

CITY OF LAKE CITY, IOWA

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

AS OF AND FOR THE YEAR ENDED JUNE 30, 2012

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City of Lake City, Iowa

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January 2012)		
Ken Hying	Mayor	Jan 2012
Kim Kramer	Mayor Pro Tem	Jan 2014
Gary Bellinghausen	Council Member	Jan 2012
Henry Sheffield	Council Member	Jan 2012
Terry Himes	Council Member	Jan 2014
Tamela Green	Council Member	Jan 2014
Kim Kelly	Administrator/Clerk	Jan 2012
Lois Smith	Treasurer	Jan 2012
David Willis	Attorney	Jan 2012
(After January 2012)		
Gary Fahan	Mayor	Jan 2016
Gary Bellinghausen	Mayor Pro Tem	Jan 2016
Kim Kramer	Council Member	Jan 2014
Terry Himes	Council Member	Jan 2014
Tamela Green	Council Member	Jan 2014
Matt Ringgenberg	Council Member	Jan 2016
Kim Kelly	Administrator/Clerk	Jan 2013
Lois Smith	Treasurer	Jan 2013
David Willis	Attorney	Jan 2013

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Certified Public Accountants

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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 Lake City, Iowa, as of and for the year ended June 30, 2012, which along with the discretely presented component unit, collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Lake City's management. Our responsibility is to express an opinion 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.

The financial statement of the Lake City Library Foundation has not been audited, and we were not engaged to audit The Lake City Library Foundation's financial statement as part of our audit of the City's basic financial statements. The Lake City Library Foundation's financial activities are included in the City's basic financial statements as a discretely presented component unit and represents 100 percent of the receipts and disbursements of the City's aggregate discretely presented component units.

Because Lake City Library Foundation's financial statement has not been audited, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the financial statement of the aggregate discretely presented component unit of the City of Lake City, as of and for the year ended June 30, 2012.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of the City of Lake 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 January 4, 2013 on our consideration of the City of Lake City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Lake 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 year ended June 30, 2011 (which is not presented herein) and expressed an adverse opinion on the governmental activities and the General Fund, an unqualified opinion on the business type activities, each major fund, except the General Fund, and the aggregate remaining fund and a disclaimer of opinion on the discretely presented component unit, which were prepared in conformity with the an other comprehensive basis of accounting. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the two years ended June 30, 2010, (which is not presented herein) and expressed unqualified opinions on those financial statements other than a disclaimer of opinion on the discretely presented component unit, which were prepared in conformity with the an other comprehensive basis of accounting. Other auditors previously audited in accordance with the standards referred to in the second paragraph of this report, the financial statements for the five years ended June 30, 2008 (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 4, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Lake City's basic financial statements. Management's Discussion and Analysis and the budgetary comparison information on pages 5 through 10 and 30 through 31 are presented for purposes of additional analysis and are not a required part 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

January 4, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Lake City provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2012. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2012 FINANCIAL HIGHLIGHTS

- Operating receipts of the City's governmental activities increased 3%, or approximately \$42,570, from fiscal year 2011 to fiscal year 2012, due primarily to increases in property tax and miscellaneous revenues.
- Disbursements of the City's governmental activities decreased 13% or approximately \$143,482, in fiscal year 2012 from fiscal year 2011. Public safety, culture & recreation, community and economic development, general government and capital projects decreased by \$175,736, \$9,615, \$993, \$18,005, and \$10,879, respectively; whereas, public works increased \$67,310 and debt service \$4,436.
- The City's total cash basis net assets increased nearly 30% or approximately \$405,863 from June 30, 2011 to June 30, 2012. Of this amount, the assets of the governmental activities increased approximately \$345,294 and the assets of the business type activities increased approximately \$60,569.

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.

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

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, health and social services, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the waterworks, sanitary and storm sewer systems, and solid waste. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax, 3) the Debt Service Fund, 4) the Capital Projects Fund and 5) the Permanent 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 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, storm sewer, and solid waste funds. The water, sewer and solid waste funds are considered 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 statement for proprietary funds is 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.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from a year ago, increasing from \$1,077,960 to \$1,423,254. The analysis that follows focuses on the changes in cash basis net assets of governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities		
	Year ended June 30,	
	2012	2011
Receipts:		
Program receipts:		
Charges for Services:	\$ 21,046	\$ 18,753
Operating grants, contributions, restricted interest:	206,594	264,584
Capital grants, contributions, restricted interest:	231,814	136,069
General receipts:		
Property Tax:	714,748	693,300
Local option sales tax:	105,654	116,426
Unrestricted interest on investments:	7,133	11,550
Other general receipts:	30,945	34,682
Total receipts	<u>\$ 1,317,934</u>	<u>\$ 1,275,364</u>
Disbursements:		
Public safety:	199,770	375,506
Public works:	172,554	105,244
Culture & recreation:	155,611	165,226
Community, Economic development:	891	1,884
General government:	185,298	203,303
Debt service:	243,113	238,677
Capital projects:	15,403	26,282
Total disbursements	<u>\$ 972,640</u>	<u>\$ 1,116,122</u>
Change in cash basis net assets:	345,294	159,242
Cash basis net assets beginning of year:	<u>1,077,960</u>	<u>918,718</u>
Cash basis net assets end of year:	<u><u>\$ 1,423,254</u></u>	<u><u>\$ 1,077,960</u></u>

City's total receipts for governmental activities increased approximately \$43,000 primarily due to increases in property tax and miscellaneous revenues including pool project donations. The total cost of all programs and services decreased approximately \$143,000 mostly due to the purchase of an ambulance in 2010.

