

CITY OF CALMAR
FINANCIAL REPORT
JUNE 30, 2012

TABLE OF CONTENTS

	<u>Page</u>
OFFICIALS	1
INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS	2-3
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)	4
BASIC FINANCIAL STATEMENTS	<u>Exhibit</u>
Government-Wide Financial Statements	
Statement of Activities and Net Assets – Cash Basis	A 5
Governmental Fund Financial Statements	
Statement of Cash Receipts, Disbursements and Changes in Cash Fund Balances	B 6
Proprietary Funds Financial Statements	
Statement of Cash Receipts, Disbursements and Changes in Cash Fund Balances	C 7
Notes to Financial Statements	8-13
Other Information	
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances	
Budget and Actual (Cash Basis) – All Governmental and Proprietary Funds	14
Notes to Other Information-Budgetary Reporting	15
INDEPENDENT AUDITOR'S REPORT ON THE SUPPLEMENTARY INFORMATION	16
SUPPLEMENTARY INFORMATION	<u>Schedule</u>
Governmental Activities	
Nonmajor Governmental Funds	
Schedule of Cash Receipts, Disbursements and Changes in Cash Fund Balances	1 17
Schedule of Indebtedness	2 18
Bond and Note Maturities	3 19
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 <i>GOVERNMENT AUDITING STANDARDS</i>	20-22
MANAGEMENT LETTER	23-25

CITY OF CALMAR

OFFICIALS
June 30, 2012

Title	Name	Term Expires
After January 2012		
Mayor	Corey Meyer	December 31, 2013
Council Member	Larry Huinker	December 31, 2015
Council Member	Linus Sabelka	December 31, 2015
Council Member	Dave Zweibahmer	December 31, 2015
Council Member	Isaac Phillips	December 31, 2013
Council Member	Dennis Kleve	December 31, 2013
City Clerk	Michele Elsbernd	Appointed
Before January 2012		
Mayor	Joe McCasland	December 31, 2011
Council Member	Larry Huinker	December 31, 2011
Council Member	Corey Meyer	December 31, 2011
Council Member	Luther Anderson	December 31, 2011
Council Member	Isaac Phillips	December 31, 2013
Council Member	Dennis Kleve	December 31, 2013
City Clerk	Michele Elsbernd	Appointed

123 West Water Street
P.O. Box 507
Decorah, Iowa 52101
Telephone 563 382-3637
Fax 563 382-5797

HACKER, NELSON & CO., P.C.
Certified Public Accountants
And Business Consultants

www.hackernelson.com

9 North Locust Avenue
P.O. Box 529
New Hampton, Iowa 50659
Telephone 641 394-2245
Fax 641 394-3138

**INDEPENDENT AUDITOR'S REPORT
ON THE FINANCIAL STATEMENTS**

**To the Honorable Mayor and Members of the City Council
City of Calmar
Calmar, Iowa**

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 City of Calmar, as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of City of Calmar'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 the 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, City of Calmar prepares its financial statements on the basis of cash receipts and disbursements, which are 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 Calmar 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 September 4, 2012, on our consideration of the City of Calmar's internal control over financial reporting and on 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 Calmar's financial statements as a whole. The management's discussion and analysis and budgetary comparison information on page 4 and pages 14 through 15 are presented for purposes of additional analysis and are not a required part of the financial statements. Such 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.

Hacker, Nelson & Co., P.C.

Decorah, Iowa
September 4, 2012

CITY OF CALMAR

MANAGEMENT'S DISCUSSION AND ANALYSIS

This discussion and analysis of the City of Calmar's financial performance provides an overview of the City's financial activities for the fiscal year ending June 30, 2012. Please read this in conjunction with the transmittal letter and the City's financial statements contained within this audit report.

2012 FINANCIAL HIGHLIGHTS

- In total, net cash assets increased by \$101,939. Net cash assets of governmental activities decreased by \$17,480, which represents 3.1% decrease from fiscal year 2011. Property taxes increased approximately \$49,606.
- City program disbursements were \$69,846 or approximately 10.2% more in 2012.
- General fund receipts accounted for \$452,645 in receipts or 53.7% of all governmental receipts. General fund disbursements accounted for \$570,473 in disbursements or 75.9% of all governmental disbursements.
- The City's total cash basis net assets are \$1,387,168. Of this amount, the governmental activities claim cash basis net assets of \$545,086.
- Net assets in the business-type activity, which represents the City's sewer and water operations, increased \$119,419. A decrease in expenditures related to the coating and repair of the water tower as well as the purchase of meters in 2011 is the primary reason for the decrease.

