

**CITY OF SAC CITY, IOWA**

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

**AS OF AND FOR THE YEAR ENDED JUNE 30, 2012**

**Cornwell, Frideres, Maher & Associates, P.L.C.**  
Certified Public Accountants

## Table of Contents

		<u>Page</u>
Officials		1
Independent Auditor’s Report		2-3
Management’s Discussion and Analysis		4-10
Basic Financial Statements:	<u>Exhibit</u>	
Government-wide Financial Statement:		
Statement of Activities and Net Assets – Cash Basis	A	11-12
Governmental Fund Financial Statements:		
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	B	13
Reconciliation of the Statement of Cash Receipts, Disbursements and Changes in Cash Balances to the Statement of Activities and Net Assets	C	14
Proprietary Fund Financial Statements:		
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	D	15-16
Reconciliation of the Statement of Cash Receipts, Disbursements and Changes in Cash Balances to the Statement of Activities and Net Assets	E	17
Notes to Financial Statements		18-30
Other Information:		
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances – Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Funds		31-32
Notes Other Information – Budgetary Reporting		33

Table of Contents (continued)

	<u>Schedule</u>	<u>Page</u>
Supplementary Information:		
Statement of Cash Receipts, Disbursements and Changes in Cash Balances – Nonmajor Governmental Funds	1	34-35
Statement of Cash Receipts, Disbursements and Changes in Cash Balances – Nonmajor Proprietary Funds	2	36
Schedule of Indebtedness	3	37-38
Note Maturities	4	39-40
Schedule of Receipts by Source and Disbursements by Function – All Governmental Funds	5	41-42
Schedule of Expenditures of Federal Awards	6	43
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 <u>Government Auditing Standards</u>		44-46
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 A-133		47-48
Summary Schedule of Prior Audit Findings		49
Schedule of Findings and Questioned Costs		50-54

**City of Sac City, Iowa**

**Officials**

<u>Name</u>	<u>Title</u> <b>(Before January 2012)</b>	<u>Term Expires</u>
Barb Bloes	Mayor	Jan 2012
Bill Brenny	Mayor Pro Tem	Jan 2012
Jim Johnston	Council Member	Jan 2014
Gary Hansen	Council Member	Jan 2012
Jim Frederick	Council Member	Jan 2012
Nich Frohardt	Council Member	Jan 2014
Adam Ledford	City Administrator	Jan 2012
Sandy Tellinghuisen	City Clerk/Treasurer	Jan 2012
Colin McCullough	Attorney	Jan 2012
Matt Wallace	Airport Commission	Jan 2014
Jim Currie	Airport Commission	Jan 2014
Milo Lines	Airport Commission	Jan 2016
Earl Zimmerman	Airport Commission	Jan 2013

<u>Name</u>	<u>Title</u> <b>(After January 2012)</b>	<u>Expires</u>
Barb Bloes	Mayor	Jan 2016
Teresa Bruening	Mayor Pro Tem	Jan 2016
Bill Brenny	Council Member	Jan 2016
Gary Hansen	Council Member	Jan 2016
Duane Huster	Council Member	Jan 2014
Nich Frohardt	Council Member	Jan 2014
Adam Ledford	City Administrator	Jan 2013
Sandy Tellinghuisen	City Clerk/Treasurer	Jan 2013
Colin McCullough	Attorney	Jan 2013
Matt Wallace	Airport Commission	Jan 2014
Jim Currie	Airport Commission	Jan 2014
Milo Lines	Airport Commission	Jan 2016
Earl Zimmerman	Airport Commission	Jan 2013

# **Cornwell, Frideres, Maher & Associates, P.L.C.**

## **Certified Public Accountants**

714 14th Avenue North  
Fort Dodge, IA 50501-7098  
Phone 515.955.4805 • Fax 515.955.4673

**Lowell W. Cornwell, C.P.A.**  
lwcornwell@frontiernet.net

**Christine R. Frideres, C.P.A.**  
crfrideres@frontiernet.net

**Jerilyn J. Maher, C.P.A.**  
jjmaher@frontiernet.net

### Independent Auditor's Report

To the Honorable Mayor and  
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Sac 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 Sac 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, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Sac 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 report dated March 19, 2013 on our consideration of the City of Sac 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 the internal control over financial reporting or 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 Sac 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 (which are not presented herein) and expressed unqualified opinions on those financial statements which were prepared in conformity with an other comprehensive basis of accounting. The supplementary information included in Schedules 1 through 6, 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 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 Sac City's basic financial statements. Management's Discussion and Analysis and budgetary comparison information on pages 4 through 10 and 31 through 33 are presented for the 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.

*Cornwell, Frideres, Maher & Associates, P.L.C.*

Cornwell, Frideres, Maher & Associates, P.L.C.

Certified Public Accountants

March 19, 2013

# **City of Sac City**

## **Management's Discussion & Analysis**

### **June 30, 2012**

The discussion and analysis is intended to be an easily readable analysis of the City of Sac City's financial activities based on current conditions. This analysis focuses on activities for the year ended June 30<sup>th</sup>, 2012 and should be read in conjunction with the financial statements within this report.

## **2012 Financial Highlights**

- Total governmental funds cash balances increased 3.3% or approximately \$23,501 from fiscal year 2011 to 2012. The stagnation was partially a result of delayed expenditures from 2011 that did not occur until this fiscal year.
- Disbursements of the City's governmental activities decreased 9.5% or approximately \$160,266 in fiscal year 2011 to 2012. This decline is a result of continued efficiency improvements and no significant governmental projects during the fiscal year.
- Revenues of the City's governmental activities decreased 9.4% or approximately \$161,140 from fiscal year 2011 to 2012. This was partially a result of reduced grants associated with a limited number of capital projects during the fiscal year.
- Total business funds cash balances increased 1.7% or approximately \$16,891 from fiscal year 2011 to 2012. This reflects a change or less than inflationary impact in the fiscal year.
- Disbursements of the City's business activities decreased 63.7% or approximately \$4,807,675. This is due with completion of the sewer projects.
- Revenues of the City's business activities decreased 63.2% or approximately \$4,726,708. This is due to completion of the loan disbursements as part of the sewer projects.

## **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 State of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short-term as well as what remains for future spending. Fund financial statements report

the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

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

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

Other Supplementary Information provides detailed information about lower priority 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 does not give effect to accounts receivable, accounts payable, and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, the 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 help 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 included public safety, public works, culture and recreation, community and economic development, general government, debt service, and capital projects. Property taxes, state grants, and federal grants finance most of these activities.
- Business Type Activities include the waterworks, the sanitary sewer system, and municipal gas utilities. These activities are financed primarily by user charges.

**Continued on Next Page**

## 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, 3) the Debt Service Fund, 4) the Capital Projects Funds, and 5) the Permanent Funds. The governmental fund financial statements provide a detailed, short-term view of the City's general governmental operations and the basic services it provides. Government fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

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

2. Proprietary funds accounts for the City's Enterprise Funds and for the Internal Service Fund. Enterprise funds are used to report business type activities. The City maintains four enterprise funds to provide separate information for the water, sewer, gas, and garbage funds of which water and gas are determined to be major funds of the City. Internal Service Funds are an accounting device used to accumulate and allocate costs internally among the City's various functions.