The cost of all governmental activities this year was approximately \$973,000 compared to approximately \$1,116,000 last year. However, as shown in the Statement of Cash Receipts and Disbursements, the amount taxpayers ultimately financed for these activities was only \$513,000 because some of the cost was paid by those directly benefited from the programs (approximately \$21,000) or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest (approximately \$438,000).

Changes in Cash Basis Net Assets of Business Type Activities		
	Year Ended	
	2012	2011
Receipts:		
Program Receipts:		
Charges for Service:		
Water	\$ 201,161	\$ 188,487
Sewer	168,225	167,656
Solid waste	125,970	119,257
Storm sewer	9,762	9,747
General Receipts:		
Unrestricted interest on investments:	96	131
Bond Proceeds:	18,400	-
Other general receipts:	5,690	12,192
Total receipts	\$ 529,304	497,470
Disbursements:		
Water	188,773	184,410
Sewer	149,136	167,785
Solid waste	130,435	126,838
Storm sewer	391	123
Total disbursements	\$ 468,735	479,156
Change in cash basis net assets	60,569	18,314
Cash basis net assets beginning of year	280,474	262,160
Cash basis net assets end of year	\$ 341,043	280,474

Total business type activities receipts for the fiscal year were approximately \$529,000 compared to \$497,000 last year. The increase was due primarily to the bond proceeds received in 2012. The cash balance increased approximately \$60,600 from the prior year because user fees for water and solid waste were increased, as well as receiving bond proceeds for the water project anticipation note. Total disbursements for the fiscal year decreased approximately 2% to approximately \$469,000.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As Lake City completed the year, its governmental funds reported a combined fund balance of \$1,423,254, an increase of more than \$345,294 from last year's total of \$1,077,960. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance increased \$22,895 from the prior year to \$264,283.
- The Special Revenue, Road Use Tax Fund, cash balance decreased \$18,746 to \$264,499 during the fiscal year. The decrease in reserves was attributable to two street projects implemented during the year.
- The Special Revenue, Employee Benefits, cash balance increased \$17,097 to \$77,073 during the fiscal year. The increase was due primarily to an increase in property funding.
- The deficit in the Debt Service Fund cash balance decreased \$2,459 to \$3,421 during the fiscal year. This decrease was due to property tax funding.
- The Capital Project, Pool Project Fund, cash balance increased \$383,186 to \$839,415. This increase is primarily due to pool project contributions.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance increased \$33,097 to \$63,633, due to the State Revolving Fund 0% loan and slight annual rate increase approved to aid in building reserves within the water fund.
- The Sewer Fund cash balance increased approximately \$20,000 to \$133,736, due to slightly higher revenues than expenses.
- The Solid Waste Fund cash balance decreased \$3,564 to \$67,546, due primarily to an increase in contractual services expenditures.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget once, approved June 4, 2012. This amendment resulted in an increase in estimated operating disbursements of approximately \$116,000 within Public Safety, Public Works, Culture & Recreation, Community and Economic Development, General Government, and Capital Projects. In addition, anticipated Business expenses increased by nearly \$25,000 and transfers out increased by approximately \$66,000. The City's anticipated receipts increased \$72,430.

The City's receipts were more than budgeted. This was primarily due to the City receiving more in pool project contributions than were anticipated.

DEBT ADMINISTRATION

As of June 30, 2012, the City had \$1,210,000 general obligation bonds outstanding compared to \$1,395,000 last year.

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$1,210,000 is within its constitutional debt limit of approximately \$2.94 million. Additional information about the City's long term debt is presented in Note 3 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

Lake City's elected and appointed officials and citizens considered many factors, including the US Consumer Price Index when setting the fiscal year 2013 budget, tax rates and fees charged for various City activities.

These indicators were taken into account when adopting the budget for fiscal year 2013. Amounts available for appropriation in the operating budget are approximately \$1.645 million, approximately 94% of the final 2012 revenues; primarily due to pool project contributions received. Budgeted disbursements are expected to decline approximately \$172,000.

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 Kimberly Kelly, City Administrator, 105 N Center St, Lake City, Iowa 51449.