USING THE BASIC FINANCIAL STATEMENTS

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.
- Government-wide financial statements consist of a statement of activities and net assets-cash basis. This provides information about the activities of the City as a whole and provides an overall view of the City's finances.
- The fund financial statements reveal how governmental services were financed in the short term as well as what remains for future spending. The fund financial statements report the City's operations in greater detail than the government-wide statements by providing information about the funds.
- Notes to the financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.
- The supplementary information provides detailed information about the nonmajor governmental funds. In addition, the budgetary comparison schedules support the financial statements with a comparison of the City's budget for the year. Also, the schedule of indebtedness and bond and note maturities reflect the City's debt activity.

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, the reader 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-cash basis reports information which helps answer this question.

The statement of activities and net assets-cash basis presents information showing how the City's net cash assets changed during the most recent fiscal year. Over time, increases or decreases in the City's net cash 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-cash basis report the following activities:

1. **Governmental activities:** these include public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service and capital projects.
2. **Business-type activities:** these include the City's utilities which specifically are the water system (production, storage, transmission, distribution, treatment, and billing) and sewer system (collection, transmission, treatment and discharge). These services are primarily characterized by their reliance on user charges as opposed to property or other general tax proceeds.

REPORTING THE CITY'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

Fund financial reports provide more detailed information about the City's major funds. Some funds are required by State law while others are required by bond covenants or Council policy. However, these fund financial statements focus on the City's most significant funds. The City's major governmental funds are the general fund, and urban renewal tax increment and local option sales tax – special revenue fund.

Governmental Funds

Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances left at year-end that are available for spending. These funds are reported using the cash basis of accounting. The governmental fund statements provide a detailed, short-term view of the City's general governmental operations and the basic services it provides. Governmental fund information helps one determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The City's governmental funds include the general fund, special revenue funds, debt service fund, and capital projects fund.

REPORTING THE CITY'S MOST SIGNIFICANT FUNDS (Continued)

The governmental fund's cash transactions are shown on statement of cash receipts, disbursements and changes in cash fund balances.

Proprietary Funds

Services for which the City charges a fee are generally reported in the proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements.

The proprietary funds are reported on a statement of cash receipts, disbursements and changes in cash fund balances.

A summary reconciliation between the government-wide financial statements and the fund financial statements follows the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from a year ago, decreasing from \$562,566 to \$545,086. The analysis that follows focuses on the changes in cash balances for governmental activities.

	Changes in Cash Basis Net Assets		
	Governmental Activities		
	2012	2011	Percent Change
Receipts:			
Program receipts			
Charges for service	\$ 196,777	\$ 215,365	-8.63%
Operating grants and contributions	112,790	116,412	-3.11%
General receipts			
Property taxes	344,413	298,666	15.32%
Tax increment financing	82,691	126,949	-34.86%
Local option sales tax	103,785	105,281	-1.42%
Unrestricted investment earnings	2,723	5,520	-50.67%
Transfers-net	(108,637)	(123,973)	-12.37%
Total receipts	734,542	744,220	-1.30%
Program disbursements:			
General government	86,110	89,448	-3.73%
Public safety	261,956	184,961	41.63%
Public works	229,401	249,365	-8.01%
Culture and recreation	139,301	139,790	-0.35%
Principal payment on long-term debt	31,494	13,800	128.22%
Interest on long-term debt	3,760	4,812	-21.86%
Total disbursements	752,022	682,176	10.24%
(Decrease) increase in net assets	(17,480)	62,044	-128.17%
Net cash assets Beginning of Year	562,566	500,522	12.40%
Net cash assets End of Year	\$ 545,086	\$ 562,566	-3.11%

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

	Business-type Activities		
	2012	2011	Percent Change
Receipts:			
Program receipts			
Charges for service	\$ 497,941	\$ 488,157	2.00%
General receipts			
Transfers	108,637	123,973	-12.37%
Total receipts	606,578	612,130	-0.91%
Program disbursements:			
Operating disbursements	230,832	390,692	-40.92%
Nonoperating disbursements	256,327	265,663	-3.51%
Total disbursements	487,159	656,355	-25.78%
Increase (decrease) in net assets	119,419	(44,225)	370.03%
Net cash assets Beginning of Year	722,663	766,888	-5.77%
Net cash assets End of Year	\$ 842,082	\$ 722,663	16.52%

INDIVIDUAL FUND ANALYSIS

As the City completed the year, its governmental funds reported a combined cash fund balance of \$545,086, a \$17,480 decrease from the 2011 fiscal year end balance of \$562,566.

