-through entities, and 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 Oakville 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

May 23, 2012

**Independent Auditor's Report on Compliance
with Requirements That Could Have a Direct and Material Effect
on Each Major Program and on Internal Control over Compliance in Accordance
with OMB Circular A-133**

City of Oakville



OFFICE OF AUDITOR OF STATE
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Independent Auditor's Report on Compliance
with Requirements That Could Have a Direct and Material Effect
on Each Major Program and on Internal Control over Compliance in Accordance
with OMB Circular A-133

To the Honorable Mayor and
Members of the City Council:

Compliance

We have audited the City of Oakville, Iowa's compliance with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on the City of Oakville's major federal program for the year ended June 30, 2011. The City of Oakville's major federal program is identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to its major federal program is the responsibility of the City of Oakville's management. Our responsibility is to express an opinion on the City of Oakville's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Oakville's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Oakville's compliance with those requirements.

In our opinion, the City of Oakville complied, in all material respects, with the requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2011.

Internal Control Over Compliance

The management of the City of Oakville is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grant agreements applicable to federal programs. In planning and performing our audit, we considered the City of Oakville's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Oakville's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance 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 discussed below, we identified a deficiency in internal control over compliance we consider to be a material weakness and other deficiencies we consider to be significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance such that there is a reasonable possibility material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item III-A-11 to be a material weakness.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items III-B-11 and III-C-11 to be significant deficiencies.

The City of Oakville's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the City's responses, we did not audit the City of Oakville'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 Oakville and other parties to whom the City of Oakville may report, including federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

May 23, 2012

City of Oakville

Schedule of Findings and Questioned Costs

Year ended June 30, 2011

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

- (a) Unqualified opinions were issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
- (b) Significant deficiencies and material weaknesses in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) Significant deficiencies and a material weakness in internal control over the major program were disclosed by the audit of the financial statements.
- (e) An unqualified opinion was issued on compliance with requirements applicable to the major program.
- (f) The audit disclosed audit findings which are required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) The major program was CFDA Number 14.228 – Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii.
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) The City of Oakville did not qualify as a low-risk auditee.

City of Oakville

Schedule of Findings and Questioned Costs

Year ended June 30, 2011

Part II: Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

II-A-11 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. One person has control over each of the following areas:

- (1) Accounting system – record keeping for the receipt cycle, the disbursement cycle and reporting.
- (2) Cash – reconciling bank accounts, initiating cash receipt and disbursement transactions and handling and recording cash.
- (3) Investments – detailed record keeping, custody of investments and reconciling earnings.
- (4) Long-term debt – recording and reconciling.
- (5) Receipts – collecting, depositing, journalizing and posting.
- (6) Utility receipts – billing, collecting, depositing, posting and reconciling.
- (7) Disbursements – purchasing, check signing, recording and reconciling.
- (8) Payroll – preparing and distributing.
- (9) Transfers – preparing and approving.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the City should review its control activities 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 the signature or initials of the independent reviewer and the date of the review.

Response – Two Council members now voluntarily check the amounts of the checks written each month against the check registers including payroll activity, reconcile the bank statements and verify the check registers reconcile to the Clerk's report.

Conclusion – Response accepted.

II-B-11 Bank Reconciliations – The City Clerk's balances were not reconciled to the bank accounts and investments monthly. A listing of outstanding checks and deposits in transit was prepared each month, but the listing was not reviewed for propriety.

Recommendation – To improve financial accountability and control, the book and bank balances should be reconciled monthly and the reconciliations should be retained. Any variances should be investigated and resolved in a timely manner. In addition, the listing of outstanding checks and deposits in transit should be reviewed for propriety each month.

Response – Two Council members now voluntarily check the amounts of the checks written each month against the check registers, including payroll activity, reconcile the bank statements and verify the check registers reconcile to the Clerk's report.

Conclusion – Response accepted.

City of Oakville

Schedule of Findings and Questioned Costs

Year ended June 30, 2011

II-C-11 Accounting System – The City does not maintain a double entry general ledger system. Although the City maintains ledgers, the ledgers are not accurate and do not include all transactions.

Recommendation – The City should develop and maintain a double entry general ledger system to ensure all financial transactions are properly recorded.

