

CITY OF GLADBROOK

Independent Auditors' Reports
Basic Financial Statements
Supplementary and Other Information
Schedule of Findings

June 30, 2012

CITY OF GLADBROOK

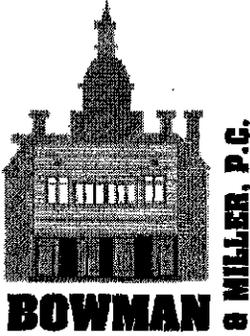
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CITY OF GLADBROOK

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January 2012)		
Keith Sash	Mayor	Jan 2012
Roger Luehring	Mayor Pro Tem	Jan 2014
Brad Smoldt	Council Member	Jan 2012
Amanda Gehring	Council Member	Jan 2012
Sam Goos	Council Member	Jan 2014
Betty Dahms	Council Member	Jan 2014
Lori Bearden	Clerk/Treasurer	Indefinite
John Livingston	Attorney	Indefinite
(After January 2012)		
Keith Sash	Mayor	Jan 2016
Roger Luehring	Mayor Pro Tem	Jan 2014
Sam Goos	Council Member	Jan 2014
Betty Dahms	Council Member	Jan 2014
Dan DeWitt	Council Member	Jan 2016
Trudi Scott	Council Member	Jan 2016
Lori Bearden	Clerk/Treasurer	Indefinite
John Livingston	Attorney	Indefinite



C E R T I F I E D ♦ P U B L I C ♦ A C C O U N T A N T S

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Independent Auditors' 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 Gladbrook, 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 Gladbrook's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Gladbrook, 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 August 20, 2012 on our consideration of the City of Gladbrook's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Gladbrook's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the nine years ended June 30, 2011 (which are not presented herein) and expressed unqualified opinions on those financial statements which were prepared in conformity with an other comprehensive basis of accounting. The supplementary information included in Schedules 1 through 4 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Gladbrook's basic financial statements. Management's Discussion and Analysis and the budgetary comparison information on pages 4 through 9 and 21 through 23 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, we do not express an opinion or provide any assurance on it.

Bowman and Miller, P.C.

Marshalltown, Iowa
August 20, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

2012 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities increased 53.5%, or approximately \$546,000 from fiscal year 2011 to fiscal year 2012. Loan proceeds increased approximately \$280,000 and capital grants, contributions and restricted interest increased approximately \$302,000.
- Disbursements increased 91.5% or approximately \$780,000 in fiscal year 2012 from fiscal year 2011 in the governmental activities. Capital projects increased approximately \$992,000 and debt service decreased approximately \$231,000.
- The City's total cash basis net assets increased 1.6%, or approximately \$21,000 from June 30, 2011 to June 30, 2012. Of this amount, the assets of the governmental activities increased approximately \$16,000 and the assets of the business type activities increased by approximately \$5,000.

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 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 and decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

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

- Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the waterworks, sanitary sewer system, the City Center movie theater and Matchstick Marvels museum and the Gladbrook Fitness Center. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

- 1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax, 3) the Debt Service Fund, and 4) the Capital Projects Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

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

- 2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains four Enterprise Funds to provide separate information for the water and sewer funds, for the operation of the City's movie theater and Matchstick Marvels museum and for the operation of the Gladbrook Fitness Center. These funds are 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 increased from \$913,054 to \$928,791. The analysis that follows focuses on the changes in cash basis net assets of governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities		
	Year Ended June 30,	
	2012	2011
Receipts:		
Program Receipts:		
Charges for service	\$ 5,824	35,626
Operating grants, contributions and restricted interest	185,459	146,149
Capital grants, contributions and restricted interest	391,671	89,827
General Receipts:		
Property tax	277,858	307,426
Local option sales tax	50,074	60,388
Franchise tax	5,918	7,282
Unrestricted interest on investments	1,686	4,514
Loan proceeds	640,443	360,000
Other general receipts	7,966	9,859
Total receipts	<u>1,566,899</u>	<u>1,021,071</u>
Disbursements:		
Public safety	141,955	126,910
Public works	110,134	110,478
Culture and recreation	46,874	48,313
Community and economic development	3,847	8,244
General government	80,726	70,232
Debt service	74,113	304,930
Capital projects	1,175,596	183,818
Total disbursements	<u>1,633,245</u>	<u>852,925</u>
Change in cash basis net assets before transfers	(66,346)	168,146
Transfers, net	<u>82,083</u>	<u>67,917</u>
Change in cash basis net assets	15,737	236,063
Cash basis net assets beginning of year	<u>913,054</u>	<u>676,991</u>
Cash basis net assets end of year	<u>\$ 928,791</u>	<u>913,054</u>

The City's total receipts for governmental activities increased by 53.5% or approximately \$546,000. The total cost of all programs and services increased by approximately \$780,000, or 91.5%, with no new programs added.