Basic Financial Statements

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

		Program Receipts		
<u>Disbursements</u>	<u>Charges for Service</u>	<u>Operating Grants, Contributions and Restricted Interest</u>	<u>Capital Grants, Contributions and Restricted Interest</u>	
Functions/Programs:				
Governmental activities:				
Public safety	\$ 199,770	11,319	-	
Public works	172,554	-	163,808	
Culture and recreation	155,611	9,727	42,786	
Community and economic development	891	-	-	
General government	185,298	-	-	
Debt service	243,113	-	-	
Capital projects	15,403	-	-	
Total governmental activities	972,640	21,046	206,594	
Business type activities:				
Water	188,773	201,161	-	
Sewer	149,136	168,225	-	
Solid waste	130,435	125,970	-	
Storm sewer	391	9,762	-	
Total business type activities	468,735	505,118	-	
Total primary government	\$ 1,441,375	526,164	206,594	
Component Unit:				
Library Foundation	\$ 2,013	-	5,943	
General Receipts:				
Property tax levied for:				
General purposes				
Debt service				
Local option sales tax				
Unrestricted interest on investments				
Bond proceeds				
Miscellaneous				
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:				
Nonexpendable:				
Cemetery perpetual care				
Expendable:				
Ambulance				
Streets				
Pool construction				
Community development or capital improvements				
Library				
Parks				
Other purposes				
Committed for:				
Community development				
Unrestricted				
Total cash basis net assets				

See notes to financial statements.

Exhibit A

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

Primary Government			Component
Governmental	Business Type		Unit
<u>Activities</u>	<u>Activities</u>	<u>Total</u>	<u>Library</u>
			<u>Foundation</u>
(188,451)	-	(188,451)	-
(8,746)	-	(8,746)	-
128,716	-	128,716	-
(891)	-	(891)	-
(185,298)	-	(185,298)	-
(243,113)	-	(243,113)	-
(15,403)	-	(15,403)	-
<u>(513,186)</u>	<u>-</u>	<u>(513,186)</u>	<u>-</u>
-	12,388	12,388	-
-	19,089	19,089	-
-	(4,465)	(4,465)	-
-	9,371	9,371	-
-	36,383	36,383	-
<u>(513,186)</u>	<u>36,383</u>	<u>(476,803)</u>	<u>-</u>
-	-	-	3,930
469,176	-	469,176	-
245,572	-	245,572	-
105,654	-	105,654	-
7,133	96	7,229	-
-	18,400	18,400	-
30,945	5,690	36,635	-
<u>858,480</u>	<u>24,186</u>	<u>882,666</u>	<u>-</u>
345,294	60,569	405,863	3,930
<u>1,077,960</u>	<u>280,474</u>	<u>1,358,434</u>	<u>56,021</u>
<u>\$ 1,423,254</u>	<u>341,043</u>	<u>1,764,297</u>	<u>59,951</u>
\$ 12,000	-	12,000	-
131,211	-	131,211	-
264,499	-	264,499	-
839,415	-	839,415	-
64,750	-	64,750	-
17,886	-	17,886	59,951
8,148	-	8,148	-
83,750	-	83,750	-
5,000	-	5,000	-
(3,405)	341,043	337,638	-
<u>\$ 1,423,254</u>	<u>341,043</u>	<u>1,764,297</u>	<u>59,951</u>

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

As of and for the year ended June 30, 2012

	<u>General</u>	<u>Special Revenue</u>	
		Road Use <u>Tax</u>	Employee Benefits
Receipts:			
Property tax	\$ 312,632	-	136,170
Other city tax	14,113	-	6,261
Licenses and permits	5,540	-	-
Use of money and property	9,044	-	-
Intergovernmental	30,982	163,808	-
Charges for service	15,820	-	-
Miscellaneous	41,664	-	-
Total receipts	<u>429,795</u>	<u>163,808</u>	<u>142,431</u>
Disbursements:			
Operating:			
Public safety:			
Police	192,811	-	-
Civil defense	692	-	-
Ambulance	375	-	-
Fire	5,892	-	-
	<u>199,770</u>	<u>-</u>	<u>-</u>
Public works:			
Roadway maintenance	-	172,554	-
	<u>-</u>	<u>172,554</u>	<u>-</u>
Culture and recreation:			
Library	73,113	-	-
Park	6,535	-	-
Swimming pool	44,344	-	-
Cemetery	8,856	-	-
Community building	19,819	-	-
	<u>152,667</u>	<u>-</u>	<u>-</u>

<u>Capital Project</u>		Other Nonmajor Governmental	
<u>Pool Project</u>	<u>Debt Service</u>	<u>Funds</u>	<u>Total</u>
-	234,786	-	683,588
-	10,786	105,654	136,814
-	-	-	5,540
6,174	-	139	15,357
-	-	-	194,790
-	-	-	15,820
<u>220,384</u>	<u>-</u>	<u>3,977</u>	<u>266,025</u>
<u>226,558</u>	<u>245,572</u>	<u>109,770</u>	<u>1,317,934</u>
-	-	-	192,811
-	-	-	692
-	-	-	375
<u>-</u>	<u>-</u>	<u>-</u>	<u>5,892</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>199,770</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>172,554</u>
-	-	850	73,963
-	-	2,094	8,629
-	-	-	44,344
-	-	-	8,856
<u>-</u>	<u>-</u>	<u>-</u>	<u>19,819</u>
<u>-</u>	<u>-</u>	<u>2,944</u>	<u>155,611</u>

