

CITY OF HUBBARD, IOWA
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
SUPPLEMENTARY AND OTHER INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2012

- Prepared By -

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CITY OF HUBBARD, IOWA

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CITY OF HUBBARD, IOWA

OFFICIALS

<u>NAME</u>	<u>TITLE</u>	<u>TERM EXPIRES</u>
(Before January 2012)		
Norm Kulow	Mayor	January 2012
Rick Gustafson	Mayor Pro Tem	January 2012
Marshall Simmerman	Council Member	January 2012
Randy Smuck	Council Member	January 2012
Jim Winter	Council Member	January 2014
Dave Elerding	Council Member	January 2014
Cheryl Boelman, CMC	Clerk/Treasurer	January 2012
Clark McNeal	Attorney	Indefinite

(After January 2012)

Norm Kulow	Mayor	January 2014
Rick Gustafson	Mayor Pro Tem	January 2016
Jim Winter	Council Member	January 2014
Dave Elerding	Council Member	January 2014
Marshall Simmerman	Council Member	January 2016
Randy Smuck	Council Member	January 2016
Cheryl Boelman, CMC	Clerk/Treasurer	January 2014
Mike Holt	Attorney	Indefinite



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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Members of the City Council:

I 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 Hubbard, 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 Hubbard's management. My responsibility is to express opinions on these financial statements based on my audit.

I conducted my 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 I 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. I believe my audit provides a reasonable basis for my 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, I was unable to satisfy myself as to the distribution of the total fund balance at July 1, 2011.

In my opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had I been able to verify the distribution by fund of the total fund balance 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, each major fund and the aggregate remaining fund information of the City of Hubbard 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, I have also issued my report dated December 4, 2012 on my consideration of the City of Hubbard's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or 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 my audit.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Hubbard's basic financial statements. The supplementary information included in Schedules 1 through 3, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information 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 my 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 my opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Hubbard's basic financial statements. Management's Discussion and Analysis and budgetary comparison information on pages 4 through 8 and 24 through 26 are presented for purposes of additional analysis and are not a required part of the basic financial statements. This information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, I do not express an opinion or provide any assurance on it.

A handwritten signature in black ink, appearing to read "Larry Pump". The signature is written in a cursive, flowing style.

December 4, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

2012 FINANCIAL HIGHLIGHTS

The City's total cash basis net assets decreased 29%, or approximately \$390,000, from June 30, 2011 to June 30, 2012. Of this amount, the assets of the governmental activities decreased approximately \$232,000 and the assets of the business type activities decreased by approximately \$158,000.

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 financial 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 and the sanitary sewer system. 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 and Local Option Sales Tax and 3) the Capital Projects Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statement for governmental funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains two Enterprise Funds to provide separate information for the water utility and sewer utility 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 from a year ago, decreasing from \$866,758 to \$634,891. 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
(Expressed in Thousands)

	<u>Year ended June 30,</u> <u>2012</u>
Receipts:	
Program receipts:	
Charges for service	\$ 68
Operating grants, contributions and restricted interest	125
Capital grants, contributions and restricted interest	309
General receipts:	
Property tax	181
Local option sales tax	78
Unrestricted interest on investments	9
Note proceeds	17
Other general receipts	47
Total receipts	<u>\$ 834</u>
 Disbursements:	
Public safety	\$ 107
Public works	104
Health and social services	2
Culture and recreation	794
Community and economic development	11
General government	48
Total disbursements	<u>\$1,066</u>
 Change in cash basis net assets	\$ (232)
Cash basis net assets beginning of year	<u>867</u>
 Cash basis net assets end of year	<u><u>\$ 635</u></u>

Changes in Cash Basis Net Assets of Business Type Activities
(Expressed in Thousands)

	<u>Year ended June 30,</u> <u>2012</u>
Receipts:	
Program receipts:	
Charges for service:	
Water utility	\$ 265
Sewer utility	94
General receipts:	
Unrestricted interest on investments	3
Note proceeds	10
Total receipts	<u>\$ 372</u>
 Disbursements:	
Water utility	\$ 429
Sewer utility	102
Total disbursements	<u>\$ 531</u>
 Change in cash basis net assets	\$ (159)
Cash basis net assets beginning of year	<u>514</u>
 Cash basis net assets end of year	<u><u>\$ 355</u></u>

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Hubbard completed the year, its governmental funds reported a combined fund balance of \$634,891, a decrease of 27% from last year's total of \$866,758. 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 \$7,801 from the prior year to \$322,986. This increase was due mainly to a decrease in culture and recreation disbursements.

The Road Use Tax Fund cash balance increased by \$38,930 to \$128,140 due to no capital outlays in 2012.