The increase in receipts was primarily the result of \$284,733 received from the State of Iowa through the Community Development Block grant program and \$640,443 in capital loan note proceeds which were used for the construction of a new water tower and replacement of water mains. These amounts were reflected in the capital grants and contributions and loan proceeds.

The cost of all governmental activities this year was approximately \$1,633,000 compared to approximately \$853,000 last year. However, as shown on the Statement of Activities and Net Assets on pages 10-11, the amount taxpayers ultimately financed for these activities was approximately \$1,050,000 because some of the cost was paid by those directly benefited from the programs (\$5,824) or by other governments and organizations that subsidized certain programs with grants, contributions, and restricted interest (\$577,130). Overall, the City's governmental activities receipts, including intergovernmental aid and fees for service, increased in 2012 from approximately \$272,000 to approximately \$583,000. The City paid for the remaining "public benefit" portion of governmental activities (\$1,050,000) with taxes (some of which could only be used for certain programs) and with other receipts, such as interest and loan proceeds.

Changes in Cash Basis Net Assets of Business Type Activities		
	Year Ended June 30,	
	2012	2011
Receipts:		
Program Receipts:		
Charges for service:		
Water	\$ 157,422	178,358
Sewer	127,840	140,923
Concessions and admissions	109,277	114,647
Memberships	34,464	37,975
General Receipts:		
Unrestricted interest on investments	496	712
Contributions	6,062	-
Land rent	2,000	2,000
Total receipts	<u>437,561</u>	<u>474,615</u>
Disbursements:		
Water	126,723	104,102
Sewer	85,252	105,688
City center	117,895	113,918
Fitness center	20,494	30,738
Total disbursements	<u>350,364</u>	<u>354,446</u>
Change in cash basis net assets before transfers	87,197	120,169
Transfers, net	<u>(82,083)</u>	<u>(67,917)</u>
Change in cash basis net assets	5,114	52,252
Cash basis net assets beginning of year	<u>384,848</u>	<u>332,596</u>
Cash basis net assets end of year	<u>\$ 389,962</u>	<u>384,848</u>

Total business type activities receipts for the fiscal year were approximately \$438,000 compared to approximately \$475,000 last year. Total disbursements were virtually unchanged from the previous year.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Gladbrook completed the year, its governmental funds reported a combined fund balance of \$928,791, an increase of \$15,737 from last year's total of \$913,054. The following are the major reasons for the changes in fund balance of the major funds from the prior year.

- The General Fund cash balance increased \$33,030 from the prior year to \$727,477. The increase is due to an increase in the property tax levy rate generating additional tax revenue and decreasing disbursements related to public safety.
- The Special Revenue, Road Use Tax Fund cash balance increased by \$17,654 to \$69,760 during the fiscal year. The increase was primarily due to a decrease in the amount expended for snow and ice removal.
- The Debt Service Fund cash balance remained approximately the same from 2011. This fund is used to pay off general obligation bonds and notes. In 2012, the City transferred funds from the Local Option Sales Tax Fund and the Tax Increment Financing Fund to pay a portion of the debt.
- The Capital Projects Fund was used to account for the construction of a new water tower and replacement of water mains in the City.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance increased by \$98,771 to \$204,395, primarily due to a repayment of an inter fund loan from capital projects.
- The Sewer Fund cash balance decreased by \$105,257 to \$104,286, primarily due to an inter fund operating loan to capital projects to help fund the new water tower and water main replacement projects.
- The City Center cash balance decreased by \$5,056 to \$(3,344) due primarily to a decrease in on-screen advertising revenue.
- The Fitness Center cash balance increased by \$16,656 to \$84,625 due primarily to a decrease in capital improvements.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended their budget once. The amendment was approved on May 14, 2012 and resulted in an increase in operating disbursements of approximately \$321,000. The amendment was made to provide for additional disbursements in certain City departments, including costs associated with the construction of the new water tower.

DEBT ADMINISTRATION

At June 30, 2012, the City had \$1,302,443 in bonds and other long-term debt, compared to \$770,500 last year, as shown below.