Response – The Clerk currently maintains manual accounting records which are being converted to an electronic spreadsheet. The spreadsheet currently contains the manual ledger activity and a cumulative total of three individual fund ledgers for each month. The Clerk compares the cumulative totals to the check register for each fund.

Conclusion – Response acknowledged. However, the City should incorporate all funds into the general ledger system.

II-D-11 Separately Maintained Accounts – The Community Disaster account and Hazard Mitigation Grant Program (HMGP) account are under the custody and control of the City at City Hall. However, these accounts are not included with the remaining City accounts, are not budgeted for and are not included in the City’s monthly and annual financial reports.

The Fire Department account is under the custody and control of the volunteer fire fighters. The Fire Department is a department of the City and is not a legally separate entity. This account was not reflected in the City’s accounting system and has not been included in the City’s annual budget or monthly and annual financial reports.

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.”

The City should include the Community Disaster and HMGP accounts in the City’s ledgers, monthly reports and annual financial reports. Internal control should be strengthened and operating efficiency could be increased by integrating the Fire Department account receipts and disbursements with the City’s accounting records in the City Clerk’s office. The City should review this and consider combining this account with the City Clerk’s records.

Response – The Fire Department account is comprised of donations from citizens. It is not currently recorded in the City’s accounting records. The Clerk has presented this situation to the Fire Chief on numerous occasions requesting he change the status of the account to non-profit so it will no longer be reviewed with the City records.

Conclusion – Response acknowledged. As previously stated, the City should include the Community Disaster and HMGP accounts in the City’s ledgers, monthly reports and annual financial reports. In addition, changing the Fire Department account to non-profit status would not necessarily prevent the account from being subject to review. The City should work with the Fire Chief to ensure all Fire Department activity is properly accounted for and included in the City’s financial reports.

City of Oakville

Schedule of Findings and Questioned Costs

Year ended June 30, 2011

II-E-11 Local Option Sales Tax – City Resolution FY07-1 provides for 50% of local option sales tax collections to fund community capital improvements and 50% is to help fund the new county jail. The City overpaid the County \$450. Currently, local option sales tax collections are credited to the General Fund. In addition, local option sales tax disbursements are not monitored or separately identified to determine if the disbursements comply with City Resolution FY07-1.

Recommendation – The City should establish a Special Revenue Fund to account for local option sales tax receipts and disbursements and ensure disbursements comply with the City resolution. The City should develop procedures to ensure the correct amount is paid to the County.

Response – The Clerk maintains a separate ledger for this account and will include this as a Special Revenue Fund in the current budget at the end of the year.

Conclusion – Response accepted.

II-F-11 Reconciliation of Utility Billings, Collections and Delinquent Accounts – Utility billings, collections and delinquent accounts were not reconciled.

In addition, the City was unable to locate the current refuse collection rates. The City charges senior citizens \$13 instead of \$14 for refuse collection, but the reduced rate is not provided for in the ordinance.

Also, the late payment fee is not consistently applied in accordance with City ordinance and no records are maintained for utility deposits paid by customers when water service is initiated.

Recommendation – Procedures should be established to reconcile utility billings, collections and delinquent accounts. The City Council should review the reconciliation and monitor delinquent accounts. In addition, the City should maintain current City ordinances, consistently apply them and maintain a record of utility deposits.

Response – Utility billings are currently done manually. However, the Clerk has developed a spreadsheet to record collections. The City is working toward an electronic billing process which will incorporate delinquencies, meter installation dates and deposit records. At the end of the month, a report will be generated and presented to the City Council detailing the delinquent accounts and an aging of outstanding balances.

Refuse collection rates are set by the contracted vendor. Therefore, the City did not include an ordinance for these rates. The contracted vendor does have a provision allowing a discount to senior citizens of \$1 per household.

Conclusion – Response acknowledged. The City Council should ensure the contract with the vendor specifies the refuse collections rates and any special provisions. In addition, the contract should be reviewed and approved by the City Council on a periodic basis and a copy should be retained by the City.

II-G-11 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

City of Oakville

Schedule of Findings and Questioned Costs

Year ended June 30, 2011

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 password changes every 60 to 90 days to maintain password privacy and confidentiality.
- Restricting access to computer systems through the use of unique user IDs.
- Requiring password length to be at least 8 characters.
- Requiring computers to have a log off function when not in use.
- Requiring a computer lockout function if passwords are incorrectly entered more than three times.
- Personal use of computer equipment.
- Use of the internet.