(continued)

City of Lake City, Iowa
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	Road Use Tax	Employee Benefits
Community and economic development Beautification	891	-	-
General government	59,964	-	125,334
Debt service	-	-	-
Capital projects	-	-	-
Total disbursements	413,292	172,554	125,334
Excess (deficiency) of receipts over (under) disbursements	16,503	(8,746)	17,097
Other financing sources			
Operating transfers in	6,392	-	-
Operating transfers out	-	(10,000)	-
Total other financing sources (uses)	6,392	(10,000)	-
Net change in cash balances	22,895	(18,746)	17,097
Cash balances beginning of year	241,388	283,245	59,976
Cash balances end of year	\$ 264,283	264,499	77,073
Cash Basis Fund Balances			
Nonspendable:			
Cemetery perpetual care	\$ -	-	-
Restricted for:			
Ambulance	131,211	-	-
Streets	-	264,499	-
Pool construction	-	-	-
Community development or capital improvements	-	-	-
Library	-	-	-
Parks	-	-	-
Other purposes	-	-	77,073
Committed for:			
Community development	-	-	-
Unassigned	133,072	-	-
Total cash basis fund balances	\$ 264,283	264,499	77,073

See notes to financial statements.

<u>Capital Project</u>		Other Nonmajor Governmental	
<u>Pool Project</u>	<u>Debt Service</u>	<u>Funds</u>	<u>Total</u>
-	-	-	891
-	-	-	185,298
-	243,113	-	243,113
3,831	-	11,572	15,403
3,831	243,113	14,516	972,640
222,727	2,459	95,254	345,294
160,459	-	10,000	176,851
-	-	(166,851)	(176,851)
160,459	-	(156,851)	-
383,186	2,459	(61,597)	345,294
456,229	(5,880)	43,002	1,077,960
839,415	(3,421)	(18,595)	1,423,254
-	-	12,000	12,000
-	-	-	131,211
-	-	-	264,499
839,415	-	-	839,415
-	-	64,750	64,750
-	-	17,886	17,886
-	-	8,148	8,148
-	-	6,677	83,750
-	-	5,000	5,000
-	(3,421)	(133,056)	(3,405)
839,415	(3,421)	(18,595)	1,423,254

City of Lake 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		
	<u>Water</u>	<u>Sewer</u>	<u>Solid Waste</u>
Operating receipts:			
Charges for service	\$ 201,161	168,225	125,970
Miscellaneous	4,523	266	901
Total operating receipts	<u>205,684</u>	<u>168,491</u>	<u>126,871</u>
Operating disbursements:			
Business type activities:			
Personal services	111,572	105,022	5,230
Contractual services	38,390	1,857	124,038
Utilities	18,529	5,556	1,167
Repairs and maintenance	3,653	4,880	-
Other supplies and expenses	16,629	7,730	-
Total operating disbursements	<u>188,773</u>	<u>125,045</u>	<u>130,435</u>
Excess (deficiency) of operating receipts over (under) operating disbursements	<u>16,911</u>	<u>43,446</u>	<u>(3,564)</u>
Non-operating receipts (disbursements):			
Interest on investments	96	-	-
Capital projects	-	(24,091)	-
Bond proceeds	18,400	-	-
Net non-operating receipts (disbursements)	<u>18,496</u>	<u>(24,091)</u>	<u>-</u>
Excess (deficiency) of receipts over (under) disbursements	<u>35,407</u>	<u>19,355</u>	<u>(3,564)</u>
Other financing sources:			
Operating transfers in	-	2,310	-
Operating transfers out	(2,310)	-	-
Total other financing sources (uses)	<u>(2,310)</u>	<u>2,310</u>	<u>-</u>
Net change in cash balances	33,097	21,665	(3,564)
Cash balances beginning of year	30,536	112,071	71,110
Cash balances end of year	<u>\$ 63,633</u>	<u>133,736</u>	<u>67,546</u>
Cash Basis Fund Balances			
Unrestricted	<u>63,633</u>	<u>133,736</u>	<u>67,546</u>
Total cash basis fund balances	<u>\$ 63,633</u>	<u>133,736</u>	<u>67,546</u>

See notes to financial statements.

Nonmajor Storm Sewer	<u>Total</u>
9,762	505,118
<u>-</u>	<u>5,690</u>
<u>9,762</u>	<u>510,808</u>
-	221,824
-	164,285
-	25,252
388	8,921
<u>3</u>	<u>24,362</u>
<u>391</u>	<u>444,644</u>
<u>9,371</u>	<u>66,164</u>
-	96
-	(24,091)
<u>-</u>	<u>18,400</u>
<u>-</u>	<u>(5,595)</u>
<u>9,371</u>	<u>60,569</u>
-	2,310
<u>-</u>	<u>(2,310)</u>
<u>-</u>	<u>-</u>
9,371	60,569
<u>66,757</u>	<u>280,474</u>
<u>76,128</u>	<u>341,043</u>
<u>76,128</u>	<u>341,043</u>
<u>76,128</u>	<u>341,043</u>

