

CITY OF EDGEWOOD

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

JUNE 30, 2012

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CITY OF EDGEWOOD

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January, 2012)		
James Stone	Mayor	Jan. 2012
James Fannon	Mayor Pro tern	Jan. 2012
Brad Perrinjaquet	Council Member	Jan. 2012
Jill Hemann	Council Member	Jan. 2012
Bruce Hernami	Council Member	Jan. 2014
Frank Riester	Council Member	Jan. 2014
(After December, 2011)		
James Stone	Mayor	Jan. 2014
Bruce Hemann	Mayor Pro tern	Jan. 2014
Steve Lange	Council Member	Jan. 2014
Frank Riester	Council Member	Jan. 2014
Brad Perrinjaquet	Council Member	Jan. 2016
Jill Hemann	Council Member	Jan. 2016
Cindy Vorward	Clerk/Treasurer	Indefinite
William G. Blum	Attorney	Indefinite

Dietz, Donald & Comport)

CERTIFIED PUBLIC ACCOUNTANTS

STEVEN S. CLAUSEN, CPA

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Elkaden Iowa 52043

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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 Edgewood, 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 Edgewood's 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 that 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. Also, as permitted by the Code of Iowa, the accounting records of the City have not been audited for all prior years. Accordingly, we were unable to satisfy ourselves as to the distribution by activity of the cash basis net assets and by fund of the cash balances at July 1, 2011.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by activity of the cash basis net assets and the distribution by fund of the cash balances at July 1, 2011, as discussed in the preceding paragraph, 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, and the aggregate remaining fund information of the City of Edgewood 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.

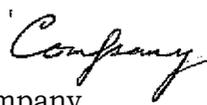
In accordance with Government Auditing Standards, we have also issued our report dated July 18, 2012 on our consideration of the City of Edgewood's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and 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 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.

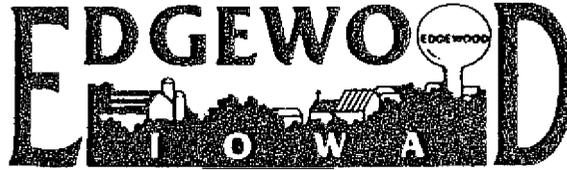
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Edgewood's basic financial statements. The supplementary information included in Schedules 1 through 4, including the Schedule of Expenditures of Federal Awards required by the U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare 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, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the cash balances at July 1, 2011, as it related to Schedule 1, as discussed in the third paragraph, is fairly stated in all material respects in relation to the 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 Edgewood's basic financial statements. The Management's Discussion and Analysis and budgetary comparison information in pages 6 through 13 and 30 through 31 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and, accordingly, we do not express an opinion or provide any assurance on it.

Elkader, Iowa

July 18, 2012


Dietz, Donald & Company
Certified Public Accountants
FEIN 42-1172392



MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Edgewood 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.

Since the City is not required to be audited annually, much of the information is not easily comparable to prior years. Comparative data have been provided if available.

2012 FINANCIAL HIGHLIGHTS

The cash basis net assets of the City's governmental activities decreased \$ 504,522, due in part to monies not being received from two cost reimbursement grants before June 30, 2012.

The cash basis net assets of the City's business activities increased \$ 77,539 due to increases in rates.

USING THIS REPORT

This 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 government 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 to the City's budget for the year.

Supplementary Information provides detailed information about the nonmajor governmental funds and the City's indebtedness. In addition, the Schedule of Expenditures of Federal Awards provides details of various federal programs benefiting the City.

BASIS OF ACCOUNTING

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

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

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

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

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

Governmental Activities include public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.

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

Fund Financial Statements

The City has two kinds of funds:

Governmental Funds account for most of the City's basic services. 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 Fund, such as Urban Renewal Tax Increment and Local Option Sales Tax, (3) the Debt Service Fund, and (4) the Capital Projects Funds. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information help 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.

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased sharply from a year ago, decreasing from \$ 729,843 to \$ 225,321. The analysis that follows focuses on the changes in cash balances for governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities

	<u>Year Ended June 30, 2012</u>
Receipts	
Program receipts:	
Charges for service	\$ 162,632
Operating grants, contributions and restricted interest	202,095
Capital grants, contributions and restricted interest	669,519
General receipts:	
Property tax	523,460
Local option taxes	76,221
Unrestricted interest on investments	2,995
Note proceeds	175,001
Other general receipts	19,424
	<hr/>
Total receipts	1,831,347
	<hr/>
Disbursements:	
Public safety	348,058
Public works	163,539
Health and social services	1,600
Culture and recreation	124,542
Community and economic development	215,693
General government	98,489
Debt service	39,876
Capital projects	1,377,397
	<hr/>
Total disbursements	2,369,194
	<hr/>
Change in cash basis net assets before transfers	(537,847)
Transfers, net	33,325
	<hr/>
Change in cash basis net assets	(504,522)
Cash basis net assets beginning of year	729,843
	<hr/>
Cash basis net assets end of year	<u><u>\$ 225,231</u></u>

The cash basis net assets of the City's governmental funds decreased primarily due to monies not being received from two cost reimbursement grants before June 30, 2012 and purchasing a new fire truck.

