

CITY OF NASHUA, IOWA

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

JUNE 30, 2011

- 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>
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, 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 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

In my 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 Nashua 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, I have also issued my report dated January 30, 2012 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 grant agreements 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 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 my audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 8 and 25 through 27 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 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 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 that reads "Larry Pump".

January 30, 2012

## 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, 2011. I encourage readers to consider this information in conjunction with the City's financial statements, which follow.

### **2011 FINANCIAL HIGHLIGHTS**

Receipts of the City's governmental activities decreased 45%, or approximately \$1,097,000 from fiscal year 2010 to fiscal year 2011. Other general receipts and bond proceeds decreased approximately \$767,000 and \$270,000, respectively.

Disbursements of the City's governmental activities decreased 17%, or approximately \$295,000, in fiscal year 2011 from fiscal year 2010. Debt service disbursements decreased approximately \$259,000.

The City's total cash basis net assets increased 26%, or approximately \$461,853, from June 30, 2010 to June 30, 2011. Of this amount, the assets of the governmental activities increased approximately \$81,420 and the assets of the business type activities increased by approximately \$380,433.

### **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 funds, and 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, health and social services, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.

Business Type Activities include the waterworks and the sanitary sewer system. These activities are financed primarily by user charges.

### *Fund Financial Statements*

The City has two kinds of funds:

1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and 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 statement for governmental funds is a statement of cash receipts, disbursements and changes in cash balances.

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

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

## **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from a year ago, increasing from \$1,434,884 to \$1,516,304. 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**  
(Expressed in Thousands)

	<u>Year ended June 30,</u>	
	<u>2011</u>	<u>2010</u>
Receipts:		
Program receipts:		
Charges for service	\$ 101	\$ 73
Operating grants, contributions and restricted interest	404	456
Capital grants, contributions and restricted interest	28	52
General receipts:		
Property tax	566	584
Local option sales tax	134	138
Unrestricted interest on investments	29	19
Other general receipts	84	851
Bond proceeds	-	270
Total receipts	<u>\$1,346</u>	<u>\$2,443</u>
Disbursements:		
Public safety	\$ 384	\$ 426
Public works	165	184
Health and social service	11	11
Culture and recreation	150	194
Community and economic development	250	172
General government	106	115
Debt service	359	618
Total disbursements	<u>\$1,425</u>	<u>\$1,720</u>
Change in cash basis net assets before transfers	\$ (79)	\$ 723
Transfers, net	<u>160</u>	<u>153</u>
Change in cash basis net assets	\$ 81	\$ 876
Cash basis net assets beginning of year	<u>1,435</u>	<u>559</u>
Cash basis net assets end of year	<u>\$1,516</u>	<u>\$1,435</u>

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

	<u>Year ended June 30,</u>	
	<u>2011</u>	<u>2010</u>
Receipts:		
Program receipts:		
Charges for service:		
Water	\$ 225	\$ 239
Sewer	315	321
Other	2	2
Capital grants, contribution and restricted interest	771	123
General receipts:		
Bond proceeds	200	610
Unrestricted interest on investments	1	1
Total receipts	<u>\$1,514</u>	<u>\$1,296</u>
Disbursements:		
Water	\$ 784	\$ 333
Sewer	187	744
Other	2	2
Total disbursements	<u>\$ 973</u>	<u>\$1,079</u>
Change in cash basis net assets before transfers	\$ 541	\$ 217
Transfers, net	<u>(160)</u>	<u>(153)</u>
Change in cash basis net assets	\$ 381	\$ 64
Cash basis net assets beginning of year	<u>348</u>	<u>284</u>
Cash basis net assets end of year	<u>\$ 729</u>	<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 \$1,516,304, an increase of \$81,420 from last year's total of \$1,434,884. 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 \$21,795 from the prior year to \$1,359,769. This increase was due mainly to contributions made to the City by an individual's estate.

The Special Revenue, Road Use Tax Fund cash balance increased by \$34,057 to \$34,076 due to receipts in excess of current year disbursements.

The Debt Service Fund cash balance decreased by \$40,261 to \$40,447 during the fiscal year. This decrease was attributable to property tax receipts lower than the previous year.

**INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS**

The Enterprise, Water Fund cash balance increased by \$402,272 to \$425,891, due primarily to revenue note proceeds.

The Enterprise, Sewer Rental Fund cash balance decreased by \$21,939 to \$297,821, due primarily to a decrease in operating receipts.