City of Lake City, Iowa

Notes to Financial Statements

June 30, 2012

(1) Summary of Significant Accounting Policies

The City of Lake City is a political subdivision of the State of Iowa located in Calhoun County. It was first incorporated in 1856 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, culture and recreation, community and economic development, and general government services. The City also provides water, sewer and solid waste utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Lake 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

The Lake City Library Foundation is a separate nonprofit organization whose purpose is to help raise funds for a new library building. The Foundation's records are prepared on the modified cash basis of accounting. Under that basis, assets recognized are cash and marketable securities, and no liabilities are recognized. The only non-cash transactions recognized are increases or decreases in market value. The modified cash basis differs from accounting principles generally accepted in the United States of America primarily because promises to give, accrued investment income and accounts payable are not included in these financial statements. No modifications have been made to the foundations' financial information in the City's reporting entity for these differences. The Lake City Public Library Foundation meets the definition of a component which should be discretely presented. The Foundation's financial statement has not been audited and we do not express any opinion on the financial statement.

City of Lake City, Iowa

Notes to Financial Statements

June 30, 2012

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: Calhoun County Emergency Management Commission, Calhoun County E911 Service Board, Lake City Ambulance Commission and Mid-Iowa Regional Housing Authority.

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 assets are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

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

City of Lake City, Iowa

Notes to Financial Statements

June 30, 2012

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 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 Benefit Fund is used to account for the property tax levied to finance the payment of employee benefits.

Capital Projects:

The Pool Capital Projects Fund is used to account for all the resources to be used in the acquisition and construction of a pool.

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

City of Lake City, Iowa

Notes to Financial Statements

June 30, 2012

The City reports the following major proprietary funds:

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

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

The Enterprise, Solid Waste Fund accounts for the operation and maintenance of the City's solid waste system.

C. Measurement Focus and Basis of Accounting

The City of Lake 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.

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.

City of Lake City, Iowa

Notes to Financial Statements

June 30, 2012

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.

Committed – Amounts which can be used only for specific purposes pursuant to constraints formally imposed by the City Council through ordinance or resolution approved prior to year end. Those committed amounts cannot be used for any other purpose unless the City Council removes or changes the specified use by taking the same action it employed to commit those amounts.

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.

(2) **Cash**

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 or improvement certificates of a drainage district.

City of Lake City, Iowa

Notes to Financial Statements

June 30, 2012

The City had no investments at June 30, 2012. During the year ended June 30, 2012 the City 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 are as follows:

Ending June 30,	Bonds		Total
	Principal	Interest	
2013	\$ 190,000	49,283	239,283
2014	195,000	42,167	237,167
2015	210,000	34,400	244,400
2016	215,000	25,966	240,966
2017	75,000	16,887	91,887
2018-2021	325,000	36,347	361,347
Total	\$ 1,210,000	205,050	1,415,050

Other Than Bonded Debt

Interim Financing

The City entered into a Water Revenue Loan and Disbursement Agreement Anticipation Project Note (IFA Interim Loan and Disbursement Agreement) not to exceed \$88,400. This interim loan bears interest at 0% and has a maturity date of December 23, 2014. The proceeds of this note shall be used for the purposes of planning, designing and constructing improvements and extensions to the Municipal Waterworks System. This interim financing will be repaid upon issuance of revenue bonds. As of June 30, 2012, \$18,400 has been advanced to the City of Lake City.

(4) Leases

In April 2011, the City entered a noncancelable long-term operating lease agreement. Total lease expense for the year ended June 30, 2012, was \$1,434.

Minimum future lease payments for the operating lease are as follows:

Year Ending <u>June 30,</u>	<u>Total</u>
2013	\$ 1,434
2014	1,434
2015	1,434
2016	<u>1,434</u>
	\$ <u>5,736</u>

City of Lake City, Iowa

Notes to Financial Statements

June 30, 2012

(5) 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 \$32,012, \$29,644, and \$30,108 respectively, equal to the required contributions for each year.

(6) Other Post Employment Benefits (OPEB)

Plan Description – The City operates a single-employer health benefit plan which provides medical/prescription drug benefits for employees and retirees and their spouses. As of January 2012, there are nine active and no retired members in the plan. Prior to January 2012, there were nine active and one retired members in the plan. The retired member turned age 65 during the year. Participants must be age 55 or older at retirement.

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

Funding Policy – The contribution requirements of plan members are established and may be amended by the City. The City currently finances the benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the City and plan members are \$408 for single coverage and \$1,251 for family coverage. The same monthly premiums apply to retirees. For the year ended June 30, 2012, the City contributed \$126,020 and plan members eligible for benefits contributed \$2,866 to the plan.