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

Reconciliations between the government-wide statement and the fund financial statements follow the fund financial statements.

**Continued on Next Page**

## Government-wide Financial Analysis

Net assets may serve over time as a useful indicator of financial position. The analysis that follows focuses on the changes in cash balances for governmental activities.

### *Changes in Cash Basis Net Assets of Governmental Activities*

	<u>2011-2012</u>	<u>2010-2011</u>
Receipts & transfers:		
<i>Program Receipts:</i>		
Charges for service	72,032	72,778
Intergovernmental	272,748	290,045
Capital Grants	45,794	319,624
<i>General Receipts:</i>		
Property Tax	755,640	699,954
Other City Tax	185,701	163,904
Miscellaneous	117,992	75,366
Use of Money & Property	1,226	1,577
Transfers, Net	101,875	90,900
Bond Proceeds	0	0
Total Receipts:	<u>1,553,008</u>	<u>1,714,148</u>
Disbursements:		
Public Safety	371,107	400,363
Public Works	496,624	361,042
Culture & Recreation	272,630	270,683
Community & Econ Dev	3,850	3,600
General Government	205,072	200,041
Debt Service	134,430	134,420
Capital Projects	45,794	319,624
Total Disbursements:	<u>1,529,507</u>	<u>1,689,773</u>
Change in cash balances	23,501	24,375
Cash basis net assets beginning of the year	<u>718,812</u>	<u>694,437</u>
Cash basis net assets end of the year	<u>742,313</u>	<u>718,812</u>

The City's total receipts for government activities for Fiscal Year 2011-2012 were \$1,553,008 compared to \$1,714,148 the previous year. This reflects a 9% reduction in receipts mostly due to a reduction in collection of grants for projects.

The expenditures of all governmental activities for Fiscal Year 2011-2012 were \$1,529,507 compared to \$1,689,773 the previous year. This reflects a 9% reduction in disbursements also due to a reduction in expenses on projects.

*Changes in Cash Basis Net Assets of Business Type Activities*

	<u>2011-2012</u>	<u>2010-2011</u>
Receipts:		
<i>Program Receipts:</i>		
Sewer	421,946	402,341
Gas	1,089,249	1,259,052
Non-major (Water/Solid Waste/Storm)	829,163	819,286
<i>General Receipts:</i>		
Miscellaneous	24,575	33,963
Intergovernmental	488,939	741,032
Interest	4,128	7,892
Bond Proceeds	0	4,310,167
Transfers In	<u>(101,875)</u>	<u>(90,900)</u>
Total Receipts:	<u>2,756,125</u>	<u>7,482,833</u>
Disbursements:		
Sewer	932,723	5,413,324
Gas	1,078,339	1,334,340
Non-major	<u>728,172</u>	<u>799,245</u>
Total Disbursements:	<u>2,739,234</u>	<u>7,546,909</u>
Change in cash balances	16,891	(64,076)
Cash basis net assets beginning of year	<u>985,352</u>	<u>1,049,428</u>
Case basis net change in assets	<u>1,002,243</u>	<u>985,352</u>

Total business activities receipts for the fiscal year were \$2.756 million compared to \$7.483 million last year. The decreased receipts were due to the completion of the sanitary sewer projects.

Total disbursements for the fiscal year were \$2.739 million compared to \$7.547 million last year. The decreased disbursements were also due to the completion of the sanitary sewer projects.

The balance increased approximately \$16,891 to \$1,002,243 from the prior year. The 1.7% increase was partially due to minor planned internal improvements resulting in financial savings.

## **Individual Major Governmental Fund Analysis**

As Sac City completed the year, its governmental funds reported a combined fund balance of \$744,141 and increase of \$23,528 above last year's total of \$720,613. While the balance in the major funds stayed fairly consistent, the following are major contributors to the changes in fund balances from the prior year.

- The General Fund cash balance increased from \$178,813 to \$208,675.

- The Capital Funds cash balance increased from \$220,081 to \$235,317.
- The Special Revenue Funds cash balance decreased from \$181,544 to \$114,031. This reflects mostly one-time expenses from the use of I-JOBS funding.
- The Debt Service Fund cash balance increased from \$54,247 to \$63,897.
- The Permanent Fund cash balance increase from \$85,928 to \$86,728.

## Individual Major Business Type Fund Analysis

As Sac City completed the year, its business funds reported an increase in the combined fund balance above last year's total. While the balance in the major funds stayed fairly consistent, the following are major contributors to the changes in fund balances from the prior year.

- The Gas Fund cash balance increased from \$647,218 to \$665,485.
- The Sewer Fund cash balance decreased from \$174,221 to \$118,019. This reflects a need to amend sewer fee rates. The need is a result of unanticipated increased operating expenses and underperforming revenue models since the sewer plant and system improvements.
- The Non-Major Fund (Water/Solid Waste/Storm) cash balance increased from \$166,260 to \$221,214. This was mostly due continued efforts to build revenue balances to support future projects in all of the included fund sources.

## Budgetary Highlights

Over the course of the year, the City amended its budget once for \$254,500. \$200,000 was reported as an increased in expenditures as a result of two projects (2012 Airport Project and 2012 Street Improvement Project). The remaining \$54,500 reflects minor increases mostly resulting from capital purchases originally anticipated in the 2011 budget.

## Debt Administration

At June 30, 2012, the City had approximately \$6,915,042 in bonds and other long-term debt, compared to approximately \$6,568,038 the previous year, as shown below.

### Outstanding Debt at Year-End

	<u>2012</u>	<u>2011</u>
General Obligation Bonds	<u>\$285,000</u>	<u>\$400,000</u>
Revenue Debt	<u>\$6,630,042</u>	<u>\$6,168,038</u>
Total	<u>\$6,915,042</u>	<u>\$6,568,038</u>

Debt increased as a result of a new revenue obligation as part of the sanitary sewer department improvements. No new general obligation bonds were created while the City continued to pay down existing bonds.

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 of \$285,000 is significantly below its constitutional debt limit of over \$3 million.

## **Economic Factors & Next Year's Budget & Rates**

Several factors were considered and affected the preparation of the City's 2012 budget, as follows:

- The local economy is moderately stable with some concerns as a result of the ongoing national recession.
- The local unemployment rate has remained lower than the state of Iowa averages.
- The rate lids and property tax rollback imposed by the state of Iowa.
- Grant revenues.

## **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 any questions about this report or require additional information, contact Charles Adam Ledford, City Administrator, 302 E. Main Street, Sac City, Iowa.