- The general fund received more revenue during fiscal year 2012 through property tax receipts. The general fund expenditures increased in public safety. The ending cash fund balance showed an increase from the prior year of \$23,900 to \$488,031.

As the City completed the year, its proprietary funds reported a combined cash fund balance of \$842,082 an increase of \$119,419 from the 2011 fiscal year end balance of \$722,663.

- The proprietary funds incurred significant costs for the water tower repairs that took place during 2011.
- The water fund had a decrease in costs since the water tower repairs, interior and exterior painting and half of the costs for radio head meters took place during 2011.
- The sewer fund had a decrease in costs due to significant costs for radio head meters that took place in 2011.

BUDGETARY HIGHLIGHTS

The City Council annually adopts a budget as required by Iowa law. Proper public notice and a required public hearing are held before final approval of the budget. The budget document presents functional disbursements by function and the legal level of control is at the expense level by the different functions.

BUDGETARY HIGHLIGHTS (Continued)

The following chart shows the original and amended budget for fiscal 2012 as well as the actual revenue and expenditures for the year:

	Budgetary Comparison Schedule		
	Governmental Activities & Proprietary Funds		
	Actual	Budget	Variance
Receipts			
Local sources	\$ 1,228,330	\$ 1,171,696	\$ (56,634)
State sources	112,790	106,496	(6,294)
Total receipts	\$ 1,341,120	\$ 1,278,192	\$ (62,928)
Disbursements			
General government	\$ 86,110	\$ 103,020	\$ 16,910
Public safety	261,956	278,471	16,515
Public works	229,401	275,462	46,061
Culture and recreation	139,301	140,368	1,067
Debt service	35,254	35,665	411
Business-type activities	487,159	604,745	117,586
Total disbursements	\$ 1,239,181	\$ 1,437,731	\$ 198,550

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2012, the State of Iowa has not required small cities to report capital assets. Therefore, the City has no formal record of capital assets that are owned by the City and is not reporting any depreciation expense. More detailed information about the City's capital assets is presented in Note 1b to the financial statements.

Debt

At year-end, the City had approximately \$1,432,106 in bonds and note payable compared to \$1,667,600 last year. More detail is presented in Note 3 to the financial statements.

Iowa Statutes limits the amount of long-term debt that the City can issue to five percent of the estimated market value of taxable property within the City's limits. The City's outstanding long-term debt is significantly below this \$2,280,716 limit. Revenue notes of \$1,367,000, included in the preceding paragraph, are not included in this calculation.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City is concerned about proposed changes by the state legislature for property taxes. The proposals would decrease commercial property taxes which would be offset by increase state funding to cities. However, if the State of Iowa does not fully fund the rollback, then City receipts would drop. Also, the cost of maintaining streets has increased greatly in recent years, with road use funding not increasing as fast. This inflation along with the loss of 80 residents from the 2000 to the 2010 census which reduces road use funds impacts the City's ability to maintain streets.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of City of Calmar'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 the Calmar City Hall, City of Calmar, P.O. Box 268, Calmar, IA 52132.

This Page Intentionally Left Blank

CITY OF CALMAR
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS
For the Year Ended June 30, 2012

Functions and Programs	Disbursements	Program Receipts and Sources	
		Charges for Services	Operating Grants and Contributions
Primary Government			
Governmental activities			
Public safety	\$ 261,956	\$ 51,889	
Public works	229,401	75,287	\$ 92,764
Culture and recreation	139,301	23,259	20,026
General government	86,110	46,342	
Debt service	35,254		
Total governmental activities	<u>752,022</u>	<u>196,777</u>	<u>112,790</u>
Business-type activities			
Water	221,171	188,429	
Sewer	265,988	309,512	
Total business-type activities	<u>487,159</u>	<u>497,941</u>	<u>-</u>
Total primary government	<u>\$ 1,239,181</u>	<u>\$ 694,718</u>	<u>\$ 112,790</u>
General Receipts			
Property and other city taxes levied for:			
General purposes			
Debt service			
Tax increment financing			
Local option sales tax			
Unrestricted interest on investments			
Transfers			
Total general receipts, special items 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			
Urban renewal purposes			
Other purposes			
Unrestricted			
Total cash basis net assets			

See Notes to Financial Statements.