The Local Option Sales Tax Fund cash balance increased by \$264 to \$183,779.

The Library Trust Fund cash balance decreased by \$276,256 to negative \$12,365. This decrease was due to construction of the new library.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

The Water Utility Fund cash balance decreased by \$151,544 to \$238,949, due primarily to additional debt service payments.

The Sewer Utility Fund cash balance decreased by \$6,983 to \$116,242, due to an increase in operating disbursements.

BUDGETARY HIGHLIGHTS

Over the course of the year the City amended its budget once. The amendment was approved on May 21, 2012 and resulted in increased revenues and other financing sources of \$12,990 as well as, increased expenditures of \$563,350. These increases were due primarily to receipt of CAT grant for the library construction and additional library construction costs.

DEBT ADMINISTRATION

At June 30, 2012, the City had approximately \$2,341,000 in revenue notes outstanding, compared to approximately \$2,625,000 last year, as follows:

Outstanding Debt at Year-End
(Expressed in Thousands)

	June 30,	
	2012	2011
Revenue notes	<u>\$2,341</u>	<u>\$2,625</u>

The City drew down on revenue notes issued through Iowa Finance Authority for water projects during 2012. Principal and interest payments were made as scheduled. 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 has no outstanding general obligation debt at June 30, 2012.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City of Hubbard'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 those factors is the economy.

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 Cheryl Boelman, City Clerk, 323 E. Maple, Hubbard, Iowa 50122.

CITY OF HUBBARD, IOWA
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2012

	<u>Disbursements</u>	<u>Program Receipts</u>		
		<u>Charges for Service</u>	<u>Operating Grants, Contributions and Restricted Interest</u>	<u>Capital Grants, Contributions and Restricted Interest</u>
FUNCTIONS/PROGRAMS:				
Governmental activities:				
Public safety	\$ 106,804	\$ 26,439	\$ 28,970	\$ -
Public works	103,771	26,402	80,149	-
Health and social services	1,900	-	-	-
Culture and recreation	793,765	15,103	16,165	309,055
Community and economic development	11,191	-	-	-
General government	<u>48,428</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total governmental activities	<u>\$1,065,859</u>	<u>\$ 67,944</u>	<u>\$ 125,284</u>	<u>\$ 309,055</u>
Business type activities:				
Water utility	\$ 429,138	\$ 265,945	\$ -	\$ -
Sewer utility	<u>101,875</u>	<u>93,668</u>	<u>-</u>	<u>-</u>
Total business type activities	<u>\$ 531,013</u>	<u>\$ 359,613</u>	<u>\$ -</u>	<u>\$ -</u>
Total	<u>\$1,596,872</u>	<u>\$ 427,557</u>	<u>\$ 125,284</u>	<u>\$ 309,055</u>

(Continued)

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

<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
\$ (51,395)	\$ -	\$ (51,395)
2,780	-	2,780
(1,900)	-	(1,900)
(453,442)	-	(453,442)
(11,191)	-	(11,191)
<u>(48,428)</u>	<u>-</u>	<u>(48,428)</u>
\$ (563,576)	\$ -	\$ (563,576)
\$ -	\$ (163,193)	\$ (163,193)
-	(8,207)	(8,207)
<u>-</u>	<u>(171,400)</u>	<u>(171,400)</u>
\$ -	\$ (171,400)	\$ (171,400)
<u>\$ (563,576)</u>	<u>\$ (171,400)</u>	<u>\$ (734,976)</u>

CITY OF HUBBARD, IOWA
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2012

General Receipts:

Property and other city tax levied for:
 General purposes
Local option sales tax
Unrestricted interest on investments
Note 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:
 Expendable:
 Streets
 Other purposes
Unrestricted

Total cash basis net assets

See Notes to Financial Statements.

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

<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
\$ 180,636	\$ -	\$ 180,636
78,026	-	78,026
8,797	3,204	12,001
16,798	9,669	26,467
<u>47,452</u>	<u>-</u>	<u>47,452</u>
<u>\$ 331,709</u>	<u>\$ 12,873</u>	<u>\$ 344,582</u>
\$ (231,867)	\$ (158,527)	\$ (390,394)
<u>866,758</u>	<u>513,718</u>	<u>1,380,476</u>
<u>\$ 634,891</u>	<u>\$ 355,191</u>	<u>\$ 990,082</u>
\$ 128,140	\$ -	\$ 128,140
193,470	-	193,470
<u>313,281</u>	<u>355,191</u>	<u>668,472</u>
<u>\$ 634,891</u>	<u>\$ 355,191</u>	<u>\$ 990,082</u>