## **Basic Financial Statements**

City of Sac City, Iowa  
Statement of Activities and Net Assets - Cash Basis  
As of and for the year ended June 30, 2012

	<u>Disbursements</u>	<u>Charges for Service</u>	<u>Program Receipts</u>	
			<u>Operating Grants, Contributions, and Restricted Interest</u>	<u>Capital Grants, Contributions and Restricted Interest</u>
<b>Functions/Programs:</b>				
Primary Government:				
Governmental activities:				
Public safety	\$ 371,107	5,992	33,406	-
Public works	496,624	7,135	210,569	-
Culture and recreation	272,630	57,069	28,773	-
Community and economic development	3,850	-	-	26,146
General government	205,072	-	-	-
Debt service	134,430	-	-	-
Capital projects	45,794	1,836	-	19,648
Total governmental activities	<u>1,529,507</u>	<u>72,032</u>	<u>272,748</u>	<u>45,794</u>
Business type activities:				
Gas	1,078,339	1,089,249	-	-
Water	470,202	543,216	-	-
Sewer	932,723	421,946	488,939	-
Nonmajor	257,970	285,947	-	-
Total business type activities	<u>2,739,234</u>	<u>2,340,358</u>	<u>488,939</u>	<u>-</u>
Total primary government	<u>4,268,741</u>	<u>2,412,390</u>	<u>761,687</u>	<u>45,794</u>
Component unit:				
Airport	<u>\$ 65,428</u>	<u>36,917</u>	<u>15,000</u>	<u>-</u>

**General Receipts:**

Property tax and other city tax levied for:
General purposes
Debt service
Local option sales tax
Unrestricted interest on investments
Miscellaneous
Transfers
Total general receipts and transfers
Change in cash basis net assets
Cash basis net assets beginning of year
Cash basis net assets end of year

**Cash Basis Net Assets**

Restricted:
Nonexpendable:
Cemetery Perpetual Care
Expendable:
Streets
Debt service
Other purposes
Unrestricted
<b>Total cash basis net assets</b>

See notes to financial statements.

Exhibit A

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets			Component Unit
Governmental Activities	Business Type Activities	Total	Airport
(331,709)	-	(331,709)	-
(278,920)	-	(278,920)	-
(186,788)	-	(186,788)	-
22,296	-	22,296	-
(205,072)	-	(205,072)	-
(134,430)	-	(134,430)	-
(24,310)	-	(24,310)	-
<u>(1,138,933)</u>	<u>-</u>	<u>(1,138,933)</u>	<u>-</u>
-	10,910	10,910	-
-	73,014	-	-
-	(21,838)	(21,838)	-
<u>-</u>	<u>27,977</u>	<u>27,977</u>	<u>-</u>
-	90,063	90,063	-
<u>(1,138,933)</u>	<u>90,063</u>	<u>(1,048,870)</u>	<u>-</u>
-	-	-	<u>(13,511)</u>
716,132	-	716,132	-
39,508	-	39,508	-
185,701	-	185,701	-
1,226	4,128	5,354	532
117,992	24,575	142,567	30,204
101,875	(101,875)	-	-
<u>1,162,434</u>	<u>(73,172)</u>	<u>1,089,262</u>	<u>30,736</u>
23,501	16,891	40,392	17,225
718,812	985,352	1,704,164	46,896
<u>\$ 742,313</u>	<u>1,002,243</u>	<u>1,744,556</u>	<u>64,121</u>
86,728	-	86,728	-
35,493	-	35,493	-
63,897	-	63,897	-
349,348	-	349,348	-
206,847	1,002,243	1,209,090	64,121
<u>\$ 742,313</u>	<u>1,002,243</u>	<u>1,744,556</u>	<u>64,121</u>

City of Sac City, Iowa  
Statement of Cash Receipts, Disbursements  
and Changes in Cash Balances  
Governmental Funds  
As of and for the year ended June 30, 2012

Exhibit B

		Special revenue		Other	
	General	Road Use Tax	Employee Benefits	Nonmajor Governmental Funds	Total
<b>Receipts:</b>					
Property tax	\$ 447,960	-	240,172	37,957	726,089
Other city tax	18,155	-	9,846	187,251	215,252
Licenses and permits	20,086	-	-	-	20,086
Use of money and property	31,860	-	-	-	31,860
Intergovernmental	56,864	210,569	-	51,110	318,543
Charges for service	57,772	-	-	-	57,772
Special assessments	-	-	-	1,836	1,836
Miscellaneous	58,506	-	-	21,189	79,695
Total receipts	691,203	210,569	250,018	299,343	1,451,133
<b>Disbursements:</b>					
<b>Operating:</b>					
Public safety	371,107	-	-	-	371,107
Public works	246,962	249,662	-	-	496,624
Culture and recreation	269,079	-	-	3,551	272,630
Community and economic development	3,850	-	-	-	3,850
General government	205,045	-	-	-	205,045
Debt service	-	-	-	134,430	134,430
Capital projects	-	-	-	45,794	45,794
Total disbursements	1,096,043	249,662	-	183,775	1,529,480
Excess (deficiency) of receipts over (under) disbursements	(404,840)	(39,093)	250,018	115,568	(78,347)
<b>Other financing sources (uses):</b>					
Operating transfers in	451,515	11,686	-	138,100	601,301
Operating transfers out	(16,813)	-	(250,018)	(232,595)	(499,426)
Total other financing sources (uses)	434,702	11,686	(250,018)	(94,495)	101,875
Net change in cash balances	29,862	(27,407)	-	21,073	23,528
Cash balances beginning of year	178,813	62,900	-	478,900	720,613
Cash balances end of year	\$ 208,675	35,493	-	499,973	744,141
<b>Cash Basis Fund Balances</b>					
Nonspendable - Cemetery perpetual care	\$ -	-	-	86,728	86,728
Restricted for:					
Streets	-	35,493	-	-	35,493
Debt service	-	-	-	63,897	63,897
Capital projects	-	-	-	235,317	235,317
Other purposes	-	-	-	114,031	114,031
Unassigned	208,675	-	-	-	208,675
Total cash basis fund balances	\$ 208,675	35,493	-	499,973	744,141

See notes to financial statements.

Reconciliation of the Statement of Cash  
Receipts, Disbursements and Changes in Cash Balances  
to the Statement of Activities and Net Assets -  
Governmental Funds  
As of and for the year ended June 30, 2012

**Total governmental funds cash balances (page 13)** \$ 744,141

*Amounts reported for governmental activities in the Statement of Activities  
and Net Assets are different because:*

The Internal Service Fund is used by management to charge the costs of the City's payroll to individual funds. The assets of the Internal Service Fund are included in governmental activities in the Statement of Net Assets.

(1,828)

**Cash basis net assets of governmental activities (page 12)** \$ 742,313

**Net change in cash balances (page 14)** \$ 23,528

*Amounts reported for governmental activities in the Statement of Activities  
and Net Assets are different because:*

The Internal Service Fund is used by management to charge the costs of the City's payroll to individual funds. The change in net assets of the Internal Service Fund is reported with governmental activities.

(27)

**Change in cash balance of governmental activities (page 12)** \$ 23,501

See notes to financial statements.