	Outstanding Debt at Year-End	
	June 30,	
	2012	2011
General obligation notes	\$ 443,000	511,500
Revenue notes	859,443	259,000
Total	\$ <u>1,302,443</u>	<u>770,500</u>

Debt increased as a result of issuing \$640,443 of water revenue notes to finance the new water tower and water main replacement projects.

The Constitution of the State of Iowa limits the amount of general obligation debt that cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The city's outstanding general obligation debt of \$443,000 is below its constitutional debt limit of \$1,955,852.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City of Gladbrook's elected and appointed officials and citizens considered many factors when setting the fiscal year 2013 budget, tax rates, and fees that will be charged for various City activities.

The City completed the construction of the new water tower and the replacement of water mains in 2012. The City had received a \$500,000 Community Development Block Grant and a State Revolving Loan in the amount of \$825,000 to help fund the approximately \$1.3 million project. A rate increase in water usage was implemented in 2011 to help service the debt. The City has no major capital improvement plans for 2013 however; the Council is working on developing a long-term capital improvement plan for future projects.

The City's property tax base increased slightly for fiscal year 2013 and property tax rates remained virtually unchanged.

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 Lori Bearden, City Clerk, at 319 2nd Street, Gladbrook, Iowa 50635.

CITY OF GLADBROOK
Statement of Activities and Net Assets-Cash Basis
As of and for the year ended June 30, 2012

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions/Programs:				
Governmental activities:				
Public safety	\$ 141,955	800	85,205	13,200
Public works	110,134	732	89,634	1,211
Culture and recreation	46,874	2,627	8,925	-
Community and economic development	3,847	-	1,695	-
General government	80,726	1,665	-	-
Debt service	74,113	-	-	-
Capital projects	1,175,596	-	-	377,260
Total governmental activities	<u>1,633,245</u>	<u>5,824</u>	<u>185,459</u>	<u>391,671</u>
Business type activities:				
Water	126,723	157,422	155	-
Sewer	85,252	127,840	2,155	-
City center	117,895	109,277	3,562	-
Fitness center	20,494	34,464	2,686	-
Total business type activities	<u>350,364</u>	<u>429,003</u>	<u>8,558</u>	<u>-</u>
Total	<u>\$ 1,983,609</u>	<u>434,827</u>	<u>194,017</u>	<u>391,671</u>
General Receipts and Transfers:				
Property and other city tax levied for:				
General purposes				
Debt service				
Tax increment financing				
Local option sales tax				
Franchise tax				
Unrestricted interest on investments				
Loan proceeds				
Miscellaneous				
Transfers				
Total general receipts and transfers				
Change in cash basis net assets				
Cash basis net assets beginning of year				
Cash basis net assets end of year				
Cash Basis Net Assets				
Restricted:				
Expendable:				
Streets				
Debt service				
Other purposes				
Unrestricted				
Total cash basis net assets				

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
Governmental Activities	Business Type Activities	Total
(42,750)	-	(42,750)
(18,557)	-	(18,557)
(35,322)	-	(35,322)
(2,152)	-	(2,152)
(79,061)	-	(79,061)
(74,113)	-	(74,113)
(798,336)	-	(798,336)
<u>(1,050,291)</u>	<u>-</u>	<u>(1,050,291)</u>
-	30,854	30,854
-	44,743	44,743
-	(5,056)	(5,056)
-	16,656	16,656
-	<u>87,197</u>	<u>87,197</u>
<u>(1,050,291)</u>	<u>87,197</u>	<u>(963,094)</u>
242,299	-	242,299
19,985	-	19,985
15,574	-	15,574
50,074	-	50,074
5,918	-	5,918
1,686	-	1,686
640,443	-	640,443
7,966	-	7,966
82,083	(82,083)	-
<u>1,066,028</u>	<u>(82,083)</u>	<u>983,945</u>
15,737	5,114	20,851
<u>913,054</u>	<u>384,848</u>	<u>1,297,902</u>
\$ <u>928,791</u>	<u>389,962</u>	<u>1,318,753</u>
\$ 69,760	-	69,760
-	73,330	73,330
131,554	-	131,554
<u>727,477</u>	<u>316,632</u>	<u>1,044,109</u>
\$ <u>928,791</u>	<u>389,962</u>	<u>1,318,753</u>

CITY OF GLADBROOK
Statement of Cash Receipts, Disbursements and
Changes in Cash Balances
Governmental Funds
As of and for the year ended June 30, 2012