City of Lake City, Iowa
Notes to Financial Statements

June 30, 2012

(7) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation or compensatory time for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation and compensatory time 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	\$ 19,000
Compensatory time	<u>10,500</u>
Total	<u>29,500</u>

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

(8) 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: Library Memorial	6,392
Capital Projects: Pool Project	Special Revenue: Local Option Sales Tax	160,459
Streets	Special Revenue: Road Use Tax	10,000
Enterprise: Sewer	Enterprise: Water	<u>2,310</u>
Total		<u>\$ 179,161</u>

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

City of Lake City, Iowa

Notes to Financial Statements

June 30, 2012

(9) Risk Management

The City is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 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 officials liability, police professional liability, property, inland marine and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 150 percent of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions 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-ending 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 expenditures from its operating funds at the time of payment to the risk pool. The City's annual contributions to the Pool for the year ended June 30, 2012 were \$40,102.

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 insured. 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.

City of Lake City, Iowa

Notes to Financial Statements

June 30, 2012

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 member's 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 coverage since the Pool's inception.

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

The City also carries commercial insurance purchased from other insurers for coverage associated with workers compensation in the amount of \$1,000,000. 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.

(10) Deficit Balances

The Debt Service Fund had a deficit fund balance of \$3,421 at June 30, 2012. The deficit balance is a result of omitting bond payments from the budget of prior years. The deficit should be eliminated by increasing the debt service levy.

The Streets Capital Projects Fund had a deficit balance of \$ 31,046 at June 30, 2012. The deficit balance is a result of payments for the street improvement project. Funds are being transferred to eliminate this deficit.

The Fire Station Capital Projects Fund had a deficit balance of \$102,010 at June 30, 2012. The deficit balance is a result of payments for the construction of a fire station. Funds should be transferred to eliminate this deficit.

City of Lake City, Iowa
Notes to Financial Statements

June 30, 2012

(11) Construction Commitments

The City has committed to a new pool project for approximately \$2 to \$2.4 million. As of June 31, 2012, \$18,062 has been expended on this project. This project will be funded by contributions and local option sales tax.

The City has committed to a couple of improvement projects for the water system for approximately \$883,000. These projects will be funded from a Community Development Block Grant and issuance of revenue bonds. As of June 30, 2012, \$18,400 has been expended on these projects.

(12) Subsequent Events

Subsequent events have been evaluated through January 4, 2013, which is the date the financial statements were available to be issued.

Other Information

City of Lake 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>
Receipts:		
Property tax	\$ 683,588	-
Other city tax	136,814	-
Licenses and permits	5,540	-
Use of money and property	15,357	96
Intergovernmental	194,790	-
Charges for service	15,820	505,118
Miscellaneous	266,025	5,690
Total receipts	<u>1,317,934</u>	<u>510,904</u>
Disbursements:		
Public safety	199,770	-
Public works	172,554	-
Culture and recreation	155,611	-
Community and economic development	891	-
General government	185,298	-
Debt service	243,113	-
Capital Projects	15,403	-
Business type activities	-	468,735
Total disbursements	<u>972,640</u>	<u>468,735</u>
Excess of receipts over disbursements	<u>345,294</u>	<u>42,169</u>
Other financing sources	<u>-</u>	<u>18,400</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements	345,294	60,569
Balances beginning of year	<u>1,077,960</u>	<u>280,474</u>
Balances end of year	<u>\$ 1,423,254</u>	<u>341,043</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>	
683,588	684,773	684,773	(1,185)
136,814	141,336	141,336	(4,522)
5,540	4,020	4,020	1,520
15,453	9,000	14,000	1,453
194,790	185,986	202,811	(8,021)
520,938	517,550	517,550	3,388
271,715	21,987	48,192	223,523
<u>1,828,838</u>	<u>1,564,652</u>	<u>1,612,682</u>	<u>216,156</u>
199,770	203,591	214,491	14,721
172,554	177,079	198,479	25,925
155,611	149,711	173,966	18,355
891	-	1,000	109
185,298	198,559	202,084	16,786
243,113	246,000	246,000	2,887
15,403	1,000	56,000	40,597
468,735	483,118	508,044	39,309
<u>1,441,375</u>	<u>1,459,058</u>	<u>1,600,064</u>	<u>158,689</u>
<u>387,463</u>	<u>105,594</u>	<u>12,618</u>	<u>374,845</u>
<u>18,400</u>	<u>-</u>	<u>(41,797)</u>	<u>60,197</u>
405,863	105,594	(29,179)	435,042
<u>1,358,434</u>	<u>991,580</u>	<u>1,358,434</u>	<u>-</u>
<u>1,764,297</u>	<u>1,097,174</u>	<u>1,329,255</u>	<u>435,042</u>

City of Lake 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, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Funds, the Permanent Fund and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$141,600, budgeted receipts by \$48,030, other financing sources by \$24,400 and transfers out by \$66,197. The budget amendment is reflected in the final budgeted amount.