The cost of all governmental activities this year was \$ 2,369,194. However, as shown in the Statement of Activities and Net Assets on pages 15-16, the amount taxpayers

ultimately financed for these activities was only \$ 1,334,948 because some of the cost was paid by those directly benefiting from the programs (\$162,632) or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest (\$871,614). The City paid for the remaining "public benefit" portion of governmental activities with \$ 599,681 of taxes (some of which could only be used for certain programs) and other receipts such as issuing notes.

Changes in Cash Basis Net Assets of Business Type Activities

	<u>Year Ended June 30, 2012</u>
Receipts:	
Program receipts:	
Charges for service:	
Water	\$ 112,639
Sewer	213,772
General receipts:	
Unrestricted interest on investments	1,487
Bond proceeds	<u>19,227</u>
Total receipts	<u>347,125</u>
Disbursements:	
Water	97,292
Sewer	<u>138,969</u>
Total disbursements	<u>236,261</u>
Change in cash basis net assets before transfers	110,864
Transfers, net	<u>(33,325)</u>
Changes in cash basis net assets	77,539
Cash basis net assets beginning of year	<u>185,868</u>
Cash basis net assets end of year	<u>\$ 263,407</u>

Total business type activities cash basis net assets increased from a year ago, from \$ 185,868 to \$ 263,407. The overall increase is a result of an increase in sewer rates, as sewer receipts increased \$ 49,247 over fiscal year 2011.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Edgewood completed the year, its governmental funds reported a combined fund balance of \$ 225,321, a decrease of \$ 504,522 from last year's total of \$ 729,843. The following are the major reasons for the changes in the fund balances of

the major funds from the prior year.

The General Fund cash balance decreased \$ 13,721 from the prior year to \$ 351,589. This decrease approximated the General Fund's contribution towards the purchase of a new fire truck.

The Special Revenue, Urban Renewal Tax Increment Fund has a cash balance of \$ 160,712 at the end of the fiscal year, an increase of \$ 29,969 from the previous year. These are to be used for various construction and refurbishing projects within the urban renewal districts or to retire debt previously acquired to complete past projects within these districts.

The Special Revenue, Local Option Sales Tax Fund cash balance decreased \$ 66,485 to \$ 147,016 during the fiscal year. Sales tax receipts increased \$ 3,331 to \$ 75,065 in fiscal 2012. The fund contributed \$ 125,000 towards the purchase of a new truck during the fiscal year. The sales tax referendum allocates 70% of sales receipts to fire/ambulance and 30% to recreation.

The Capital Projects Fund had a deficit balance of \$ 494,690 at the end of the fiscal year. The deficit will be eliminated upon receipts of federal and state grants and finalizing financing of the City portion of the Emergency Services Center. The City disbursed \$ 1,242,499 for the Emergency Services Center during the fiscal year.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

The Enterprise, Water Fund cash balance increased \$ 5,873 to \$ 60,466, due primarily to receipt of revenue bond proceeds of \$ 19,227 to complete financing of a capital project from the previous fiscal year.

The Enterprise, Sewer Fund cash balance increased \$ 71,666 to \$ 202,941 due to an increase in sewer rates which generated an additional \$ 45,000 in receipts.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget once. The amendment was approved on May 14, 2012 and resulted in an increase in capital disbursements of \$ 635,000, primarily related to the Emergency Services Center. The City had sufficient cash balances on hand to absorb these additional costs.

The City's receipts were \$ 191,576 less than budgeted. This was primarily due to cost reimbursement grant draw downs not being received until after the end of the fiscal year.

The City's disbursements were \$ 582,521 less than budgeted. Actual disbursements for

the public safety, community and economic development and capital projects functions were \$ 52,505, \$ 78,553 and \$ 407,603, respectively, less than the amended budget. This was primarily due to a portion of the Emergency Services Center project carrying into fiscal 2013.

DEBT SERVICE

At June 30, 2012, the City had \$ 941,277 in bonds and other long-term debt outstanding compared to \$ 936, 736 last year, as shown below.

	Outstanding Debt at Year End (Expressed in Thousands)	
	June 30,	
	2012	2011
General obligation notes	\$ 130	167
Urban renewal tax increment financing revenue notes	276	405
Revenue bonds	347	345
Contract payable	13	19
General obligation anticipation notes	175	0
Total	\$ 941	936

Debt increased as a result of issuing general obligation anticipation notes for the Emergency Services Center project. In addition, \$ 19,227 of revenue notes were issued to complete the financing for a water construction project from the previous 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 and TIF debt of \$ 594,277 is significantly below its constitutional debt limit of approximately \$ 2.0 million.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City of Edgewood's elected and appointed officials and citizens considered many factors when setting the fiscal year 2013 budget, tax rates and fees charged for various City activities. One of these factors is growth. Population between 2000 and 2010 declined 6.4%. Actual property valuation increased 3.0% between January 1, 2009 and January 1, 2010. Sales tax receipts increased 4.6% during the current fiscal year.