Also, the City does not have a policy for and does not backup computer files.

Recommendation – The City should develop written policies addressing the above items in order to improve the City's control over its computer systems.

Response – The Clerk is incorporating security measures within the policy manual. In addition, the Clerk changes her password every quarter and the computers lock after thirty minutes.

Conclusion – Response accepted.

II-H-11 Accounting Procedures Manual – We encourage the development of office procedures and standardized accounting manuals for the City. In addition, we encourage obtaining or developing user manuals/help guides for the accounting records the City utilizes. These manuals and guides should 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 similar, situation arises.
- (4) Improve the efficiency and understanding of steps to perform for running monthly financial reports and retrieving management information.

Recommendation – Office procedures and accounting manuals should be developed for the City.

Response – The manuals are in progress, including security, updating bank access, signature cards and log-in information for online banking for new personnel, calendars for payments made monthly, quarterly and yearly, backup procedures, general knowledge of the accounting system and how to locate archived records.

Conclusion – Response accepted.

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Year ended June 30, 2011

- II-I-11 Federal Payroll Tax and IPERS Contributions - The employer share of FICA and IPERS does not reconcile to the amounts recorded in the City's general ledger.
- Recommendation - The City should develop procedures to ensure the proper amount for FICA and IPERS is recorded in the City's ledger and remitted.
- Response - Each month the Clerk provides the City Council with a copy of the Clerk's payroll spreadsheet for the prior month's payroll expenditures detailing both the FICA and IPERS withheld along with the City's share for each fund. The City Council reviews what was paid for each pay period, the share paid from each fund, the overall amount paid from the General Fund and the reimbursements from the Enterprise, Water and Sewer Funds to the General Fund.
- Conclusion - Response acknowledged. However, an independent person should also reconcile the actual checks issued to the general ledger and required reports.
- II-J-11 Initial Listing of Receipts - An initial listing of receipts is maintained for the General, the Special Revenue, Road Use Tax and the Enterprise, Water and Sewer Funds. However, the initial listings are not reviewed by an independent person.
- Recommendation - The initial listings of receipts should be reviewed by an independent person.
- Response - With limited availability of the Council members, the Clerk provides current statements for each account prior to the Council meeting which is verified against the check register.
- Conclusion - Response accepted.
- II-K-11 Prenumbered Receipts - Although receipts were issued, they were not issued for all collections. Prenumbered receipts are not used, so receipt numbers are handwritten by the City Clerk when recorded. In addition, account coding is not placed on receipts to properly document which account the receipt should be credited to.
- Recommendation - Receipts should be issued for all collections at the time of collection to provide additional control over the proper collection and recording of all money. The City should use prenumbered receipts and develop procedures to account for the numerical sequence of the receipts. In addition, account coding should be placed on each receipt.
- Response - Prenumbered receipts are used for all cash receipts, including water deposits, bag tags, etc. The City will soon be able to issue computer-generated, prenumbered receipts for all transactions starting in fiscal year 2013.
- Conclusion - Response accepted.
- II-L-11 Transfers - Transfers between accounts and between funds are not balanced monthly, adequately explained and classified as transfers rather than receipts or disbursements.
- Recommendation - The City should balance transfers monthly and provide an explanation for each transfer. Transfers should be properly recorded as transfers in/out rather than as receipts and disbursements.
- Response - The Clerk has developed spreadsheets to resolve this.
- Conclusion - Response accepted.

City of Oakville

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II-M-11 Disbursements – For one of fifteen disbursements tested, the check issued by the City did not have dual signatures.

Recommendation – The City should ensure all checks issued contain dual signatures as required by City policy.

Response – The Clerk signs the checks prior to the Council meeting, two Council members review them and they are signed by the Mayor upon the City Council's approval of the bills. The Clerk then copies the bills and mails the signed checks, at which time she double checks the signatures.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

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Year ended June 30, 2011

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

INTERNAL CONTROL DEFICIENCIES:

CFDA Number 14.228: Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii
Pass-through Agency Number: 08-DRHB-228
Federal Award Year: 2010
U.S. Department of Housing and Urban Development
Passed through the Iowa Department of Economic Development

III-A-11 Segregation of Duties – The City did not properly segregate duties involving cash. See item II-A-11.