EXHIBIT A

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
Governmental Activities	Business-type Activities	Total
\$ (210,067)		\$ (210,067)
(61,350)		(61,350)
(96,016)		(96,016)
(39,768)		(39,768)
(35,254)		(35,254)
<u>(442,455)</u>		<u>(442,455)</u>
	\$ (32,742)	(32,742)
	43,524	43,524
-	10,782	10,782
<u>(442,455)</u>	<u>10,782</u>	<u>(431,673)</u>
318,219		318,219
26,194		26,194
82,691		82,691
103,785		103,785
2,723		2,723
<u>(108,637)</u>	<u>108,637</u>	<u>-</u>
<u>424,975</u>	<u>108,637</u>	<u>533,612</u>
(17,480)	119,419	101,939
<u>562,566</u>	<u>722,663</u>	<u>1,285,229</u>
<u>\$ 545,086</u>	<u>\$ 842,082</u>	<u>\$ 1,387,168</u>
\$ 46,821		\$ 46,821
342		342
14,595		14,595
<u>483,328</u>	<u>\$ 842,082</u>	<u>1,325,410</u>
<u>\$ 545,086</u>	<u>\$ 842,082</u>	<u>\$ 1,387,168</u>

CITY OF CALMAR
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2012

	Special Revenue			Nonmajor	Total Governmental Funds
	General	Urban Renewal Tax Increment	Local Option Sales Tax		
Receipts					
Property tax	\$ 221,263			\$ 108,643	\$ 329,906
Tax increment financing		\$ 82,691			82,691
Other city tax	11,856		\$ 103,785	2,651	118,292
Licenses and permits	2,145				2,145
Use of money and property	3,873				3,873
Intergovernmental	20,026			92,764	112,790
Charges for services	118,498				118,498
Miscellaneous	74,984				74,984
Total receipts	452,645	82,691	103,785	204,058	843,179
Disbursements					
Operating:					
General government	75,727			10,383	86,110
Public safety	227,833			34,123	261,956
Public works	134,755			94,646	229,401
Culture and recreation	132,158			7,143	139,301
Debt service				35,254	35,254
Total disbursements	570,473	-	-	181,549	752,022
Excess (deficiency) of receipts over disbursements	(117,828)	82,691	103,785	22,509	91,157
Other financing sources (uses)					
Transfers in	141,728				141,728
Transfers (out)		(108,637)	(135,000)	(6,728)	(250,365)
Total other financing sources (uses)	141,728	(108,637)	(135,000)	(6,728)	(108,637)
Net change in cash balances	23,900	(25,946)	(31,215)	15,781	(17,480)
Cash balances - beginning	464,131	26,288	45,725	26,422	562,566
Cash balances - ending	\$ 488,031	\$ 342	\$ 14,510	\$ 42,203	\$ 545,086
Cash Basis Fund Balances					
Restricted for:					
Streets				\$ 46,821	\$ 46,821
Urban renewal purposes		\$ 342			342
Other purposes			\$ 14,510	85	14,595
Unassigned	\$ 488,031			(4,703)	483,328
Total cash basis fund balances	\$ 488,031	\$ 342	\$ 14,510	\$ 42,203	\$ 545,086

See Notes to Financial Statements.

CITY OF CALMAR
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH FUND BALANCES
PROPRIETARY FUNDS
For the Year Ended June 30, 2012

