

CITY OF LA PORTE CITY

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

JUNE 30, 2012

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City of La Porte City

Officials

(Before Jan 2012)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Rick Lubben	Mayor	Jan 2014
Todd Butler	Council Member	Jan 2012
Sarah Craft	Council Member	Jan 2012
Mike Spence	Council Member	Jan 2012
Kim Ortiz	Council Member	Jan 2014
Kathy Norris	Council Member	Jan 2014
Jane Whittlesey	Clerk	
Jeffrey Larison	Treasurer	
Matt Craft	Attorney	

(After Jan 2012)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Rick Lubben	Mayor	Jan 2014
Kim Ortiz	Council Member	Jan 2014
Kathy Norris	Council Member	Jan 2014
Todd Butler	Council Member	Jan 2016
Sarah Craft	Council Member	Jan 2016
Mike Johnson	Council Member	Jan 2016
Jane Whittlesey	Clerk	
Corey Lorenzen	Attorney	

Alan W. Flick, C.P.A.
Gina E. Trimble, C.P.A.

Independent Auditor's Report

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To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of La Porte City, Iowa, as of and for the year ended June 30, 2012, 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 La Porte City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of La Porte City as of June 30, 2012, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our reports dated November 6, 2012 on our consideration of the City of La Porte City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of La Porte City's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the eight years ended June 30, 2011 (none of which are presented herein) and expressed unqualified opinions on those financial statements which were prepared in conformity with an other comprehensive basis of accounting. The 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 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the

auditing procedures applied in our audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of La Porte City's basic financial statements. Management's Discussion and Analysis and the budgetary comparison information on pages 6 through 11 and 28 through 30 are presented for purposes of additional analysis and are not a required part of the basic financial statements. This information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.



RIDIHALGH, FUELLING, SNITKER, WEBER & CO., P.C.

November 6, 2012

CITY OF LA PORTE CITY

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MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of La Porte City 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, 2012. It is to be used in conjunction with the City's Annual Report and is intended to explain the significant changes in financial position and differences in operations between the current and prior years.

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

Government-wide Financial Statement

- consists of a Statement of Activities and Net Assets
- provides information about the activities of the City as a whole and presents an overall view of the City's finances

Fund Financial Statements

- tells how governmental services were financed in the short term as well as what remains for future spending
- report the City's operations in more detail than the government-wide statement by providing information about the most significant funds

Notes to Financial Statements

- provide additional information essential to a full understanding of the data provided in the basic financial statements

Required Supplementary Information

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

Other Supplementary Information

- provides detailed information about the non-major governmental funds

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 is a basis other than generally accepted accounting principals, and does not give effect to accounts receivable, accounts payable and accrued items. 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 Statements:

To aid in the understanding of the Statement of Activities, some additional explanation is needed. All receipts and disbursements are categorized as either governmental activities or business-type activities. **Governmental Activities** are financed primarily by property tax, local option sales tax, road use tax and state and federal grants. They are defined as follows:

Public Safety – includes police operations, fire protection, ambulance service, building inspections and animal control services

Public Works – includes roads, bridges and sidewalks, equipment replacement, street lighting, sanitation, traffic safety, snow removal and street cleaning

Health and Social Services – includes welfare assistance

Culture and Recreation – includes library services, parks, recreation, pool, community center and museum

Community and Economic Development – includes economic development, housing rehab, and tax increment financing

General Government – includes mayor, city council, city clerk, city treasurer, legal services, and city hall administrative and building needs

Debt Service – includes principal and interest payments for debt repayment

Capital Projects – major projects including street and infrastructure improvements, the family aquatic center, and a new housing development known as the Sweet Subdivision

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

Fund Financial Statements:

The City has two kinds of funds:

Governmental funds account for most of the City's basic services and include the General Fund, the Special Revenue Funds such as Road Use Tax and Tax Increment Financing, the Debt Service Fund, the Capital Projects Fund, the Equipment Replacement Fund, and the Trust Funds. 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.

Proprietary funds are also known as Business-Type funds. When the City charges customers for the services it provides, these services are generally reported as Proprietary funds. These funds, which include Ambulance and Sewer services, are generally self-sufficient. The required financial statements for Proprietary Funds include a statement of cash receipts, disbursements and changes in cash balances.

Basic Financial Statements

Part of the requirements of the Management Discussion and Analysis is to provide a brief discussion of the Basic Financial Statements included in this Report and the information they provide.

- **Statement of Activities and Net Assets – Cash Basis (Exhibit A)**

The first section of the statement presents the eight governmental **Functions / Programs**. *Disbursements* for each are listed in the first column, with *Charges for Service* and other receipts shown to the right. The result is a Net (Expense) or Revenue, which is helpful in determining the extent to which the programs support themselves.

The Next section lists **General Receipts**, including *Property Tax*, *Local Option Sales Tax* and *Unrestricted Interest*. These revenues are not listed in the first section because they are not generated from the direct operation of the functions/programs.