III-B-11 Disposition of Property – There are no written procedures in place to ensure the disposition of property is done properly.

Recommendation – The City should implement procedures to ensure the disposition of property is done properly.

Response – When preparing for the sale of properties, the City obtained input from four attorneys regarding how to legally acquire and dispose of each property.

Conclusion – Response accepted.

III-C-11 Program Income – There are no procedures in place to account for and monitor program income.

Recommendation – The City should implement procedures to ensure program income is accounted for and monitored.

Response – The City maintains a ledger for sale proceeds, incoming program receipts and disbursements of proceeds.

Conclusion – Response acknowledged. However, these ledgers were not available for review.

City of Oakville

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Part IV: Other Findings Related to Required Statutory Reporting:

IV-A-11 Certified Budget – Disbursements during the year ended June 30, 2011 exceeded the amounts budgeted in the public safety, public works, community and economic development, capital projects and business type activities functions. Certain functions were exceeded because the City did not budget for federal and state aid which were not included in the City's ledgers. 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 – All receipts and disbursements, including federal and state aid, should be included in the budget. 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 City amended the fiscal year 2012 budget to include all federal and state funding in May 2012.

Conclusion – Response accepted.

IV-B-11 Questionable Disbursements – Certain disbursements 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 were noted. These disbursements are detailed as follows:

Paid To	Purpose	Amount
IPERS	Late fees and penalties	\$ 61

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 – The City believes the new accounting practices implemented will prevent this from happening in the future.

Conclusion – Response accepted.

IV-C-11 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

IV-D-11 Business Transactions – No business transactions between the City and City officials or employees were noted.

City of Oakville

Schedule of Findings and Questioned Costs

Year ended June 30, 2011

IV-E-11 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.

IV-F-11 Council Minutes – Disbursements from the FEMA, Fire Department, Community Disaster and HMGP bank accounts were not included in the list of bills approved by the City Council or on the paid check listing publication.

In addition, the City did not publish annual gross salaries in accordance with an Attorney General's opinion dated April 12, 1978 and Chapter 372.13(6) of the Code of Iowa.

Recommendation – All invoices should be approved by the City Council. In addition, the City should publish annual gross salaries as required by Chapter 372.13 of the Code of Iowa.

Response – The accounts were included beginning in June 2011. In fiscal year 2012, all fund balances have been included except the Volunteer Fire Department. In addition, the Clerk did not have the reporting of gross salaries in the instructions provided by the former Clerk. The procedure has now been incorporated into the procedures manual.

Conclusion – Response accepted.

IV-G-11 Deposits and Investments – The City has not adopted a written investment policy as required by Chapter 12B.10B of the Code of Iowa

Recommendation – The City should adopt a written investment policy which complies with the provisions of Chapter 12B.10B of the Code of Iowa.

Response – The City is researching how to write an investment policy and will complete one as soon as possible.

Conclusion – Response accepted.

IV-H-11 Official Depository – A resolution naming the official depository was adopted by the City Council in the fiscal year ended June 30, 2004. However, the City has since opened accounts with another financial institution not listed in the approved depository resolution.

On December 7, 2011, the City passed a resolution naming new official depositories. However, this resolution did not establish maximum amounts for each depository as required by Chapter 12C.2 of the Code of Iowa.

Recommendation – A new depository resolution should be approved by the City Council.

Response – The Council will be adopting a new resolution to resolve this issue on July 11, 2012.

Conclusion – Response accepted.

City of Oakville

Schedule of Findings and Questioned Costs

Year ended June 30, 2011

IV-I-11 Electronic Check Retention – Chapter 554D.114 of the Code of Iowa allows the City to retain cancelled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each cancelled check. The City does not receive the back of each cancelled check for one bank account.

Recommendation – The City should obtain and retain images of both the front and back of cancelled checks as required by Chapter 554D.114 of the Code of Iowa.

Response – The City contacted the bank to rectify this situation and are awaiting a response.

Conclusion – Response accepted.