CITY OF HUBBARD, 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>	
		<u>Road Use Tax</u>	<u>Local Option Sales Tax</u>
RECEIPTS:			
Property tax	\$ 156,683	\$ -	\$ -
Other city tax	-	-	78,026
Licenses and permits	2,131	-	-
Use of money and property	7,123	142	1,238
Intergovernmental	43,635	80,149	-
Charges for service	70,703	-	-
Miscellaneous	44,356	-	-
Total receipts	<u>\$ 324,631</u>	<u>\$ 80,291</u>	<u>\$ 79,264</u>
DISBURSEMENTS:			
Operating:			
Public safety	\$ 104,629	\$ -	\$ -
Public works	54,954	41,361	-
Health and social services	1,900	-	-
Culture and recreation	109,673	-	-
Community and economic development	11,191	-	-
General government	38,483	-	-
Total disbursements	<u>\$ 320,830</u>	<u>\$ 41,361</u>	<u>\$ -</u>
Excess (deficiency) of receipts over (under) disbursements	<u>\$ 3,801</u>	<u>\$ 38,930</u>	<u>\$ 79,264</u>
Other financing sources (uses):			
Operating transfers in	\$ 4,000	\$ -	\$ -
Operating transfers out	-	-	(79,000)
Note Proceeds	-	-	-
Total other financing sources (uses)	<u>\$ 4,000</u>	<u>\$ -</u>	<u>\$ (79,000)</u>
Net change in cash balances	\$ 7,801	\$ 38,930	\$ 264
Cash balances beginning of year	315,185	89,210	183,515
Cash balances end of year	<u>\$ 322,986</u>	<u>\$ 128,140</u>	<u>\$ 183,779</u>
Cash Basis Fund Balances:			
Restricted for:			
Streets	\$ -	\$ 128,140	\$ -
Other purposes	-	-	-
Assigned	224,375	-	183,779
Unassigned	98,611	-	-
Total cash basis fund balances	<u>\$ 322,986</u>	<u>\$ 128,140</u>	<u>\$ 183,779</u>

See Notes to Financial Statements.

<u>Capital Project Library Trust</u>	<u>Other Nonmajor Governmental Funds</u>	<u>Total</u>
\$ -	\$ 23,953	\$ 180,636
-	-	78,026
-	-	2,131
449	-	8,952
123,924	-	247,708
-	-	70,703
184,682	-	229,038
<u>\$ 309,055</u>	<u>\$ 23,953</u>	<u>\$ 817,194</u>
\$ -	\$ 2,175	\$ 106,804
-	7,456	103,771
-	-	1,900
677,109	6,983	793,765
-	-	11,191
-	9,945	48,428
<u>\$ 677,109</u>	<u>\$ 26,559</u>	<u>\$ 1,065,859</u>
<u>\$ (368,054)</u>	<u>\$ (2,606)</u>	<u>\$ (248,665)</u>
\$ 75,000	\$ -	\$ 79,000
-	-	(79,000)
<u>16,798</u>	<u>-</u>	<u>16,798</u>
<u>\$ 91,798</u>	<u>\$ -</u>	<u>\$ 16,798</u>
\$ (276,256)	\$ (2,606)	\$ (231,867)
<u>263,891</u>	<u>14,957</u>	<u>866,758</u>
<u>\$ (12,365)</u>	<u>\$ 12,351</u>	<u>\$ 634,891</u>
\$ -	\$ -	\$ 128,140
-	9,691	9,691
-	2,660	410,814
<u>(12,365)</u>	<u>-</u>	<u>86,246</u>
<u>\$ (12,365)</u>	<u>\$ 12,351</u>	<u>\$ 634,891</u>

CITY OF HUBBARD, IOWA
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND
CHANGES IN CASH BALANCES
PROPRIETARY FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2012

	<u>Enterprise</u>		
	<u>Water Utility</u>	<u>Sewer Utility</u>	<u>Total</u>
Operating receipts:			
Charges for service	\$ 265,945	\$ 93,668	\$ 359,613
Operating disbursements:			
Business type activities	<u>98,847</u>	<u>46,937</u>	<u>145,784</u>
Excess of operating receipts over operating disbursements	<u>\$ 167,098</u>	<u>\$ 46,731</u>	<u>\$ 213,829</u>
Non-operating receipts (disbursements):			
Interest on investments	\$ 1,980	\$ 1,224	\$ 3,204
Note proceeds	9,669	-	9,669
Debt service	(320,994)	(54,938)	(375,932)
Capital projects	<u>(9,297)</u>	<u>-</u>	<u>(9,297)</u>
Net non-operating receipts (disbursements)	<u>\$ (318,642)</u>	<u>\$ (53,714)</u>	<u>\$ (372,356)</u>
Net change in cash balances	\$ (151,544)	\$ (6,983)	\$ (158,527)
Cash balances beginning of year	<u>390,493</u>	<u>123,225</u>	<u>513,718</u>
Cash balances end of year	<u>\$ 238,949</u>	<u>\$ 116,242</u>	<u>\$ 355,191</u>
Unreserved Cash Basis Fund Balances	<u>\$ 238,949</u>	<u>\$ 116,242</u>	<u>\$ 355,191</u>

See Notes to Financial Statements.