Finally, the report shows the net assets end of year as \$3,967,850, compared to net assets beginning of the year of \$2,143,129, an increase of \$1,824,720. This increase is a direct result of the City's sale of General Obligation Bonds to finance public improvements.

- **Statement of Cash Receipts, Disbursements and Changes in Cash Balances, Governmental Funds (Exhibit B)**

The City maintains ten funds under the "Governmental" classification. The column titled *General* includes activity in the General and the Economic Development funds. The column titled *Other Nonmajor Governmental Funds* includes activity for the Trust I (Employee Benefits) Fund, the TIF Fund, the Low to Moderate Income Fund (required for the Piphoo Development TIF Project), and the Trust II Fund (established to track memorials, bequests, and contributions). More detailed information on these nonmajor funds is included on the *Statement of Cash Receipts, Disbursements and Changes in Cash Balances – Non-Major Governmental Funds* (Schedule 1).

- **Reconciliation of the Statement of Cash Receipts, Disbursements and Changes in Cash Balances to the Statement of Activities and Net Assets – Governmental Funds (Exhibit C)**

This reconciles any differences in the Cash Ending Balances or Net Change in Cash from Exhibit A and Exhibit B.

- **Statement of Cash Receipts, Disbursements and Changes in Cash Balances, Proprietary Fund (Exhibit D)**

Proprietary Funds are used to report Business Type Activities (activities that are primarily self-supporting through service charges and user fees). The two proprietary funds for the City are the Ambulance and the Sewer Funds.

- **Reconciliation of the Statement of Cash Receipts, Disbursements and Changes in Cash Balances to the Statement of Activities and Net Assets – Proprietary Funds (Exhibit E)**

This reconciles any differences in the Cash Ending Balances or Net Change in Cash from Exhibit A and Exhibit D.

Budgetary Highlights

Over the course of the fiscal year the City amended its budget only one time. The amendment was approved on May 29th, 2012 and provided for additional disbursements in City departments. Public Safety constituted the largest portion of the expense amendments, the majority of which was the final payment on the purchase of a fire truck. Other expenditure amendments included additional costs for the rehabilitation of the City's old fire station, purchase of a sprayer for both mosquito weed spraying, and painting and repairs to the Aquatic Center. Costs related to recovery from the 2008 flood were incurred, comprising \$44,999 of the expenditure. The flood-related projects were completed in FY12, however, ongoing litigation related to buyout payments prevented close out of the program in FY12.

Other Capital Equipment purchases and Capital Improvements that had an impact on this amendment include street rehabilitation projects on Pine and Fillmore Streets, construction of a garage to house police vehicles, sanitary sewer replacement on Highway 218 in conjunction with a DOT replacement project as well as engineering costs related to mandated improvements to the waste water treatment plant. The City received a grant from the Black Hawk County Gaming Association to help finance the police garage project, and will use the proceeds from the sale of general obligation bonds to finance the street and sanitary sewer improvements.

2012 Financial Highlights

- Revenues (not including transfers in) decreased \$81,283 from FY11 to FY12. This decrease is attributable in large part to a reduction in State and Federal grant proceeds for 2008 Flood related activities as well as a reduction in the total amount of grants from other sources.
- From FY11 to FY12 disbursements (not including transfers out) decreased \$79,626. This decrease was a result of a decrease in Public Works Expenditures for Capital Improvements, which was offset somewhat by an increase in expenditures in Public Safety for the construction of the police garage and the final payment on a new fire truck.
- The City's total cash basis net assets increased \$1,847,469 from June 30, 2011 to June 30, 2012. This net change was wholly attributable to the City's issuance of General Obligation Bonds in the amount of \$1,920,000 (net \$1,904,640), which had not yet been expended by fiscal year end.
- The assets of the business type activities of the City decreased \$22,748, with an \$18,796 reduction in the Sewer Fund. The City continues work on a wastewater treatment plant upgrade, and sewer reserves were used to fund the engineering expenses related to that project as well as the purchase of a vehicle for the department. The Ambulance Fund decreased by \$3,952, as the department purchased a vehicle to be used for off road and wilderness rescues.
- The year-end balance of Funds Not Required to be Budgeted increased \$917,684. This total represents transfers between accounts, the majority of which reflected movement of bond proceeds from the Debt Service Fund to the Capital Projects Fund to be used for public improvements.

Debt Administration

As of June 30, 2012, the City had \$4,020,000 in debt outstanding compared to \$2,450,000 in 2011. The City issued bonds totaling \$1,920,000 in Fiscal 2012.

