

CITY OF HULL

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

June 30, 2012

Table of Contents

	<u>Page</u>
Officials	2
Independent Auditor’s Report	3-4
Management’s Discussion and Analysis	5-11
Basic Financial Statements:	<u>Exhibit</u>
Government-wide Financial Statement:	
Statement of Activities and Net Assets – Cash Basis	A 12
Governmental Fund Financial Statement:	B 13
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	
Proprietary Fund Financial Statement:	C 14
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	
Notes to Financial Statements	15-21
Required Supplementary Information:	
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances – Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Funds	22
Notes to Required Supplementary Information – Budgetary Reporting	23
Other Supplementary Information:	<u>Schedule</u>
Schedule of Cash Receipts, Disbursements and Changes in Cash Balances – Non-major Governmental Funds	1 24
Schedule of Indebtedness	2 25
Bond and Note Maturities	3 26
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>	27-28
Schedule of Findings	29-31
Staff	32

City of Hull

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Roger Vis	Mayor	Jan 2015
Mike Broek	Council Member	Jan 2015
Eric Rankin	Council Member	Jan 2013
Ethan Vaas	Council Member	Jan 2013
Joel Leusink	Council Member	Jan 2013
Roger Buys	Council Member	Jan 2015
Aaron Kooiker	City Administrator	Indefinite
Dwayne Bonestroo	Dep. Clerk/Treasurer	Indefinite
DeKoster & DeKoster (John)	Attorney	Indefinite

KROESE&KROESE, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

31 2ND AVENUE NW
LE MARS, IA 51031
(712) 546-5131

Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Hull, 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 Hull, Iowa management. Our responsibility is to express opinions on these financial statements based on our audit.

Except as discussed in the following paragraph, 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 City of Hull, Iowa 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 November 29, 2012 on our consideration of the City of Hull'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 and not to provide an opinion on 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.

Management's Discussion and Analysis and budgetary comparison information on pages 5 through 11 and 22 through 23 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Hull's basic financial statements. Other supplementary information included in Schedules 1 through 3 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Le Mars, Iowa
November 29, 2012

MANGEMENTS DISCUSSION AND ANALYSIS

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

2012 FINANCIAL HIGHLIGHTS

- The cash basis net assets of the City's governmental activities increased \$481,308, due primarily to more income and spending for street construction.
- The cash basis net assets of the City's business type activities decreased \$135,385.

USING THIS ANNUAL REPORT

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

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

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

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

Other Supplementary Information provides detailed information about the nonmajor governmental funds and the City's indebtedness.

BASIS OF ACCOUNTING

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

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information which helps answer this question.

The Statement of Activities and Net assets presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets is divided into two kinds of activities:

- Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the water and sewer systems. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

- 1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General Funds, 2) the Special Revenue Funds, such as Road use Tax and Local Option Sales Tax, 3) the Debt Service Funds and 4) the Capital Projects Fund.

The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

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

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from a year ago, increasing from \$996,055 to \$1,477,363. The analysis that follows focuses on the changes in cash basis net assets of governmental activities.

<u>Changes in Cash Basis Net Assets of Governmental Activities</u>	
	Year ended June 30, <u>2012</u>
Program receipts:	
Charges for service	\$ 248,135
General receipts:	
Property tax	634,747
TIF revenues	711,514
Local option sales tax	230,601
Unrestricted interest on investments	2,716
Other general receipts	<u>4,454,030</u>
Total receipts	<u>6,281,743</u>
Disbursements:	
Public safety	313,434
Public works	307,280
Culture and recreation	342,144
Community and economic development	374,447
General government	291,661
Debt service	665,625
Capital projects	<u>3,505,844</u>
Total disbursements	<u>5,800,435</u>
Increase in cash basis net assets	481,308
Cash basis net assets beginning of year	<u>996,055</u>
Cash basis net assets end of year	<u><u>\$ 1,477,363</u></u>