	Special Revenue			
	General	Road Use Tax	Capital Projects	Debt Service
Receipts:				
Property tax	\$ 203,911	-	-	19,470
Tax increment financing	-	-	-	-
Other city tax	4,623	-	-	515
Intergovernmental	47,411	89,634	284,733	-
Licenses and permits	150	-	-	-
Charges for service	46,405	-	-	-
Use of money and property	2,764	-	-	-
Special assessments	-	1,211	-	-
Miscellaneous	29,431	732	92,527	-
Total receipts	334,695	91,577	377,260	19,985
Disbursements:				
Operating:				
Public safety	141,955	-	-	-
Public works	24,543	85,591	-	-
Culture and recreation	45,211	-	-	-
Community and economic and development	3,847	-	-	-
General government	80,726	-	-	-
Debt service	-	-	-	74,113
Capital projects	-	-	1,175,596	-
Total disbursements	296,282	85,591	1,175,596	74,113
Excess (deficiency) of receipts over (under) disbursements	38,413	5,986	(798,336)	(54,128)
Other financing sources (uses):				
Loan proceeds	-	-	640,443	-
Operating transfers in	42,217	11,668	189,000	54,128
Operating transfers out	(47,600)	-	(67,917)	-
Total other financing sources (uses)	(5,383)	11,668	761,526	54,128
Net change in cash balances	33,030	17,654	(36,810)	-
Cash balances beginning of year	694,447	52,106	150,517	-
Cash balances end of year	\$ 727,477	69,760	113,707	-
Cash Basis Fund Balances				
Restricted for:				
Streets	\$ -	69,760	-	-
Other purposes	-	-	113,707	-
Assigned for:				
Fire equipment	54,609	-	-	-
Ambulance	126,396	-	-	-
Museum	1,399	-	-	-
Recreational trust	3,133	-	-	-
Unassigned	541,940	-	-	-
Total cash basis fund balances	\$ 727,477	69,760	113,707	-

Nonmajor	Total
32,878	256,259
15,574	15,574
50,961	56,099
667	422,445
-	150
-	46,405
239	3,003
-	1,211
2,620	125,310
<u>102,939</u>	<u>926,456</u>

-	141,955
-	110,134
1,663	46,874
-	3,847
-	80,726
-	74,113
-	1,175,596
<u>1,663</u>	<u>1,633,245</u>

101,276 (706,789)

-	640,443
-	297,013
(99,413)	(214,930)
<u>(99,413)</u>	<u>722,526</u>
1,863	15,737
15,984	913,054
<u>17,847</u>	<u>928,791</u>

-	69,760
17,847	131,554
-	54,609
-	126,396
-	1,399
-	3,133
-	541,939
<u>17,847</u>	<u>928,791</u>

CITY OF GLADBROOK
Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Proprietary Funds
As of and for the year ended June 30, 2012

	Enterprise				Total
	Water	Sewer	City Center	Fitness Center	
Operating receipts:					
Charges for service	\$ 157,422	127,840	109,277	34,464	429,003
Total operating receipts	157,422	127,840	109,277	34,464	429,003
Operating disbursements:					
Business type activities	102,351	54,482	117,895	20,494	295,222
Total operating disbursements	102,351	54,482	117,895	20,494	295,222
Excess (deficiency) of operating receipts over (under) operating disbursements	55,071	73,358	(8,618)	13,970	133,781
Non-operating receipts (disbursements):					
Contributions	-	-	3,562	2,500	6,062
Interest on investments	155	155	-	186	496
Land rent	-	2,000	-	-	2,000
Debt service	(24,372)	(30,770)	-	-	(55,142)
Net non-operating receipts (disbursements)	(24,217)	(28,615)	3,562	2,686	(46,584)
Excess (deficiency) of receipts over (under) disbursements	30,854	44,743	(5,056)	16,656	87,197
Other financing sources (uses):					
Operating transfers in	67,917	-	-	-	67,917
Operating transfers out	-	(150,000)	-	-	(150,000)
Total other financing sources (uses)	67,917	(150,000)	-	-	(82,083)
Net change in cash balances	98,771	(105,257)	(5,056)	16,656	5,114
Cash balances beginning of year	105,624	209,543	1,712	67,969	384,848
Cash balances end of year	\$ 204,395	104,286	(3,344)	84,625	389,962
Cash Basis Fund Balances					
Restricted for debt service	\$ 43,250	30,080	-	-	73,330
Unrestricted	161,145	74,206	(3,344)	84,625	316,632
Total cash basis fund balances	\$ 204,395	104,286	(3,344)	84,625	389,962