**BUDGETARY HIGHLIGHTS**

Over the course of the year, the City amended its budget once on May 16, 2011. This resulted in an increase in operating disbursements related to health and social services, culture and recreation, community and economic development and debt service of approximately \$395,100. The City had sufficient increased revenues and cash balances to absorb these additional costs. The City exceeded the amounts budgeted prior to the amendment.

**DEBT ADMINISTRATION**

At June 30, 2011, the City had approximately \$3,401,000 in bonds and other long-term debt, compared to approximately \$3,449,000 last year, as follows:

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

	June 30,	
	2011	2010
General obligation notes and bonds	\$1,054	\$1,215
Revenue bonds and notes	2,347	2,234
Total	<u>\$3,401</u>	<u>\$3,449</u>

The City incurred new debt during 2011 of \$200,000. The City issued \$200,000 of Water Revenue Notes to finance the Water Project. 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 \$1,054,000 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 2012 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, 2011

	<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	\$ 383,502	\$ -	\$ 18,972	\$ 27,800
Public works	164,781	27,821	157,046	-
Health and social services	10,704	-	-	-
Culture and recreation	150,991	50,855	62,604	-
Community and economic development	249,544	-	155,155	-
General government	106,328	22,250	10,295	-
Debt service	<u>359,083</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total governmental activities	<u>\$1,424,933</u>	<u>\$ 100,926</u>	<u>\$ 404,072</u>	<u>\$ 27,800</u>
Business type activities:				
Water	\$ 783,649	\$ 225,028	\$ -	\$ 760,893
Sewer rental	187,487	314,425	-	9,785
Utility deposit	<u>1,450</u>	<u>1,550</u>	<u>-</u>	<u>-</u>
Total business type activities	<u>\$ 972,586</u>	<u>\$ 541,003</u>	<u>\$ -</u>	<u>\$ 770,678</u>
Total	<u>\$2,397,519</u>	<u>\$ 641,929</u>	<u>\$ 404,072</u>	<u>\$ 798,478</u>

(Continued)

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

<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
\$ (336,730)	\$ -	\$ (336,730)
20,086	-	20,086
(10,704)	-	(10,704)
(37,532)	-	(37,532)
(94,389)	-	(94,389)
(73,783)	-	(73,783)
<u>(359,083)</u>	<u>-</u>	<u>(359,083)</u>
\$ (892,135)	\$ -	\$ (892,135)
\$ -	\$ 202,272	\$ 202,272
-	136,723	136,723
<u>-</u>	<u>100</u>	<u>100</u>
\$ -	\$ 339,095	\$ 339,095
\$ (892,135)	\$ 339,095	\$ (553,040)

CITY OF NASHUA, IOWA  
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2011

**General Receipts and Transfers:**

Property and other city tax levied for:  
    General purposes  
    Debt service  
Tax increment financing  
Local option sales tax  
Unrestricted interest on investments  
Miscellaneous  
Note 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>
\$ 446,195	\$ -	\$ 446,195
92,111	-	92,111
27,589	-	27,589
134,211	-	134,211
29,485	943	30,428
84,359	-	84,359
-	200,000	200,000
<u>159,605</u>	<u>(159,605)</u>	<u>-</u>
\$ 973,555	\$ 41,338	\$ 1,014,893
\$ 81,420	\$ 380,433	\$ 461,853
<u>1,434,884</u>	<u>348,101</u>	<u>1,782,985</u>
<b><u>\$ 1,516,304</u></b>	<b><u>\$ 728,534</u></b>	<b><u>\$ 2,244,838</u></b>
\$ 1,000,262	\$ -	\$ 1,000,262
34,076	-	34,076
40,447	-	40,447
259,754	-	259,754
<u>181,765</u>	<u>728,534</u>	<u>910,299</u>
<b><u>\$ 1,516,304</u></b>	<b><u>\$ 728,534</u></b>	<b><u>\$ 2,244,838</u></b>