These indicators were taken into account when adopting the budget for fiscal year 2013. Amounts available for appropriation in the operating budget are approximately \$ 1.2 million, a decrease of 50% less than the fiscal year 2012 budget. Property tax rates were nearly identical for both 2012 and 2013, however property taxes are budgeted to increase

\$ 6,700 because of increased valuations. The decrease in budgeted receipts is being lead by a decrease in budgeted grant receipts of \$ 956,000 and a decrease in budgeted note proceeds of \$ 583,000. There are no capital projects budgeted in fiscal 2013 as opposed to \$ 1,785,000 being budgeted in fiscal 2012.

If these estimates are realized, the City's budgeted cash balance is expected to increase approximately \$ 63,000 by the close of fiscal year 2013.

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 accountability for the money it receives. If you have questions about this report or need additional financial information, contact Cindy Vorwald, City Clerk; 203 West Union; Edgewood, Iowa 52042-0397

BASIC FINANCIAL STATEMENTS

Exhibit A

CITY OF EDGEWOOD
 STATEMENT OF ACTIVITIES AND NET ASSETS-CASH BASIS
 As of and for the Year Ended June 30, 2012

	Disbursements	Charges for Service	Program Receipts		Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		Total
			Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	
Functions/Programs:							
Governmental activities:							
Public safety	\$ 348,058	85,593	110,384	-	(152,081)	-	(152,081)
Public works	163,539	46,378	83,499	-	(33,662)	-	(33,662)
Health and social services	1,600	-	-	-	(1,600)	-	(1,600)
Culture and recreation	124,542	25,024	8,212	-	(91,306)	-	(91,306)
Community and economic development	215,693	-	-	-	(215,693)	-	(215,693)
General government	98,489	5,637	-	-	(92,852)	-	(92,852)
Debt service	39,876	-	-	-	(39,876)	-	(39,876)
Capital projects	1,377,397	-	-	669,519	(707,878)	-	(707,878)
Total governmental activities	2,369,194	162,632	202,095	669,519	(1,334,948)	-	(1,334,948)
Business type activities:							
Water	97,292	112,639	-	-	-	15,347	15,347
Sewer	138,969	213,772	-	-	-	74,803	74,803
Total business type activities	236,261	326,411	-	-	-	90,150	90,150
Total	\$ 2,605,455	489,043	202,095	669,519	(1,334,948)	90,150	(1,244,798)
General Receipts and Transfers:							
Property and other city tax levied for:							
General purposes					208,727	-	208,727
Debt service					40,081	-	40,081
Tax increment financing					275,808	-	275,808
Local option sales tax					75,065	-	75,065
Unrestricted interest on investments					2,995	1,487	4,482
Bond and note proceeds					175,001	19,227	194,228
Sale of assets					16,300	-	16,300
Miscellaneous					3,124	-	3,124
Transfers					33,325	(33,325)	-
Total general receipts and transfers					830,426	(12,611)	817,815
Change in cash basis net assets					(504,522)	77,539	(426,983)
Cash basis net assets beginning of year					729,843	185,868	915,711
Cash basis net assets end of year					\$ 225,321	263,407	488,728

(continued)

CITY OF EDGE WOOD
STATEMENT OF ACTIVITIES AND NET ASSETS—CASH BASIS
As of and for the Year Ended June 30, 2012

	Governmental Activities	Business Type Activities	Total
Cash Basis Net Assets			
Restricted:			
Nonexpendable:			
Utility deposits		10,364	10,364
Expendable:			
Urban renewal purposes	160,712		160,712
Fire/ambulance	72,121		72,121
Recreation	74,895		74,895
Streets	33,187		33,187
Library	12,078		12,078
Debt service	1,585	94,291	95,876
Other	14,244		14,244
Unrestricted	(143,501)	158,752	15,251
	<u>225,321</u>	263,407	<u>488,728</u>
Total Cash Basis Net Assets			

See notes to financial statements.

Exhibit B

CITY OF EDGEWOOD
 STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
 AND CHANGES IN CASH BALANCES
 GOVERNMENTAL FUNDS
 As of and for the Year Ended June 30, 2012

	Special Revenue					Total
	General	Urban Renewal Tax Increment	Local Option Sales Tax	Capital Projects	Nonmajor	
Receipts:						
Property tax	\$ 178,515	-	-	-	70,293	248,808
Tax increment financing	-	275,808	-	-	-	275,808
Other city tax	1,156	-	75,065	-	-	76,221
Licenses and permits	2,484	-	-	-	-	2,484
Use of money and property	4,106	950	950	-	39	6,045
Intergovernmental	156,722	-	-	627,439	81,951	866,112
Charges for service	105,316	-	-	-	-	105,316
Special assessments	-	-	-	-	2,924	2,924
Miscellaneous	17,996	-	-	35,080	3,252	56,328
Total receipts	466,295	276,758	76,015	662,519	158,459	1,640,046
Disbursements:						
Operating:						
Public safety	223,058	-	125,000	-	-	348,058
Public works	75,659	-	-	-	87,880	163,539
Health and social services	1,600	-	-	-	-	1,600
Culture and recreation	117,042	-	7,500	-	-	124,542
Community and economic development	16,972	198,721	-	-	-	215,693
General government	72,711	-	-	-	25,778	98,489
Debt service	-	-	-	-	39,876	39,876
Capital projects	-	-	-	1,377,397	-	1,377,397
Total disbursements	507,042	198,721	132,500	1,377,397	153,534	2,369,194
Excess (deficiency) of receipts over (under) disbursements	(40,747)	78,037	(56,485)	(714,878)	4,925	(729,148)
Other financing sources (uses);						
Vote proceeds	-	-	-	175,001	-	175,001
Sale of capital assets	16,300	-	-	-	-	16,300
Operating transfers in	10,726	-	-	109,627	-	120,353
Operating transfers out	-	(413,068)	(10,000)	-	(28,960)	(87,028)
Total other financing sources (uses)	27,026	(48,068)	(10,000)	284,628	(28,960)	224,626
Net change in cash balances	(13,721)	29,969	(66,485)	(450,250)	(24,035)	(504,522)
Cash balances beginning of year	364,910	130,743	213,501	(64,440)	85,129	729,843
Cash balances end of year	\$ 351,189	160,712	147,016	(494,690)	61,094	225,321