CITY OF GLADBROOK
Notes to Financial Statements
June 30, 2012

Note 1 – Summary of Significant Accounting Policies

The City of Gladbrook is a political subdivision of the State of Iowa located in Tama County. It was first incorporated in 1880 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 Gladbrook 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 of Gladbrook 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: Tama County Assessor's Conference Board, Tama County Emergency Management Commission, Tama County Solid Waste Disposal Commission, Tama County Joint E911 Service Board, Region Six Planning Commission and Tama County Economic Development Board.

B. Basis of Presentation

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

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

Nonexpendable restricted net assets are subject to externally imposed stipulations which require them to be maintained permanently by the City.

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

CITY OF GLADBROOK
Notes to Financial Statements (Continued)
June 30, 2012

Note 1 – Summary of Significant Accounting Policies (Continued)

B. Basis of Presentation (Continued)

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 and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue:

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

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

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

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 wastewater treatment and sanitary sewer system.

CITY OF GLADBROOK
Notes to Financial Statements (Continued)
June 30, 2012

Note 1 – Summary of Significant Accounting Policies (Continued)

B. Basis of Presentation (Continued)

The City Center accounts for the operation and maintenance of the City's movie theater and Matchstick Marvels museum.

The Fitness Center accounts for the operation and maintenance of the City's fitness center.

C. Measurement Focus and Basis of Accounting

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

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

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

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

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 law 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 other spendable classifications.

CITY OF GLADBROOK
Notes to Financial Statements (Continued)
June 30, 2012

Note 1 – Summary of Significant Accounting Policies (Continued)

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information. During the year ended June 30, 2012, disbursements exceed the amounts budgeted in the debt service function.

Note 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.

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) in 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.

Note 3 – Notes Payable

Annual debt service requirements to maturity for general obligation notes, a sewer revenue capital loan note and a rural economic development loan are as follows:

Year Ending June 30,	General Obligation Notes		Sewer Revenue Capital Loan Note		Rural Economic Development Loan		State Revolving Fund Loan		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2013	\$ 50,500	3,845	23,000	7,080	40,000	-	623,443	18,703	736,943	29,628
2014	52,500	1,560	24,000	6,390	40,000	-	-	-	116,500	7,950
2015	-	-	25,000	5,670	40,000	-	-	-	65,000	5,670
2016	-	-	25,000	4,920	40,000	-	-	-	65,000	4,920
2017	-	-	26,000	4,170	40,000	-	-	-	66,000	4,170
2018-2022	-	-	113,000	8,580	140,000	-	-	-	253,000	8,580
Total	\$ 103,000	5,405	236,000	36,810	340,000	-	623,443	18,703	1,302,443	60,918

CITY OF GLADBROOK
Notes to Financial Statements (Continued)
June 30, 2012

Note 3 – Notes Payable (continued)

The sewer revenue capital loan note was issued for the purpose of defraying a portion of the costs of carrying out a sewer project of the City. The resolution providing for the issuance of the revenue note included the following provisions: (a) the note will only be redeemed from the future earnings of the enterprise activity fund and the note holders hold a lien on the future earnings of the fund, and (b) sufficient monthly transfers shall be made to a separate sewer revenue note sinking account for the purpose of making the note principal and interest payments when due.

Note 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, PO Box 9117, Des Moines, Iowa, 50306-9117.

Most regular plan members are required to contribute 5.38% of their annual covered salary and the City is required to contribute 8.07% of covered salary. Certain employees in special risk occupations and the city contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2012, 2011 and 2010 were \$10,784, \$9,233 and 9,041, respectively, equal to the required contributions for each year.

Note 5 – Compensated Absences

City employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation payments payable to employees at June 30, 2012 was \$2,529, primarily relating to the General Fund. This liability has been computed based on rates of pay in effect at June 30, 2012.

Note 6 – Risk Management

The City of Gladbrook is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Note 7 – Related Party Transactions

The City had business transactions between the City and City officials totaling \$110,115 during the year ended June 30, 2012.