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, 2011**

	<u>General</u>	<u>Special Revenue Road Use Tax</u>	<u>Debt Service</u>
<b>RECEIPTS:</b>			
Property tax	\$ 317,606	\$ -	\$ 92,111
Tax increment financing	-	-	-
Other city tax	-	-	-
Licenses and permits	2,109	-	-
Use of money and property	29,149	-	-
Intergovernmental	278,043	148,447	-
Charges for service	78,676	-	-
Miscellaneous	109,882	-	-
Total receipts	<u>\$ 815,465</u>	<u>\$ 148,447</u>	<u>\$ 92,111</u>
<b>DISBURSEMENTS:</b>			
Operating:			
Public safety	\$ 296,430	\$ -	\$ -
Public works	28,253	114,390	-
Health and social services	10,704	-	-
Culture and recreation	143,273	-	-
Community and economic development	247,243	-	-
General government	94,743	-	-
Debt service	-	-	359,083
Total disbursements	<u>\$ 820,646</u>	<u>\$ 114,390</u>	<u>\$ 359,083</u>
Excess (deficiency) of receipts over (under) disbursements	<u>\$ (5,181)</u>	<u>\$ 34,057</u>	<u>\$ (266,972)</u>
Other financing sources (uses):			
Operating transfers in	\$ 84,972	\$ -	\$ 226,711
Operating transfers out	(57,996)	-	-
Total other financing sources (uses)	<u>\$ 26,976</u>	<u>\$ -</u>	<u>\$ 226,711</u>
Net change in cash balances	\$ 21,795	\$ 34,057	\$ (40,261)
Cash balances beginning of year	1,337,974	19	80,708
<b>Cash balances end of year</b>	<b><u>\$1,359,769</u></b>	<b><u>\$ 34,076</u></b>	<b><u>\$ 40,447</u></b>
<b>Cash Basis Fund Balances:</b>			
Nonspendable	\$1,000,262	\$ -	\$ -
Restricted for:			
Debt service	-	-	40,447
Streets	-	34,076	-
Other purposes	177,742	-	-
Unassigned	181,765	-	-
Total cash basis fund balances	<u>\$1,359,769</u>	<u>\$ 34,076</u>	<u>\$ 40,447</u>

*See Notes to Financial Statements.*

<u>Nonmajor</u>	<u>Total</u>
\$ 128,589	\$ 538,306
27,589	27,589
134,211	134,211
-	2,109
336	29,485
-	426,490
-	78,676
-	109,882
<u>\$ 290,725</u>	<u>\$1,346,748</u>
\$ 87,072	\$ 383,502
22,138	164,781
-	10,704
7,718	150,991
2,301	249,544
11,585	106,328
-	359,083
<u>\$ 130,814</u>	<u>\$1,424,933</u>
<u>\$ 159,911</u>	<u>\$ (78,185)</u>
\$ 57,996	\$ 369,679
(152,078)	(210,074)
<u>\$ (94,082)</u>	<u>\$ 159,605</u>
\$ 65,829	\$ 81,420
<u>16,183</u>	<u>1,434,884</u>
<u><b>\$ 82,012</b></u>	<u><b>\$1,516,304</b></u>
\$ -	\$1,000,262
-	40,447
-	34,076
82,012	259,754
-	181,765
<u><b>\$ 82,012</b></u>	<u><b>\$1,516,304</b></u>

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, 2011

	<u>Enterprise Funds</u>		
	<u>Water</u>	<u>Sewer Rental</u>	<u>Nonmajor Utility Deposit</u>
Operating receipts:			
Charges for service	\$ 225,028	\$ 314,425	\$ 1,550
Operating disbursements:			
Business type activities	<u>783,649</u>	<u>187,487</u>	<u>1,450</u>
Excess (deficiency) of operating receipts Over (under) operating disbursements	\$ (558,621)	\$ 126,938	\$ 100
Non-operating receipts:			
Intergovernmental	\$ 760,893	\$ 9,785	\$ -
Interest on investments	-	943	-
Net non-operating receipts	<u>\$ 760,893</u>	<u>\$ 10,728</u>	<u>\$ -</u>
Excess of receipts over disbursements	<u>\$ 202,272</u>	<u>\$ 137,666</u>	<u>\$ 100</u>
Other financing sources (uses):			
Revenue note proceeds	\$ 200,000	\$ -	\$ -
Operating transfer out	-	(159,605)	-
Total other financing sources (uses)	<u>\$ 200,000</u>	<u>\$ (159,605)</u>	<u>\$ -</u>
Net change in cash balances	\$ 402,272	\$ (21,939)	\$ 100
Cash balances beginning of year	<u>23,619</u>	<u>319,760</u>	<u>4,722</u>
Cash balances end of year	<u>\$ 425,891</u>	<u>\$ 297,821</u>	<u>\$ 4,822</u>
<b>Cash Basis Fund Balances</b>			
Unrestricted	<u>\$ 425,891</u>	<u>\$ 297,821</u>	<u>\$ 4,822</u>

*See Notes to Financial Statements.*

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<b>Total</b>
\$ 541,003
<u>972,586</u>
<u>\$ (431,583)</u>
\$ 770,678
943
<u>\$ 771,621</u>
<u>\$ 340,038</u>
\$ 200,000
<u>(159,605)</u>
<u>\$ 40,395</u>
\$ 380,433
<u>348,101</u>
<u>\$ 728,534</u>
<b><u>\$ 728,534</u></b>

CITY OF NASHUA, IOWA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011

(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, health and social services, culture and recreation, community and economic development and general government services. The City also provides water and sewer utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of 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 categories/components:

Nonexpendable restricted net assets are subject to externally imposed stipulations which require them to be maintained permanently by the City.