CITY OF HUBBARD, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

(1) Summary of Significant Accounting Policies

The City of Hubbard is a political subdivision of the State of Iowa located in Hardin County. It was first incorporated in 1881 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, health and social services, culture and recreation, community and economic development, and general government services. The City also provides water and sewer utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Hubbard 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 Hardin County Assessor's Conference Board and Region 6 Planning Commission.

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:

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 the resources imposed by management which can be removed or modified.

CITY OF HUBBARD, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

(1) Summary of Significant Accounting Policies - continued

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

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

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs not paid from other funds.

Special Revenue:

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

The Local Option Sales Tax Fund is used to account for local option sales tax revenues and expenses.

Capital Project:

The Library Trust Fund is used to account for receipts and disbursements for the library construction.

The City reports the following major proprietary funds:

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

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

CITY OF HUBBARD, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

(1) Summary of Significant Accounting Policies - continued

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.

D. Governmental Cash Basis Fund Balances

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

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

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

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

Unassigned - All amounts not included in the preceding classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information. During the year ended June 30, 2012, disbursements exceeded the amount budgeted in the public safety function. Also, disbursements exceeded the amount budgeted in the culture and recreation function prior to being amended.

(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.

CITY OF HUBBARD, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

(2) Cash and Pooled Investments - continued

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.

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) Notes Payable

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

Year Ending <u>June 30,</u>	<u>Revenue Notes</u>	
	<u>Principal</u>	<u>Interest</u>
2013	\$ 48,000	\$76,483
2014	51,000	72,938
2015	86,000	69,240
2016	130,000	65,423
2017	134,000	61,482
2018-2022	734,000	243,991
2023-2027	859,000	126,471
2028-2030	<u>299,000</u>	<u>14,968</u>
Total	<u>\$2,341,000</u>	<u>\$730,996</u>

Revenue Notes

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay \$795,000 in sewer revenue notes issued in June 2007. Proceeds from the notes provided financing for the sewer lagoon project. The notes are payable solely from sewer customer net receipts and are payable through 2027. Annual principal and interest payments on the notes are expected to require less than 80 percent of net receipts. The total principal and interest remaining to be paid on the notes is \$806,580. For the current year, principal and interest paid and total customer net receipts were \$53,250 and \$46,731, respectively.

The City has pledged future water customer receipts, net of specified operating disbursements, to repay \$2,124,000 in water revenue notes issued in February 2009 and November 2009. Proceeds from the notes provided financing for the water projects. The notes are payable solely from water customer net receipts and are payable through 2030. Annual principal and interest payments on the notes are expected to require less than 55 percent of net receipts. The total principal and interest remaining to be paid on the notes is \$2,265,416. For the current year, principal and interest paid and total customer net receipts were \$316,095 and \$167,098, respectively. This includes \$180,000 of principal paid in advance.

CITY OF HUBBARD, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

(3) **Notes Payable** - continued

The Resolutions for providing for the issuance of the revenue notes include the following provisions:

- a) At the option of the City, notes due on the Water Revenue Notes issue of February 25, 2009 and November 18, 2009, are subject to redemption and prepayment in any order of maturity beginning at any time, at a price of par plus accrued interest to call date, by giving proper notice.
- b) The bonds will only be redeemed from the future earnings of the enterprise activities and bond holders hold a lien on the future earnings of the funds.
- c) Sufficient monthly transfers shall be made to the water revenue bond sinking account for the purpose of making the bond principal and interest payments when due.

The City has not established the sinking accounts required by the water revenue bond resolutions.

(4) **Pension and Retirement Benefits**

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

Most regular plan members are required to contribute 5.38% of their annual covered salary and the City is required to contribute 8.07% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contribution to IPERS for the year ended June 30, 2012 was \$10,304, which was equal to the required contribution for the year

(5) **Other Postemployment Benefits (OPEB)**

Plan Description - The City operates a single-employer retiree benefit plan which provides medical/prescription drug benefits for employees and retirees and their spouses. There are 2 active and no retired members in the plan. Participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with Hardin County. 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 retiree benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the City plan members are \$485 for single coverage. The same monthly premium applies to retirees. For the year ended June 30, 2012, the City contributed \$14,127 and plan members eligible for benefits did not contribute to the plan.