(continued)

Exhibit B
(continued)

CITY OF EDGEWOOD
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
GOVERNMENTAL FUNDS
As of and for the Year Ended June 30, 2012

	General	Special Revenue			Capital Projects	Nonmajor	Total
		Urban Renewal Tax Increment	Local Option Sales Tax				
Cash Basis Fund Balances							
Restricted for:							
Urban renewal purposes	\$ -	160,712	-	-	-	-	160,712
Fire/ambulance	-	-	72,121	-	-	-	72,121
Recreation	-	-	74,895	-	-	-	74,895
Streets	-	-	-	-	33,187	-	33,187
Library	-	-	-	-	12,078	-	12,078
Debt service	-	-	-	-	1,585	-	1,585
Other	-	-	-	-	14,244	-	14,244
Committed for ambulance	52,463	-	-	-	-	-	52,463
Unassigned	298,726	-	-	(494,690)	-	-	(195,964)
Total cash basis fund balances	\$ 351,189	160,712	147,016	(494,690)	61,094	-	225,321

See notes to financial statements.

CITY OF EDGE WOOD
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
PROPRIETARY FUNDS
As of and for the Year Ended June 30, 2012

	Enterprise		
	Water	Sewer	Total
Operating receipts:			
Charges for service	\$ 111,197	209,525	320,722
Operating disbursements:			
Business type activities	85,099	122,457	207,556
Excess of operating receipts over operating disbursements	26,098	87,068	113,166
Non-operating receipts (disbursements):			
Interest on investments	528	959	1,487
Miscellaneous	118	4,247	4,365
Water deposits, net	1,324	-	1,324
Revenue bond proceeds	19,227	-	19,227
Debt service	(12,193)	(16,512)	(28,705)
Net non-operating receipts (disbursements)	9,004	(11,306)	(2,302)
Excess of receipts over disbursements	35,102	75,762	110,864
Operating transfers out	(29,229)	(4,096)	(33,325)
Net change in cash balances	5,873	71,666	77,539
Cash balances beginning of year	54,593	131,275	185,868
Cash balances end of year	<u>\$ 60,466</u>	202,941	263,407
Cash Basis Fund Balances			
Restricted:			
Nonexpendable:			
Utility deposits	\$ 10,364		10,364
Expendable:			
Debt service		94,291	94,291
Unrestricted	50,102	108,650	158,752
Total cash basis fund balances	<u>\$ 60,466</u>	202,941	263,407

See notes to financial statements.

CITY OF EDGE WOOD

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

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

The City of Edgewood is a political subdivision of the State of Iowa located in Delaware and Clayton Counties. It was first incorporated in 1892 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 services for its citizens.

A. Reporting Entity

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

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Delaware County Solid Waste Commission, Delaware County Economic Development Commission, Delaware and Clayton County E911 Service Boards and Edgewood Board of Economic Development.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Activities and Net Assets reports information on all of the non-fiduciary 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 non-fiduciary 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.

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

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

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

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

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts from general and emergency levies and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this

fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Urban Renewal Tax Increment Fund is used to account for tax increment financing collections and the repayment of tax increment financing indebtedness.

The Local Option Sales Tax Fund is used to account for the receipt and disbursement of the voter approved 1% local option sales tax, of which 70% can be disbursed for fire/ambulance and 30% for recreation.

The Capital Projects Fund is used to account for all receipts and disbursements related to major capital projects in the City.

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.

C. Measurement Focus and Basis of Accounting

The City of Edgewood 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 the 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.

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 statement, cash basis fund balances are classified as follows:

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

Committed - Amounts which can be used only for specific purposes determined pursuant to constraints formally imposed by the City Council through 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.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information.

(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 or improvement certificates of a drainage district.

The City had no investments meeting the disclosure requirements of Governmental Accounting Standards Board No. 3.

Interest rate risk - The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the City.