CITY OF NASHUA, IOWA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011

(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 not meeting the definition of the preceding categories. 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.

The Special Revenue, 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 Debt Service Fund is utilized to account for property tax and other revenues to be used for the payment of interest and principal on the City's general long-term debt.

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

CITY OF NASHUA, IOWA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011

(1) Summary of Significant Accounting Policies - continued

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.

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

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

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

D. Governmental Cash Basis Fund Balances

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

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

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

Assigned - Amounts the Council intends to use for specific purposes.

Unassigned - All amounts not included in other spendable classifications.

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 health and social services function prior to the amendment of the budget.

**CITY OF NASHUA, IOWA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

**(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.

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) to 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 and notes are as follows:

Year Ending June 30,	<u>General Obligation Bonds and Notes</u>		<u>Revenue Bonds and Notes</u>		<u>Total</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2012	\$ 95,000	\$ 31,368	\$ 126,000	\$ 72,810	\$ 221,000	\$ 104,178
2013	98,000	28,599	131,000	66,630	229,000	95,229
2014	101,000	25,743	136,000	62,700	237,000	88,443
2015	44,000	22,800	141,000	58,620	185,000	81,420
2016	46,000	21,480	146,000	54,390	192,000	75,870
2017-2021	251,000	85,890	561,000	217,440	812,000	303,330
2022-2026	291,000	45,930	658,000	127,710	949,000	173,640
2027-2029	128,000	5,790	448,000	27,150	576,000	32,940
Total	<u>\$1,054,000</u>	<u>\$267,600</u>	<u>\$2,347,000</u>	<u>\$687,450</u>	<u>\$3,401,000</u>	<u>\$ 955,050</u>

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 and notes issue of 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.

CITY OF NASHUA, IOWA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011

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

Revenue Bonds and Notes

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay \$2,318,000 in sewer revenue bonds issued in August 2008. Proceeds from the bonds provided financing for the construction of improvements to the sewer treatment plant. The bonds are payable solely from sewer customer net receipts and are payable through 2029. The total principal and interest remaining to be paid on the bonds is \$2,813,450. For the current year, principal and interest paid and total customer net receipts were \$154,020 and \$126,938, respectively.

The City has pledged future water customer receipts, net of specified operating disbursements, to repay \$200,000 in water revenue notes issued in January 2011. Proceeds from the notes provided financing for the improvements to the municipal waterworks system. The notes are payable solely from water customer net receipts and are payable through 2016. Annual principal and interest payments on the notes are expected to require less than 40% of net receipts. The total principal and interest remaining to be paid on the notes is \$221,000. For the current year, there was no principal and interest paid and total customer net receipts were \$(558,621).

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

- a) At the option of the City, sewer revenue bonds may be called for redemption and paid before maturity on said date or any date thereafter, from any funds regardless of source, in whole or from time to time in part, in any order of maturity and within an annual maturity by lot. The terms of redemption shall be par plus accrued interest to date of call.
- b) At the option of the City, notes due on the Water Revenue Notes issue of January 6, 2011 are subject to redemption and prepayment in any order of maturity at any time.
- c) The bonds and notes will only be redeemed from the future earnings of the enterprise activities revenue and bond holders hold a lien on the future earnings of the funds.
- d) Sufficient monthly transfers shall be made to a separate water revenue sinking fund for the purpose of making the principal and interest payments when due on the notes issued January 2011.

(4) **Pension and Retirement Benefits**

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

CITY OF NASHUA, IOWA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011

(4) **Pension and Retirement Benefits** - continued

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 \$27,658 and \$26,186, respectively, equal to the required contributions for each year.

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

**Plan Description** - The City operates a single-employer health benefit plan which provides medical/prescription drug benefits for employees and retirees and their spouses. There are 8 active and no retired members in the plan. Retired participants must be age 55 or older at retirement.

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

**Funding Policy** - The contribution requirements of plan members are established and may be amended by the City. The City currently finances the benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the City and plan members are \$583 for single coverage and \$1,458 for family coverage. The same monthly premiums apply to retirees. For the year ended June 30, 2011, the City contributed \$99,373 and plan members eligible for benefits contributed \$6,150 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, 2011, primarily relating to the General Fund, is \$18,769. This liability has been computed based on rates of pay in effect at June 30, 2011.