<u>Changes in Cash Basis Net Assets of Business Type Activities</u>	
	<u>Year ended June 30, 2012</u>
Receipts:	
Program receipts:	
Charges for service:	
Water	\$ 540,219
Sewer	<u>199,434</u>
Total receipts	<u>739,653</u>
Disbursements:	
Water	634,369
Sewer	<u>293,037</u>
Total disbursements	<u>927,406</u>
Increase in cash basis net assets	(187,753)
Other revenue and financing activities	52,368
Cash basis net assets beginning of year	<u>515,208</u>
Cash basis net assets end of year	<u>\$ 379,823</u>

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Hull completed the year, its governmental funds reported a combined fund balance of \$1,477,363, an increase of \$481,308 over last year's total of \$996,055. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Funds cash balance decreased \$72,083 over the prior year to \$174,990. The decrease is, in part, due to increased spending during fiscal year 2012.
- The TIF Revenue cash balance decreased \$38,552 to \$443,537 during the fiscal year. The increase is due to reduced spending and no planned improvement projects during fiscal year 2012.
- The Debt Service Fund cash balance decreased \$5,298 from the prior year's \$20,098 balance. This was not a significant decrease.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance decreased \$48,583 to \$401,279.
- The Sewer Fund cash balance decreased \$86,802 to (\$21,456), due primarily to increased spending during the fiscal year.

BUDGETRY HIGHLIGHTS

In March, 2012 the City did amend its budget. The City did not exceed the amount budgeted in the public safety, culture and recreation, general government and business type activities functions.

DEBT ADMINISTRATION

At June 30, 2012, the City had \$5,789,500 in outstanding notes and other long-term debt outstanding, compared to \$2,295,000 last year, as shown below.

	Outstanding Debt at Year-end	
	June 30,	
	2012	2011
TIF Bonds	\$1,290,000	
General obligation bonds	3,588,500	\$1,405,000
Water Improvements	540,000	480,000
Sewer Improvements	371,000	410,000
Total	<u>\$5,789,500</u>	<u>\$2,295,000</u>

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 \$3,588,500 is well below its constitutional debt limit of \$5,236,978.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

Several factors were considered when formulating the FY 2012 budget:

- The FY2012 budget contains receipts totaling \$6,897,316 and disbursements totaling \$6,416,008.
- The FY2012 levy is \$8.10 per \$1,000 of taxable valuation, the same as in FY2011. However, this maximum levy is not supporting the City's general operating expenses. The City levied the amounts necessary for insurance, totaling approximately \$45,000, and other employee benefits, totaling approximately \$40,000.

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 Dwayne Bonestroo, Deputy City Clerk PO Box 816, Hull, Iowa 51239-0816.

Basic Financial Statements

City of Hull

Statement of Activities and Net Assets – Cash Basis

As of and for the year ended June 30, 2012

	<u>Disbursements</u>	<u>Program Receipts</u>	
		<u>Charges for Service</u>	<u>Operating Grants, Contributions and Restricted Interest</u>
Functions/Programs:			
Governmental activities:			
Public safety	\$314,434	\$ 64,651	\$ 19,868
Public works	307,280	107,276	
Culture and recreation	342,144	76,208	
Community and economic development	374,447		
General government	291,661		
Debt service	665,625		
Capital projects	<u>3,505,844</u>		<u>\$ 3,505,844</u>
Total governmental activities	<u>5,800,435</u>	<u>248,135</u>	<u>3,505,844</u>
Business type activities:			
Water	634,369	540,219	
Sewer	<u>293,037</u>	<u>199,434</u>	
Total business type activities	<u>927,406</u>	<u>739,653</u>	
Total	<u>6,727,841</u>	<u>987,788</u>	<u>3,505,844</u>

General Receipts:

Property and other city tax levied for:
 General purposes
 Debt service
 Tax Increment Financing
 Other city taxes
 Local option sales tax
 Unrestricted interest on investments
 Miscellaneous
 Financing
 Total general receipts

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:

Debt service
 Sinking Fund

Unrestricted

Total cash basis net assets

See notes to financial statements.