(3) Bonds and Notes Payable

Annual debt service requirements to maturity for general obligation notes, urban renewal tax increment financing revenue notes, contract payable and revenue bonds are as follows:

Year Ending June 30,	General Obligation Notes		Urban Renewal Tax Increment Financing (TIF) Notes		Contract Payable		Revenue Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2013	\$ 34,029	6,046	129,167	12,991	6,367	519	17,000	10,410
2014	35,652	4,464	105,426	7,085	6,619	267	18,000	9,900
2015	37,353	2,806	41,666	1,771	0	0	18,000	9,360
2016	22,997	1,069	0	0	0	0	18,000	8,820
2017	0	0	0	0	0	0	20,000	8,280
2018-22	0	0	0	0	0	0	108,000	32,130
2023-27	0	0	0	0	0	0	101,000	15,360
2028-30	0	0	0	0	0	0	47,000	2,850
Total	\$ 130,031	14,385	276,259	21,847	12,986	786	347,000	97,110

Year Ending June 30,	Total	
	Principal	Interest
2013	\$ 186,563	29,966
2014	165,697	21,716
2015	97,019	13,937
2016	40,997	9,889
2017	20,000	8,280
2018-22	108,000	32,130
2023-27	101,000	15,360
2028-30	<u>47,000</u>	<u>2,850</u>
Total	\$ 766,276	134,128

The Urban Renewal Tax Increment Financing Revenue Notes were issued for the purpose of defraying a portion of the costs of carrying out an urban renewal project of the City. The notes are payable solely from the receipts of the Special Revenue, Urban Renewal Tax Increment Fund and the taxes to be paid into the fund in accordance with Chapter 403.19 of the Code of Iowa. The proceeds of the Urban Renewal Tax Increment Financing Revenue Notes shall be expended only for purposes which are consistent with the plans of the City's urban renewal area. The notes are not a general obligation of the City. However, the debt is subject to the constitutional debt limitation of the City. For the current year, principal and interest paid and total TIF receipts were \$ 146,588 and \$ 276,758, respectively.

Revenue Bonds

The City has pledged future water customer receipts, net of specified operating disbursements, to repay \$ 174,000 of water revenue bonds issued in August, 2005 with interest at 3% per annum. The agreement also requires the City to annually pay a .25% servicing fee on the outstanding principal balance. The bonds are payable solely from water customer net receipts and are payable through 2025. Annual principal and interest payments are expected to be less than 75% of net receipts. The total principal and interest remaining to be paid on the bonds is \$ 147,910. For the current year, principal and interest paid and total customer net receipts were \$ 12,193 and \$ 26,098, respectively.

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay \$ 255,000 of sewer revenue bonds issued in June, 2010 with interest at 3% per annum. The agreement also requires the City to annually pay a .25% servicing fee on the outstanding principal balance. The bonds are payable solely from sewer customer net receipts through 2030. Annual principal and interest payments are expected to be less than 75% of the net receipts. The total principal and interest remaining to be paid on the bonds is \$ 296,200. For the current year, principal and interest paid and total customer net receipts were \$ 16,512 and \$ 87,068, respectively.

(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 member 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 regulat 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. Contribution requirements are established by state statute. The City's contribution to 1PERS for the year ended June 30, 2012 was \$ 11,947, equal to the required contribution for the year.

(5) Other Postemployment Benefits (OPEB)

The City implemented GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits other than Pensions during the year ended June 30, 2012.

Plan Description - The City operates a single-employer retiree benefit plan which provides medical/prescription drug benefits for retirees and their spouses. There are 3 active members in the plan. Participants must be age 55 or older at retirement.

Funding Policy - The contribution requirements of plan members are established and may be amended by the City. The City currently finances the retiree benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the City and plan members are \$ 788 for family coverage. For the year ended June 30, 2012, the City contributed \$ 28,409 to the plan and plan members eligible for benefits contributed \$ 0 to the plan.

(6) Compensated Absences

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

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$ 1,000
Sick leave	<u>12,000</u>
Total	<u><u>\$ 13,000</u></u>

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

(7) Interfund Transfers

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

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Special Revenue:	
	Local Option Sales Tax	\$ 10,000
	Library Memorial	<u>726</u>
		10,726
Capital Projects:	Special Revenue:	
	Urban Renewal Tax Increment	48,068
	Special Assessment Notes	28,234
	Enterprise:	
	Water	29,229
	Sewer	4,096
		<u>109,627</u>
Total		<u>\$ 120,353</u>

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

(8) Related Party Transactions

The City had business transactions between the City and City officials. A Council person was an employee of a business that was hired as a sub-contractor by a contractor awarded a City contract that was determined by competitive bid.

(9) Risk Management

The City is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks exceeded commercial insurance coverage in the past fiscal year.

(10) Commitments and Contingencies

A. The City has agreed to guarantee 50% of the Edgewood Child Care and Development Center's United States Department of Agriculture loan, which has a balance of approximately \$ 128,600 at June 30, 2012. In July, 2012, the City Council appropriated \$ 5,000 to the Edgewood Child Care and

Development Center.

B. In October, 2011, the City entered into a \$ 1,283,000 construction contract for an emergency services center. At June 30, 2012, \$ 1,180,866 had been disbursed under this contract.

(11) Deficit Balance

The Capital Projects Fund had a deficit balance of \$ 494,690 at June 30, 2012. The deficit balance was a result of project costs incurred prior to availability of funds. The deficit will be eliminated upon receipt of federal and state grants.