CITY OF HUBBARD, IOWA
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2012

(6) **Compensated Absences**

City employees accumulate a limited amount of earned but unused vacation, comp time 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 payable, comp time payable, and sick leave 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	\$ 8,067
Comp time	2,814
Sick leave	<u>3,727</u>
Total	<u>\$14,608</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	\$ 4,000
Capital Project:	Special Revenue:	
Library Trust	Local Option Sales Tax	<u>75,000</u>
		<u>\$ 79,000</u>

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

(8) **Industrial Development Revenue Bonds**

The City has issued a total of \$4,000,000 of Health Care Facility Revenue Bonds under the provisions of Chapter 419 of the Code of Iowa, of which \$2,550,000 is outstanding at June 30, 2012. The bonds and related interest are payable solely from the rents payable by tenants of the properties constructed, and the bond principal and interest do not constitute liabilities of the City.

(9) **Risk Management**

The City is a member of 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.

CITY OF HUBBARD, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

(9) Risk Management - continued

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% of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The City's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The City's contributions to the Pool for the year ended June 30, 2012 were \$23,256.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000 per claim. For members requiring specific coverage from \$3,000,000 to \$12,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$150,000 each occurrence, each location, with excess coverage reinsured by The Travelers Insurance Company.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. As of June 30, 2012, settled claims have not exceeded the risk pool or reinsurance 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% 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.

CITY OF HUBBARD, IOWA
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2012

(9) **Risk Management** - continued

The City also carries commercial insurance purchased from other insurers for coverage associated with public employee dishonesty coverage and workers compensation coverage. 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 during the past fiscal year.

(10) **Short-Term Note Payable - Line of Credit**

The City has a line of credit agreement with a bank which provides it may borrow up to \$100,000 at a variable rate of interest. The line of credit is used for the library project. It is secured with a security agreement dated February 16, 2012.

Line of credit activity for the year ended June 30, 2012 is as follows:

	Balance Beginning of year	Advances Received	Advances Repaid	Balance End of year
Bank	\$ -	\$ 16,798	\$ 11,170	\$ 5,628

(11) **Commitments**

At June 30, 2012, the following commitment had been made:

<u>Project</u>	<u>Total Contract</u>	<u>Costs Incurred To Date</u>
Veteran's Memorial	\$ 18,400	\$ -

(12) **Subsequent Event**

On July 9, 2012 the City council approved the purchase of playground equipment in the amount of \$17,345.

Other Information

CITY OF HUBBARD, 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>	Less Funds Not Required to be Budgeted
RECEIPTS:			
Property tax	\$ 180,636	\$ -	\$ -
Other city tax	78,026	-	-
Licenses and permits	2,131	-	-
Use of money and property	8,952	3,204	-
Intergovernmental	247,708	-	-
Charges for service	70,703	359,613	-
Miscellaneous	229,038	-	-
Total receipts	<u>\$ 817,194</u>	<u>\$ 362,817</u>	<u>\$ -</u>
DISBURSEMENTS:			
Public safety	\$ 106,804	\$ -	\$ -
Public works	103,771	-	-
Health and social services	1,900	-	-
Culture and recreation	793,765	-	-
Community and economic development	11,191	-	-
General government	48,428	-	-
Business type activities	-	531,013	-
Total disbursements	<u>\$ 1,065,859</u>	<u>\$ 531,013</u>	<u>\$ -</u>
Excess (deficiency) of receipts over (under) disbursements	\$ (248,665)	\$ (168,196)	\$ -
Other financing sources, net	<u>16,798</u>	<u>9,669</u>	<u>-</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	\$ (231,867)	\$ (158,527)	\$ -
Balances beginning of year	<u>866,758</u>	<u>513,718</u>	<u>-</u>
Balances end of year	<u>\$ 634,891</u>	<u>\$ 355,191</u>	<u>\$ -</u>

See Accompanying Independent Auditor's Report.

