

CITY OF NASHUA, IOWA

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

JUNE 30, 2010

- Prepared By -

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CITY OF NASHUA, IOWA

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CITY OF NASHUA, IOWA

OFFICIALS

<u>NAME</u>	<u>TITLE</u>	<u>TERM EXPIRES</u>
(Before January 2010)		
John Phyfe	Mayor	January 2010
Glen Hatzky	Mayor pro tem	January 2010
Scott Cerwinske	Council Member	January 2012
Rolland Cagley	Council Member	January 2012
Richard Baldwin	Council Member	January 2012
Nathaniel Sinnwell	Council Member	January 2010
Rebecca Neal	City Clerk	Indefinite
Melissa Berends	Treasurer	Indefinite
Dave Skilton	Attorney	Indefinite
(After January 2010)		
John Phyfe	Mayor	January 2014
Richard Baldwin	Mayor pro tem	January 2012
Scott Cerwinske	Council Member	January 2012
Rolland Cagley	Council Member	January 2012
Richard Crooks	Council Member	January 2014
Terry McGinnis	Council Member	January 2014
Rebecca Neal	City Clerk	Indefinite
Melissa Berends	Treasurer	Indefinite
Dave Skilton	Attorney	Indefinite



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**INDEPENDENT AUDITOR'S REPORT**

To the Honorable Mayor and  
Members of the City Council:

I 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 Nashua, 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 Nashua's management. My responsibility is to express opinions on these financial statements based on my audit.

I conducted my 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 I 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. I believe my audit provides a reasonable basis for my 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, I was unable to satisfy myself as to the distribution of the total fund balance at July 1, 2009.

In my opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had I 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 Nashua 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.

In accordance with Government Auditing Standards, I have also issued my report dated October 15, 2010 on my consideration of the City of Nashua's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of my audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 7 and 23 through 25 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Nashua's basic financial statements. Other supplementary information included in Schedules 1 through 4 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in my audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in cursive script, appearing to read "Larry Pump".

October 15, 2010

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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

### **2010 FINANCIAL HIGHLIGHTS**

The City's total cash basis net assets increased 111%, or approximately \$940,000, from June 30, 2009 to June 30, 2010. Of this amount, the assets of the governmental activities increased approximately \$876,000 and the assets of the business type activities increased by approximately \$64,000.

### **USING THIS ANNUAL REPORT**

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

Management's Discussion and Analysis introduces the 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 Statement tells how governmental services were financed in the short term as well as what remains for future spending. The Fund financial statement reports 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 and proprietary 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, the reader 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 and Tax Increment Financing, 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 statements for governmental funds include 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 statements for proprietary funds include 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 increased from a year ago, increasing from \$559,366 to \$1,434,884. The analysis that follows focuses on the changes in cash balances for governmental activities.

**Changes in Cash Basis Net Assets of Governmental Activities**  
(Expressed in Thousands)

	<u>Year ended June 30,</u> <u>2010</u>
Receipts:	
Program receipts:	
Charges for service	\$ 73
Operating grants, contributions and restricted interest	456
Capital grants, contributions and restricted interest	52
General receipts:	
Property tax	584
Local option sales tax	138
Unrestricted interest on investments	19
Other general receipts	851
Bond proceeds	270
Total receipts	<u>\$2,443</u>
Disbursements:	
Public safety	\$ 426
Public works	184
Health and social service	11
Culture and recreation	194
Community and economic development	172
General government	115
Debt service	618
Total disbursements	<u>\$1,720</u>
Change in cash basis net assets before transfers	\$ 723
Transfers, net	<u>153</u>
Change in cash basis net assets	\$ 876
Cash basis net assets beginning of year	<u>559</u>
Cash basis net assets end of year	<u>\$1,435</u>

**Changes in Cash Basis Net Assets of Business Type Activities**  
(Expressed in Thousands)

	<u>Year ended June 30,</u> <u>2010</u>
Receipts:	
Program receipts:	
Charges for service:	
Water	\$ 239
Sewer	321
Other	2
Operating grants, contribution and restricted interest	123
General receipts:	
Bond proceeds	610
Unrestricted interest on investments	1
Total receipts	<u>\$1,296</u>
Disbursements:	
Water	\$ 333
Sewer	744
Other	2
Total disbursements	<u>\$1,079</u>
Change in cash basis net assets before transfers	\$ 217
Transfers, net	<u>(153)</u>
Change in cash basis net assets	\$ 64
Cash basis net assets beginning of year	<u>284</u>
Cash basis net assets end of year	<u>\$ 348</u>

**INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS**

As the City of Nashua completed the year, its governmental funds reported a combined fund balance of \$1,434,884, an increase of \$875,518 from last year's total of \$559,366. 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 \$861,928 from the prior year to \$1,337,974. This increase was due mainly to contributions made to the City by an individual's estate.

The Debt Service Fund cash balance increased by \$14,856 to \$80,708 during the fiscal year. This increase was attributable to property tax receipts.

**INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS**

The Water Fund cash balance increased by \$29,071 to \$23,619, due primarily to a decrease in operating expenses.

The Sewer Fund cash balance increased by \$34,929 to \$319,760, due primarily to a decrease in operating expenses.