OTHER INFORMATION

CITY OF EDGEWOOD
 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 Actual	Proprietary Funds Actual	Total	Budgeted Amounts		Final to Total Variance
				Original	Final	
Receipts:						
Property tax	\$ 248,808	-	248,808	241,891	241,891	6,917
Tax increment financing	275,808	-	275,808	281,476	281,476	(5,668)
Other city tax	76,221	-	76,221	78,438	78,438	(2,217)
Licenses and permits	2,484	-	2,484	3,450	3,450	(966)
Use of money and property	6,045	1,487	7,532	14,860	14,860	(7,328)
Intergovernmental	866,112	-	866,112	1,022,860	1,082,860	(216,748)
Charges for service	105,316	320,722	426,038	402,575	402,575	23,463
Special assessments	2,924	-	2,924	2,970	2,970	(46)
Miscellaneous	56,328	5,689	62,017	51,000	51,000	11,017
Total receipts	<u>1,640,046</u>	<u>327,898</u>	<u>1,967,944</u>	<u>2,099,520</u>	<u>2,159,520</u>	<u>(191,576)</u>
Disbursements:						
Public safety	348,058	-	348,058	400,563	400,563	52,505
Public works	163,539	-	163,539	165,247	165,247	1,708
Health and social services	1,600	-	1,600	1,600	1,600	-
Culture and recreation	124,542	-	124,542	125,315	125,315	773
Community and economic development	215,693	-	215,693	294,246	294,246	78,553
General government	98,489	-	98,489	110,222	110,222	11,733
Debt service	39,876	-	39,876	41,500	41,500	1,624
Capital projects	1,377,397	-	1,377,397	1,150,000	1,785,000	407,603
Business type activities	-	236,261	236,261	264,283	264,283	28,022
Total disbursements	<u>2,369,194</u>	<u>236,261</u>	<u>2,605,455</u>	<u>2,552,976</u>	<u>3,187,976</u>	<u>582,521</u>
Excess (deficiency) of receipts over (under) disbursements	(729,148)	91,637	(637,511)	(453,456)	(1,028,456)	390,945
Other financing sources, net	224,626	(14,098)	210,528	393,000	583,000	(372,472)
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(504,522)	77,539	(426,983)	(60,456)	(445,456)	18,473
Balances beginning of year	729,843	185,868	915,711	815,342	815,342	100,369
Balances end of year	\$ 225,321	263,407	488,728	754,886	369,886	118,842

See accompanying independent auditor's report and notes to other information-budgetary reporting.

CITY OF EDGE WOOD

Notes to Other Information - Budgetary Reporting

June 30, 2012

The budgetary comparison is presented as Other 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 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. The 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 Fund, 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 ended June 30, 2012, one budget amendment increased budgeted disbursements by \$ 635,000. The budget amendment is reflected in the final budgeted amounts.

SUPPLEMENTARY INFORMATION

Schedule 1

CITY OF EDGEWOOD
 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					Total
	Employee Benefits	Road Use Tax	Special Assessment Notes	Library Memorial	Debt Service	
Receipts:						
Property tax	\$ 30,212	-	-	-	40,081	70,293
Use of money and property	-	-	-	39	-	39
Intergovernmental	-	81,951	-	-	-	81,951
Special assessments	-	-	2,924	-	-	2,924
Miscellaneous	-	-	-	3,252	-	3,252
Total receipts	30,212	81,951	2,924	3,291	40,081	158,459
Disbursements:						
Operating:						
Public works	\$ -	87,880	-	-	-	87,880
General government	25,778	-	-	-	-	25,778
Debt service	-	-	-	-	39,876	39,876
Total disbursements	25,778	87,880	-	-	39,876	153,534
Excess (deficiency) of receipts over (under) disbursements	4,434	(5,929)	2,924	3,291	205	4,925
Other financing uses:						
Operating transfers out	-	-	(28,234)	(726)	-	(28,960)
Net change in cash balances	4,434	(5,929)	(25,310)	2,565	205	(24,035)
Cash balances beginning of year	9,810	21,109	43,317	9,513	1,380	85,129
Cash balances end of year	\$ 14,244	15,180	18,007	12,078	1,585	61,094
Cash Basis Fund Balances:						
Restricted for:						
Streets	\$ -	15,180	18,007	-	-	33,187
Library	-	-	-	12,078	-	12,078
Debt service	-	-	-	-	1,585	1,585
Other	14,244	-	-	-	-	14,244
Total cash basis fund balances	\$ 14,244	15,180	18,007	12,078	1,565	61,094

See accompanying independent auditor's report.