<u>Total</u>	<u>Budgeted Amounts</u>		<u>Final to Total Variance</u>
	<u>Original</u>	<u>Final</u>	
\$ 180,636	\$ 176,826	\$ 176,826	\$ 3,810
78,026	94,584	94,584	(16,558)
2,131	1,455	1,455	676
12,156	10,080	10,080	2,076
247,708	127,570	251,494	(3,786)
430,316	458,050	458,050	(27,734)
229,038	280,000	196,597	32,441
<u>\$1,180,011</u>	<u>\$ 1,148,565</u>	<u>\$ 1,189,086</u>	<u>\$ (9,075)</u>
\$ 106,804	\$ 87,157	\$ 87,157	\$ (19,647)
103,771	137,600	137,600	33,829
1,900	1,900	1,900	-
793,765	376,264	837,464	43,699
11,191	14,200	14,200	3,009
48,428	53,748	53,748	5,320
531,013	431,445	533,595	2,582
<u>\$1,596,872</u>	<u>\$ 1,102,314</u>	<u>\$ 1,665,664</u>	<u>\$ 68,792</u>
\$ (416,861)	\$ 46,251	\$ (476,578)	\$ 59,717
<u>26,467</u>	<u>130,000</u>	<u>102,469</u>	<u>(76,002)</u>
\$ (390,394)	\$ 176,251	\$ (374,109)	\$ (16,285)
<u>1,380,476</u>	<u>1,458,515</u>	<u>1,458,515</u>	<u>(78,039)</u>
<u>\$ 990,082</u>	<u>\$ 1,634,766</u>	<u>\$ 1,084,406</u>	<u>\$ (94,324)</u>

CITY OF HUBBARD, 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. 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 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 revenues and budgeted disbursements by \$12,990 and \$563,350, respectively. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2012, disbursements exceeded the amount budgeted in the culture and recreation function prior to being amended. At June 30, 2012 disbursements exceeded the amount budgeted in the public safety function.

Supplementary Information

CITY OF HUBBARD, IOWA
 SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 AS OF AND FOR THE YEAR ENDED JUNE 30, 2012

	<u>Special Revenue</u>		<u>Capital Project</u>	<u>Total</u>
	<u>Employee Benefits</u>	<u>Grants</u>	<u>Special Project</u>	
RECEIPTS:				
Property tax	\$ 23,953	\$ -	\$ -	\$ 23,953
DISBURSEMENTS:				
Operating:				
Public safety	\$ 2,175	\$ -	\$ -	\$ 2,175
Public works	7,456	-	-	7,456
Culture and recreation	6,983	-	-	6,983
General government	9,945	-	-	9,945
Total disbursements	<u>\$ 26,559</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 26,559</u>
Net change in cash balances	\$ (2,606)	\$ -	\$ -	\$ (2,606)
Cash balances beginning of year	<u>12,156</u>	<u>141</u>	<u>2,660</u>	<u>14,957</u>
Cash balances end of year	<u>\$ 9,550</u>	<u>\$ 141</u>	<u>\$ 2,660</u>	<u>\$ 12,351</u>
Cash Basis Fund Balances:				
Restricted for other purposes	\$ 9,550	\$ 141	\$ -	\$ 9,691
Assigned	<u>-</u>	<u>-</u>	<u>2,660</u>	<u>2,660</u>
Total cash basis fund balances	<u>\$ 9,550</u>	<u>\$ 141</u>	<u>\$ 2,660</u>	<u>\$ 12,351</u>

See Accompanying Independent Auditor's Report.

CITY OF HUBBARD, 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>
Revenue Notes:			
Sewer	06/21/07	3.00%	\$ 795,000
Water	02/25/09	3.00	1,751,000
Water	11/18/09	3.00	373,000
 Total indebtedness			

See Accompanying Independent Auditor's Report.

<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>
\$ 675,000	\$ -	\$ 33,000	\$ 642,000	\$ 20,250	\$ -
1,599,426	5,574	247,000	1,358,000	44,464	-
<u>350,905</u>	<u>4,095</u>	<u>14,000</u>	<u>341,000</u>	<u>10,631</u>	<u>-</u>
<u><u>\$2,625,331</u></u>	<u><u>\$ 9,669</u></u>	<u><u>\$294,000</u></u>	<u><u>\$ 2,341,000</u></u>	<u><u>\$ 75,345</u></u>	<u><u>\$ -</u></u>

CITY OF HUBBARD, IOWA
NOTE MATURITIES
JUNE 30, 2012

Year Ending June 30,	Revenue Notes			
	Sewer		Water	
	Issued June 21, 2007		Issued February 25, 2007	
	Interest Rates	Amount	Interest Rates	Amount
2013	3.00%	\$ 34,000	-%	\$ -
2014	3.00	36,000	-	-
2015	3.00	37,000	3.00	34,000
2016	3.00	38,000	3.00	76,000
2017	3.00	39,000	3.00	79,000
2018	3.00	40,000	3.00	81,000
2019	3.00	41,000	3.00	84,000
2020	3.00	42,000	3.00	87,000
2021	3.00	44,000	3.00	89,000
2022	3.00	45,000	3.00	92,000
2023	3.00	46,000	3.00	95,000
2024	3.00	48,000	3.00	98,000
2025	3.00	49,000	3.00	102,000
2026	3.00	51,000	3.00	105,000
2027	3.00	52,000	3.00	108,000
2028		-	3.00	112,000
2029		-	3.00	116,000
2030		-	-	-
Total		<u>\$642,000</u>		<u>\$1,358,000</u>