**BUDGETARY HIGHLIGHTS**

Over the course of the year, the City amended its budget once on May 3, 2010. This resulted in an increase in operating disbursements related to public safety, public works, culture and recreation, general government, debt service and business type activities invoices of approximately \$646,000. The City had sufficient increased revenues and cash balances to absorb these additional costs. The City exceeded the amounts budgeted in the debt service function.

**DEBT ADMINISTRATION**

At June 30, 2010, the City had approximately \$3,449,000 in bonds and other long-term debt, compared to approximately \$3,073,000 last year, as follows:

**Outstanding Debt at Year-End**  
(Expressed in Thousands)

	June 30,	
	2010	2009
General obligation notes and bonds	\$1,215	\$1,097
Revenue bonds	2,234	1,708
Anticipation note	-	268
Total	<u>\$3,449</u>	<u>\$3,073</u>

The City incurred new debt during 2010 of \$610,105. The City issued \$270,000 of General Obligation Notes to refinance the Welcome Center anticipation notes. Principal and interest payments were made as scheduled. 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 \$1,215,000 is significantly below its constitutional debt limit of \$3,065,528.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

The City of Nashua's elected and appointed officials and citizens considered many factors when setting the fiscal year 2011 budget, tax rates, and fees that will be charged for various City activities. One of those factors is the economy.

**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 Becky Neal, City Clerk, 402 Main Street, Nashua, Iowa 50658.

CITY OF NASHUA, IOWA  
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2010

	<u>Disbursements</u>	<u>Program Receipts</u>		
		<u>Charges for Service</u>	<u>Operating Grants, Contributions and Restricted Interest</u>	<u>Capital Grants, Contributions and Restricted Interest</u>
<b>FUNCTIONS/PROGRAMS:</b>				
Governmental activities:				
Public safety	\$ 425,199	\$ -	\$ 140,948	\$ -
Public works	184,142	27,821	143,022	-
Health and social services	10,574	-	-	-
Culture and recreation	194,459	27,987	153,860	-
Community and economic development	172,407	17,520	4,305	-
General government	115,367	-	14,085	52,104
Debt service	<u>617,873</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total governmental activities	<u>\$1,720,021</u>	<u>\$ 73,328</u>	<u>\$ 456,220</u>	<u>\$ 52,104</u>
Business type activities:				
Water	\$ 333,260	\$ 239,321	\$ -	\$ 123,010
Sewer rental	744,432	321,368	-	-
Other	<u>1,850</u>	<u>2,050</u>	<u>-</u>	<u>-</u>
Total business type activities	<u>\$1,079,542</u>	<u>\$ 562,739</u>	<u>\$ -</u>	<u>\$ 123,010</u>
Total	<u>\$2,799,563</u>	<u>\$ 636,067</u>	<u>\$ 456,220</u>	<u>\$ 175,114</u>

(Continued)

Net (Disbursements) Receipts and  
Changes in Cash Basis Net Assets

<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
\$ (284,251)	\$ -	\$ (284,251)
(13,299)	-	(13,299)
(10,574)	-	(10,574)
(12,612)	-	(12,612)
(150,582)	-	(150,582)
(49,178)	-	(49,178)
(617,873)	-	(617,873)
\$ (1,138,369)	\$ -	\$ (1,138,369)
\$ -	\$ 29,071	\$ 29,071
-	(423,064)	(423,064)
-	200	200
\$ -	\$ (393,793)	\$ (393,793)
\$ (1,138,369)	\$ (393,793)	\$ (1,532,162)

CITY OF NASHUA, IOWA  
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2010

**General Receipts:**

- Property and other city tax levied for:
  - General purposes
  - Debt service
- Tax increment financing
- Local option sales tax
- Unrestricted interest on investments
- Miscellaneous
- Bond proceeds
- 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:
  - Nonexpendable:
    - Other purposes
  - Expendable:
    - Streets
    - Debt service
    - Other purposes
- Unrestricted

**Total cash basis net assets**

*See Notes to Financial Statements.*

**Net (Disbursements) Receipts and  
Changes in Cash Basis Net Assets**

<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
\$ 395,818	\$ -	\$ 395,818
138,743	-	138,743
48,003	-	48,003
137,546	-	137,546
19,333	1,215	20,548
851,117	-	851,117
270,000	610,105	880,105
<u>153,327</u>	<u>(153,327)</u>	<u>-</u>
<u>\$ 2,013,887</u>	<u>\$ 457,993</u>	<u>\$ 2,471,880</u>
\$ 875,518	\$ 64,200	\$ 939,718
<u>559,366</u>	<u>283,901</u>	<u>843,267</u>
<u><b>\$ 1,434,884</b></u>	<u><b>\$ 348,101</b></u>	<u><b>\$ 1,782,985</b></u>
\$1,059,497	\$ -	\$1,059,497
19	-	19
80,708	-	80,708
16,183	-	16,183
<u>278,477</u>	<u>348,101</u>	<u>626,578</u>
<u><b>\$ 1,434,884</b></u>	<u><b>\$ 348,101</b></u>	<u><b>\$ 1,782,985</b></u>

CITY OF NASHUA, IOWA  
**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES**  
**GOVERNMENTAL FUNDS**  
**AS OF AND FOR THE YEAR ENDED JUNE 30, 2010**