Exhibit A

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
Governmental Activities	Business Type Activities	Total
\$ 228,915		\$ 228,915
200,004		200,004
265,936		265,936
374,447		374,447
291,661		291,661
665,625		665,625
<u>2,026,588</u>		<u>2,026,588</u>
	\$ 94,150	94,150
	<u>93,603</u>	<u>93,603</u>
	<u>187,753</u>	<u>187,753</u>
	<u>187,753</u>	<u>187,753</u>
366,439		366,439
228,247		228,247
711,514		711,514
1,963		1,963
230,601		230,601
2,716		2,716
	52,368	52,368
<u>966,416</u>		<u>966,416</u>
<u>2,507,896</u>	<u>52,368</u>	<u>2,560,264</u>
481,308	(135,385)	345,923
<u>996,055</u>	<u>515,208</u>	<u>1,511,263</u>
<u>\$ 1,477,363</u>	<u>\$ 379,823</u>	<u>\$1,857,186</u>
14,800		14,800
	56,001	56,001
<u>1,462,563</u>	<u>323,822</u>	<u>1,786,385</u>
<u>\$ 1,477,363</u>	<u>\$ 379,823</u>	<u>\$1,857,186</u>

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

As of and for the year ended June 30, 2012

	Special Revenue	
	General	Tax Investment Financing
Receipts:		
Property tax	\$ 366,439	
Tax Increment Financing		\$711,514
Other city tax	1,314	
Licenses and permits	47,497	
Use of money and property	17,388	
Intergovernmental	48,098	
Charges for service	243,171	
Special Assessments		
Miscellaneous	<u>48,837</u>	
Total receipts	<u>772,744</u>	<u>711,514</u>
Disbursements:		
Operating:		
Public safety	313,434	
Public works	116,851	
Culture and recreation	308,274	
Community and economic development	18,673	355,774
General government	278,876	
Debt service		
Capital Project		
Total disbursements	<u>1,036,108</u>	<u>355,774</u>
Excess (deficiency) of receipts over (under) disbursements	<u>(263,364)</u>	<u>355,740</u>
Other financing sources (uses):		
Operating transfers in	<u>191,281</u>	
Operating transfers out		<u>(394,292)</u>
Total other financing sources (uses)	<u>191,281</u>	<u>(394,292)</u>
Net change in cash balances	(72,083)	(38,552)
Cash balances beginning of year	<u>247,073</u>	<u>482,089</u>
Cash balances end of year	<u>\$ 174,990</u>	<u>\$443,537</u>
Cash Basis Fund Balances		
Reserved for debt service		
Unreserved:		
General fund	174,990	
Special revenue funds		\$443,537
Capital projects fund		
Total cash basis fund balances	<u>\$ 174,990</u>	<u>\$443,537</u>

See notes to financial statements.

Exhibit B

Debt Service	Nonmajor	Total
\$228,247	\$ 40,061	\$634,747
		711,514
505	230,745	232,564
		47,497
415	1,325	19,128
	232,656	280,754
	4,964	248,135
6,868		6,868
	535,599	584,436
236,035	1,045,350	2,765,643
		313,434
	190,429	307,280
	33,870	342,144
		374,447
	12,785	291,661
665,625		665,625
	3,505,844	3,505,844
665,625	3,742,928	5,800,435
(429,590)	(2,697,578)	(3,034,792)
424,292	3,516,100	4,131,673
	(221,281)	(615,573)
424,292	(3,294,819)	3,516,100
5,294	597,241	481,308
20,098	246,795	996,055
\$14,800	\$844,036	\$1,477,363
\$14,800		\$14,800
		174,990
	256,031	699,568
	588,005	588,005
\$ 14,800	\$ 844,036	\$1,477,363