Outstanding Debt at Year End June 30,

2012	2011
------	------

General obligation capital loan notes (FY12)	\$ 1,920,000	
General obligation capital loan notes (FY06)	\$ 505,000	580,000
General obligation capital loan notes (FY05)	\$1,370,000	1,500,000
General obligation capital loan notes (FY04)	\$ 150,000	220,000
General obligation capital loan notes (FY03)	\$ 75,000	150,000
Total	<u>\$4,020,000</u>	<u>2,450,000</u>

The General Obligation Note FY12 was issued for the 2012 and 2013 street rehabilitation projects. The General Obligation Note FY06 was issued for design and construction of a new 30-lot residential development known as the Sweet Subdivision. The General Obligation Note FY05 was issued for the demolition of the existing city pool and construction of the new Family Aquatic Center. The General Obligation Note FY04 was issued for the 2004 street rehabilitation, railroad crossing and Tama Road projects. The General Obligation Note FY03 was issued for the 2003 street rehabilitation project.

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 \$4,020,000 is below its constitutional debt limit of \$5.28 million.

TIF Rebates

In 2006 the State redesigned the TIF certification process. House File 2777 mandates that once TIF indebtedness is certified to the County Auditor, the County Auditor shall provide for TIF increment taxes in subsequent years without further certification, until the amount certified is paid to the municipality. This allows the City to either submit a one-time certification for the total amount to be collected in a TIF district over the life of an agreement, or to certify annually a specific amount to be collected from a TIF district. The City certified TIF debt for three projects in November 2010, to be collected in Fiscal Year 11-12:

Greg & Donna Pipho (\$13,893) – for Sunset Knolls Ninth Addition, the City agreed to pay to the Pipho's property taxes generated from the thirteen lots in this housing division. This is the ninth of ten years for this certification. The TIF fund revenues for this rebate agreement are divided between the amount paid to Greg & Donna Pipho as part of the rebate agreement and the state-required set-aside amount for improvements in low to moderate income areas of the City.

Family Aquatic Center (\$150,297) – when approving the issuance of debt for the new aquatic center, the City Council approved using a combination of TIF funds (\$103,337 FY12), Aquatic Center reserves (\$30,000) and a debt service levy to make the annual payments on the bonds. This is the seventh of fifteen years for this certification.

A portion of the certified FAC TIF debt (\$46,690) was used to make a loan to satisfy the bond payment for the Sweet Subdivision. Once the Sweet Subdivision starts to realize new value and after the bond payments have been satisfied, we will certify \$46,690 from the Sweet TIF to "pay back" the FAC TIF.

Witham Development Agreement (\$6,159)– the City Council agreed to make the interest payments on an eight-year loan Witham received through Black Hawk Economic Development Corporation. The loan enabled Witham to rebuild and expand the business center following a substantial fire. Economic Development Fund reserves were used to make the interest

payments until such time as property taxes on the new value could be recovered. These reserves will be paid back with the final TIF certification after all interest payments have been made. This is the second year for this certification.

Sweet Subdivision – since no incremental taxes are anticipated in FY12, and because there is a ten-year limit on TIF certifications for residential development, the City will not certify any taxes for this area until construction of more new homes is complete and sufficient incremental value is realized.

The bond payment due FY12 was paid with TIF dollars certified from the FAC TIF, and will be “paid back” when all of the bond payment for the Sweet Subdivision have been satisfied.

NOTE: In 2012, the State instituted new reporting requirements for TIF, and placed restrictions on the use of TIF funds for Cities. These changes went into effect July 1, 2012. At this time the City is reviewing the new requirements and restrictions to assess their effect on current and future TIF agreements.

Economic Factors and Next Year’s Budgets

The City of La Porte City’s elected and appointed officials and department heads considered many factors when setting the FY13 budget, tax rates and fees that will be charged for various City activities.

As the City moves forward with mandated improvements to its wastewater treatment plant, scheduled rate increases are planned in an effort to keep the sewer fund self-sustaining. Utilizing general obligation bond proceeds, additional street rehabilitation projects are planned for FY13, and City leaders will also begin planning for future improvements to the City’s commercial district.

Although property tax valuations increased for FY13, the City continues to explore avenues for maintaining costs at a sustainable level.

Factors outside the City’s control, particularly commercial property tax reform could have a significant impact on future revenues and the City’s ability to deliver services at the level citizens have come to expect.

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 Jane Whittlesey, City Clerk, 202 Main Street, La Porte City, Iowa.

Basic Financial Statements

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
Governmental Activities	Business Type Activities	Total
(545,308)	-	(545,308)
(71,066)	-	(71,066)
(5,342)	-	(5,342)
(236,561)	-	(236,561)
(15,552)	-	(15,552)
(71,734)	-	(71,734)
(463,214)	-	(463,214)
(39,362)	-	(39,362)
<u>(1,448,139)</u>	<u>-</u>	<u>(1,448,139)</u>
-	(21,076)	(21,076)
-	14,419	14,419
-	(6,657)	(6,657)
<u>(1,448,139)</u>	<u>(6,657)</u>	<u>(1,454,796)</u>
565,932	-	565,932
168,031	-	168,031
215,955	-	215,955
293,716	-	293,716
-	2,777	2,777
1,904,640	-	1,904,640
127,334	1,132	128,466
20,000	(20,000)	-
<u>3,295,608</u>	<u>(16,091)</u>	<u>3,279,517</u>
1,847,469	(22,748)	1,824,721
<u>1,755,153</u>	<u>387,976</u>	<u>2,143,129</u>
<u>\$ 3,602,622</u>	<u>365,228</u>	<u>3,967,850</u>
\$ -	-	-
102,839	-	102,839
1,320	-	1,320
206,493	-	206,493
36,309	-	36,309
2,313,093	-	2,313,093
467,595	-	467,595
474,973	365,228	840,201
<u>\$ 3,602,622</u>	<u>365,228</u>	<u>3,967,850</u>