	<u>General</u>	<u>Debt Service</u>	<u>Nonmajor</u>
<b>RECEIPTS:</b>			
Property tax	\$ 284,200	\$ 138,743	\$ 111,618
Tax increment financing	-	-	48,003
Other city tax	-	-	137,546
Use of money and property	20,908	-	-
Licenses and permits	2,165	-	-
Intergovernmental	110,382	-	143,022
Charges for service	77,695	-	-
Miscellaneous	1,097,930	-	-
Total receipts	<u>\$1,593,280</u>	<u>\$ 138,743</u>	<u>\$ 440,189</u>
<b>DISBURSEMENTS:</b>			
Operating:			
Public safety	\$ 346,039	\$ -	\$ 79,160
Public works	26,358	-	157,784
Health and social services	10,574	-	-
Culture and recreation	187,619	-	6,840
Community and economic development	170,201	-	2,206
General government	105,451	-	9,916
Debt service	-	617,873	-
Total disbursements	<u>\$ 846,242</u>	<u>\$ 617,873</u>	<u>\$ 255,906</u>
Excess (deficiency) of receipts over (under) disbursements	<u>\$ 747,038</u>	<u>\$ (479,130)</u>	<u>\$ 184,283</u>
Other financing sources (uses):			
Bond proceeds	\$ -	\$ 270,000	\$ -
Operating transfers in	116,776	223,986	-
Operating transfers out	(1,886)	-	(185,549)
Total other financing sources (uses)	<u>\$ 114,890</u>	<u>\$ 493,986</u>	<u>\$ (185,549)</u>
Net change in cash balances	\$ 861,928	\$ 14,856	\$ (1,266)
Cash balances beginning of year	<u>476,046</u>	<u>65,852</u>	<u>17,468</u>
<b>Cash balances end of year</b>	<b><u>\$1,337,974</u></b>	<b><u>\$ 80,708</u></b>	<b><u>\$ 16,202</u></b>
<b>Cash Basis Fund Balances:</b>			
Reserved for debt service	\$ -	\$ 80,708	\$ -
Unreserved:			
General fund	1,337,974	-	-
Special revenue funds	-	-	16,202
Total cash basis fund balances	<u>\$1,337,974</u>	<u>\$ 80,708</u>	<u>\$ 16,202</u>

*See Notes to Financial Statements.*

**Total**

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\$ 534,561  
48,003  
137,546  
20,908  
2,165  
253,404  
77,695  
1,097,930  
\$ 2,172,212

\$ 425,199  
184,142  
10,574  
194,459  
172,407  
115,367  
617,873  
\$ 1,720,021

\$ 452,191

\$ 270,000  
340,762  
(187,435)  
\$ 423,327

\$ 875,518  
559,366

**\$ 1,434,884**

\$ 80,708  
1,337,974  
16,202

**\$ 1,434,884**

CITY OF NASHUA, IOWA  
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND  
CHANGES IN CASH BALANCES  
PROPRIETARY FUNDS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2010

	<u>Enterprise Funds</u>		
	<u>Water</u>	<u>Sewer Rental</u>	<u>Nonmajor</u>
Operating receipts:			
Charges for service	\$ 239,321	\$ 321,368	\$ 2,050
Operating disbursements:			
Business type activities	<u>333,260</u>	<u>744,432</u>	<u>1,850</u>
Excess of operating receipts over operating disbursements	\$ (93,939)	\$ (423,064)	\$ 200
Non-operating receipts:			
Intergovernmental	\$ 123,010	\$ -	\$ -
Interest on investments	-	1,215	-
Revenue bond proceeds	-	610,105	-
Operating transfer in	-	1,886	-
Operating transfer out	<u>-</u>	<u>(155,213)</u>	<u>-</u>
Net non-operating receipts	\$ 123,010	\$ 457,993	\$ -
Net change in cash balances	\$ 29,071	\$ 34,929	\$ 200
Cash balances beginning of year	<u>(5,452)</u>	<u>284,831</u>	<u>4,522</u>
Cash balances end of year	<u>\$ 23,619</u>	<u>\$ 319,760</u>	<u>\$ 4,722</u>
<b>Cash Basis Fund Balances</b>			
Reserved for other	\$ -	\$ -	\$ 4,722
Unreserved	<u>23,619</u>	<u>319,760</u>	<u>-</u>
<b>Total cash basis fund balances</b>	<u><b>\$ 23,619</b></u>	<u><b>\$ 319,760</b></u>	<u><b>\$ 4,722</b></u>

*See Notes to Financial Statements.*

<u>Total</u>
\$ 562,739
<u>1,079,542</u>
<u>\$ (516,803)</u>
\$ 123,010
1,215
610,105
1,886
<u>(155,213)</u>
<u>\$ 581,003</u>
\$ 64,200
<u>283,901</u>
<u>\$ 348,101</u>
\$ 4,722
<u>343,379</u>
<u><u>\$ 348,101</u></u>

CITY OF NASHUA, IOWA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010

(1) Summary of Significant Accounting Policies

The City of Nashua is a political subdivision of the State of Iowa located in Chickasaw County. It was first incorporated in 1869 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 Nashua 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 Chickasaw County Assessor's Conference Board, Iowa Northland Regional Council of Governments and Chickasaw County Emergency Management Commission.