	Enterprise Funds		Total
	Water	Sewer	
Operating Receipts			
Charges for services	\$ 188,429	\$ 309,512	\$ 497,941
Total operating receipts	<u>188,429</u>	<u>309,512</u>	<u>497,941</u>
Operating Disbursements			
Business-type activities	106,326	124,506	230,832
Total operating disbursements	<u>106,326</u>	<u>124,506</u>	<u>230,832</u>
Excess of operating receipts over operating disbursements	<u>82,103</u>	<u>185,006</u>	<u>267,109</u>
Nonoperating Disbursements			
Debt service	(114,845)	(141,482)	(256,327)
Net nonoperating disbursements	<u>(114,845)</u>	<u>(141,482)</u>	<u>(256,327)</u>
Excess (deficiency) of receipts over (under) disbursements	<u>(32,742)</u>	<u>43,524</u>	<u>10,782</u>
Operating transfers in	<u>108,637</u>		<u>108,637</u>
Net change in cash balances	75,895	43,524	119,419
Cash balances beginning of year	<u>144,316</u>	<u>578,347</u>	<u>722,663</u>
Cash balances end of year	<u>\$ 220,211</u>	<u>\$ 621,871</u>	<u>\$ 842,082</u>
Cash Basis Fund Balances			
Unrestricted	<u>\$ 220,211</u>	<u>\$ 621,871</u>	<u>\$ 842,082</u>
Total cash basis fund balances	<u>\$ 220,211</u>	<u>\$ 621,871</u>	<u>\$ 842,082</u>

See Notes to Financial Statements.

CITY OF CALMAR

NOTES TO FINANCIAL STATEMENTS

1. Nature of Operations and Significant Accounting Policies

a. Nature of Operations

The City of Calmar is a political subdivision of the State of Iowa located in Winneshiek County. It was first incorporated in 1867 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under a 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 service, culture and recreations, community and economic development and general government services. The City also provides water and sewer utilities for its citizens.

b. Significant Accounting Policies

Reporting Entity

For financial reporting purposes, City of Calmar 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 Government 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: Winneshiek County Economic Development Board, Winneshiek County Emergency Management Commission and Winneshiek County Joint E911 Service Board.

Government-wide Financial Statements

The statement of activities and net assets-cash basis 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-cash basis 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.

1. Nature of Operations and Significant Accounting Policies (Continued)

b. Significant Accounting Policies (Continued)

Government-wide Financial Statements (Continued)

- *Unrestricted net assets* consist of net assets that do not meet 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-cash basis 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 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 other nonmajor governmental funds.

The City reports the following major governmental funds:

Governmental

General Fund - 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

Urban Renewal Tax Increment - this fund is used to account for tax increment financing collections and the repayment of tax increment financing indebtedness.

Local Option Sales Tax - this fund is used to account for the receipt of local option sales tax from the state.

The City reports the following major proprietary funds:

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

Sewer Fund - the sewer fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

1. Nature of Operations and Significant Accounting Policies (Continued)

b. Significant Accounting Policies (Continued)

Measurement Focus and Basis of Accounting

The City of Calmar 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 the financial position and results of its 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 nonoperating 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 nonoperating receipts and disbursements.

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 resources are either externally imposed by creditors, grantors, or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

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

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

Unassigned - all amounts not included in other spendable classifications.

NOTES TO FINANCIAL STATEMENTS

1. Nature of Operations and Significant Accounting Policies (Continued)

b. Significant Accounting Policies (Continued)

Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as other information.

2. Deposits and 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 investments trust; and warrants or improvement certificates of a drainage district.

The City has no investments meeting the disclosure requirements of Governmental Accounting Standards Statement No. 3.

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

3. Bonds and Notes Payable

A summary of the changes in debt, by type, for the year ended June 30, 2012 is as follows:

	Balance June 30, 2011	Issued	(Paid)	Balance June 30, 2012	Amounts Due Within One Year
General obligation bond	\$ 110,000		\$ (110,000)		
Special assessment bond	96,600		(31,494)	\$ 65,106	\$ 13,800
Revenue bond	1,461,000		(94,000)	1,367,000	96,000
Total bonds	\$ 1,667,600	\$ None	\$ (235,494)	\$ 1,432,106	\$ 109,800

NOTES TO FINANCIAL STATEMENTS

3. **Bonds and Notes Payable (Continued)**

Annual debt service requirements to maturity for special assessment bonds and revenue bonds are as follows:

Year Ending June 30	Special Assessment Bonds		Revenue Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2013	\$ 13,800	\$ 3,093	\$ 96,000	\$ 41,010	\$ 109,800	\$ 44,103
2014	13,800	2,437	99,000	38,130	112,800	40,567
2015	13,800	1,782	102,000	35,160	115,800	36,942
2016	13,800	1,126	105,000	32,100	118,800	33,226
2017	9,906	471	108,000	28,950	117,906	29,421
2018-2022			594,000	93,960	594,000	93,960
2023-2024			263,000	11,880	263,000	11,880
	\$ 65,106	\$ 8,909	\$ 1,367,000	\$ 281,190	\$ 1,432,106	\$ 290,099

The resolution providing for issuance of revenue bonds states that the bonds will only be redeemed from the future earnings of the enterprise, sewer fund and the bond holders hold a lien on the future earnings of the fund.