Other Nonmajor Governmental Funds	Total
116,586	781,888
168,031	168,031
-	293,716
-	22,815
1,697	21,747
287,218	432,159
-	250,557
57,985	196,988
<u>631,517</u>	<u>2,167,901</u>
56,424	652,402
211,156	492,241
-	5,342
19,686	385,105
11,793	16,272
9,067	144,774
150,297	463,221
41,449	85,715
<u>499,872</u>	<u>2,245,072</u>
<u>131,645</u>	<u>(77,171)</u>
	1,904,640
23,075	2,176,243
(26,053)	(2,156,243)
<u>(2,978)</u>	<u>1,924,640</u>
128,667	1,847,469
446,692	1,755,153
<u>575,359</u>	<u>3,602,622</u>
-	-
102,839	102,839
-	1,320
206,493	206,493
36,309	36,309
-	2,313,093
229,718	467,595
-	474,973
<u>575,359</u>	<u>3,602,622</u>

City of La Porte City

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

As of and for the year ended June 30, 2012

	Sewer	Ambulance	Total
Operating receipts:			
Use of money and property	\$ 2,280	497	2,777
Intergovernmental	-	3,077	3,077
Charges for service	281,636	87,040	368,676
Miscellaneous	-	1,132	1,132
Total operating receipts	<u>283,916</u>	<u>91,746</u>	<u>375,662</u>
Operating disbursements:			
Business type activities	<u>302,712</u>	<u>75,698</u>	<u>378,410</u>
Total operating disbursements	<u>302,712</u>	<u>75,698</u>	<u>378,410</u>
Excess (deficiency) of operating receipts over (under) operating disbursements	<u>(18,796)</u>	<u>16,048</u>	<u>(2,748)</u>
Operating transfers in (out)	<u>-</u>	<u>(20,000)</u>	<u>(20,000)</u>
Net change in cash balances	<u>(18,796)</u>	<u>(3,952)</u>	<u>(22,748)</u>
Cash balances beginning of year	<u>262,798</u>	<u>125,178</u>	<u>387,976</u>
Cash balances end of year	<u>\$ 244,002</u>	<u>121,226</u>	<u>365,228</u>
 Cash Basis Fund Balances			
Unrestricted	<u>\$ 244,002</u>	<u>121,226</u>	<u>365,228</u>
Total cash basis fund balances	<u>\$ 244,002</u>	<u>121,226</u>	<u>365,228</u>

See notes to financial statements

City of La Porte City

Reconciliation of the Statement of Cash
 Receipts, Disbursements and Changes in Cash Balances
 to the Statement of Activities and Net Assets -
 Proprietary Fund

As of and for the year ended June 30, 2012

Total enterprise funds cash balances (page 18)	\$ 365,228
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The city does not have an internal service fund. Therefore there are no reconciling items.	<hr style="width: 100%;"/> -
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Cash basis net assets of business type activities (page 14)	<u>\$ 365,228</u>
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Net change in cash balances (page 18)	\$ (22,748)
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The city does not have an internal service fund. Therefore there are no reconciling items.	<hr style="width: 100%;"/> -
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Change in cash balance of business type activities (page 14)	<u>\$ (22,748)</u>
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See notes to financial statements

City of La Porte City

Notes to Financial Statements

June 30, 2012

(1) Summary of Significant Accounting Policies

The City of La Porte City is a political subdivision of the State of Iowa located in Black Hawk County. It was first incorporated in 1871 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, general government services, as well as garbage services which are included in the general fund. The City also provides sewer utilities for its citizens, as well as ambulance services.

A. Reporting Entity

For financial reporting purposes, the City of La Porte City has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City. The City has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: City of Waterloo Building Department, Townships of the following: Big Creek, Spring Creek, Eagle Poyner, Cedar and Poyner in Black Hawk County, Bruce and Cedar in Benton County, Tri-County Drug Task Force, Northeast Iowa Response Group, Mutual Aid Fire – Buchanan County, Digital Data – Black Hawk County, Criminal Justice Info System, Black Hawk Consolidated Public Safety Communications Agreement, Mutual Aid Fire – Black Hawk County, Union Community School District – Tennis Courts, Use of Buses, and Use of Swimming Pool, Mutual Aid Fire – City of Waterloo, Mutual Aid Fire – Covenant Health System, and Mutual Aid - Statewide.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

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

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

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 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 Special Revenue - Equipment Replacement Fund is utilized as a savings fund for large equipment purchases for each department.