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 services.

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

*Nonexpendable restricted net assets* are subject to stipulations which externally imposed require them to be maintained permanently by the City, including the City's Permanent Fund.

CITY OF NASHUA, IOWA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010

(1) Summary of Significant Accounting Policies - continued

*Expendable 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 that 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 that are not paid from other funds.

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 Rental Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

C. Measurement Focus and Basis of Accounting

The City of Nashua 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.

**CITY OF NASHUA, IOWA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

**(1) Summary of Significant Accounting Policies - continued**

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 debt service function prior to the amendment of the budget.

**(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.

Interest rate risk - The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the City.

**(3) Bonds and Notes Payable**

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

Year Ending June 30,	General Obligation Bonds and Notes		Revenue Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2011	\$ 161,000	\$ 36,050	\$ 87,000	\$ 67,020	\$ 248,000	\$ 103,070
2012	95,000	31,368	90,000	64,410	185,000	95,778
2013	98,000	28,599	93,000	61,710	191,000	90,309
2014	101,000	25,743	96,000	58,920	197,000	84,663
2015	44,000	22,800	99,000	56,040	143,000	78,840
2016-2020	244,000	93,210	544,000	233,760	788,000	326,970
2021-2025	282,000	54,390	637,000	146,820	919,000	201,210
2026-2029	190,000	11,490	588,000	44,790	778,000	56,280
Total	<u>\$1,215,000</u>	<u>\$303,650</u>	<u>\$2,234,000</u>	<u>\$733,470</u>	<u>\$3,449,000</u>	<u>\$1,037,120</u>

CITY OF NASHUA, IOWA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010

(3) **Bonds and Notes Payable** - continued

The resolutions providing for the issuance of the general obligation bonds include the following provision:

At the option of the City, the essential corporate purpose bonds issue of January 30, 2008, June 11, 2008 and October 28, 2009, are subject to redemption and prepayment on any date, in whole or from time to time in part, in any order of maturity and within an annual maturity by lot, at a price of par plus accrued interest to call date, by giving proper notice.

(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 statement and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Most plan members are required to contribute 4.30% of their annual 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 \$26,186, which was equal to the required contribution for the year.

(5) **Other Postemployment Benefits (OPEB)**

**Plan Description** - The City operates a single-employer retiree benefit plan which provides medical/prescription drug benefits for retirees and their spouses. There are 9 active and no retired members in the plan. Participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees.

**Funding Policy** - The contribution requirements of plan members are established and may be amended by the City. The City currently finances the retiree benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the City and plan members are \$478 for single coverage and \$1,195 for family coverage. The same monthly premiums apply to retirees. For the year ended June 30, 2010, the City contributed \$100,212 and plan members eligible for benefits contributed \$9,000 to the plan.

(6) **Compensated Absences**

City employees accumulate a limited amount of earned but unused vacation hours for subsequent use. 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 \$45,484. This liability has been computed based on rates of pay as of June 30, 2010.

CITY OF NASHUA, IOWA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010

(7) Risk Management

The City is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 634 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 200 percent of the total current member's basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The City's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The City's contributions to the Pool for the year ended June 30, 2010 were \$19,809.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000 per claim and \$10,000,000 in aggregate per year. For members requiring specific coverage from \$3,000,000 to \$10,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$150,000 each occurrence, each location, with excess coverage reinsured by The Travelers Insurance Company.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event that a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. As of June 30, 2010, settled claims have not exceeded the risk pool or reinsurance company coverage since the Pool's inception.

CITY OF NASHUA, IOWA  
 NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2010

(7) **Risk Management** - continued

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all casualty claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their casualty capital contributions. If a member withdraws after the sixth year, the member is refunded 100 percent of its casualty capital contributions. However, the refund is reduced by an amount equal to the annual casualty operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

The City also carries commercial insurance purchased from other insurers for coverage associated with public employee dishonesty coverage and workers compensation coverage. The City assumes liability for any deductibles, and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage during the fiscal year ended June 30, 2010.

(8) **Interfund Transfers**

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

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Special Revenue:	
	Tax Increment Financing	\$ 48,003
	Local Option Sales Tax	68,773
		<u>\$116,776</u>
Debt Service Financing	Special Revenue:	
	Local Option Sales Tax	\$ 68,773
	Enterprise:	
	Sewer Rental	155,213
		<u>\$223,986</u>
Enterprise:		
Sewer Rental	General	<u>\$ 1,886</u>
Total		<u>\$342,648</u>

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

(9) **Related Party Transactions**

The City had business transactions between the City and City officials totaling \$888 during the year ended June 30, 2010.

CITY OF NASHUA, IOWA  
 NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2010

(10) Commitments

At June 30, 2010, the following construction commitments had been made:

<u>Project</u>	<u>Total Contract</u>	<u>Costs Incurred To Date</u>
Cedar Lake Water Main	\$218,839	\$ 21,076
Housing Rehab	11,500	-
Housing Rehab	35,723	-
Total	<u>\$266,062</u>	<u>\$ 21,076</u>

(11) Subsequent Events

On August 2, 2010, the City approved a water project with Denver Construction for \$132,196.