City of Sac City, Iowa  
Statement of Cash Receipts, Disbursements and Changes in Cash Balances  
Proprietary Funds  
As of and for the year ended June 30, 2012

	Enterprise Funds		
	Gas	Water	Sewer
Operating receipts:			
Charges for service	\$ 1,089,249	543,216	421,946
Miscellaneous	10,741	4,812	4,992
Total operating receipts	1,099,990	548,028	426,938
Operating disbursements:			
Governmental activities:			
Public safety	-	-	-
Public works	-	-	-
Culture and recreation	-	-	-
General government	-	-	-
Business type activities	1,008,778	456,614	297,253
Total operating disbursements	1,008,778	456,614	297,253
Excess (deficiency) of operating receipts over (under) operating disbursements	91,212	91,414	129,685
Non-operating receipts (disbursements):			
Interest on investments	3,679	212	156
Intergovernmental	-	-	488,939
Debt service	-	-	(146,531)
Capital projects	(69,433)	(13,588)	(488,939)
Total non-operating receipts (disbursements)	(65,754)	(13,376)	(146,375)
Excess (deficiency) of receipts over (under) disbursements	25,458	78,038	(16,690)
Operating transfers in	16,973	-	-
Operating transfers out	(24,164)	(63,172)	(39,512)
Total operating transfers	(7,191)	(63,172)	(39,512)
Net change in cash balances	18,267	14,866	(56,202)
Cash balances beginning of year	647,218	35,196	174,221
Cash balances end of year	\$ 665,485	50,062	118,019
<b>Cash Basis Fund Balances</b>			
Unrestricted	\$ 665,485	50,062	118,019
Total cash basis fund balances	\$ 665,485	50,062	118,019

See notes to financial statements.

Exhibit D

<u>Nonmajor</u>	<u>Total</u>	<u>Internal Service Fund Employee Payroll</u>
285,947	2,340,358	-
4,030	24,575	1,112,821
<u>289,977</u>	<u>2,364,933</u>	<u>1,112,821</u>
-	-	194,198
-	-	155,040
-	-	99,628
-	-	23,927
<u>257,970</u>	<u>2,020,615</u>	<u>640,183</u>
<u>257,970</u>	<u>2,020,615</u>	<u>1,112,976</u>
<u>32,007</u>	<u>344,318</u>	<u>(155)</u>
81	4,128	-
-	488,939	-
-	(146,531)	-
-	(571,960)	-
<u>81</u>	<u>(225,424)</u>	<u>-</u>
<u>32,088</u>	<u>118,894</u>	<u>(155)</u>
15,000	31,973	-
(7,000)	(133,848)	-
<u>8,000</u>	<u>(101,875)</u>	<u>-</u>
40,088	17,019	(155)
<u>131,064</u>	<u>987,699</u>	<u>(4,148)</u>
<u>171,152</u>	<u>1,004,718</u>	<u>(4,303)</u>
<u>171,152</u>	<u>1,004,718</u>	<u>(4,303)</u>
<u>171,152</u>	<u>1,004,718</u>	<u>(4,303)</u>

Reconciliation of the Statement of Cash Receipts, Disbursements  
and Changes in Cash Balances  
to the Statement of Activities and Net Assets -  
Proprietary Funds  
As of and for the year ended June 30, 2012

**Total enterprise funds cash balances (page 16)** \$ 1,004,718

*Amounts reported for business type activities in the Statement of  
Activities and Net Assets are different because:*

The Internal Service Fund is used by management to charge the costs of the City's payroll to individual funds. The assets of the Internal Service Fund are included in business type activities in the Statement of Net Assets. (2,475)

**Cash basis net assets of business type activities (page 12)** \$ 1,002,243

**Net change in cash balances (page 16)** \$ 17,019

*Amounts reported for business type activities in the Statement of  
Activities and Net Assets are different because:*

The Internal Service Fund is used by management to charge the costs of the City's payroll to individual funds. The change in net assets of the Internal Service Fund is reported with business type activities. (128)

**Change in cash balance of business type activities (page 12)** \$ 16,891

See notes to financial statements.

City of Sac City, Iowa

Notes to Financial Statements

June 30, 2012

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

The City of Sac City is a political subdivision of the State of Iowa located in Sac County. It was first incorporated in 1875 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, sewer and gas utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Sac 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.

Discretely Presented Component Unit

These financial statements present the City of Sac City (the primary government) and its component unit. The component unit discussed below is included in the City's reporting entity because of the significance of its operational or financial relationship with the City.

City of Sac City, Iowa

Notes to Financial Statements

June 30, 2012

The Sac City Municipal Airport Authority (Authority) was established pursuant to Chapter 330A of the Code of Iowa to operate the City's airport facility. The Authority is governed by a five member board appointed by the Sac City, City Council. The board members serve at the pleasure of the City. The City annually provides significant operating subsidies to the Authority. In accordance with criteria set by the Governmental Accounting Standards Board, the Authority meets the definition of a component unit which should be discretely presented. The Authority is accounted for as a Governmental Fund in these financial statements.

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: Sac County Emergency Management Commission, Sac County Landfill Commission, Sac County Joint E911 Service Board, Recreation Center Board, and Kid's World Board.

B. Basis of Presentation

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

City of Sac City, Iowa

Notes to Financial Statements

June 30, 2012

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 that are not paid from other funds.

Special Revenue:

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

The Employee Benefits Fund is used to account for tax receipts levied to pay employee benefits for the governmental funds.

City of Sac City, Iowa

Notes to Financial Statements

June 30, 2012

The City reports the following major proprietary funds:

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

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

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

The City also reports the following additional proprietary fund:

An Internal Service Fund is utilized to account for the City's payroll, which is then allocated to the City's departments on a cost reimbursement basis.

C. Measurement Focus and Basis of Accounting

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

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

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

City of Sac City, Iowa

Notes to Financial Statements

June 30, 2012

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.

Unassigned – All amounts not included in the preceding classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

F. Subsequent Events

The City has evaluated subsequent events through March 19, 2013, the date which the financial statements were available to be issued.

**(2) Cash**

The City and its component unit's deposits in banks at June 30, 2012 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.

City of Sac City, Iowa

Notes to Financial Statements

June 30, 2012

The City and its component unit are 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 and its component unit had no investments at June 30, 2012. The City and its component unit invested its excess funds in savings accounts and certificates of deposit.

**(3) Bonds and Notes Payable**

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

Year Ending <u>June 30,</u>	General Obligation		Revenue Notes		Total	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2013	\$ 55,000	13,005	128,000	142,656	183,000	155,661
2014	55,000	10,557	209,000	139,980	264,000	150,537
2015	55,000	8,083	216,000	136,050	271,000	144,133
2016	60,000	5,580	223,000	131,970	283,000	137,550
2017	60,000	2,820	230,000	127,770	290,000	130,590
2018-2022	-	-	1,266,000	570,900	1,266,000	570,900
2023-2027	-	-	1,488,000	443,400	1,488,000	443,400
2028-2032	-	-	1,747,000	293,730	1,747,000	293,730
2033-2037	-	-	1,123,042	114,090	1,123,042	114,090
Total	<u>\$ 285,000</u>	<u>40,045</u>	<u>6,630,042</u>	<u>2,100,546</u>	<u>6,915,042</u>	<u>2,140,591</u>

City of Sac City, Iowa

Notes to Financial Statements

June 30, 2012

Revenue Bonds

The City has pledged future sewer customer receipts, net of specified operating disbursements to repay \$6,793,000 of sewer revenue bonds authorized in January 2010. Proceeds from the bonds will provide financing for the construction of improvements to the sewer system. Annual principal and interest payments on the notes are expected to require less than 90 percent of net receipts. The notes are payable solely from the sewer customer net receipts and are payable through 2037. The City is drawing down funds from this revenue bond as needed. As of June 30, 2012 \$6,168,038 has been received by the City. Of this amount received, \$2 million is forgivable as described in the following paragraph.