Supplementary Information

City of Lake City, Iowa

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

As of and for the year ended June 30, 2012

	Special Revenue		
	Local Option Sales Tax	Library Memorial	Park Restoration
Receipts:			
Other city tax	\$ 105,654	-	-
Use of money and property	-	82	57
Miscellaneous	-	3,347	450
Total receipts	<u>105,654</u>	<u>3,429</u>	<u>507</u>
Disbursements:			
Operating:			
Culture and recreation:			
Library	-	850	-
Park	-	-	2,094
	<u>-</u>	<u>850</u>	<u>2,094</u>
Capital projects	<u>11,572</u>	<u>-</u>	<u>-</u>
Total disbursements	<u>11,572</u>	<u>850</u>	<u>2,094</u>
Excess (deficiency) of receipts over (under) disbursements	<u>94,082</u>	<u>2,579</u>	<u>(1,587)</u>
Other financing sources (uses):			
Operating transfers in	-	-	-
Operating transfers out	<u>(160,459)</u>	<u>(6,392)</u>	<u>-</u>
Total other financing sources (uses)	<u>(160,459)</u>	<u>(6,392)</u>	<u>-</u>
Net change in cash balances	(66,377)	(3,813)	(1,587)
Cash balances beginning of year	<u>136,127</u>	<u>21,699</u>	<u>9,735</u>
Cash balances end of year	<u>\$ 69,750</u>	<u>17,886</u>	<u>8,148</u>
Cash Basis Fund Balances			
Nonspendable - Cemetery perpetual care	\$ -	-	-
Restricted for:			
Community development or capital improvements	64,750	-	-
Library	-	17,886	-
Parks	-	-	8,148
Other purposes	-	-	-
Committed for:			
Community development	5,000	-	-
Unassigned	-	-	-
Total cash basis fund balances	<u>\$ 69,750</u>	<u>17,886</u>	<u>8,148</u>

See accompanying independent auditor's report.

Schedule 1

<u>Capital Project</u>		<u>Permanent</u>	
<u>Streets</u>	<u>Fire Station</u>	<u>Cemetery Perpetual Care</u>	<u>Total</u>
-	-	-	105,654
-	-	-	139
-	-	180	3,977
-	-	180	109,770
-	-	-	850
-	-	-	2,094
-	-	-	2,944
-	-	-	11,572
-	-	-	14,516
-	-	180	95,254
10,000	-	-	10,000
-	-	-	(166,851)
10,000	-	-	(156,851)
10,000	-	180	(61,597)
(41,046)	(102,010)	18,497	43,002
(31,046)	(102,010)	18,677	(18,595)
-	-	12,000	12,000
-	-	-	64,750
-	-	-	17,886
-	-	-	8,148
-	-	6,677	6,677
-	-	-	5,000
(31,046)	(102,010)	-	(133,056)
(31,046)	(102,010)	18,677	(18,595)

City of Lake 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:			
Municipal building	Sep 1, 2002	2.25-4.70 %	\$ 300,000
Street improvement	May 1, 2004	2.70-4.30	350,000
Street improvement	May 15, 2006	4.05-4.45	505,000
Street improvement	Apr 1, 2009	2.00-4.45	845,000

See accompanying independent auditor's report.

Schedule 2

<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>
60,000	-	30,000	30,000	2,790	-
125,000	-	55,000	70,000	5,128	-
475,000	-	35,000	440,000	20,640	-
<u>735,000</u>	<u>-</u>	<u>65,000</u>	<u>670,000</u>	<u>27,480</u>	<u>-</u>
<u>\$ 1,395,000</u>	<u>-</u>	<u>185,000</u>	<u>1,210,000</u>	<u>56,038</u>	<u>-</u>

City of Lake City, Iowa

Bond and Note Maturities

June 30, 2012

Year Ending <u>June 30,</u>	General Obligation Bonds					
	Municipal Building Issued Sept 1, 2002		Street Improvement Issued May 1, 2004		Street Improvement Issued May 15, 2006	
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount
2013	4.70 %	\$ 30,000	4.15 %	\$ 55,000	4.25 %	\$ 40,000
2014		-	4.30	15,000	4.30	115,000
2015		-		-	4.35	140,000
2016		-		-	4.45	145,000
2017		-		-		-
2018		-		-		-
2019		-		-		-
2020		-		-		-
2021		-		-		-
Total		<u>\$ 30,000</u>		<u>\$ 70,000</u>		<u>\$ 440,000</u>

Schedule 3

<u>Street Improvement</u>		
<u>Series 2009</u>		
Interest		
<u>Rates</u>	<u>Amount</u>	<u>Total</u>
2.65 % \$	65,000	190,000
3.50	65,000	195,000
3.35	70,000	210,000
3.75	70,000	215,000
3.75	75,000	75,000
4.20	75,000	75,000
4.20	80,000	80,000
4.50	85,000	85,000
4.45	<u>85,000</u>	<u>85,000</u>
	<u>\$ 670,000</u>	<u>1,210,000</u>

City of Lake 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	\$ 683,588	664,387	585,869
Other city tax	136,814	145,339	140,637
Licenses and permits	5,540	4,833	3,703
Use of money and property	15,357	17,300	22,114
Intergovernmental	194,790	245,373	201,862
Charges for service	15,820	13,889	19,849
Miscellaneous	<u>266,025</u>	<u>184,243</u>	<u>185,899</u>
 Total	 <u>\$ 1,317,934</u>	 <u>1,275,364</u>	 <u>1,159,933</u>
Disbursements:			
Operating			
Public safety	\$ 199,770	375,506	228,232
Public works	172,554	105,244	120,089
Culture and recreation	155,611	165,226	163,742
Community and economic development	891	1,884	-
General government	185,298	203,303	181,392
Debt service	243,113	238,677	202,564
Capital projects	<u>15,403</u>	<u>26,282</u>	<u>608,854</u>
 Total	 <u>\$ 972,640</u>	 <u>1,116,122</u>	 <u>1,504,873</u>

See accompanying independent auditor's report.