City of Hull

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

As of and for the year ended June 30, 2012

	Enterprise			Total
	Water	Sewer	Utility Dept	
Operating receipts:				
Charges for service	\$ 540,219	\$ 199,434		\$739,653
Miscellaneous	<u>41,518</u>	<u>6,800</u>	\$ 4,050	<u>52,368</u>
Total operating receipts	581,737	206,234	4,050	792,021
Operating disbursements:				
Business type activities	<u>630,967</u>	<u>293,037</u>	<u>3,402</u>	<u>927,406</u>
Net change in cash balances	49,230	(86,803)	648	(135,385)
Cash balances beginning of year	<u>437,391</u>	<u>65,347</u>	<u>12,470</u>	<u>515,208</u>
Cash balances end of year	<u><u>388,161</u></u>	<u><u>(21,456)</u></u>	<u><u>13,118</u></u>	<u><u>379,823</u></u>
Cash Basis Fund Balances				
Reserved for sinking fund	56,001			56,001
Unreserved	<u>332,160</u>	<u>(21,456)</u>	<u>13,118</u>	<u>323,822</u>
Total cash basis fund balances	<u><u>\$ 388,161</u></u>	<u><u>\$ (21,456)</u></u>	<u><u>\$ 13,118</u></u>	<u><u>\$379,823</u></u>

See notes to financial statements

City of Hull

Notes to Financial Statements

June 30, 2012

(1) Summary of Significant Accounting Policies

The City of Hull is a political subdivision of the State of Iowa located in Sioux County. It was first incorporated in 1835 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, health and social services, culture and recreation, community and economic development and general government services. The City also provides water and sewer utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, City of Hull 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.

These financial statements present the City of Hull (the primary government) with no component units.

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: Northwest Area Solid Waste Agency, Sioux County Communications Commission, Lewis and Clark Rural Water Systems and Northwest Iowa Housing Commission.

City of Hull

Notes to Financial Statements

June 30, 2012

B. Basis of Presentation

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

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

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets not meeting the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements – Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

City of Hull

Notes to Financial Statements

June 30, 2012

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 not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for road construction and maintenance.

The Local Option Sales Tax Fund is used to account for the 40% of the dollars collected for infrastructure improvements.

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

The City reports the following major proprietary funds:

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

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

City of Hull

Notes to Financial Statements

June 30, 2012

Under the terms 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 generally receipts.

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:

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

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

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

Unassigned - All amounts not included in other spendable classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2012, disbursements did not exceed the amounts budgeted.

City of Hull
Notes to Financial Statements
June 30, 2012

(2) Cash and Pooled Investments

The City'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.

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 of improvement certificates of a drainage district.

The City had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3, as amended by Statement No. 40.

City of Hull

Notes to Financial Statements

June 30, 2012

(3) Notes Payable

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

Year Ending June 30,	Principal	Interest	Total
2013	\$ 658,500	\$ 114,709	\$ 773,209
2014	592,000	113,246	705,246
2015	604,000	104,895	708,895
2016	460,000	95,344	555,344
2017	367,000	86,703	453,703
Thereafter	<u>3,108,000</u>	<u>591,284</u>	<u>3,699,284</u>
	<u>\$5,789,500</u>	<u>\$1,106,181</u>	<u>\$6,895,681</u>

(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 contribution to IPERS for the year ended June 30, 2012 was \$27,287, equal to the required contribution for the year.

City of Hall

Notes to Financial Statements

June 30, 2012

(5) 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. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation payable to employees at June 30, 2012, primarily relating to the General Fund, is \$12,370. This liability has been computed based on rates of pay in effect at June 30, 2012.

(6) 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 the year ended June 30, 2012.

City of Hull

Required Supplementary Information

City of Hull

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

Required Supplementary Information

Year ended June 30, 2012

	Governmental Funds Actual	Proprietary Funds Actual
Receipts:		
Property tax	\$ 634,747	
TIF tax	711,514	
Other City tax	232,564	
Licenses and permits	47,497	\$ 400
Use of money and property	19,128	3,685
Intergovernmental	280,754	
Charges for service	248,135	739,653
Special assessments	6,868	
Miscellaneous	584,436	48,283
Other financing source	<u>4,131,673</u>	
Total receipts	<u>6,897,316</u>	<u>792,021</u>
Disbursements:		
Public safety	313,434	
Public works	307,280	
Culture and recreation	342,144	
Community and economic development	374,447	
General government	291,661	
Debt service	665,625	
Capital projects	3,505,844	
Business type activities		<u>927,406</u>
Total disbursements	<u>5,800,435</u>	<u>927,406</u>
Other financing uses, including transfers out	<u>(615,573)</u>	
Excess (deficiency) of receipts Over (under) disbursements	481,308	(135,385)
Balances beginning of year	<u>996,055</u>	<u>515,208</u>
Balances end of year	<u>\$ 1,477,363</u>	<u>\$ 379,823</u>

See accompanying independent auditor's report.