Two million dollars of the total \$6.793 million sewer revenue bond is a forgivable loan. The \$2 million is forgivable provided that the City of Sac City completes the project in accordance with the note agreement. Not only is the principal forgiven, but the interest, servicing fee and initiation fee are also forgiven. Repayments of principal on this bond commence with the fiscal year ending June 30, 2013. Total principal and interest remaining to be paid on the notes is \$8,730,588. For the current year, interest paid and total customer receipts were \$134,549 and \$129,685 respectively.

The resolutions providing for the issuance of the sewer revenue bonds include the following provisions:

- (a) The bonds will only be redeemed from the future net revenues of the municipal sanitary sewer system of the City, a sufficient portion of which has been ordered set aside and pledged for that purpose.
- (b) Monthly transfers shall be made to the Sewer Revenue Sinking Fund for the purpose of making the bond principal and interest payments when due.
- (c) Rates shall be established at a level sufficient to meet the operation and maintenance expenses of the Wastewater Treatment System and to produce and maintain net revenues at a level not less than 110% of the amount of principal and interest on the revenue bond.

City of Sac City, Iowa

Notes to Financial Statements

June 30, 2012

**(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 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 \$88,405, \$75,561 and \$71,271, 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/dental benefits for employees and retirees and their spouses. There are 22 active and no retired members in the plan. Participants must be age 55 or older at retirement.

The medical/dental benefits are provided through a fully-insured plan with Wellmark. Retirees under age 65 pay the same premium for the medical/dental 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 \$516 for single coverage, \$1,081 for 2-person coverage, and \$1,470 for family coverage. The same monthly premiums apply to retirees. For the year ended June 30, 2012, the City contributed \$294,571.

City of Sac City, Iowa

Notes to Financial Statements

June 30, 2012

**(6) Compensated Absences**

City employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, retirement, or death. Sick leave is payable upon retirement in limited situations. 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 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	\$ 53,300
Sick Leave	<u>1,000</u>
	\$ <u>54,300</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	Special Revenue:	
	Employee Benefits	\$ 250,018
	Local Option Sales Tax	160,497
	Enterprise:	
	Gas	21,000
	Water	10,000
	Sewer	<u>10,000</u>
		<u>451,515</u>
Special Revenue:		
Road Use Tax	General	<u>11,686</u>
Long-term Capital		
Fire Department	General	<u>5,127</u>

City of Sac City, Iowa

Notes to Financial Statements

June 30, 2012

Debt Service	Enterprise:	
	Gas	3,164
	Water	31,772
	Sewer	29,512
	Special Revenue:	
	Local Option Sales Tax	<u>40,125</u>
		<u>104,573</u>
Capital Projects:	Enterprise:	
Special Assessment	Garbage	7,000
	Water	<u>21,400</u>
		<u>28,400</u>
Enterprise:	Special Revenue:	
Gas	Revolving Loan	<u>16,973</u>
Garbage	Capital Projects:	
	Special Assessment	<u>15,000</u>
Total		\$ <u>633,274</u>

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

**(8) Risk Management**

The City of Sac 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 663 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 official's liability, police professional liability, property, boiler/machinery, and inland marine. There have been no reductions in insurance coverage from prior years.

City of Sac City, Iowa

Notes to Financial Statements

June 30, 2012

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.

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, 2012 were \$96,962.

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 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, 2012, settled claims have not exceeded the risk pool or reinsurance company coverage since the Pool's inception.

City of Sac City, Iowa

Notes to Financial Statements

June 30, 2012

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 worker's compensation. 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 in any of the past three fiscal years.

**(9) Intergovernmental Agreements**

The County entered into an agreement with the Sac County Solid Waste Agency, in accordance with Chapter 28E of the Code of Iowa, to provide for the disposal of solid waste. For the year ended June 30, 2012 \$82,704 was paid for landfill fees pursuant to the agreement.

State and federal laws and regulations require the Agency to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. The cost to the Agency for compliance with these requirements have been estimated at \$1,052,557 according to the Agency's latest audit report available, which was for the year ended June 30, 2011.

The Agency has demonstrated financial assurance for closure and post closure care costs by establishing a local government dedicated fund as provided in Chapter 111.6(9) of the Iowa Administrative Code.

City of Sac City, Iowa

Notes to Financial Statements

June 30, 2012

**(10) Early Childhood Development Project**

A management agreement is in effect where Kid's World will repay the City the amount it advanced plus interest. The balance owing to the City at June 30, 2012, including interest, is \$202,338.

**(11) Construction Commitments**

The City of Sac City has committed to a sewer improvement project for approximately \$7 million. This project will be paid from a combination of SRF funding, ARRA and CDBG grants and rate increases. As of June 30, 2012, \$6.63 million has been expended on this project and an estimated \$163,000 is remaining to be paid for this project.

The City of Sac City has committed to a street project for approximately \$3 million. This project will be paid from a combination of GO bonds and special assessments.

## **Other Information**

City of Sac City, Iowa

Budgetary Comparison Schedule  
of Receipts, Disbursements, and Changes in Balances -  
Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Funds

Other Information

Year ended June 30, 2012

	Governmental Funds <u>Actual</u>	Proprietary Funds <u>Actual</u>	Funds not Required to be Budgeted
Receipts:			
Property tax	\$ 726,089	-	-
Other city tax	215,252	-	-
Licenses and permits	20,086	-	-
Use of money and property	31,860	4,128	-
Intergovernmental	318,543	488,939	-
Charges for service	57,772	2,340,358	-
Special assessments	1,836	-	-
Miscellaneous	79,695	1,137,396	1,112,821
Total receipts	<u>1,451,133</u>	<u>3,970,821</u>	<u>1,112,821</u>
Disbursements:			
Public safety	371,107	194,198	194,198
Public works	496,624	155,040	155,040
Health and social services	-	-	-
Culture and recreation	272,630	99,628	99,628
Community and economic development	3,850	-	-
General government	205,045	23,927	23,927
Debt service	134,430	-	-
Capital projects	45,794	-	-
Business type activities	-	3,379,289	640,183
Total disbursements	<u>1,529,480</u>	<u>3,852,082</u>	<u>1,112,976</u>
Excess (deficiency) of receipts over (under) disbursements	(78,347)	118,739	(155)
Other financing sources (uses), net	<u>101,875</u>	<u>(101,875)</u>	<u>-</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	23,528	16,864	(155)
Balances beginning of year	<u>720,613</u>	<u>983,551</u>	<u>(4,148)</u>
Balances end of year	<u>\$ 744,141</u>	<u>1,000,415</u>	<u>(4,303)</u>

See accompanying independent auditor's report.