Schedule 4

<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
526,082	579,815	601,956	564,551	550,640	615,975
150,836	-	-	-	-	-
4,225	4,920	4,605	4,865	4,218	4,138
9,314	17,306	28,804	17,194	7,352	7,415
179,648	180,648	175,246	175,784	296,730	179,138
11,599	32,137	35,336	25,978	19,341	15,873
<u>43,295</u>	<u>53,694</u>	<u>16,188</u>	<u>56,761</u>	<u>40,253</u>	<u>66,809</u>
<u>924,999</u>	<u>868,520</u>	<u>862,135</u>	<u>845,133</u>	<u>918,534</u>	<u>889,348</u>
241,143	209,052	213,706	190,301	303,633	180,490
119,244	148,559	188,241	98,927	137,946	126,072
156,482	184,364	125,997	113,928	142,335	124,553
-	-	-	-	-	-
150,987	140,195	125,845	110,734	112,907	116,052
207,680	216,285	219,069	209,422	213,215	259,465
<u>140,493</u>	<u>52,409</u>	<u>421,532</u>	<u>26,260</u>	<u>72,781</u>	<u>380,347</u>
<u>1,016,029</u>	<u>950,864</u>	<u>1,294,390</u>	<u>749,572</u>	<u>982,817</u>	<u>1,186,979</u>

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Independent Auditor's Report on Internal Control
over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

To the Honorable Mayor and
Members of the City Council:

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 Lake City, Iowa, as of and for the year ended June 30, 2012, which along with the discretely presented component unit, collectively comprise the City's basic financial statements listed in the table of contents and have issued our report thereon dated January 4, 2013. Our report expressed unqualified opinions on the primary government financial statements which were prepared in conformity with an other comprehensive basis of accounting. Our report also noted that the discretely presented component unit was not audited. We conducted our audit of the primary government 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 Lake City is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City of Lake City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the City of Lake City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Lake 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, 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 Lake City's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency described in Part I of the accompanying Schedule of Findings as item I-A-12 to be a material weakness.

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 I of the accompanying Schedule of Findings as items I-B-12 and I-C-12 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Lake 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 II of the accompanying Schedule of Findings.

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 Lake City's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the City's responses, we did not audit the City of Lake 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 Lake City and other parties to whom the City of Lake 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.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Lake 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

January 4, 2013

City of Lake City, Iowa
Schedule of Findings
Year ended June 30, 2012

Part I: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

SIGNIFICANT DEFICIENCIES:

- I-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 noted that certain functions are not entirely segregated, such as preparing receipts and posting utility billing.

Recommendation – We realize that with a limited number of 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 with the limited personnel we have.

Conclusion – Response acknowledged.

- I-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 Lake 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 and accompanying notes to the financial statements. The outsourcing of these services is not unusual in an organization of your size.

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.

City of Lake City, Iowa
Schedule of Findings
Year ended June 30, 2012

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.

I-C-12 Personnel Policies – During the course of our audit, it was noted that the City has written policies concerning pay out of comp time hours, but these policies were not strictly followed.

Recommendation – The City should review and update their policies to insure that the written policies reflect the actual practice.

Response – We are in the process of reviewing our policies and have reduced the number of outstanding comp time hours.

Conclusion – Response accepted.

Part II: Other Findings Related to Statutory Reporting:

II-A-12 Certified Budget – Disbursements during the year ended June 30, 2012 exceeded the budget in Community and Economic Development prior to an amendment to the budget.

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

Response – The budget will be amended prior to exceeding the budget in the future, if applicable.

Conclusion – Response accepted.

II-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.

City of Lake City, Iowa

Schedule of Findings

Year ended June 30, 2012

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

II-D-12 Business Transactions –Business transactions between the City and City officials are detailed below:

Name, Title and Business Connection	Transaction Description	Amount
Ken Hying, Mayor Owner Calhoun County Variety Store	Office Supplies	\$ 403

In accordance with Chapter 362.5(3)(j) of the Code of Iowa, the transactions with the Mayor does not appear to represent a conflict of interest since the total transactions were less than \$2,500 during the fiscal year.

II- 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.

II-F-12 Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not.

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

II-H-12 Financial Condition – The Debt Service Fund, Streets Capital Project Fund and Fire Station Capital Project Fund had deficit balances of \$3,421, \$31,046 and \$102,010 respectively at June 30, 2012.

Recommendation – The City should investigate alternatives to return these funds to a sound financial position.

Response – See footnote #10 in notes to the financial statements for an explanation how the City intends to eliminate these deficits.

Conclusion – Response accepted.