(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 645 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 150 percent of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

CITY OF NASHUA, IOWA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011

(7) Risk Management - continued

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, 2011 were \$22,629.

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. For members requiring specific coverage from \$3,000,000 to \$12,000,000, 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, 2011, settled claims have not exceeded the risk pool or reinsurance coverage since the Pool's inception.

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, 2011.

CITY OF NASHUA, IOWA  
 NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2011

(8) **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:	
	Tax Increment Financing	\$ 17,867
	Local Option Sales Tax	67,105
		<u>\$ 84,972</u>
Special Revenue:	General	
Tax Increment Financing		\$ 57,996
Debt Service	Special Revenue:	
	Local Option Sales Tax	\$ 67,106
	Enterprise:	
	Sewer Rental	159,605
		<u>\$226,711</u>
Total		<u>\$369,679</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 \$1,489 during the year ended June 30, 2011.

(10) **Commitments**

At June 30, 2011, the following construction commitments had been made:

<u>Project</u>	<u>Total</u>	<u>Costs</u>
	<u>Contract</u>	<u>Incurred</u>
		<u>To Date</u>
Cedar Lake Water Main	\$ 217,759	\$186,186
Water Project	122,369	110,729
Water Project	344,068	299,029
Dam Repair	185,435	-
Well Project	499,949	-
	<u>\$1,369,580</u>	<u>\$595,944</u>
Total		

(11) **Litigation**

The City is subject to pending litigation. The probability of loss, if any, is undeterminable.

(12) **Subsequent Events**

On November 7, 2011, the City Council approved the contract for floodwall improvements at a cost of \$270,600.

**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, 2011

	Governmental Funds <u>Actual</u>	Proprietary Funds <u>Actual</u>	Less Funds Not Required to be Budgeted
<b>RECEIPTS:</b>			
Property tax	\$ 538,306	\$ -	\$ -
Tax increment financing collections	27,589	-	-
Other city tax	134,211	-	-
Licenses and permits	2,109	-	-
Use of money and property	29,485	943	-
Intergovernmental	426,490	770,678	-
Charges for service	78,676	541,003	-
Miscellaneous	109,882	-	-
Total receipts	<u>\$ 1,346,748</u>	<u>\$1,312,624</u>	<u>\$ -</u>
<b>DISBURSEMENTS:</b>			
Public safety	\$ 383,502	\$ -	\$ -
Public works	164,781	-	-
Health and social services	10,704	-	-
Culture and recreation	150,991	-	-
Community and economic development	249,544	-	-
General government	106,328	-	-
Debt service	359,083	-	-
Business type activities	-	972,586	-
Total disbursements	<u>\$ 1,424,933</u>	<u>\$ 972,586</u>	<u>\$ -</u>
Excess (deficiency) of receipts over (under) disbursements	\$ (78,185)	\$ 340,038	\$ -
Other financing sources, net	<u>159,605</u>	<u>40,395</u>	<u>-</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	\$ 81,420	\$ 380,433	\$ -
Balances beginning of year	<u>1,434,884</u>	<u>348,101</u>	<u>-</u>
<b>Balances end of year</b>	<u><b>\$ 1,516,304</b></u>	<u><b>\$ 728,534</b></u>	<u><b>\$ -</b></u>

*See Accompanying Independent Auditor's Report.*

<u>Total</u>	<u>Budgeted Amounts</u>		<u>Final to Total Variance</u>
	<u>Original</u>	<u>Final</u>	
\$ 538,306	\$ 516,940	\$ 516,940	\$ 21,366
27,589	20,013	26,013	1,576
134,211	140,230	154,675	(20,464)
2,109	1,918	1,918	191
30,428	26,000	26,000	4,428
1,197,168	2,353,567	2,437,567	(1,240,399)
619,679	609,505	614,505	5,174
109,882	44,380	59,380	50,502
<u>\$2,659,372</u>	<u>\$3,712,553</u>	<u>\$ 3,836,998</u>	<u>\$(1,177,626)</u>
\$ 383,502	\$ 976,046	\$ 976,046	\$ 592,544
164,781	204,128	204,128	39,347
10,704	10,624	10,724	20
150,991	124,778	164,778	13,787
249,544	176,243	276,243	26,699
106,328	126,346	126,346	20,018
359,083	308,968	563,968	204,885
972,586	2,166,505	2,166,505	1,193,919
<u>\$2,397,519</u>	<u>\$4,093,638</u>	<u>\$ 4,488,738</u>	<u>\$ 2,091,219</u>
\$ 261,853	\$ (381,085)	\$ (651,740)	\$ 913,593
<u>200,000</u>	<u>700,000</u>	<u>908,000</u>	<u>(708,000)</u>
\$ 461,853	\$ 318,915	\$ 256,260	\$ 205,593
<u>1,782,985</u>	<u>1,412,008</u>	<u>1,412,008</u>	<u>370,977</u>
<b><u>\$2,244,838</u></b>	<b><u>\$1,730,923</u></b>	<b><u>\$ 1,668,268</u></b>	<b><u>\$ 576,570</u></b>