<u>Net</u>	<u>Budgeted Amounts</u>		<u>Final to Net Variance</u>
	<u>Original</u>	<u>Final</u>	
726,089	736,865	736,865	(10,776)
215,252	179,674	179,674	35,578
20,086	7,500	7,500	12,586
35,988	48,000	48,000	(12,012)
807,482	302,273	302,273	505,209
2,398,130	3,050,860	3,050,860	(652,730)
1,836	-	1,358	478
104,270	134,750	134,750	(30,480)
<u>4,309,133</u>	<u>4,459,922</u>	<u>4,461,280</u>	<u>(152,147)</u>
371,107	358,950	378,950	7,843
496,624	453,520	503,520	6,896
-	2,000	5,000	5,000
272,630	270,740	280,740	8,110
3,850	3,000	4,500	650
205,045	215,310	235,310	30,265
134,430	269,108	369,108	234,678
45,794	50,000	100,000	54,206
<u>2,739,106</u>	<u>7,276,700</u>	<u>7,276,700</u>	<u>4,537,594</u>
<u>4,268,586</u>	<u>8,899,328</u>	<u>9,153,828</u>	<u>4,885,242</u>
40,547	(4,439,406)	(4,692,548)	4,733,095
<u>-</u>	<u>4,500,000</u>	<u>4,400,000</u>	<u>(4,400,000)</u>
40,547	60,594	(292,548)	333,095
<u>1,708,312</u>	<u>1,704,164</u>	<u>1,704,164</u>	<u>4,148</u>
<u><u>1,748,859</u></u>	<u><u>1,764,758</u></u>	<u><u>1,411,616</u></u>	<u><u>337,243</u></u>

City of Sac City, Iowa

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 Funds, the Permanent Fund and 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 \$254,500, budgeted receipts by \$1,358 and decreased budgeted other financing sources by \$100,000. The budget amendment is reflected in the final budgeted amounts.

## **Supplementary Information**

City of Sac City, Iowa

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

As of and for the year ended June 30, 2012

	Special Revenue			
	Unemployment Compensation	Local Option	Arts Council	Long-term Capital Fire Department
Receipts:				
Property tax	\$ -	-	-	-
Other city tax	-	185,701	-	-
Intergovernmental	-	-	-	5,316
Special assessments	-	-	-	-
Miscellaneous	-	-	175	-
Total receipts	-	185,701	175	5,316
Disbursements				
Operating:				
Culture and recreation	-	-	-	-
Debt service	-	-	-	-
Capital projects	-	-	-	-
Total Disbursements	-	-	-	-
Excess (deficiency) of receipts over (under) disbursements	-	185,701	175	5,316
Other financing sources (uses):				
Operating transfers in	-	-	-	5,127
Operating transfers out	-	(200,622)	-	-
Total other financing sources (uses)	-	(200,622)	-	5,127
Net change in cash balances	-	(14,921)	175	10,443
Cash balances beginning of year	9,042	14,921	1,755	91,771
Cash balances end of year	9,042	-	1,930	102,214
<b>Cash Basis Fund Balances</b>				
Nonspendable - Cemetery perpetual care	-	-	-	-
Restricted for:				
Debt service	-	-	-	-
Capital projects	-	-	-	-
Other purposes	9,042	-	1,930	102,214
Total cash basis fund balances	\$ 9,042	-	1,930	102,214

See accompanying independent auditor's report.

			Capital Projects				Permanent	
Revolving Loan	CDBG Housing Grant	Library	Debt Service	Capital Improvements	Special Assessment	Airport Improvements	Cemetery Perpetual Care	Total
-	-	-	37,957	-	-	-	-	37,957
-	-	-	1,550	-	-	-	-	187,251
-	26,146	-	-	-	-	19,648	-	51,110
-	-	-	-	-	1,836	-	-	1,836
16,973	-	3,241	-	-	-	-	800	21,189
16,973	26,146	3,241	39,507	-	1,836	19,648	800	299,343
-	-	3,551	-	-	-	-	-	3,551
-	-	-	134,430	-	-	-	-	134,430
-	26,146	-	-	-	-	19,648	-	45,794
-	26,146	3,551	134,430	-	-	19,648	-	183,775
16,973	-	(310)	(94,923)	-	1,836	-	800	115,568
-	-	-	104,573	-	28,400	-	-	138,100
(16,973)	-	-	-	-	(15,000)	-	-	(232,595)
(16,973)	-	-	104,573	-	13,400	-	-	(94,495)
-	-	(310)	9,650	-	15,236	-	800	21,073
-	-	1,155	54,247	39,300	180,781	-	85,928	478,900
-	-	845	63,897	39,300	196,017	-	86,728	499,973
-	-	-	-	-	-	-	86,728	86,728
-	-	-	63,897	-	-	-	-	63,897
-	-	-	-	39,300	196,017	-	-	235,317
-	-	845	-	-	-	-	-	114,031
-	-	845	63,897	39,300	196,017	-	86,728	499,973

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

As of and for the year ended June 30, 2012

	Enterprise Funds		
	<u>Storm Sewer</u>	<u>Garbage</u>	<u>Total</u>
Operating receipts:			
Charges for service	\$ 59,353	226,594	285,947
Miscellaneous	-	4,030	4,030
Total operating receipts	<u>59,353</u>	<u>230,624</u>	<u>289,977</u>
Operating disbursements:			
Business type activities	<u>20,073</u>	<u>237,897</u>	<u>257,970</u>
Total operating disbursements	<u>20,073</u>	<u>237,897</u>	<u>257,970</u>
Excess (deficiency) of operating receipts over (under) operating disbursements	<u>39,280</u>	<u>(7,273)</u>	<u>32,007</u>
Non-operating receipts (disbursements):			
Interest on investments	-	81	81
Total non-operating receipts (disbursements)	<u>-</u>	<u>81</u>	<u>81</u>
Excess (deficiency) of receipts over (under) disbursement:	<u>39,280</u>	<u>(7,192)</u>	<u>32,088</u>
Other financing sources:			
Operating transfers in	-	15,000	15,000
Operating transfers out	-	(7,000)	(7,000)
Total other financing sources	<u>-</u>	<u>8,000</u>	<u>8,000</u>
Net change in cash balances	39,280	808	40,088
Cash balances beginning of year	<u>130,858</u>	<u>206</u>	<u>131,064</u>
Cash balances end of year	<u>\$ 170,138</u>	<u>1,014</u>	<u>171,152</u>
<b>Cash Basis Fund Balances</b>			
Unrestricted	<u>170,138</u>	<u>1,014</u>	<u>171,152</u>
Total cash basis fund balances	<u>\$ 170,138</u>	<u>1,014</u>	<u>171,152</u>

See accompanying independent auditor's report.

City of Sac City, Iowa

Schedule of Indebtedness

Year ended June 30, 2012

<u>Obligation</u>	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount Originally Issued</u>
General obligation bonds/notes:			
Corporate purpose	Apr 2, 2002	3.00-5.00%	\$ 1,195,000
Corporate purpose	Jul 15, 2006	4.15-4.70%	660,000
Total			
Revenue Bonds:			
Sewer - Forgivable	Jan 27, 2010	0.00%	\$ 2,000,000
Sewer - Non-forgivable	Jan 27, 2010	3.00%	\$ 4,793,000
Total			

See accompanying independent auditor's report.