IV-J-11 Annual Financial Report – Chapter 384.22 of the Code of Iowa requires the City's Annual Financial Report contain a "summary for the preceding fiscal year of all collections and receipts, all accounts due to the City, and all expenditures...." The City's Annual Financial Report reported receipts, disbursements and fund balances which do not materially agree with City records. The fund balances for governmental funds are not separated by fund. In addition, all City accounts are not included in the Annual Financial Report.

Recommendation – The Annual Financial Report should be amended to correct material errors and the amounts reported should be supported by the City's records. In addition, fund balances should be separated by funds and all City accounts should be included in the Annual Financial Report.

Response – The City did not amend the annual budget for fiscal year 2011 to incorporate the receipts for federal and CDBG funds as the City Clerk was new and did not get an amendment prepared. The City amended fiscal year 2012 to reflect all funds other than the Volunteer Fire Department, which the Fire Department has been unwilling to share.

Conclusion – Response acknowledged. The Annual Financial Report should be amended, as recommended.

IV-K-11 Sewer Revenue Capital Loan Notes Workout Agreement – On July 1, 2010, the City defaulted on the payment of \$28,925 of principal and interest on the sewer revenue capital loan notes issued August 1, 1996. The City entered into a Workout Agreement (Agreement) with the U.S. Department of Agriculture on February 8, 2011. The Agreement allows the City to work with Midwest Assistance Program to research alternatives for making debt service payments proportionate to the number of remaining customers and establish a financial tracking system. The Workout Agreement established a deadline of June 30, 2011 for the City to complete these actions.

The City did not meet the objectives of the Agreement by June 30, 2011 and entered into a new Agreement on November 2, 2011. The new Agreement established a deadline of April 2, 2012 for the City to complete the listed actions. The City worked in conjunction with Midwest Assistance Program and met the April 2, 2012 deadline.

City of Oakville

Schedule of Findings and Questioned Costs

Year ended June 30, 2011

Recommendation – The City should continue to work with Midwest Assistance Program to ensure compliance with the established Agreement and determine a schedule for making debt service payments.

Response – The City has been working with Midwest Assistance Program which is the liaison to the USDA Rural Development. By April 2012, the City fulfilled all the requirements of the Agreement. At this time, the City has made a good faith payment for fiscal year 2012 of \$13,770. In addition, the City has raised its rates in 2012 and has been notified the USDA is considering an extension to the City's repayment schedule as well as a lower interest rate.

Conclusion – Response accepted.

- IV-L-11 Sewer Revenue Capital Loan Notes – The City has not established and made the required transfers to a sewer reserve account as required by the sewer revenue capital loan note resolution.

The Enterprise, Sewer Fund had deficit net operating receipts of \$2,513 for the year ended June 30, 2011. This appears to violate provisions of the sewer revenue capital loan note resolution which states the notes and interest are payable solely and only from the net earnings of the enterprise activities.

Recommendation – The City should review the sewer revenue capital loan note resolution and comply with its provisions. The City should consult legal counsel on the disposition of the net earnings violation.

Response – The City has been working with Midwest Assistance Program which is the liaison to the USDA Rural Development. By April 2012, the City fulfilled all the requirements of the Agreement. At this time, the City has made a good faith payment for fiscal year 2012 of \$13,770. In addition, the City has raised its rates in 2012 and has been notified the USDA is considering an extension to the City's repayment schedule as well as a lower interest rate.

Conclusion – Response accepted.

- IV-M-11 Public Hearing – The City accepted bids for the demolition of 29 properties. The City did not hold a public hearing on the contract as required by Chapter 26.12 of the Code of Iowa.

Recommendation – The City should ensure it holds public hearings for public construction contracts as required by Chapter 26.12 of the Code of Iowa.

Response – The Southeast Iowa Regional Planning Commission has handled all administration of the CDBG buyouts, including all publications, scheduling of bid openings, etc.

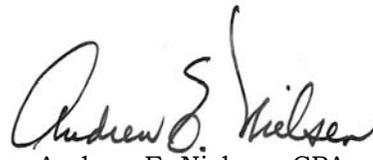
Conclusion – Response acknowledged. However, the City should ensure a public hearing for public construction contracts is held as required by Chapter 26.12 of the Code of Iowa.

City of Oakville

Staff

This audit was performed by:

Jennifer Campbell, CPA, Manager
Brian P. Schenkelberg, CPA, Senior Auditor
Adam B. Bartz, Assistant Auditor
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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