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

The Capital Project – Capital Project Fund is utilized to track capital expenditures mainly for street projects and aquatic center maintenance.

The City reports the following major proprietary funds:

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

C. Measurement Focus and Basis of Accounting

The City of La Porte 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.

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

D. Governmental Cash Basis Fund Balances

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

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

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

Assigned – Amounts the City Council intends to use for specific purposes.

Unassigned – All amounts not included in the preceding classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information. During the year ended June 30, 2012, disbursements exceeded the amount budgeted in the debt service function.

(2) Cash and Pooled Investments

The City's deposits in banks and credit unions at June 30, 2012 were entirely covered by federal depository insurance, by the State Sinking Fund, or by a letter of credit in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City had no investments as of June 30, 2012, however the time deposits are as follows:

Type	Carrying Amount	Fair Value	Maturity
Certificates of Deposit	\$ 1,130,956	\$ 1,130,956	Various Dates

In addition, the City had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$86,464 pursuant to Rule 2a-7 under the Investment Company Act of 1940 and are not subject to risk categorization.

(3) Bonds and Notes Payable

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

Year Ending June 30,	General Obligation Notes	
	Principal	Interest
2013	390,000	124,370
2014	325,000	110,459
2015	310,000	98,872
2016	325,000	89,778
2017	335,000	79,718
2018 - 2021	2,335,000	330,145
Total	\$ 4,020,000	833,342

The Code of Iowa requires principal and interest on general obligation bonds be paid from the Debt Service Fund.

During the year ended June 30, 2007 the Council approved an interfund loan from the Sewer Fund to the Economic Development Fund for \$90,000. There were no payments made during the year and the balance of the loan remaining to be paid is \$45,000.

During the year ended June 30, 2009 the Council approved an interfund loan from the Special Revenue - Equipment Replacement Fund to the Debt Service Fund for \$41,000, an interfund loan of \$39,274 from the General Fund to the Debt Service Fund, and an interfund loan of \$4,714 from the Economic Development Fund to the Special Revenue - Tax Increment Financing Fund. As of June 30, 2012, none of the balances of the inter-fund loans had been paid.

During the year ended June 30, 2010 the Council approved an interfund loan from the Economic Development Fund to the Special Revenue - Tax Increment Financing Fund

for \$4,089 and an interfund loan from the General Fund to the Debt Service Fund for \$38,418. As of June 30, 2012, the balances of the inter-fund loans had not been paid.

During the year ended June 30, 2011 the Council approved an interfund loan from the General Fund to the Capital Projects Fund for \$12,250. As of June 30, 2012, the balance of the inter-fund loan had not been paid.

During the year ended June 30, 2012 the Council approved an interfund loan from the General Fund to the Debt Service Fund for \$51,000. As of June 30, 2012, the balance of the inter-fund loan had not been paid.

(4) Pension and Retirement Benefits

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

Most regular plan members are required to contribute 5.38% of their annual covered salary and the City is required to contribute 8.07% of annual 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, 2012, 2011, and 2010 were \$48,736, \$44,363, and \$40,695, respectively, equal to the required contributions for each year.

(5) Other Postemployment Benefits (OPEB)

Plan Description - The City operates a single-employer retiree benefit plan which provides medical/prescription drug benefits for employees and retirees and their spouses. There are 12 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 partially self-insured plan with Wellmark Blue Cross/Blue Shield. Retirees under age 65 pay the full cost of the premium for the medical/prescription drug benefits. Effective May 1, 2010, the City increased the deductibles for the plan from \$750 for single and \$1,500 for family to \$1,500 for single and \$3,000 for family and it self funds the increase in deductible for each participant. A third party administrator, Employee Benefit Systems, coordinates the self funded portion of the plan.

Funding Policy - The contribution requirements of plan members are established and may be amended by the City. The most recent active member monthly premiums are \$378.83 for single coverage, \$775.22 for employee plus spouse, \$718.00 for employee plus children, and \$1,170.64 for family coverage. The City pays for 90% of the monthly premium and the employee is responsible for 10% of the monthly premium. For the year ended June 30, 2012, the City contributed \$89,467 to Wellmark Blue Cross/Blue Shield and \$1,102 to Employee Benefit Systems on behalf of plan members. The City also paid \$2,788 in self funding for employee health insurance.

(6) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation and sick leave termination payments payable to employees at June 30, 2012, primarily relating to the General Fund, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$ 3,324
Sick leave	<u>40,672</u>
Total	<u>\$ 43,996</u>

This liability has been computed based on rates of pay in effect at June 30, 2012.