Year Ending June 30,	Revenue Notes		
	Water		
	Issued November 11, 2009		
	Interest Rates	Amount	Total
2013	3.00%	\$ 14,000	\$ 48,000
2014	3.00	15,000	51,000
2015	3.00	15,000	86,000
2016	3.00	16,000	130,000
2017	3.00	16,000	134,000
2018	3.00	17,000	138,000
2019	3.00	17,000	142,000
2020	3.00	18,000	147,000
2021	3.00	18,000	151,000
2022	3.00	19,000	156,000
2023	3.00	20,000	161,000
2024	3.00	20,000	166,000
2025	3.00	21,000	172,000
2026	3.00	22,000	178,000
2027	3.00	22,000	182,000
2028	3.00	23,000	135,000
2029	3.00	24,000	140,000
2030	3.00	24,000	24,000
Total		<u>\$ 341,000</u>	<u>\$2,341,000</u>

See Accompanying Independent Auditor's Report.



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INDEPENDENT AUDITOR'S REPORT
ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Honorable Mayor and
 Members of the City Council:

I 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 Hubbard, 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 my report thereon dated December 4, 2012. My report on the financial statements, which were prepared in conformity with an other comprehensive basis of accounting, expressed qualified opinions since I was unable to satisfy myself as to the distribution by fund of the total fund balance at July 1, 2011. I conducted my audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

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

My 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, I identified certain deficiencies in internal control over financial reporting that I consider to be material weaknesses and other deficiencies I consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City of Hubbard's financial statements will not be prevented or detected and corrected on a timely basis. I consider the deficiencies described in the accompanying Schedule of Findings as items (A),(B),(F),(G) and (I) to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. I consider the deficiencies described in the accompanying Schedule of Findings as items (C), (D), (E) and (H) to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Hubbard's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations and contracts, 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 my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, I noted certain immaterial instances of non-compliance or other matters which are described in 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 my audit of the financial statements of the City. Since my 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 Hubbard's responses to findings identified in my audit are described in the accompanying Schedule of Findings. While I have expressed my conclusions on the City's responses, I did not audit the City of Hubbard's responses and, accordingly, I 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 Hubbard and other parties to whom the City of Hubbard may report, and is not intended to be and should not be used by anyone other than these specified parties.

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

A handwritten signature in cursive script that reads "Larry Pump".

December 4, 2012

CITY OF HUBBARD, IOWA
Schedule of Findings
Year Ended June 30, 2012

Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

- (A) Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. I noted that certain accounting functions are not properly segregated.

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

Response - We will review procedures and make changes to improve internal control where possible.

Conclusion - Response accepted.

- (B) Centralized Bookkeeping - The bookkeeping and custody of records for the Volunteer Fire Department funds, Library and Ambulance funds are maintained by individuals outside the City Clerk's office. These transactions and the resulting balances are not recorded in the Clerk's records. Chapter 384.20 of the Code of Iowa states in part that "a city shall keep accounts which show an accurate and detailed statement of all public funds collected, received, or expended for any city purpose".

Recommendation - For better accountability, financial and budgetary control, the financial activity and balances of all City accounts should be recorded in the Clerk's records.

Response - We will look into this.

Conclusion - Response accepted.

- (C) Countersignature of Checks - The City requires checks to be signed by two authorized individuals. I noted checks with only one authorized signature.

Recommendation - Checks should be prepared and signed by one individual and then the supporting documentation should be made available along with the check to a second independent individual for review and countersignature.

Response - We will follow procedures for two signatures on all checks.

Conclusion - Response accepted.

- (D) Post-dated checks - I noted several checks that cleared the bank prior to the date the check was issued.

Recommendation - The City should avoid the use of post-dating checks.

Response - We will implement this.

Conclusion - Response accepted.

CITY OF HUBBARD, IOWA
Schedule of Findings
Year Ended June 30, 2012

Findings Related to the Financial Statements: - continued

- (E) Petty Cash - I noted the library petty cash fund does not keep a list of cash receipts. Periodically the fund is restored to the established amount when the receipts are deposited. However, there is no reconciliation between cash taken in and cash deposited.

Recommendation - To maintain the fund in a generally accepted manner the library should keep a list of all receipts and disbursements from petty cash.

Response - We will implement this.

Conclusion - Response accepted.

- (F) Reconciliation of Utility Billings - The City is not reconciling amounts billed for water, sewer and garbage to the amounts collected on a monthly basis.

Recommendation - The City should keep a reconciliation of amounts billed to amounts received on a monthly basis to insure that the City has collected the proper amounts and any differences are reconciled.