On September 7, 2010, the City approved a project with Taylor Construction for \$185,435 to repair the dam.

Required Supplementary Information

CITY OF NASHUA, IOWA  
 BUDGETARY COMPARISON SCHEDULE OF RECEIPTS, DISBURSEMENTS  
 AND CHANGES IN BALANCES  
 BUDGET AND ACTUAL (CASH BASIS) - ALL  
 GOVERNMENTAL FUNDS AND PROPRIETARY FUNDS  
 REQUIRED SUPPLEMENTARY INFORMATION  
 YEAR ENDED JUNE 30, 2010

	Governmental Funds <u>Actual</u>	Proprietary Funds <u>Actual</u>	Less Funds Not Required to be Budgeted
<b>RECEIPTS:</b>			
Property tax	\$ 534,561	\$ -	\$ -
Tax increment financing collections	48,003	-	-
Other city tax	137,546	-	-
Licenses and permits	2,165	-	-
Use of money and property	20,908	1,215	-
Intergovernmental	253,404	123,010	-
Charges for service	77,695	562,739	-
Miscellaneous	1,097,930	-	-
Total receipts	<u>\$ 2,172,212</u>	<u>\$ 686,964</u>	<u>\$ -</u>
<b>DISBURSEMENTS:</b>			
Public safety	\$ 425,199	\$ -	\$ -
Public works	184,142	-	-
Health and social services	10,574	-	-
Culture and recreation	194,459	-	-
Community and economic development	172,407	-	-
General government	115,367	-	-
Debt service	617,873	-	-
Business type activities	-	1,079,542	-
Total disbursements	<u>\$ 1,720,021</u>	<u>\$1,079,542</u>	<u>\$ -</u>
Excess (deficiency) of receipts over (under) disbursements	\$ 452,191	\$ (392,578)	\$ -
Other financing sources, net	<u>423,327</u>	<u>456,778</u>	<u>-</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	\$ 875,518	\$ 64,200	\$ -
Balances beginning of year	<u>559,366</u>	<u>283,901</u>	<u>-</u>
<b>Balances end of year</b>	<b><u>\$ 1,434,884</u></b>	<b><u>\$ 348,101</u></b>	<b><u>\$ -</u></b>

*See Accompanying Independent Auditor's Report.*

<u>Total</u>	<u>Budgeted Amounts</u>		<u>Final to Total Variance</u>
	<u>Original</u>	<u>Final</u>	
\$ 534,561	\$ 507,746	\$ 507,746	\$ 26,815
48,003	30,000	30,000	18,003
137,546	144,152	164,572	(27,026)
2,165	1,918	1,918	247
22,123	9,570	14,770	7,353
376,414	635,774	884,048	(507,634)
640,434	625,455	641,455	(1,021)
<u>1,097,930</u>	<u>37,050</u>	<u>60,895</u>	<u>1,037,035</u>
<u>\$2,859,176</u>	<u>\$1,991,665</u>	<u>\$ 2,305,404</u>	<u>\$ 553,772</u>
\$ 425,199	\$ 347,393	\$ 577,393	\$ 152,194
184,142	176,801	191,801	7,659
10,574	10,624	10,624	50
194,459	206,165	237,165	42,706
172,407	232,050	232,050	59,643
115,367	114,963	134,963	19,596
617,873	197,295	247,295	(370,578)
<u>1,079,542</u>	<u>1,496,445</u>	<u>1,796,445</u>	<u>716,903</u>
<u>\$2,799,563</u>	<u>\$2,781,736</u>	<u>\$ 3,427,736</u>	<u>\$ 628,173</u>
\$ 59,613	\$ (790,071)	\$ (1,122,332)	\$1,181,945
<u>880,105</u>	<u>750,000</u>	<u>760,000</u>	<u>120,105</u>
\$ 939,718	\$ (40,071)	\$ (362,332)	\$1,302,050
<u>843,267</u>	<u>811,763</u>	<u>811,763</u>	<u>31,504</u>
<u><b>\$1,782,985</b></u>	<u><b>\$ 771,692</b></u>	<u><b>\$ 449,431</b></u>	<u><b>\$1,333,554</b></u>

**CITY OF NASHUA, IOWA**  
**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 Governmental 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 or fund type. 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, Special Revenue Funds, Debt Service Fund, and 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. During the year, one budget amendment increased budgeted disbursements by \$646,000. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2010, disbursements exceeded the amounts budgeted in the debt service function.

Other Supplementary Information

CITY OF NASHUA, IOWA  
 SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES  
 NONMAJOR GOVERNMENTAL FUNDS  
 AS OF AND FOR THE YEAR ENDED JUNE 30, 2010