(7) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2012 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Permanent	\$ 20,928
	Special Revenue	
	Equipment Replacement	147,883
	Capital Projects	16,418
Special Revenue		
Equipment Replacement	General	58,939
	Ambulance	20,000
Low to Moderate Income	Special Revenue	
	Tax Increment Financing	5,125
Debt Service	Capital Projects	30,000
	General	51,000
Capital Projects		
Flood Buyout	General	6,465
Capital Project	Debt Service	1,000,000
	General	8,000
CDBG Buyout Project	General	158
Permanent	General	11,327

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

(8) Related Party Transactions

The City had business transactions between the City and City officials totaling \$16,357 during the year ended June 30, 2012.

(9) Risk Management

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

(10) Deficit Fund Balance

There were no deficit fund balances at June 30, 2012.

(11) Contracts and Commitments

In May 2012 the City approved a contract with Tschiggfrie Excavating of Dubuque, Iowa for the overlay of Pine and Fillmore Streets. They also approved a contract with MSA Engineering for \$38,550 for engineering services related to the street project. No payments had been made on these contracts before year end.

The City approved a reimbursement agreement with the Iowa Department of Transportation for a road rehabilitation project of Highway 218 that runs through the City. The IDOT will perform the whole project including replacement of the sanitary sewer along the highway. The City will reimburse the IDOT for the sanitary sewer portion of the project which is estimated to cost \$340,788.15. The City entered into a contract with MSA Engineering for the design of the sanitary sewer project for \$31,000 and for observation services of \$23,950.

(12) Litigation and Subsequent Event

After the 2008 floods, the City received a grant from the Federal Emergency Management Agency (FEMA) passed through the Iowa Department of Homeland Security (IDHS) for the buyout of homes in the affected flood areas of the City. IDHS instructed the City to pay a homeowner roughly \$84,000 pursuant to the project guidelines set forth by FEMA. The City paid the homeowner and subsequently the homeowner also collected the same amount from his insurance agency. The IDHS is instructing the City to return the grants funds to them and in August 2012 the City sued the homeowner for the funds. A response from the homeowner states that he denies all liability. The probability of loss, if any, is indeterminable.

Other Information

Net	Budgeted Amounts		Final to Net Variance
	Original	Final	
781,888	780,085	780,085	1,803
168,031	167,029	167,029	1,002
293,716	290,272	290,272	3,444
22,815	20,400	21,000	1,815
24,155	53,464	53,464	(29,309)
435,236	402,837	442,875	(7,639)
619,233	573,952	576,702	42,531
198,120	29,650	139,804	58,316
<u>2,543,194</u>	<u>2,317,689</u>	<u>2,471,231</u>	<u>71,963</u>
652,402	506,360	693,710	41,308
492,241	554,453	579,683	87,442
5,342	7,394	7,394	2,052
385,105	317,542	398,017	12,912
16,272	33,489	184,787	168,515
144,774	134,345	156,670	11,896
463,221	447,153	313,356	(149,865)
41,449	-	104,032	62,583
378,410	374,784	489,699	111,289
<u>2,579,216</u>	<u>2,375,520</u>	<u>2,927,348</u>	<u>348,132</u>
(36,022)	(57,831)	(456,117)	420,095
<u>943,059</u>	<u>45,900</u>	<u>1,950,540</u>	<u>(1,007,481)</u>
907,037	(11,931)	1,494,423	(587,386)
<u>2,055,208</u>	<u>1,948,373</u>	<u>2,143,128</u>	<u>(87,920)</u>
<u><u>2,962,245</u></u>	<u><u>1,936,442</u></u>	<u><u>3,637,551</u></u>	<u><u>(675,306)</u></u>

City of La Porte City

Notes to Other Information – Budgetary Reporting

June 30, 2012

The budgetary comparison is presented in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Fund, the Permanent 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 revenues by \$153,542 and budgeted disbursements by \$551,828. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2012, disbursements exceeded the amount budgeted in the debt service function.

Supplementary Information

Schedule 1

Capital Projects		Trust and Agency	
2008 Flood Buyout	CDBG Buyout Project	Trust Funds	Total
-	-	-	284,617
-	-	-	-
-	-	1,063	1,697
45,984	-	24,499	287,218
-	-	57,985	57,985
45,984	-	83,547	631,517
-	-	9,845	56,424
-	-	-	211,156
-	-	42	19,686
-	-	-	11,793
-	-	-	9,067
-	-	-	150,297
41,449	-	-	41,449
41,449	-	9,887	499,872
4,535	-	73,660	131,645
6,465	158	(9,601)	(2,978)
11,000	158	64,059	128,667
6,445	(158)	169,887	446,692
17,445	-	233,946	575,359
17,445	-	4,228	345,641
-	-	-	-
-	-	229,718	229,718
-	-	-	-
17,445	-	233,946	575,359