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 contributions to IPERS for the year ended June 30, 2012, were \$21,124, equal to the required contributions for the year.

5. **Interfund Transfers**

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

	Transfers In	Transfers Out
Governmental activities		
General	\$ 141,728	
Urban renewal		\$ 108,637
Local option sales tax		135,000
Emergency		6,728
	141,728	250,365
Enterprise activities		
Water		108,637
		108,637
Total	\$ 250,365	\$ 250,365

6. Risk Management

The City of Calmar 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.

7. Deficit Balance

The employee benefits fund had a deficit balance of \$1,600 at June 30, 2012. The deficit balance was a result of additional employees enrolling in the City's health insurance after property taxes were levied for that fund. The deficit will be eliminated upon property tax receipts levied in future years.

The debt service fund had a deficit balance of \$3,103 at June 30, 2012. The deficit balance was a result of debt payments exceeding property tax receipts. The deficit will be eliminated upon receipt of property taxes.

This Page Intentionally Left Blank

CITY OF CALMAR
 BUDGETARY COMPARISON SCHEDULE OF
 RECEIPTS, DISBURSEMENTS AND CHANGES IN BALANCES
 BUDGET AND ACTUAL (CASH BASIS)
 ALL GOVERNMENTAL AND PROPRIETARY FUNDS
 OTHER INFORMATION
 For the Year Ended June 30, 2012

	Primary Government	
	Governmental Funds Actual	Proprietary Funds Actual
RECEIPTS		
Property taxes	\$ 329,906	
Tax increment financing collections	82,691	
Other city taxes	118,292	
Licenses and permits	2,145	
Use of money and property	3,873	
Intergovernmental	112,790	
Charges for services	118,498	\$ 497,941
Special assessments		
Miscellaneous	74,984	
Total receipts	<u>843,179</u>	<u>497,941</u>
DISBURSEMENTS		
Public safety	261,956	
Public works	229,401	
Culture and recreation	139,301	
General government	86,110	
Debt service	35,254	
Business-type activities		487,159
Total disbursements	<u>752,022</u>	<u>487,159</u>
EXCESS OF RECEIPTS UNDER (OVER) DISBURSEMENTS	91,157	10,782
OTHER FINANCING SOURCES, NET	<u>(108,637)</u>	<u>108,637</u>
EXCESS (DEFICIENCY) OF RECEIPTS AND OTHER FINANCING SOURCES OVER (UNDER) DISBURSEMENTS AND OTHER FINANCING USES	(17,480)	119,419
BALANCES, BEGINNING OF YEAR	<u>562,566</u>	<u>722,663</u>
BALANCES, END OF YEAR	<u>\$ 545,086</u>	<u>\$ 842,082</u>

See Notes to Other Information.

Total	Budgeted Amounts		Final to Total Variance
	Original	Final	
\$ 329,906	\$ 302,216	\$ 302,216	\$ (27,690)
82,691	82,349	82,349	(342)
118,292	103,368	103,368	(14,924)
2,145	1,850	1,850	(295)
3,873	3,500	3,500	(373)
112,790	105,100	106,496	(6,294)
616,439	538,000	538,000	(78,439)
	17,971	30,537	30,537
74,984	79,000	109,876	34,892
<u>1,341,120</u>	<u>1,233,354</u>	<u>1,278,192</u>	<u>(62,928)</u>
261,956	199,571	278,471	16,515
229,401	275,462	275,462	46,061
139,301	124,768	140,368	1,067
86,110	103,020	103,020	16,910
35,254	17,971	35,665	411
487,159	574,745	604,745	117,586
<u>1,239,181</u>	<u>1,295,537</u>	<u>1,437,731</u>	<u>198,550</u>
101,939	(62,183)	(159,539)	(261,478)
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
101,939	(62,183)	(159,539)	(261,478)
<u>1,285,229</u>	<u>1,285,229</u>	<u>1,285,229</u>	<u>-</u>
<u>\$ 1,387,168</u>	<u>\$ 1,223,046</u>	<u>\$ 1,125,690</u>	<u>\$ 261,478</u>

CITY OF CALMAR

NOTES TO OTHER INFORMATION – BUDGETARY REPORTING

June 30, 2012

The budgetary comparison is presented in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the general fund and each major special revenue fund.