Other Information

CITY OF GLADBROOK
Notes to Financial Statements (Continued)
June 30, 2012

Note 8 – Interfund Transfers

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

Transfer to	Transfer from	Amount
Debt Service	Special Revenue:	
	Local Option Sales Tax	\$ 38,554
	Urban Renewal Tax Increment	15,574
		<u>54,128</u>
General	Special Revenue:	
	Local Option Sales Tax	11,520
	Emergency Services	5,890
	Employee Benefits	24,807
		<u>42,217</u>
Special Revenue:	Special Revenue:	
Road Use Tax	Employee Benefits	3,068
	General	8,600
		<u>11,668</u>
Capital Projects	General	39,000
	Sewer	150,000
		<u>189,000</u>
Water	Capital Projects	<u>67,917</u>
Total		<u>\$ 364,930</u>

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

Note 9 – Deficit Balance

The City Center Fund had a deficit balance of \$3,344 at June 30, 2012. The deficit balance was a result of the City not billing for on-screen advertising in 2012. The deficit will be eliminated upon collection of these billings.

Note 10 – Date of Management Evaluation

The City has evaluated subsequent events through August 20, 2012, the date which financial statements were available to be issued.

CITY OF GLADBROOK
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
Receipts:		
Property tax	\$ 256,259	-
Tax increment financing	15,574	-
Other city tax	56,099	-
Intergovernmental	422,445	-
Licenses and permits	150	-
Charges for service	46,405	429,003
Use of money and property	3,003	2,496
Special assessments	1,211	-
Miscellaneous	125,310	6,062
Total receipts	926,456	437,561
Disbursements:		
Public safety	141,955	-
Public works	110,134	-
Health and social services	-	-
Culture and recreation	46,874	-
Community and economic development	3,847	-
General government	80,726	-
Debt service	74,113	-
Capital projects	1,175,596	-
Business type activities	-	350,364
Total disbursements	1,633,245	350,364
Excess (deficiency) of receipts over (under) disbursements	(706,789)	87,197
Other financing sources, net	722,526	(82,083)
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	15,737	5,114
Balances beginning of year	913,054	384,848
Balances end of year	\$ 928,791	389,962

Total	Budgeted Amounts		Final to Total Variance
	Original	Final	
256,259	255,131	255,131	1,128
15,574	15,151	15,151	423
56,099	64,626	56,626	(527)
422,445	624,740	676,583	(254,138)
150	1,600	1,600	(1,450)
475,408	505,078	481,882	(6,474)
5,499	5,400	5,400	99
1,211	1,000	1,000	211
131,372	9,100	9,758	121,614
1,364,017	1,481,826	1,503,131	(139,114)
141,955	153,471	174,795	(32,840)
110,134	135,301	140,301	(30,167)
-	1,464	1,000	(1,000)
46,874	50,998	53,973	(7,099)
3,847	10,000	6,418	(2,571)
80,726	71,826	89,459	(8,733)
74,113	74,011	74,011	102
1,175,596	1,200,000	1,443,222	(267,626)
350,364	353,409	388,168	(37,804)
1,983,609	2,050,480	2,371,347	(387,738)
(619,592)	(568,654)	(868,216)	248,624
640,443	700,000	825,000	(184,557)
20,851	131,346	(43,216)	64,067
1,297,902	1,297,901	1,297,901	1
1,318,753	1,429,247	1,254,685	64,068

CITY OF GLADBROOK
Notes to Other Information – Budgetary Reporting
June 30, 2012

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

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds. 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 disbursements by \$320,867. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2012, disbursements exceeded the amounts budgeted in the debt service function.

Supplementary Information

CITY OF GLADBROOK
Statement of Cash Receipts, Disbursements and
Changes in Cash Balances
Nonmajor Governmental Funds
As of and for the year ended June 30, 2012

	Urban	Employee	Special
	Renewal Tax	Benefits	Emergency
	Increment		Services
Receipts:			
Property tax	\$ -	27,142	5,736
Tax increment financing	15,574	-	-
Other city tax	-	733	154
Intergovernmental	-	-	-
Use of money and property	-	-	-
Miscellaneous	-	-	-
Total receipts	15,574	27,875	5,890
Disbursements:			
Operating:			
Culture and recreation	-	-	-
Total disbursements	-	-	-
Excess of receipts over disbursements	15,574	27,875	5,890
Other financing uses:			
Operating transfers out	(15,574)	(27,875)	(5,890)
Net change in cash balances	-	-	-
Cash balances beginning of year	-	-	-
Cash balances end of year	\$ -	-	-
Cash Basis Fund Balances			
Restricted for other purposes	\$ -	-	-
Total cash basis fund balances	\$ -	-	-