Schedule 2

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
\$ 150,000	-	75,000	75,000	5,550	-
220,000	-	70,000	150,000	9,063	-
1,500,000	-	130,000	1,370,000	58,080	-
580,000	-	75,000	505,000	22,460	-
-	1,920,000	-	1,920,000	-	-
<u>\$ 2,450,000</u>	<u>1,920,000</u>	<u>350,000</u>	<u>4,020,000</u>	<u>95,153</u>	<u>-</u>

City of La Porte City
 Bond and Note Maturities

June 30, 2012

Year Ending June 30,	General Obligation Notes					
	Capital Loan Note		Capital Loan Note		Loan Note	
	Issued May 6, 2003		Issued July 1, 2004		Issued December 1, 2005	
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount
2013	3.80	\$ 75,000	4.10	75,000	3.75	\$ 130,000
2014	-	-	4.25	75,000	3.75	135,000
2015	-	-	-	-	3.75	140,000
2016	-	-	-	-	3.80	145,000
2017	-	-	-	-	3.85	150,000
2018	-	-	-	-	3.90	160,000
2019	-	-	-	-	3.95	165,000
2020	-	-	-	-	4.00	170,000
2021	-	-	-	-	4.10	175,000
	Total	<u>\$ 75,000</u>		<u>150,000</u>		<u>\$ 1,370,000</u>

Year Ending June 30,	Capital Loan Note		Capital Loan Note		Total
	Issued October 18, 2006		Issued April 12, 2012		
	Interest Rates	Amount	Interest Rates	Amount	
2013	3.75	75,000	0.85	35,000	390,000
2014	3.75	80,000	0.85	35,000	325,000
2015	3.80	80,000	0.85	90,000	310,000
2016	3.85	85,000	1.30	95,000	325,000
2017	3.90	90,000	1.30	95,000	335,000
2018	4.00	95,000	1.80	90,000	345,000
2019	4.00	-	1.80	90,000	255,000
2020	-	-	2.00	100,000	270,000
2021	-	-	2.00	100,000	275,000
2022	-	-	2.20	205,000	205,000
2023	-	-	2.35	210,000	210,000
2024	-	-	2.50	220,000	220,000
2025	-	-	2.75	180,000	180,000
2026	-	-	3.00	185,000	185,000
2027	-	-	3.10	190,000	190,000
		<u>505,000</u>		<u>1,920,000</u>	<u>4,020,000</u>

See accompanying independent auditor's report

City of La Porte City

Schedule of Receipts by Source and Disbursements By Function
All Governmental Funds

For the Last Nine Years

	2012	2011	2010	2009	2008	2007	2006	2005	2004
Receipts:									
Property tax	\$ 949,919	945,785	904,812	897,581	856,316	887,614	667,418	608,911	526,401
Other city tax	293,716	283,668	287,309	286,569	281,565	247,187	258,843	239,723	227,623
Licenses and permits	22,815	22,224	20,149	21,486	18,507	17,658	19,267	21,017	19,224
Use of money and property	21,747	32,131	43,394	53,474	75,838	105,519	70,627	26,705	14,861
Intergovernmental	432,159	616,627	1,135,073	497,195	614,873	335,086	307,978	336,072	1,143
Charges for service	250,557	226,300	227,885	224,203	216,143	227,371	210,834	182,840	289,921
Miscellaneous	196,988	122,449	93,161	54,133	71,867	542,220	242,964	100,810	455,952
Total	\$ 2,167,901	2,249,184	2,711,783	2,034,641	2,135,109	2,362,655	1,777,931	1,516,078	1,535,125
Disbursements:									
Operating:									
Public safety	\$ 652,402	556,456	474,565	449,169	629,194	420,893	422,394	454,592	526,398
Health and social services	492,241	702,985	470,778	459,988	549,433	502,495	509,789	378,959	853,197
Culture and recreation	5,342	7,879	6,294	4,232	5,194	5,044	4,994	1,869	1,869
Community and economic development	385,105	358,316	362,941	338,779	259,707	318,361	218,355	277,229	257,489
General government	16,272	37,865	80,512	97,042	155,150	236,803	251,901	15,855	4,599
Debt service	144,774	126,911	109,510	115,938	107,489	122,229	107,464	107,212	109,594
Capital projects	463,221	444,305	445,845	441,755	441,900	439,923	199,105	98,244	19,258
	85,715	89,981	786,597	5,040	376,665	867,407	2,215,782	485,788	237,640
Total	\$ 2,245,072	2,324,698	2,737,042	1,911,943	2,524,732	2,913,155	3,929,784	1,819,748	2,010,044

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:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of La Porte City, Iowa, as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements listed in the table of contents and have issued our report thereon dated November 6, 2012. Our report expressed an unqualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

The management of the City of La Porte City is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered City of La Porte City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of City of La Porte City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of City of La Porte City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting we consider to be material weaknesses and other deficiencies we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City of La Porte City's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in Part II of the accompanying Schedule of Findings and Questioned Costs as items II-A-12, and II-C-12 to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those

charged with governance. We consider the deficiencies described in Part II of the accompanying Schedule of Findings and Questioned Costs as item II-B-12 to be a significant deficiency.