**CITY OF NASHUA, IOWA**  
**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, Special Revenue Funds, the Debt Service Fund, and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$395,100. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2011, disbursements exceeded the amounts budgeted in the health and social services function prior to being amended.

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, 2011

	Special Revenue			Total
	Employee Benefits	Tax Increment Financing	Local Option Sales Tax	
<b>RECEIPTS:</b>				
Property tax	\$ 128,589	\$ -	\$ -	\$ 128,589
Tax increment financing	-	27,589	-	27,589
Other city tax	-	-	134,211	134,211
Use of money and property	-	336	-	336
Total receipts	<u>\$ 128,589</u>	<u>\$ 27,925</u>	<u>\$ 134,211</u>	<u>\$ 290,725</u>
<b>DISBURSEMENTS:</b>				
Operating:				
Public safety	\$ 87,072	\$ -	\$ -	\$ 87,072
Public works	22,138	-	-	22,138
Culture and recreation	7,718	-	-	7,718
Community and economic development	2,301	-	-	2,301
General government	11,585	-	-	11,585
Total disbursements	<u>\$ 130,814</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 130,814</u>
Excess (deficiency) of receipts over (under) disbursements	<u>\$ (2,225)</u>	<u>\$ 27,925</u>	<u>\$ 134,211</u>	<u>\$ 159,911</u>
Other financing sources (uses):				
Operating transfers in	\$ -	\$ 57,996	\$ -	\$ 57,996
Operating transfers out	-	(17,867)	(134,211)	(152,078)
Total other financing (uses)	<u>\$ -</u>	<u>\$ 40,129</u>	<u>\$ (134,211)</u>	<u>\$ (94,082)</u>
Net change in cash balances	\$ (2,225)	\$ 68,054	\$ -	\$ 65,829
Cash balances beginning of year	<u>16,183</u>	<u>-</u>	<u>-</u>	<u>16,183</u>
<b>Cash balances end of year</b>	<b><u>\$ 13,958</u></b>	<b><u>\$ 68,054</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 82,012</u></b>
<b>Cash Basis Fund Balances:</b>				
Restricted for other purposes	<u>\$ 13,958</u>	<u>\$ 68,054</u>	<u>\$ -</u>	<u>\$ 82,012</u>

*See Accompanying Independent Auditor's Report.*

CITY OF NASHUA, IOWA  
 SCHEDULE OF INDEBTEDNESS  
 YEAR ENDED JUNE 30, 2011

<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 Bonds	06-11-08	3.00	1,000,000
Welcome Center Notes	10-28-09	2.85	270,000
<b>Revenue Notes and Bonds:</b>			
Sewer Revenue Bonds	08-06-08	3.00%	\$2,318,000
Water Revenue Notes	01-06-11	3.00	200,000
<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>
\$ 70,000	\$ -	\$ 70,000	\$ -	\$ 2,058	\$ -
925,000	-	39,000	886,000	27,750	-
220,000	-	52,000	168,000	6,357	-
<u>\$1,215,000</u>	<u>\$ -</u>	<u>\$161,000</u>	<u>\$1,054,000</u>	<u>\$ 36,165</u>	<u>\$ -</u>
\$2,234,000	\$ -	\$ 87,000	\$2,147,000	\$ 67,020	\$ -
-	200,000	-	200,000	-	-
<u>\$2,234,000</u>	<u>\$200,000</u>	<u>\$ 87,000</u>	<u>\$2,347,000</u>	<u>\$ 67,020</u>	<u>\$ -</u>
<u><b>\$3,449,000</b></u>	<u><b>\$200,000</b></u>	<u><b>\$248,000</b></u>	<u><b>\$3,401,000</b></u>	<u><b>\$103,185</b></u>	<u><b>\$ -</b></u>