Schedule 2

CITY OF EDGEWOOD
SCHEDULE OF INDEBTEDNESS
Year Ended June 30, 2012

Obligation	Date of Issue	Interest Rate	Amount Originally Issued	Balance Beginning of Year	Issued Year	Retired Year	Balance End of Year	Interest Paid
General obligation note: Street Improvement	Feb. 28, 2007	4.65%	\$ 280,000	167,429		37,398	130,031	7,415
Urban renewal tax increment financing (TIF) revenue notes: Street Improvement	Sept. 4, 2007	5.25%	\$ 375,000	166,667	-	41,667	125,000	8,203
Street Improvement	Aug. 12, 2009	4.25	350,000	238,759	-	87,500	151,259	9,218
				\$ 405,426	-	129,167	276,259	17,421
Revenue bonds: Water	Aug. 3, 2005	3.00%	\$ 174,000	129,000	-	8,000	121,000	4,193
Sewer	Jun. 2, 2010	3.00	255,000	215,773	19,227	9,000	226,000	7,512
				\$ 344,773	19,227	17,000	347,000	11,705
Contract payable: Street Improvement	Sept. 9, 2008	4.00%	\$ 30,654	19,108		6,122	12,986	764
General obligation anticipation note: Emergency Services Center	Dec. 1, 2011	2.50%	\$ 175,001		175,001		175,001	

See accompanying independent auditor's report.

Schedule 3

CITY OF EDGEWOOD
BOND AND NOTE MATURITIES
June 30, 2012

Year Ending June 30,	<u>General Obligation Notes</u>		<u>Urban Renewal Tax Increment Financing (TIP)</u>		<u>Revenue Notes</u>		Total
	Street Improvements		Street Improvements		Street Improvements		
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	
	Issued Feb. 28, 2007		Issued Sep. 4, 2007		Issued Aug. 12, 2009		
2013	4.65%	\$ 34,029	5.25%	\$ 41,667	4.25%	87,500	129,267
2014	4.65	35,652	5.25	41,667	4.25	63,759	105,426
2015	4.65	37,353	5.25	41,666			41,666
2016	4.65	22,997					
Total		<u>\$ 130,031</u>		<u>\$ 125,000</u>		<u>\$ 151,259</u>	<u>276,259</u>

Year Ending June 30,	Revenue Bonds				
	Water		Sewer		
	Interest Rates	Amount	Interest Rates	Amount	Total
	Issued Aug. 3, 2005		Issued June 2, 2010		
2013	3.00%	\$ 8,000	3.00%	9,000	17,000
2014	3.00	8,000	3.00	10,000	18,000
2015	3.00	6,000	3.00	10,000	18,000
2016	3.00	8,000	3.00	10,000	18,000
2017	3.00	9,000	3.00	11,000	20,000
2018	3.00	9,000	3.00	11,000	20,000
2019	3.00	9,000	3.00	12,000	21,000
2020	3.00	10,000	3.00	12,000	22,000
2021	3.00	10,000	3.00	12,000	22,000
2022	3.00	10,000	3.00	13,000	23,000
2023	3.00	10,000	3.00	13,000	23,000
2024	3.00	11,000	3.00	13,000	24,000
2025	3.00	11,000	3.00	14,000	25,000
2026			3.00	14,000	14,000
2027			3.00	15,000	15,000
2028			3.00	15,000	15,000
2029			3.00	16,000	16,000
2030			3.00	16,000	16,000
Total		<u>\$ 121,000</u>		<u>\$ 226,000</u>	<u>347,000</u>

See accompanying independent auditor's report.

CITY OF EDGEWOOD
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 Year Ended June 30, 2012

Grantor/Program	CFDA Number	Agency Pass-through Number	Program Expenditures
Direct:			
U.S. Department of Agriculture: Community Facilities Grants	10.769		200,000
Indirect:			
U.S. Department of Housing and Urban Development: Iowa Department of Economic Development: Community Development Block Grants/State's Program and Non- Entitlement Grants in Hawaii	14.228	09-HSG-055	24,913
U.S. Department of Homeland Security: Iowa Department of Public Defense: Iowa Homeland Security and Emergency Management Division: Hazard Mitigation Grant	97.039	HMGP-DR-1763-0132-01	<u>295,375</u>
Total			<u>\$ 520,288</u>

Basis of Presentation - The Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Edgewood and is presented in conformity with an other comprehensive basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

See accompanying independent auditor's report.

Dietz, Donald & Company

CERTIFIED PUBLIC ACCOUNTANTS

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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 Edgewood, 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 July 18, 2012. Our report on the financial statements, which were prepared in conformity with an other comprehensive basis of accounting, expressed qualified opinions since we were unable to satisfy ourselves as to the distribution by activity of the cash basis net assets and by fund of the cash balances at July 1, 2011. Except as noted in the Independent Auditor's Report, 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

Management of the City of Edgewood is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City of Edgewood'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 Edgewood's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Edgewood'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 deficiencies, significant deficiencies, or material weaknesses, and therefore, there can be no assurance that 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 that we consider to be material weaknesses.

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 that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in Part H of the accompanying Schedule of Findings and Questioned Costs identified as items II-A-12 and 1I-B-12 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Edgewood's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have 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 noncompliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of noncompliance or other matters that are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

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

The City of Edgewood's responses to findings in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the City's responses, we did not audit the City of Edgewood'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 Edgewood and other parties to whom the City of Edgewood may report, including federal awarding agencies and pass-through

entities. This report is not intended to be and should not be used by anyone other than these specified parties.

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

Elkader, Iowa

July 18, 2012

A handwritten signature in cursive script that reads "Dietz, Donald & Company". The signature is written in black ink and is positioned above the printed name of the firm.