Compliance and Other Matters

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

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2012 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

City of La Porte City's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the City's responses, we did not audit City of La Porte City's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of City of La Porte City and other parties to whom City of La Porte City may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

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

Ridihalgh, Fuelling, Snitker, Weber & Co. P.C.

RIDIHALGH, FUELLING, SNITKER, WEBER, & CO., P.C., CPA'S

November 6, 2012

City of La Porte City
Schedule of Findings and Questioned Costs
Year ended June 30, 2012

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.

City of La Porte City

Schedule of Findings and Questioned Costs

Year ended June 30, 2012

Part II: Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

II-A-12 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.

Recommendation - We realize segregation of duties is difficult with a limited number of office employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials.

Response - We will consider this.

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.

II-B-12 Preparation Financial Statements - The City of La Porte City, Iowa does not employ an accounting staff with the technical expertise to prepare its financial statements (including footnotes disclosures) in conformity with accounting principles general accepted in the United States of America; therefore, it relies on its auditors to prepare such statements.

Recommendation - The City should conform with generally accepted accounting principles.

Response - The City feels that having the auditors draft the financial statements and notes is a tolerable situation. Internal financial statements are prepared monthly for reporting and decision making purposes. The requirements and form of the audited statements are different than the internal needs and change occasionally. Given the size of the organization, it is helpful to rely on the expertise of the auditors to monitor those requirements.

Conclusion - Response accepted.

II-C-12 Reconciliation of Utility Billings, Collections and Delinquencies - A delinquent accounts listing was not retained from La Porte City Utilities.

Recommendation - A listing of delinquent accounts should be prepared on a monthly basis. The Council or a Council-designated independent person should monitor delinquencies.

Response - We will consider this.

Conclusion - Response accepted.

City of La Porte City
Schedule of Findings and Questioned Costs
Year ended June 30, 2012

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

City of La Porte City

Schedule of Findings and Questioned Costs

Year ended June 30, 2012

Part III: Other Findings Related to Statutory Reporting:

III-A-12 Certified Budget – 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. Disbursements during the year ended June 30, 2012 exceeded the amount budgeted in the debt service function.

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 – When setting up account numbers in the new software, the TIF debt payments were incorrectly budgeted in the Community and Economic Development function rather than in the debt service function. The accounts will be fixed in the future.

Conclusion – Response accepted.

III-B-12 Questionable Disbursements – We noted no questionable disbursements that may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979.

III-C-12 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

III-D-12 Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

Name, Title, and Business Connection	Transaction Description	Amount
Jane Whittlesey, Council Member, Co-owner of La Porte City Printing & Design	Purchase office supplies	911
Jane Whittlesey, Council Member, Co-owner of The Progress Review	City’s official newspaper	4,447
Sarah Craft, Council Member, Husband is attorney with firm Dutton, Braun, Staack, & Hellman, City’s Attorney	Attorney fees	10,999

In accordance with Chapter 362.5(11) of the Code of Iowa, the first transaction does not appear to represent a conflict of interest since the amount is for less than \$2,500 each.

City of La Porte City

Schedule of Findings and Questioned Costs

Year ended June 30, 2012

In accordance with Chapter 362.5(6) of the Code of Iowa, the second transaction does not appear to represent a conflict of interest since the City has designated The Progress Review as its official newspaper.

In accordance with Chapter 362.5(5) of the Code of Iowa, the third transaction does not appear to represent a conflict of interest since the City had designated Dutton, Braun, Staack, & Hellman their City attorney and these professional services are not customarily awarded by competitive bid.

III-E-12 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.

III-F-12 Council Minutes – Transactions were found that we believe should have been approved in the council minutes but were not. Five transfers between funds were not approved by council.

Although minutes of City Council proceedings were published within 15 days as required by Chapter 372.13(6) of the Code of Iowa, a summary of all receipts was not published.

At March 25, 2012 council meeting, it was noted that councilperson Mike Johnson did not abstain from voting when approving the budget for La Porte City Utilities. As an employee of the Utility, it appears there could be a conflict of interest for him to be approving the budget.

Recommendation – The council should approve all transfers in the minutes of meetings. The City should comply with Chapter 372.13(6) and publish a summary of all receipts. Councilpersons should abstain when voting if there appears to be a conflict of interest.

Response – We will approve all fund transfers in the future. We will also publish a summary of all receipts with the meeting minutes as required. We will advise our councilpersons of potential conflicts of interest.

Conclusion – Responses accepted.

III-G-12 Deposits and Investments – We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy.

III-H-12 Payment of General Obligation Bonds – The City properly paid for its general obligation bonds out of the Debt Service fund.

City of La Porte City

Staff

This audit was performed by:

Gina E. Trimble, CPA, Manager
Dana Elliott, CPA, Staff