	Special Revenue			
	Road Use Tax	Employee Benefits	Tax Increment Financing	Local Option Sales Tax
<b>RECEIPTS:</b>				
Property tax	\$ -	\$ 111,618	\$ -	\$ -
Tax increment financing	-	-	48,003	-
Other city tax	-	-	-	137,546
Intergovernmental	143,022	-	-	-
Total receipts	\$ 143,022	\$ 111,618	\$ 48,003	\$ 137,546
<b>DISBURSEMENTS:</b>				
Operating:				
Public safety	\$ -	\$ 79,160	\$ -	\$ -
Public works	157,784	-	-	-
Culture and recreation	-	6,840	-	-
Community and economic development	-	2,206	-	-
General government	-	9,916	-	-
Total disbursements	\$ 157,784	\$ 98,122	\$ -	\$ -
Excess (deficiency) of receipts over (under) disbursements	\$ (14,762)	\$ 13,496	\$ 48,003	\$ 137,546
Other financing uses:				
Operating transfers out	-	-	(48,003)	(137,546)
Net change in cash balances	\$ (14,762)	\$ 13,496	\$ -	\$ -
Cash balances beginning of year	14,781	2,687	-	-
<b>Cash balances end of year</b>	<b>\$ 19</b>	<b>\$ 16,183</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Cash Basis Fund Balances:</b>				
Unreserved:				
Special revenue funds	<b>\$ 19</b>	<b>\$ 16,183</b>	<b>\$ -</b>	<b>\$ -</b>

*See Accompanying Independent Auditor's Report.*

**Total**

\$	111,618
	48,003
	137,546
	143,022
<u>\$</u>	<u>440,189</u>

\$	79,160
	157,784
	6,840
	2,206
	9,916
<u>\$</u>	<u>255,906</u>

\$ 184,283

(185,549)

\$ (1,266)

17,468

**\$ 16,202**

**\$ 16,202**

Other Supplementary Information

CITY OF NASHUA, IOWA  
 SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS AND  
 CHANGES IN CASH BALANCES  
 NONMAJOR PROPRIETARY FUNDS  
 AS OF AND FOR THE YEAR ENDED JUNE 30, 2010

	<u>Water Deposit</u>
Operating Receipts:	
Charges for service	\$ 2,050
Operating Disbursements:	
Business type activities	<u>1,850</u>
Net change in cash balance	\$ 200
Cash balance beginning of year	<u>4,522</u>
<b>Cash balance end of year</b>	<b><u><u>\$ 4,722</u></u></b>
<b>Cash Basis Fund Balance:</b>	
Reserved for other	<b><u><u>\$ 4,722</u></u></b>

*See Accompanying Independent Auditor's Report.*

CITY OF NASHUA, IOWA  
 SCHEDULE OF INDEBTEDNESS  
 YEAR ENDED JUNE 30, 2010

<u>Obligation</u>	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount Originally Issued</u>
<b>General Obligation Notes and Bonds:</b>			
General Obligations Notes	01-30-08	2.90%	\$ 191,000
General Obligations Notes	06-11-08	3.00%	1,000,000
Welcome Center Notes	10-28-09	2.85%	270,000
<b>Revenue Bonds:</b>			
Sewer Revenue Bonds	08-06-08	3.00%	2,318,000
<b>Anticipation Note:</b>			
Welcome Center	11-12-08	2.85%	400,000
<b>Total indebtedness</b>			

*See Accompanying Independent Auditor's Report.*

<u>Balance Beginning of Year</u>	<u>Issued During Year</u>	<u>Redeemed During Year</u>	<u>Balance End of Year</u>	<u>Interest Paid</u>	<u>Interest Due and Unpaid</u>
\$ 134,000	\$ -	\$ 64,000	\$ 70,000	\$ 3,940	\$ -
963,000	-	38,000	925,000	28,890	-
<u>-</u>	<u>270,000</u>	<u>50,000</u>	<u>220,000</u>	<u>4,617</u>	<u>-</u>
<u>\$1,097,000</u>	<u>\$270,000</u>	<u>\$152,000</u>	<u>\$1,215,000</u>	<u>\$ 37,447</u>	<u>\$ -</u>
<u>\$1,707,895</u>	<u>\$610,105</u>	<u>\$ 84,000</u>	<u>\$2,234,000</u>	<u>\$ 65,418</u>	<u>\$ -</u>
<u>\$ 268,277</u>	<u>\$ -</u>	<u>\$268,277</u>	<u>\$ -</u>	<u>\$ 2,529</u>	<u>\$ -</u>
<u><b>\$3,073,172</b></u>	<u><b>\$880,105</b></u>	<u><b>\$504,277</b></u>	<u><b>\$3,449,000</b></u>	<u><b>\$105,394</b></u>	<u><b>\$ -</b></u>

CITY OF NASHUA, IOWA  
BOND MATURITIES  
JUNE 30, 2010

Year Ending June 30,	G E N E R A L     O B L I G A T I O N			
	Essential Corporate Purpose		Essential Corporate Purpose	
	Issued January 30, 2008		Issued June 11, 2008	
	Interest Rates	Amount	Interest Rate	Amount
2011	2.90%	\$ 70,000	3.00%	\$ 39,000
2012		-	3.00	41,000
2013		-	3.00	42,000
2014		-	3.00	43,000
2015		-	3.00	44,000
2016		-	3.00	46,000
2017		-	3.00	47,000
2018		-	3.00	49,000
2019		-	3.00	50,000
2020		-	3.00	52,000
2021		-	3.00	53,000
2022		-	3.00	55,000
2023		-	3.00	56,000
2024		-	3.00	58,000
2025		-	3.00	60,000
2026		-	3.00	62,000
2027		-	3.00	63,000
2028		-	3.00	65,000
<b>Total</b>		<b><u>\$ 70,000</u></b>		<b><u>\$925,000</u></b>