CITY OF NASHUA, IOWA  
BOND AND NOTE MATURITIES  
JUNE 30, 2011

Year Ending June 30,	G E N E R A L O B L I G A T I O N B O N D S A N D N O T E S				
	Essential		Welcome		
	Corporate Purpose		Center Notes		
	Issued June 11, 2008		Issued October 28, 2009		
	Interest Rates	Amount	Interest Rate	Amount	Total
2012	3.00%	\$ 41,000	2.85%	\$ 54,000	\$ 95,000
2013	3.00	42,000	2.85	56,000	98,000
2014	3.00	43,000		58,000	101,000
2015	3.00	44,000		-	44,000
2016	3.00	46,000		-	46,000
2017	3.00	47,000		-	47,000
2018	3.00	49,000		-	49,000
2019	3.00	50,000		-	50,000
2020	3.00	52,000		-	52,000
2021	3.00	53,000		-	53,000
2022	3.00	55,000		-	55,000
2023	3.00	56,000		-	56,000
2024	3.00	58,000		-	58,000
2025	3.00	60,000		-	60,000
2026	3.00	62,000		-	62,000
2027	3.00	63,000		-	63,000
2028	3.00	65,000		-	65,000
<b>Total</b>		<b>\$886,000</b>		<b>\$168,000</b>	<b>\$1,054,000</b>

Year Ending June 30,	R E V E N U E B O N D S A N D N O T E S				
	Sewer Revenue Bonds		Water Revenue Notes		
	Issued August 6, 2008		Issued January 6, 2011		
	Interest Rates	Amount	Interest Rate	Amount	Total
2012	3.00%	\$ 90,000	3.00%	\$ 36,000	\$ 126,000
2013	3.00	93,000	3.00	38,000	131,000
2014	3.00	96,000	3.00	40,000	136,000
2015	3.00	99,000	3.00	42,000	141,000
2016	3.00	102,000	3.00	44,000	146,000
2017	3.00	105,000		-	105,000
2018	3.00	109,000		-	109,000
2019	3.00	112,000		-	112,000
2020	3.00	116,000		-	116,000
2021	3.00	119,000		-	119,000
2022	3.00	123,000		-	123,000
2023	3.00	127,000		-	127,000
2024	3.00	132,000		-	132,000
2025	3.00	136,000		-	136,000
2026	3.00	140,000		-	140,000
2027	3.00	145,000		-	145,000
2028	3.00	149,000		-	149,000
2029	3.00	154,000		-	154,000
<b>Total</b>		<b>\$2,147,000</b>		<b>\$ 200,000</b>	<b>\$2,347,000</b>

*See Accompanying Independent Auditor's Report.*

CITY OF NASHUA, IOWA  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 YEAR ENDED JUNE 30, 2011

<u>GRANTOR/PROGRAM</u>	<u>CFDA NUMBER</u>	<u>AGENCY PASS-THROUGH NUMBER</u>	<u>PROGRAM EXPENDITURES</u>
<b>Direct:</b>			
U.S. Department of Agriculture:			
Community Facilities Loans and Grants	10.766		\$ <u>10,295</u>
<b>Indirect:</b>			
U.S. Department of Housing and Urban Development:			
Iowa Department of Economic Development:			
Community Development Block Grant Program	14.228	09-HSG-060 08-DRI-012	\$ 158,252 668,446 <u>\$ 826,698</u>
U.S. Department of Homeland Security:			
Iowa Homeland Security and Emergency Management Division:			
Disaster Recovery	97.036	DR-1763	\$ <u>147,959</u>
Hazard Mitigation Grant	97.039	HMGP	\$ <u>8,634</u>
Fire	97.044	EMW-2009	\$ <u>27,801</u>
Total Indirect			<u>\$1,011,092</u>
<b>Total</b>			<b><u>\$1,021,387</u></b>

**Basis of Presentation** - The Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Nashua 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.*



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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, 2011, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued my report thereon dated January 30, 2012. My report expressed unqualified opinions on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. 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 Part II of the accompanying Schedule of Findings as items II-A-11, II-D-11, II-E-11 and IV-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. I consider the deficiencies described in Part II of the accompanying Schedule of Findings as items II-B-11, II-C-11 and II-F-11 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 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 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 Part IV of the accompanying Schedule of Findings.

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 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, 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.

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.



January 30, 2012



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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

I have audited the City of Nashua, 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 Nashua's major federal program for the year ended June 30, 2011. The City of Nashua's major federal program is identified in Part I of the accompanying Schedule of Findings. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to its major federal program is the responsibility of the City of Nashua's management. My responsibility is to express an opinion on the City of Nashua's compliance based on my audit.