Dietz, Donald & Company
Certified Public Accountants
FEIN 42-1172392

Dietz, Donald & Company

CERTIFIED PUBLIC ACCOUNTANTS

STEVEN S. CLAUSEN, CPA

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Elkader, Iowa 52043

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Honorable Mayor and
Members of the City Council:

Compliance

We have audited the compliance of the City of Edgewood, Iowa, with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on the City of Edgewood's major federal program for the year ended June 30, 2012. The City of Edgewood's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to its major federal program is the responsibility of the City of Edgewood's management. Our responsibility is to express an opinion on the City of Edgewood's compliance based on our audit.

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

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

Internal Control Over Compliance

The management of the City of Edgewood is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City of Edgewood's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A433, but not for the purpose of expressing an opinion on the effectiveness of the City of Edgewood's internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Edgewood's internal control over compliance,

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, non-compliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

The City of Edgewood's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the City's responses, we did not audit the City of Edgewood'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 Edgewood and other parties to whom the City of Edgewood may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

Mader, Iowa

July 18, 2012

Dgiz, Donald & Company
Certified Public Accountants
FEIN 42-1172392

CITY OF EDGEWOOD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2012

Part I: Summary of the Independent Auditor's Results:

- (1) Qualified opinions were issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
- (2) Material weaknesses in internal control over financial reporting were disclosed by the audit of the financial statements.
- (3) The audit did not disclose any noncompliance which is material to the financial statements.
- (4) The audit of the financial statements did not disclose any material weaknesses in internal control over the major program.
- (5) An unqualified opinion was issued on compliance with requirements applicable to the major program.
- (6) The audit did not disclose any audit findings which are required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (7) The major program was CFDA Number 97.039 - Hazard Mitigation Grant.
- (8) The dollar threshold used to distinguish between Type A and Type 13 programs was \$ 300,000.
- (9) The City of Edgewood did not qualify as a low-risk auditee.

CITY OF EDGE WOOD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2012

Part H: Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

II-A-12 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal are all done by the same person.

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.

Response - We will consider this.

Conclusion - Response acknowledged. The City should segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

II-13-12 Financial Reporting - As is common in small organizations, the City does not prepare its financial statements, complete with notes, in accordance with U.S. generally accepted accounting principles. Accordingly, the City is unable to, and has not established internal controls over the preparation of financial statements.

Recommendation - As part of the audit, we have been requested to prepare a draft of the City's financial statements, including related notes to the financial statements. The City then performs a review of the financial statements. However, in order to provide improved oversight of the financial preparation services and implement controls over the financial reporting process, the City should establish review policies and procedures including the performance of some or all of the following functions:

Review the adequacy of financial statement disclosures.

Review and approve schedule and calculations supporting amounts included in the notes to the financial statements.

CITY OF EDGE WOOD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2012

Apply analytical procedures to the draft financial statements.

Apply other procedures as considered necessary by the City.

Response - We will consider this, however, the City usually prepares a complete set of financial statements once every four years.

Conclusion - Response acknowledged.

INSTANCES OF NONCOMPLIANCE

No matters were noted

Part III: Findings and Questioned Costs for Federal Awards:

INSTANCES OF NONCOMPLIANCE

No matters were noted.

INTERNAL CONTROL DEFICIENCIES

No material weaknesses were identified.

Part IV: Other Findings Related to Required Statutory Reporting:

IV-A-12 Certified Budget - Disbursements for the year ended June 30, 2012 did not exceed the amounts budgeted.

IV-B-12 Questionable Disbursements - No disbursements that we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.

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

CITY OF EDGE WOOD
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 Year Ended June 30, 2012

WD-12 Business Transactions - Business transactions between the City and City officials are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Brad Perrinjaquet, Council Member, Employee of Meyer Mechanical	Subcontractor for Loecke Construction on Emergency Services Center	Unknown

The transactions with the Council Member does not appear to represent a conflict of interest since the original contract with the lead contractor was entered into through competitive bidding in accordance with Chapter 362.5(4) of the Code of Iowa.

IV-E-12 Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure the coverage is adequate for current operations.

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

IV-G-12 Deposits and Investments - No instances of noncompliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City's investment policy were noted.

IV-H-12 Revenue Bonds - The City has complied with the revenue bond resolutions.

IV-I-12 Financial Condition - The Capital Projects Fund had a deficit balance of \$ 494,690 at June 30, 2012.

Recommendation - The City should investigate alternatives to eliminate this deficit in order to return this fund to a sound financial position.

Response - The deficit was due to construction costs incurred prior to receipt of federal and state grants. The deficit will be eliminated upon receipt of said grants.

Conclusion - Response accepted.

CITY OF ED GE WOOD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2012

IV-J-12 Cash Balance - The Special Revenue, Urban Renewal Tax Increment Fund has accumulated a balance of \$ 160,712 over a period of years.

Recommendation - Large balances should not be accumulated in the Urban Renewal Tax Increment Fund as tax askings should be used for current capital projects in the applicable TIE District or retirement of TIF debt The Council should appropriate the majority of the carryover balance to either early retirement of TIF debt or capital projects within the TIE District to reduce the carryover balance.

Response - We will consider this when preparing our TM. certification this fall and when preparing our fiscal 2014 budget next winter.

Conclusion - Response accepted.