Total	<u>Budgeted Amounts</u>		Final to Total Variance
	Original	Final	
\$ 634,747	\$ 622,543	\$ 622,543	\$ 12,204
711,514	725,224	725,224	(13,710)
232,564	231,281	238,281	(5,717)
47,897	107,513	45,585	2,312
22,813	25,700	25,700	(2,887)
280,754	231,127	296,399	(15,645)
987,788	994,200	995,700	(7,912)
6,868	6,843	6,843	25
632,719	69,400	696,750	(64,031)
<u>4,131,673</u>	<u>2,967,001</u>	<u>3,950,220</u>	<u>181,453</u>
<u>7,689,337</u>	<u>5,980,832</u>	<u>7,603,245</u>	<u>86,092</u>
313,434	290,870	314,220	786
307,280	324,650	335,450	28,170
342,144	366,230	374,190	32,046
374,447	387,000	464,100	89,653
291,661	238,980	300,230	8,569
665,625	708,334	666,133	508
3,505,844	2,500,000	3,893,370	387,526
<u>927,406</u>	<u>879,438</u>	<u>1,047,878</u>	<u>120,472</u>
<u>6,727,841</u>	<u>5,695,502</u>	<u>7,395,571</u>	<u>667,730</u>
<u>(615,573)</u>	<u>(467,001)</u>	<u>(434,120)</u>	<u>(181,453)</u>
345,923	(181,671)	(226,446)	572,369
<u>1,511,263</u>	<u>1,242,812</u>	<u>1,511,263</u>	<u> </u>
<u>\$ 1,857,186</u>	<u>\$ 1,061,141</u>	<u>\$ 1,284,817</u>	<u>\$ 572,369</u>

City of Hull

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2012

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

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

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Fund and the Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. The City did amend its budget during the year ended June 30, 2012, which increased disbursements by

During the year ended June 30, 2012, disbursements did not exceed the amounts budgeted.

Other Supplementary Information

City of Hull

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		
	Employee Trust Benefits	Road Use Tax	Fund
Receipts:			
Property tax	\$40,061		
Other city tax	204		\$ 3,990
Miscellaneous		\$206,301	18,794
	<u>40,265</u>	<u>206,301</u>	<u>22,784</u>
Disbursements:			
Operating			
Public safety	9,647	179,156	1,626
Public works	33,870		
Culture and recreation			12,785
General government			
Capital projects			
Total disbursements	<u>43,517</u>	<u>179,156</u>	<u>14,411</u>
Net change in cash balances	(3,252)	27,145	8,373
Cash balances beginning of year	<u>52,803</u>	<u>49,941</u>	<u>115,753</u>
Other financing sources, net			5,270
Cash balances end of year	<u>49,551</u>	<u>77,086</u>	<u>129,936</u>
Cash Basis Fund Balances			
Unassigned:			
Special revenue funds	49,551	77,086	129,936
Capital projects fund			
Total cash basis fund balances	<u>\$49,551</u>	<u>\$77,086</u>	<u>\$129,936</u>

See accompanying independent auditor's report.