Response - We will do this in the future.

Conclusion - Response accepted.

- (G) Utilities - Meters are read by water utility customers. The City does not have a policy to periodically read meters.

Recommendation - The City should implement procedures to verify meter readings to insure that billings reflect actual customer usage.

Response - We will look into this.

Conclusion - Response accepted.

- (H) Interest in Road Use Tax Fund - Interest income from investments made from the Special Revenue Fund, Road Use Tax Account is credited to the Road Use Tax Account. Chapter 12C.7(2) of the Code of Iowa states in part: "Interest or earnings on investments and time deposits made in accordance with the provisions of Section 12.B, 12B.10, 12C.1 and 12C.6 shall be credited to the General Fund of the governmental body making the investment or deposit, with the exception of specific funds of which investments are otherwise provided by law, constitutional funds, or when legally diverted to the State Sinking Fund for public deposits".

Recommendation - There is no exception in the Code of Iowa for the Road Use Tax Account. Therefore, a transfer of \$141.78 to the General Fund from the Special Revenue Fund, Road Use Tax Account, is recommended. The amount represents interest income for the period July 1, 2011 through June 30, 2012. In the future, interest received from invested road use tax monies should be receipted into the General Fund.

Response - We will correct this.

Conclusion - Response accepted.

CITY OF HUBBARD, IOWA
Schedule of Findings
Year Ended June 30, 2012

Findings Related to the Financial Statements: - continued

- (I) Preparation of Financial Statements - The City does not have an internal control system designed to provide for the preparation of the financial statements in accordance with an other comprehensive basis of accounting, nor has management identified risks related to the preparation of reliable financial statements and as a result has failed to design effective controls over the preparation of the financial statements to prevent or detect material misstatements. Therefore, as auditor, I was requested to draft the financial statements and accompanying notes to the financial statements. This circumstance is not unusual for a governmental entity similar in population to the City. It is the responsibility of 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.

Recommendation - I recognize that with a limited number of office employees, preparation of the financial statements is difficult. However, I recommend that city officials continue reviewing operating procedures in order to obtain the maximum internal control possible under the circumstances.

Response - The City will continue to review and monitor procedures currently in place and evaluate the risks to be accepted in preparation of the financial statements.

Conclusion - Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

Other Findings Related to Required Statutory Reporting:

- (1) Certified Budget - Disbursements during the year ended June 30, 2012, exceeded the amount budgeted in the culture and recreation function before the amendment was adopted. The public safety function was also exceeded at year end. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

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 - We will do this in the future.

Conclusion - Response accepted.

CITY OF HUBBARD, IOWA
Schedule of Findings
Year Ended June 30, 2012

Other Findings Related to Required Statutory Reporting: - continued

- (2) Questionable Disbursements - Certain disbursements I believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 since the public benefits to be derived have not been clearly documented were noted. These disbursements are detailed as follows:

<u>Paid to</u>	<u>Purpose</u>	<u>Amount</u>
Becker Florist	Flower arrangements for funeral services	\$ 33
Kim's Bouquets	Flower arrangements for funeral services	173
Denise Martin	Gift Certificate	65

According to the opinion, it is possible for such disbursements to meet the test of serving a public purpose under certain circumstances, although such items will certainly be subject to a deserved close scrutiny. The line to be drawn between a proper and an improper purpose is very thin.

Recommendation - The Council should determine and document the public purpose served by these disbursements before authorizing any further payments. If this practice is continued, the City should establish written policies and procedures, including the requirements for proper documentation.

Response - We will comply with this recommendation.

Conclusion - Response accepted.

- (3) Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- (4) Business Transactions - No business transactions between the City and City officials or employees were noted.
- (5) Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- (6) Council Minutes - No transactions were found that I believe should have been approved in the Council minutes but were not.
- (7) Deposits and Investments - No instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy was noted

CITY OF HUBBARD, IOWA
Schedule of Findings
Year Ended June 30, 2012

Other Findings Related to Required Statutory Reporting: - continued

- (8) Excess Balance - Balances in the Special Revenue Fund, Road Use Tax Account and Local Option Sales Tax Account at June 30, 2012 were in excess of fund disbursements for the year.

Recommendation - The City should consider the necessity of maintaining these substantial balances and, where financially feasible, consider reducing the balances in an orderly manner through revenue reductions.

Response - We will try to reduce these balances.

Conclusion - Response accepted.

- (9) Revenue Bonds - The City has not established the Water Revenue Bond Sinking Accounts as required by the Bond resolutions.

Recommendation - The City should establish these accounts and make the necessary transfers as required by the resolutions.

Response - We will establish these accounts and make the appropriate transfers.

Conclusion - Response accepted.