Revenue		
Local		
Option Sales		
Tax	Library	Total
-	-	32,878
-	-	15,574
50,074	-	50,961
-	667	667
-	239	239
-	2,620	2,620
50,074	3,526	102,939
-	1,663	1,663
-	1,663	1,663
50,074	1,863	101,276
(50,074)	-	(99,413)
-	1,863	1,863
-	15,984	15,984
-	17,847	17,847
-	17,847	17,847
-	17,847	17,847

CITY OF GLADBROOK
Schedule of Indebtedness
Year ended June 30, 2012

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation notes: Corporate purpose	Aug 1, 2004	3.95%	\$ 413,643
Rural Economic Development loan	Nov 22, 2010	0.00%	\$ 360,000
State Revolving Fund loan	Oct 5, 2011	3.00%	\$ 640,443
Sewer revenue capital loan note: Sewer improvement	Sept 15, 2001	3.00%	\$ 706,000

	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
\$	151,500	-	48,500	103,000	5,613	-
\$	360,000	-	20,000	340,000	-	-
\$	-	640,443	17,000	623,443	7,372	-
\$	259,000	-	23,000	236,000	7,770	-

CITY OF GLADBROOK
Bond and Note Maturities
June 30, 2012

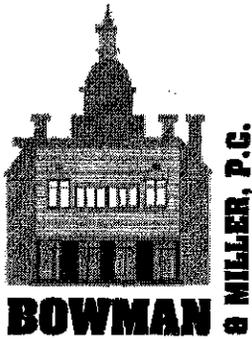
Year Ending June 30,	<u>General Obligation Note Corporate Purpose</u>		<u>Rural Economic Development Loan</u>		Total
	<u>Issued August 1, 2004</u>		<u>Issued November 22, 2010</u>		
	Interest Rates	Amount	Interest Rates	Amount	
2013	3.95 %	\$ 50,500	0.00 %	\$ 40,000	
2014	3.95	52,500	0.00	40,000	
2015		-	0.00	40,000	
2016		-	0.00	40,000	
2017		-	0.00	40,000	
2018		-	0.00	40,000	
2019		-	0.00	40,000	
2020		-	0.00	40,000	
2021		-	0.00	20,000	
Total		\$ 103,000		\$ 340,000	

Year Ending June 30,	<u>Revenue Note Sewer Improvement</u>		<u>State Revolving Loan Fund</u>		Total
	<u>Issued September 15, 2001</u>		<u>Issued October 5, 2011</u>		
	Interest Rates	Amount	Interest Rates	Amount	
2013	3.00 %	\$ 23,000	3.00 %	\$ 623,443	\$ 736,943
2014	3.00	24,000		-	116,500
2015	3.00	25,000		-	65,000
2016	3.00	25,000		-	65,000
2017	3.00	26,000		-	66,000
2018	3.00	27,000		-	67,000
2019	3.00	28,000		-	68,000
2020	3.00	29,000		-	69,000
2021	3.00	29,000		-	49,000
Total		\$ 236,000		\$ 623,443	\$ 1,302,443

CITY OF GLADBROOK
Schedule of Receipts By Source and Disbursements by Function-
All Governmental Funds
For the Last Ten Years

	2012	2011	2010	2009
Receipts:				
Property tax	\$ 256,259	281,095	217,790	224,783
Tax increment financing	15,574	19,402	17,435	17,422
Other city tax	56,099	67,317	65,949	65,650
Intergovernmental	422,445	205,496	159,381	149,883
Licenses and permits	150	785	515	701
Charges for service	46,405	32,610	42,671	40,164
Use of money and property	3,003	5,864	4,575	11,058
Special assessments	1,211	1,059	2,684	573
Miscellaneous	125,310	46,442	109,300	35,869
Total	\$ 926,456	660,070	620,300	546,103
Disbursements:				
Operating:				
Public safety	\$ 141,955	126,910	116,411	174,666
Public works	110,134	110,478	117,911	126,280
Health and social services	-	-	-	-
Culture and recreation	46,874	48,313	50,112	49,445
Community and economic development	3,847	8,244	7,353	32,868
General government	80,726	70,232	68,726	66,702
Debt service	74,113	304,930	102,860	70,613
Capital projects	1,175,596	183,818	338,345	20,225
Total	\$ 1,633,245	852,925	801,718	540,799