Year Ending June 30,	Revenue Bonds	
	Sewer Revenue Bonds	
	Issued August 6, 2008	
Interest Rates	Amount	
2011	3.00%	\$ 87,000
2012	3.00	90,000
2013	3.00	93,000
2014	3.00	96,000
2015	3.00	99,000
2016	3.00	102,000
2017	3.00	105,000
2018	3.00	109,000
2019	3.00	112,000
2020	3.00	116,000
2021	3.00	119,000
2022	3.00	123,000
2023	3.00	127,000
2024	3.00	132,000
2025	3.00	136,000
2026	3.00	140,000
2027	3.00	145,000
2028	3.00	149,000
2029	3.00	154,000
<b>Total</b>		<b><u>\$2,234,000</u></b>

*See Accompanying Independent Auditor's Report.*

<u>B O N D S</u>		
Welcome		
Center Notes		
<u>Issued October 28, 2009</u>		
<u>Interest Rate</u>	<u>Amount</u>	<u>Total</u>
2.85%	\$ 52,000	\$ 161,000
2.85	54,000	95,000
2.85	56,000	98,000
2.85	58,000	101,000
	-	44,000
	-	46,000
	-	47,000
	-	49,000
	-	50,000
	-	52,000
	-	53,000
	-	55,000
	-	56,000
	-	58,000
	-	60,000
	-	62,000
	-	63,000
	-	65,000
	<u>\$220,000</u>	<u>\$1,215,000</u>



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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:

I 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 Nashua, 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 my report thereon dated October 15, 2010. My report on the financial statements, which were prepared in conformity with an other comprehensive basis of accounting, expressed qualified opinions since I was unable to satisfy myself as to the distribution by fund of the total fund balance at July 1, 2009. I conducted my 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 my audit, I considered the City of Nashua's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Nashua's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the City of Nashua's internal control over financial reporting

My 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, I identified certain deficiencies in internal control over financial reporting I consider to be material weaknesses and other deficiencies I 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 Nashua's financial statements will not be prevented or detected and corrected on a timely basis. I consider the deficiencies described in the accompanying Schedule of Findings as items (A),(D),(E), (F), (G), (J) and (K) and 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. I consider the deficiencies described in the accompanying Schedule of Findings as items (B), (C), (H) and (I) to be significant deficiencies.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Nashua's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations and contracts, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, I 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, 2006 are based exclusively on knowledge obtained from procedures performed during my audit of the financial statements of the City. Since my 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 Nashua's responses to findings identified in my audit are described in the accompanying Schedule of Findings. While I have expressed my conclusions on the City's responses, I did not audit the City of Nashua's responses and, accordingly, I 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 Nashua and other parties to whom the City of Nashua may report, and is not intended to be and should not be used by anyone other than these specified parties.

I would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Nashua during the course of my audit. Should you have any questions concerning any of the above matters, I shall be pleased to discuss them with you at your convenience.



October 15, 2010

CITY OF NASHUA, IOWA  
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. I noted that certain accounting functions are not properly segregated.

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

Response - We will review procedures and make changes to improve internal control where possible.

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

- (B) Disaster Recovery Plan and Information Systems - During our review of internal control, the existing control activities in the City's computer based systems were evaluated in order to determine that 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.

I noted that the City does not have written policies for password privacy and confidentiality. Daily computer backups are not kept off-site.

Also, the City does not have a disaster recovery plan that should address specific details such as identification of critical applications, staff responsibilities, equipment and software inventory, use documentation, etc.

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

Response - The City will look into this.

Conclusion - Response acknowledged.

- (C) Delinquent Utilities - The City has not been fully enforcing the ordinance pertaining to delinquent utilities. I noted that shut-offs were not being implemented when accounts become fully delinquent.

Recommendation - The City should comply with its ordinance pertaining to delinquent utilities. This will also result in improvement of cash flow by collecting delinquent accounts.

Response - We will look into this.

Conclusion - Response accepted.

CITY OF NASHUA, IOWA  
Schedule of Findings  
Year Ended June 30, 2010

**Findings Related to the Financial Statements:** - continued

- (D) Recording of Note Proceeds - During the year, the City received \$270,000 of General Obligation Note Proceeds which were used to payoff interest and principal on the Welcome Center Anticipation Notes. This transaction was not recorded in the City's general ledger. This resulted in the understatement of both the City's receipts and disbursements.

Recommendation - The City should record all financial transactions in the general ledger.

Response - We will review procedures for recording of financial transactions.

Conclusion - Response acknowledged.

- (E) Recording of Transfers Between Funds - During the year, the City did not properly record in the general ledger money transferred between funds. Transfers out of the Sewer Rental Fund and the Local Option Sales Tax Fund were posted as negative receipts in those respective funds. This resulted in the understatement of the City's receipts and transfers out. The transfer of funds from the Tax Increment Financing Fund to the General Fund was not recorded in the general ledger.

Recommendation - The City should record all transfers between funds in the general ledger. Maintaining separate transfer in and transfer out accounts will allow the City to ensure transfers in always equal transfers out.

Response - We will review procedures for recording of transfers between funds.