## Schedule 3

<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>
65,000	-	65,000	-	3,250	-
<u>335,000</u>	<u>-</u>	<u>50,000</u>	<u>285,000</u>	<u>15,180</u>	<u>-</u>
<u>\$ 400,000</u>	<u>-</u>	<u>115,000</u>	<u>285,000</u>	<u>18,430</u>	<u>-</u>
2,000,000	-	-	2,000,000	-	-
<u>4,168,038</u>	<u>462,004</u>	<u>-</u>	<u>4,630,042</u>	<u>134,549</u>	<u>-</u>
<u>\$ 6,168,038</u>	<u>462,004</u>	<u>-</u>	<u>6,630,042</u>	<u>134,549</u>	<u>-</u>

City of Sac City, Iowa  
 Bond and Note Maturities

June 30, 2012

Year Ending <u>June 30,</u>	General Obligation Notes	
	Corporate Purpose	
	Issued July 15, 2006	
	Interest	
	<u>Rates</u>	<u>Amount</u>
2013	4.45 %	\$ 55,000
2014	4.50	55,000
2015	4.55	55,000
2016	4.60	60,000
2017	4.70	60,000
Total		\$ 285,000

See accompanying independent auditor's report.

Schedule 4

Year Ending <u>June 30,</u>	Revenue Bonds					<u>Total</u>
	Sewer - Forgivable		Sewer - Non-forgivable			
	Issued January 27, 2010		Issued January 27, 2010			
	<u>Interest</u> <u>Rates</u>	<u>Amount</u>	<u>Interest</u> <u>Rates</u>	<u>Amount</u>		
2013	0.00 %	\$ 1,000	3.00 %	\$ 127,000		128,000
2014	0.00	78,000	3.00	131,000		209,000
2015	0.00	80,000	3.00	136,000		216,000
2016	0.00	83,000	3.00	140,000		223,000
2017	0.00	85,000	3.00	145,000		230,000
2018	0.00	88,000	3.00	149,000		237,000
2019	0.00	91,000	3.00	154,000		245,000
2020	0.00	94,000	3.00	159,000		253,000
2021	0.00	97,000	3.00	164,000		261,000
2022	0.00	100,000	3.00	170,000		270,000
2023	0.00	104,000	3.00	175,000		279,000
2024	0.00	107,000	3.00	181,000		288,000
2025	0.00	110,000	3.00	187,000		297,000
2026	0.00	114,000	3.00	193,000		307,000
2027	0.00	118,000	3.00	199,000		317,000
2028	0.00	122,000	3.00	206,000		328,000
2029	0.00	126,000	3.00	212,000		338,000
2030	0.00	130,000	3.00	219,000		349,000
2031	0.00	134,000	3.00	226,000		360,000
2032	0.00	138,000	3.00	234,000		372,000
2033		-	3.00	241,000		241,000
2034		-	3.00	249,000		249,000
2035		-	3.00	257,000		257,000
2036		-	3.00	265,000		265,000
2037		-	3.00	111,042		111,042
Total		<u>\$ 2,000,000</u>		<u>\$ 4,630,042</u>		<u>6,630,042</u>

City of Sac City, Iowa

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

For the Last Nine Years

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Receipts:			
Property tax	\$ 726,089	672,860	818,521
Other city tax	215,252	190,998	199,271
Licenses and permits	20,086	18,553	20,274
Use of money and property	31,860	17,372	12,623
Intergovernmental	318,543	568,903	638,323
Charges for service	57,772	52,356	45,536
Special assessments	1,836	2,367	9,164
Miscellaneous	<u>79,695</u>	<u>99,839</u>	<u>73,522</u>
 Total	 <u>\$ 1,451,133</u>	 <u>1,623,248</u>	 <u>1,817,234</u>
Disbursements:			
Operating			
Public safety	\$ 371,107	400,363	335,507
Public works	496,624	361,042	311,642
Culture and recreation	272,630	270,683	291,850
Community and economic development	3,850	3,600	3,850
General government	205,045	198,890	343,673
Debt service	134,430	134,420	302,415
Capital projects	<u>45,794</u>	<u>319,624</u>	<u>196,035</u>
 Total	 <u>\$ 1,529,480</u>	 <u>1,688,622</u>	 <u>1,784,972</u>

See accompanying independent auditor's report.

## Schedule 5

<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
811,747	810,620	825,999	820,574	809,303	795,773
197,818	157,567	216,251	73,857	36,744	44,795
35,770	38,336	7,167	5,532	8,748	6,948
5,730	3,677	704	1,243	602	724
257,207	408,955	346,795	307,071	259,114	254,058
50,232	59,131	81,176	82,927	59,870	69,455
3,457	5,880	6,946	2,602	14,049	23,349
<u>134,723</u>	<u>52,228</u>	<u>70,527</u>	<u>53,246</u>	<u>30,516</u>	<u>15,493</u>
<u>1,496,684</u>	<u>1,536,394</u>	<u>1,555,565</u>	<u>1,347,052</u>	<u>1,218,946</u>	<u>1,210,595</u>
372,935	322,888	298,221	315,358	295,179	272,397
358,469	341,981	312,692	280,860	263,854	268,324
231,848	240,422	237,138	225,204	226,173	215,432
54,268	-	-	-	-	-
161,786	177,950	170,766	181,399	154,047	140,806
377,345	407,980	304,999	278,800	320,740	315,860
<u>45,794</u>	<u>156,472</u>	<u>339,278</u>	<u>82,364</u>	<u>-</u>	<u>5,000</u>
<u>1,602,445</u>	<u>1,647,693</u>	<u>1,663,094</u>	<u>1,363,985</u>	<u>1,259,993</u>	<u>1,217,819</u>

Schedule of Expenditures of Federal Awards

Year ended June 30, 2012

<u>Granter/Program</u>	<u>CFDA Number</u>	<u>Agency or Pass Through Number</u>	<u>Program Expenditures</u>
Direct:			
U.S. Department of Transportation: Airport Improvement Program	20.106	3-19-0080-08	\$ 12,656 <u>12,656</u>
Indirect:			
Department of Housing and Urban Development:			
Iowa Department of Economic Development Community Development Block Grant/ States Program and Non Entitlement Grants in Hawaii	14.228	08-HGS-041	26,146
Iowa Department of Economic Development Community Development Block Grant/ States Program and Non Entitlement Grants in Hawaii	14.228	09-US-051	<u>26,935</u> <u>53,081</u>
Environmental Protection Agency:			
Iowa Finance Authority: Capitalization Grants for Clean Water State Revolving Funds	66.458	FY 2012	<u>438,000</u>
Total indirect			<u>438,000</u>
Total			<u>\$ 503,737</u>

**Basis of Presentation** - The Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Sac City and is presented on the cash basis of accounting. The information of 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 the amounts presented in, or used in the preparation of, the basic financial statements.

See accompanying independent auditor's report.