I conducted my 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 I 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 Nashua's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances. I believe my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination on the City of Nashua's compliance with those requirements.

In my opinion, the City of Nashua 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. However, the results of my auditing procedures disclosed an instance of non-compliance with those requirements which is required to be reported in accordance with OMB Circular A-133 and is described as item III-A-11 in the accompanying Schedule of Findings.

## Internal Control Over Compliance

The management of the City of Nashua 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 my audit, I considered the City of Nashua's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine my auditing procedures for the purpose of expressing my 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, I do not express an opinion on the effectiveness of the City of Nashua's internal control over compliance.

My 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, I identified a deficiency in internal control over compliance I consider to be a material weakness.

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 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. I consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings as item III-A-11 to be a material weakness.

The City of Nashua's response to the finding identified in my audit is described in the accompanying Schedule of Findings. While I have expressed my conclusion on the City's response, I did not audit the City of Nashua's response and, accordingly, I express no opinion on it.

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, 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.



January 30, 2012

**CITY OF NASHUA, IOWA**  
**Schedule of Findings**  
**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) A material weakness in internal control over the major program was 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 did not disclose any 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 Grant Program.
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) The City of Nashua did not qualify as a low-risk auditee.

**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. 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.

CITY OF NASHUA, IOWA  
Schedule of Findings  
Year Ended June 30, 2011

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

II-B-11      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.

II-C-11      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.

II-D-11      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 Local Option Sales Tax Fund were posted as negative receipts in the fund. This resulted in the understatement of the City's receipts and transfers out.

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.

**CITY OF NASHUA, IOWA**  
**Schedule of Findings**  
**Year Ended June 30, 2011**

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

II-E-11      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.

II-F-11      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.

II-G-11      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.

CITY OF NASHUA, IOWA  
Schedule of Findings  
Year Ended June 30, 2011

**PART III: Findings and Questioned Costs for Federal Awards:**

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

**INTERNAL CONTROL DEFICIENCY:**

**CFDA Number 14.228: Community Development Block Grant Program  
Federal Award Year: 2011  
U.S. Department of Housing and Urban Development  
Passed through the Iowa Department of Economic Development**

III-A-11 The City did not properly segregate custody, recordkeeping and reconciling functions for revenues and expenses, including those related to Federal Programs. See audit finding II-A-11

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

IV-A-11 Certified Budget - Disbursements during the year ended June 30, 2011 exceeded the amount budgeted in the health and social service function prior to being amended. Chapter 384.20 of the Code of Iowa states, in part, "Public monies may not be expended or encumbered except under an annual or continuing appropriation."

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

Response - The budget will be amended in the future, if applicable.

Conclusion - Response accepted.

IV-B-11 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.

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 - 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	\$ 581
Bill Neal, spouse of City Clerk, Rebecca Neal	Consignment sales at the Welcome Center	470
Tom Bussey, spouse of employee	Consignment sales	

**CITY OF NASHUA, IOWA  
Schedule of Findings  
Year Ended June 30, 2011**

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

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Sue Bussey, employee	Consignment sales at the Welcome Center	177
Marlys Cagley, spouse of Council Member, Rolland Cagley	Consignment sales at the Welcome Center	23
Lisa Zwanziger, spouse of employee	Consignment sales at the Welcome Center	40
Kathy Pfilbsen, employee	Consignment sales at the Welcome Center	56

In accordance with chapter 362.5 (3)(k) of the Code of Iowa, the above transactions do not appear to represent a conflict of interest since total transactions with each individual were less than \$2,500 during the fiscal year.

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 insure that the coverage is adequate for current operations.

IV-F-11 Council Minutes - No transactions were found that I believe should have been approved in the Council minutes but were not. However, I noted that minutes do not include a summary of disbursements by fund.

Recommendation - The City should publish a summary of disbursements by fund.

Response - We will do this.

Conclusion - Response acknowledged.

IV-G-11 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.

IV-H-11 Urban Renewal Tax Increment (TIF) Rebate Agreements - During the year ended June 30, 2011, 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 - We will do this.

Conclusion - Response accepted.

CITY OF NASHUA, IOWA  
Schedule of Findings  
Year Ended June 30, 2011

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

IV-I-11      City Code - The City Code was last re-codified in 2006. Chapter 380.8 of the Code of Iowa states in part, "At least once every five years, a City shall compile a code of ordinances containing all of the City ordinances in effect, except grade ordinances, bond ordinances, zoning ordinances and ordinances vacating street and alleys."

Recommendation - The City should review this for compliance.

Response - We are in the process of reviewing this.

Conclusion - Response accepted.