Schedule 1

<u>Capital Projects</u>		
<u>Street Construction</u>	<u>Building Construction</u>	<u>Total</u>
		\$ 40,061
		230,745
\$ 226,551	\$ 549,449	774,544
<u>226,551</u>	<u>549,449</u>	<u>1,045,350</u>
		190,429
		33,870
		12,785
817,701	\$2,688,143	3,505,844
<u>817,701</u>	<u>2,688,143</u>	<u>3,742,928</u>
(591,150)	(2,138,694)	(2,697,578)
<u>3,998</u>	<u>23,760</u>	<u>246,795</u>
889,549	2,400,000	3,294,819
<u>302,397</u>	<u>285,066</u>	<u>844,036</u>
		256,573
<u>302,397</u>	<u>285,066</u>	<u>587,463</u>
<u>\$ 302,397</u>	<u>\$ 285,066</u>	<u>\$844,036</u>

City of Hull

Schedule of Indebtedness

Year ended June 30, 2012

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation bonds:			
2007 Street improvement	Aug. 29, 2007	4.35%	\$ 478,000
2009 ES Street improvement	Jan.25, 2010	1%	100,000
2001 Street improvement	Feb 1, 2000	4.8 to 5.5	215,000
2001 Professional Building/street Street improvement	Feb 1, 2002	3.0 to 4.9	610,000
		1.6 to 3.9	545,000
2006 Street/sewer improvement	Jul 1, 2006	3.85 to 4.4	510,000
Library/street/sewer improvement	Jul 1, 2005	2.9 to 4.0	1,325,000
Park/Pool	Oct 27, 2011	.50 to 3.85	2,500,000
2011 Street refunding	Oct 27, 2011	.50 to 1.20	780,000
2011-12 Street	Oct 27,2011	.50 to 1.20	300,000
Total			
TIF Bonds			
TIF agreement	Dec 1, 2011	0	1,200,000
TIF agreement	Dec 1, 2011	0	90,000
Total			
Revenue notes:			
2007 L & C Water	May 1, 2007	3.85 to 4.4	610,000
2000 Lagoon Sewer	Nov 8, 2000	3.0	750,000
Water (aspen street line)	Dec 1, 2011	0	95,000
Total			

See accompanying independent auditor's report.

Schedule 2

Balance Beginning of year	Issued During Year	Retired During Year	Balance End of Year	Interest Paid
\$ 103,000		\$ 103,000	\$ 0	\$ 4,480
67,000		33,500	33,500	1,200
40,000		40,000	0	1,960
35,000		35,000	0	1,715
80,000		80,000	0	0
405,000		60,000	345,000	17,338
675,000		675,000	0	25,000
0	2,500,000	100,000	2,400,000	37,382
0	780,000	210,000	570,000	3,284
0	300,000	60,000	240,000	6,765
<u>\$1,405,000</u>	<u>\$3,580,000</u>	<u>\$1,396,500</u>	<u>\$3,588,500</u>	<u>\$ 99,124</u>
0	1,200,000		1,200,000	0
0	90,000		90,000	0
	<u>\$1,290,000</u>		<u>\$1,290,000</u>	
\$ 480,000		\$ 35,000	\$ 445,000	\$ 20,338
410,000		39,000	371,000	12,300
0	95,000		95,000	0
<u>\$ 2,295,000</u>	<u>\$ 4,965,000</u>	<u>\$ 1,470,500</u>	<u>\$ 5,789,500</u>	<u>\$ 131,762</u>

City of Hull
Bond and Note Maturities
June 30, 2012

General Obligation Bonds						
Year Ending June 30,	<u>2011 Refunding</u> <u>Issued Oct 27, 2011</u>		<u>2009 Street Improvement</u> <u>Issued Jan 25, 2010</u>		<u>2011 Park/Pool</u> <u>Issued Oct 27, 2011</u>	
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount
2013	.60%	\$ 210,000	1%	\$33,500	.60%	\$105,000
2014	.75	170,000			.75	105,000
2015	1.00	170,000			1.00	105,000
2016	1.20	20,000			1.20	105,000
2017					1.45	110,000
Thereafter					Var	1,870,000
Total		<u>\$ 570,000</u>		<u>\$33,500</u>		<u>\$2,400,000</u>

Revenue Notes				
Year Ending June 30,	<u>Water</u> <u>Issued May 1, 2007</u>		<u>Sewer</u> <u>Issued Nov 8, 2000</u>	
	Interest Rates	Amount	Interest Rates	Amount
2013	4.0%	\$ 35,000	3.0%	\$40,000
2014	4.15	40,000	3.0	42,000
2015	4.15	40,000	3.0	44,000
2016	4.15	40,000	3.0	45,000
2017	4.25	45,000	3.0	47,000
Thereafter	Var	245,000	3.0	153,000
Total		<u>\$445,000</u>		<u>\$371,000</u>

See accompanying independent auditor's reports.