Conclusion - Response acknowledged.

- (F) Countersignature of Checks - The City requires checks to be signed by two authorized individuals. I noted checks with only one authorized signature.

Recommendation - Checks should be prepared and signed by one individual and then the supporting documentation should be made available along with the check to a second independent individual for review and countersignature.

Response - We will follow procedures for two signatures on all checks.

Conclusion - Response accepted.

- (G) Posting of Financial Transactions - Due to the limitations of the general ledger accounting package, the City Clerk types some checks manually and then enters the information in the computer after the fact. In the general ledger, checks were noted with incorrect check dates and sequential checks were noted with dates out of sequence.

CITY OF NASHUA, IOWA  
Schedule of Findings  
Year Ended June 30, 2010

Findings Related to the Financial Statements: - continued

Recommendation - More care should be exercised when posting transactions to reduce the incidence of discrepancies in dates and check numbers and to provide accurate financial information.

Response - We will investigate the costs of computer software updates to eliminate the need to enter transactions after the fact. In the future, more care will be exercised when posting transactions to the computer and manually typing checks.

Conclusion - Response accepted.

- (H) Welcome Center Cash Drawer - The Welcome Center has an established cash drawer amount in order to make change for customers. The cash is reconciled periodically to an amount believed to be sufficient for operations rather than back to the established cash amount.

Recommendation - The cash on hand should be reconciled to the established amount at all times.

Response - We will try to implement this.

Conclusion - Response accepted.

- (I) Post-dated Checks - I noted checks that cleared the bank on the day prior to the date the check was issued.

Recommendation - The City should avoid the use of post-dating checks.

Response - We will discontinue the use of post-dating checks in the future.

Conclusion - Response accepted.

- (J) Bank Signature Cards - I noted that one bank signature card was not current.

Recommendation - All bank authorized signature cards should be reviewed and updated. Only current City employees or officials should be authorized signers.

Response - We will review all signature cards and update them per guidelines recommended.

Conclusion - Response accepted.

**CITY OF NASHUA, IOWA**  
**Schedule of Findings**  
**Year Ended June 30, 2010**

**Findings Related to the Financial Statements:** - continued

- (K) Preparation of Financial Statements - The City does not have an internal control system designed to provide for the preparation of the financial statements in accordance with an other comprehensive basis of accounting, nor has management identified risks related to the preparation of reliable financial statements and as a result has failed to design effective controls over the preparation of the financial statements to prevent or detect material misstatements. Therefore, as auditor, I was requested to draft the financial statements and accompanying notes to the financial statements. This circumstance is not unusual for a governmental entity similar in population to the City. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Recommendation - I recognize that with a limited number of office employees, preparation of the financial statements is difficult. However, I recommend that City officials continue reviewing operating procedures in order to obtain the maximum internal control possible under the circumstances.

Response - The City will continue to review and monitor procedures currently in place and evaluate the risks to be accepted in preparation of the financial statements.

Conclusion - Response accepted.

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

**Other Findings Related to Required Statutory Reporting:**

- (1) Certified Budget - Disbursements during the year ended June 30, 2010, exceeded the amount budgeted in the debt service function. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

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

Response - We will do this in the future.

Conclusion - Response accepted.

- (2) Questionable Disbursements - No disbursements were noted that I believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

- (3) Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

CITY OF NASHUA, IOWA  
Schedule of Findings  
Year Ended June 30, 2010

Other Findings Related to Required Statutory Reporting: - continued

- (4) Business Transactions - Business transactions between the City and City officials are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Paul Becthold, Employee, owner of Becthold Plumbing	Services	\$ 838
Bill Neal, spouse of Employee	Services	50

In accordance with chapter 362.5 (11) of the Code of Iowa, the transactions with Paul Becthold and Bill Neal do not appear to represent a conflict of interest since total transactions were less than \$2,500 during the fiscal year.

- (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 insure that the coverage is adequate for current operations.

- (6) Council Minutes - No transactions were found that I believe should have been approved in the Council minutes but were not. However, I noted that some minutes were not signed as required by Chapter 380.7(3) of the Code of Iowa. The minutes should be signed to authenticate the record.

Recommendation - The City should sign all minutes in order to be in compliance with the Code of Iowa

Response - We will do this.

Conclusion - Response acknowledged.

- (7) Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.

- (8) Urban Renewal Tax Increment (TIF) Rebate Agreements - During the year ended June 30, 2010, urban renewal tax increment rebate payments were made from the General Fund. In accordance with Chapter 403.19(2) of the Code of Iowa, TIF debt payments should be made from the Special Revenue, Tax Increment Financing Fund.

Recommendation - Future tax increment financing rebate payments should be made from the Special Revenue, Tax Increment Financing Fund as required by Chapter 403.19(2) of the Code of Iowa.

Response - The City will do this.

Conclusion - Response accepted.

CITY OF NASHUA, IOWA  
Schedule of Findings  
Year Ended June 30, 2010

**Other Findings Related to Required Statutory Reporting:** - continued

(9)            Utility Billings - The City is not billing customers for sewer usage in accordance with the City Code of Ordinance.

Recommendation - The City should take necessary steps to comply with the City Code when billing customers for sewer rates.

Response - These items will be corrected.

Conclusion - Response accepted.