2008	2007	2006	2005	2004	2003
216,960	212,379	194,340	192,653	173,949	177,067
19,773	24,578	23,773	42,104	-	715
64,704	64,725	52,884	43,307	46,026	-
532,978	145,859	125,569	126,178	205,263	130,053
260	410	758	893	1,010	2,448
44,710	38,486	36,477	23,166	6,539	17,041
16,357	13,873	11,503	6,957	17,104	9,441
3,423	1,620	-	15,127	-	-
25,378	14,375	13,784	26,523	55,149	422,490
924,543	516,305	459,088	476,908	505,040	759,255
172,034	165,539	109,181	88,359	146,763	82,585
159,858	108,031	97,212	99,973	100,335	102,955
-	-	-	-	260	103
51,767	46,052	41,642	56,019	44,434	37,934
23,766	25,718	14,379	20,572	71,212	24,184
56,457	51,588	51,783	56,019	73,800	53,600
70,741	70,819	70,909	87,020	39,218	39,218
375,298	-	-	24,251	464,341	420,061
909,921	467,747	385,106	432,213	940,363	760,640



CERTIFIED ♦ PUBLIC ♦ ACCOUNTANTS

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Independent Auditors' 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 Gladbrook, 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 August 20, 2012. Our report expressed unqualified opinions on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U. S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

The management of the City of Gladbrook is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City of Gladbrook'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 Gladbrook's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Gladbrook's internal control over financial reporting.

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

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

Compliance and Other Matters

As a part of obtaining reasonable assurance about whether the City of Gladbrook's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters which are described in Part III of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operation 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 Gladbrook's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the City's responses, we did not audit the City of Gladbrook'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 Gladbrook and other parties to whom the City of Gladbrook may report. This report is not intended to be and should not be used by anyone other than these specified parties.

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

Bowman and Miller, P.C.

Marshalltown, Iowa
August 20, 2012

CITY OF GLADBROOK
Schedule of Findings
Year ended June 30, 2012

Part I: Summary of the Independent Auditors' Results:

- (a) Unqualified opinions were issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
- (b) A material weakness in internal control over financial reporting was disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.

CITY OF GLADBROOK
Schedule of Findings
Year ended June 30, 2012

Part II: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCY:

II-A-12 Segregation of Duties – One important aspect of internal accounting control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted one person has control over each of the following areas:

- (1) Cash receipts - collecting, depositing, journalizing, and posting.
- (2) Disbursements - check writing, signing, and reconciling.
- (3) Payroll preparation and distribution.

Recommendation – We realize that with a limited number of office employees, segregation of duties is difficult. However, the City should review its operating procedures to obtain the maximum internal control possible under the circumstances. In instances where it is not possible to segregate duties, the City should utilize administrative personnel to provide additional internal control through review of financial transactions and reports.

Response – The noted areas will be reviewed to identify duties that could be handled by other personnel or council members.

Conclusion – Response accepted.

Part III: Other Findings Related to Required Statutory Reporting:

III-A-12 Certified Budget – Disbursements during the year ended June 30, 2012, exceed the amounts budgeted in the debt service function. Chapter 384.20 of the Code of Iowa states, in part, “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 – The budget amount was exceeded due to an interest adjustment by the bank on a loan payment. Additional funds will be budgeted in the future to prevent this.

Conclusion – Response accepted.

III-B-12 Questionable Disbursements – We noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 24, 1979.

CITY OF GLADBROOK
Schedule of Findings
Year ended June 30, 2012

Part III: Other Findings Related to Required Statutory Reporting (continued):

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

III-D-12 Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

<u>Name, Title, and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Roger Luehring, Council Member and Mike Bearden, spouse of the City Clerk Shareholders in Clapsaddle-Garber and Associates	Engineering services	<u>\$109,916</u>

The transaction does not appear to represent a conflict of interest since it was entered into through a competitive selection process in accordance with Chapter 362.5(4) of the Code of Iowa.

III-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 that the coverage is adequate for current operations.

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

III-G-12 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 were noted.

III-H-12 Revenue Notes – The City was in compliance with all applicable revenue note provisions.

III-I-12 Financial Condition – The City Center Fund had a deficit balance of \$3,344 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 City Center was in the process of changing companies for their on-screen advertising at the movie theater thus the advertising was not billed during the year causing the deficit balance. The new company is in place and billing is being done and the City Center Fund currently has a positive cash balance.

Conclusion – Response accepted.

CITY OF GLADBROOK

Staff

This audit was performed by:

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