Schedule 3

<u>Street/Sewer Improvement</u> <u>Issued Jul 1, 2006</u>		<u>2011 Street</u> <u>Issued Oct 27, 2011</u>		<u>Water (aspen street line)</u> <u>Issued Dec 2, 2011</u>	
Interest Rates	Amount	Interest Rates	Amount	Rates	Amount
4.20%	\$ 65,000	.60%	\$60,000	0%	\$20,000
4.20	65,000	.75	60,000	0	20,000
4.30	70,000	1.0	60,000	0	25,000
4.35	70,000	1.20	60,000	0	30,000
4.40	75,000				
	<u>\$345,000</u>		<u>\$240,000</u>		<u>\$95,000</u>

<u>TIF Debt</u>					
<u>HIDC TIF Agreement</u> <u>Issued December 1, 2011</u>			<u>HIDC TIF Agreement</u> <u>Issued December 1, 2011</u>		
Interest Rates	Amount		Interest Rates	Amount	
	\$80,000			\$ 10,000	
	80,000			10,000	
	80,000			10,000	
	80,000			10,000	
	80,000			10,000	
	800,000			40,000	
	<u>\$1,200,000</u>			<u>\$90,000</u>	

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 Hull, 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 29, 2012. Our report expressed unqualified opinions on the financial statements which were prepared in conformity with another 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

In planning and performing our audit, we considered the City of Hull'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 Hull's internal control over financial reporting. Accordingly, we not express an opinion on the effectiveness of the City of Hull's internal control over financial reporting.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Hull'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 the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations of 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.

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 Hull and other parties to whom City of Hull may report. 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 Hull 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.

Le Mars, Iowa
November 29, 2012

City of Hull

Schedule of Findings

Year ended June 30, 2012

Findings Related to the Financial Statements:

REPORTABLE CONDITIONS:

(A) Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. When duties are properly segregated, the activities of one employee act as a check on those of another. Generally, one person has control over each of the following areas:

- (1) Cash – reconciling bank accounts, initiating cash receipts and disbursement transactions and handling and recording cash.
- (2) Receipts – collecting, depositing, journalizing and posting.
- (3) Utility receipts – billing, collecting, depositing, posting and reconciling.
- (4) Disbursements – purchasing, check signing, recording and reconciling.
- (5) Payroll – preparing and distributing.
- (6) Transfers – recording and reconciling
- (7) Financial reporting – preparing, reconciling and distributing.
- (8) Accounting system – performing all general accounting functions and having custody of City assets.
- (9) Information system (computer usage) – performing all general accounting functions and controlling all data input and output.

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 personnel. Evidence of review of reconciliations should be indicated by initials of the independent reviewer and the date of the review.

Response – The Council will become more involved on committees and will review reports for approval prior to Council meetings.

Conclusion – Response accepted.

City of Hull

Schedule of Findings

Year ended June 30, 2012

Findings Related to Required Statutory Reporting:

- (1) Certified Budget – Disbursements during the year ended June 30, 2012 did not exceed the amounts budgeted.
- (2) Questionable Disbursements – No disbursements we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.
- (3) Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- (4) Business Transactions – No business transactions between the City and City officials or employees were noted.
- (5) Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure the coverage is adequate for current operations.
- (6) Council Minutes – No transactions were found which we believe should have been approved in the Council minutes but were not.
- (7) Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City's investment policy were noted.
- (8) Annual Financial Report – The City did file the annual financial report for the fiscal year ended June 30, 2012. Chapter 384.22 of the Code of Iowa requires the report be filed with the Auditor of State not later than December 1 of each year.

City of Hull

Schedule of Findings

Year ended June 30, 2012

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

City of Hull

Staff

This audit was performed by:

Rex E. Knapp, CPA, Partner
Robert J. Kroese, CPA, Partner