# Cornwell, Frideres, Maher & Associates, P.L.C.

## Certified Public Accountants

714 14th Avenue North  
Fort Dodge, IA 50501-7098  
Phone 515.955.4805 • Fax 515.955.4673

Lowell W. Cornwell, C.P.A.  
lwcornwell@frontiernet.net

Christine R. Frideres, C.P.A.  
crfrideres@frontiernet.net

Jerilyn J. Maher, C.P.A.  
jjmaher@frontiernet.net

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, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Sac 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 March 19, 2013. Our report expressed unqualified opinions on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

### Internal Control Over Financial Reporting

The management of the City of Sac City is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City of Sac 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 an opinion on the effectiveness of the City of Sac City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Sac 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 the 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 Sac City's financial statements will not be prevented or detected on a timely basis. We consider the deficiency described in Part II of the accompanying Schedule of Findings and Questioned Costs as item II-A-12 to be a material weakness.

A significant deficiency is a deficiency, or 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 deficiency 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 the City of Sac 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 IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 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.

The City of Sac 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 the City of Sac 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 the City of Sac City and other parties to whom the City of Sac 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 the City of Sac 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.

*Cornwell, Frideres, Maher & Associates, P.L.C.*  
Cornwell, Frideres, Maher & Associates, P.L.C.  
Certified Public Accountants

March 19, 2013

# Cornwell, Frideres, Maher & Associates, P.L.C.

## Certified Public Accountants

714 14th Avenue North  
Fort Dodge, IA 50501-7098  
Phone 515.955.4805 • Fax 515.955.4673

Lowell W. Cornwell, C.P.A.  
lwcornwell@frontiernet.net

Christine R. Frideres, C.P.A.  
crfrideres@frontiernet.net

Jerilyn J. Maher, C.P.A.  
jjmaher@frontiernet.net

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

To the Honorable Mayor and  
Members of the City Council:

#### Compliance

We have audited the compliance of the City of Sac City, Iowa, 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 Sac City's major federal program for the year ended June 30, 2012. The City of Sac City's major federal program is identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to its major federal program is the responsibility of the City of Sac City's management. Our responsibility is to express an opinion on the City of Sac City's compliance based on our audit.

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

In our opinion, the City of Sac City complied, in all material respects, with the requirements referred to above that could have a direct and material effect on its major federal programs for the year ended June 30, 2012.

#### Internal Control Over Compliance

The management of the City of Sac City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and

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

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as discussed below, we identified a deficiency in internal control over compliance we consider to be a material weakness.

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. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item III-A-12 to be a material weakness.

The City of Sac 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 the City of Sac 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 the City of Sac City and other parties to whom the City of Sac City 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.

*Cornwell, Frideres, Maher & Associates, P.L.C.*  
Cornwell, Frideres, Maher & Associates, P.L.C.  
Certified Public Accountants

March 19, 2013

City of Sac City, Iowa

Summary Schedule of Prior Audit Findings

Year ended June 30, 2012

<u>Comment Reference</u>	<u>Comment Title</u>	<u>Status</u>	<u>If not corrected, provide planned corrective action or other explanation</u>
III-A-11	Segregation of duties over federal programs	Not Corrected	Have hired outside consultant to administer the City's grants which mitigates this deficiency.

City of Sac City, Iowa

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.
- (d) A material weakness in internal control over the major programs 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 disclosed an audit finding which is 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 66.458 Capitalization Grants for Clean Water State Revolving Funds.
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) The City of Sac City did not qualify as a low-risk auditee.

City of Sac City, Iowa  
Schedule of Findings and Questioned Costs  
Year ended June 30, 2012

**Part II: Findings Related to the Financial Statements:**

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

**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. We noticed that certain functions are not entirely segregated, such as preparing receipts and posting utility billing.

Recommendation – We realize that with four office employees, segregation of duties is difficult. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response – We feel we are doing the best we can and that no further segregation is possible without additional staff.

Conclusion – Response accepted.

II-B-12 Preparation of Financial Statements – Management is responsible for establishing and maintaining internal controls over financial reporting and procedures related to the fair presentation of the financial statements in accordance with the cash basis of accounting. The City of Sac City does not have an internal control system designed to provide for the preparation of the financial statements, including the accompanying footnotes as required by generally accepted accounting principles. The guidance in Statement of Auditing Standards No. 115, *Communicating Internal Control Related Matters Identified in an Audit*, requires us to communicate this matter to those charged with governance.

As auditors, we were requested to draft the financial statements, the Schedule of Federal Expenditures and accompanying notes to the financial statements. The outsourcing of these services is not unusual in an organization of your size.

City of Sac City, Iowa

Schedule of Findings and Questioned Costs

Year ended June 30, 2012

Recommendation – We realize that obtaining the expertise necessary to prepare the financial statements, including all necessary disclosures, in accordance with the cash basis of accounting can be considered costly and ineffective. However, it is the responsibility of the City’s 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.

Response – Management feels that committing the resources to remain current on reporting requirements and corresponding footnote disclosures would lack benefit in relation to the cost, but will continue evaluating on a going forward basis.

Conclusion – Response accepted.

**Part III: Findings and Questioned Costs For Federal Awards:**

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

**INTERNAL CONTROL DEFICIENCIES:**

**CFDA Number 66.458: Capitalization Grant For Clean Water State Revolving Funds  
Federal Award Year: 2010  
Environmental Protection Agency  
Passed through the Iowa Finance Authority**

III-A-12 Segregation of Duties – The City did not properly segregate record-keeping duties for the checking account relating to federal programs.

City of Sac City, Iowa

Schedule of Findings and Questioned Costs

Year ended June 30, 2012

**Part IV: Other Findings Related to Statutory Reporting:**

- IV-A-12 Certified Budget – Disbursements during the year ended June 30, 2012 did not exceed the amounts budgeted.
- IV-B-12 Questionable Disbursements – No disbursements were noted that may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979.
- IV-C-12 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- IV-D-12 Business Transactions – No business transactions between the City and City officials were noted.
- IV-E-12 Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage is reviewed annually to insure that coverage is adequate for current operations.
- IV-F-12 Council Minutes – No transactions were found that we believe should have been approved on the council minutes but were not.

Although minutes of City Council proceedings were published, they were not always published within fifteen days as required by Chapter 372.13(6) of the Code of Iowa.

Recommendation – The City should comply with Chapter 21 of the Code of Iowa and should publish minutes as required.

Response – We will publish all minutes within fifteen days as required.

Conclusion – Response accepted.

- IV-G-12 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-12 Revenue Bonds and Notes – The City has not complied with all the revenue bond and note provisions. The Sewer fund did not maintain net revenues of 110% of the amount of principal and interest on the bonds/notes falling due in 2012.

Recommendation – The City should evaluate the rates currently being charged to customers to see if increases need to be implemented in order to meet the 110% net revenue requirement.

Response – The City has been working towards a rate increase since January 2013. City officials anticipate a rate increase should be in effect shortly.

Conclusion – Response accepted.

IV-I-12 Insurance Levy – The City levies for liability and property insurance. As of June 30, 2012, the amount of property taxes received exceeded the actual expenditures.

Recommendation – The City should review its procedures for levying property taxes for tort liability so that the tax collected is not in excess of the amount needed.

Response – The City will lower the rate on the insurance levy for the fiscal year ending June 30, 2014.

Conclusion – Response accepted.