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

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund or fund type. 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 from the general fund, the special revenue funds, the debt service fund, the capital projects funds 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 expenditures by \$142,194. The budget amendment is reflected in the final budgeted amounts.

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

123 West Water Street
P.O. Box 507
Decorah, Iowa 52101
Telephone 563 382-3637
Fax 563 382-5797

HACKER, NELSON & CO., P.C.
Certified Public Accountants
And Business Consultants

www.hackernelson.com

9 North Locust Avenue
P.O. Box 529
New Hampton, Iowa 50659
Telephone 641 394-2245
Fax 641 394-3138

**INDEPENDENT AUDITOR'S REPORT
ON THE SUPPLEMENTARY INFORMATION**

**To the Honorable Mayor and Members of the City Council
City of Calmar
Calmar, Iowa**

Our report on our audit of the financial statements of City of Calmar as of and for the year ended June 30, 2012 appears on pages 2 thru 3. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Calmar's financial statements as a whole. The combining nonmajor fund financial schedule, schedule of indebtedness, and bond and note maturities are presented for purposes of additional analysis and are not a required part of the financial statements. The combining nonmajor fund financial schedule, schedule of indebtedness, and bond and note maturities are the responsibility of management and were derived from and relate 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 the audit of the 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 information is fairly stated in all material respects in relation to the financial statements prepared on the cash basis as explained in the third paragraph of our report on page 2 as a whole.

Hacker, Nelson & Co., P.C.

Decorah, Iowa
September 4, 2012

CITY OF CALMAR
SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended June 30, 2012

	Special Revenue				Total
	Employee Benefits	Road Use Tax	Emergency	Debt Service	
RECEIPTS					
Property taxes	\$ 75,898		\$ 6,551	\$ 26,194	\$ 108,643
Other city tax	2,441		210		2,651
Intergovernmental		\$ 92,764			92,764
Total receipts	78,339	92,764	6,761	26,194	204,058
DISBURSEMENTS					
Operating					
Public safety	34,123				34,123
Public works	20,968	73,678			94,646
Culture and recreation	7,143				7,143
General government	10,383				10,383
Debt service				35,254	35,254
Total disbursements	72,617	73,678	-	35,254	181,549
Excess (deficiency) of receipts over disbursements	5,722	19,086	6,761	(9,060)	22,509
OTHER FINANCING SOURCES (USES)					
Transfers out			(6,728)		(6,728)
Total other financing sources (uses)	-	-	(6,728)	-	(6,728)
Net change in cash fund balances	5,722	19,086	33	(9,060)	15,781
Cash fund balances - beginning	(7,322)	27,735	52	5,957	26,422
Cash fund balances - ending	<u>\$ (1,600)</u>	<u>\$ 46,821</u>	<u>\$ 85</u>	<u>\$ (3,103)</u>	<u>\$ 42,203</u>
Cash Basis Fund Balances					
Restricted		\$ 46,821	\$ 85		\$ 46,906
Unassigned	\$ (1,600)			\$ (3,103)	(4,703)
	<u>\$ (1,600)</u>	<u>\$ 46,821</u>	<u>\$ 85</u>	<u>\$ (3,103)</u>	<u>\$ 42,203</u>

See Independent Auditor's Report on the Supplementary Information.

CITY OF CALMAR
SCHEDULE OF INDEBTEDNESS
For the Year Ended June 30, 2012

Bonded Indebtedness	Interest Rate	Issue Date	Amount Originally Issued	Outstanding July 1, 2011	Issued During Year	Paid During Year	Outstanding June 30, 2012	Interest Paid
GENERAL OBLIGATION								
Water improvement	3.70-3.95%	12/1/05	\$ 650,000	\$ 110,000		\$ 110,000	\$ -	\$ 4,345
REVENUE BONDS								
Sewer improvement	3.00%	12/12/03	2,300,000	1,461,000		94,000	1,367,000	43,830
SPECIAL ASSESSMENT BONDS								
Street improvement	4.65%	2/13/08	138,000	96,600		31,494	65,106	3,760
				<u>\$ 1,667,600</u>	<u>\$ -</u>	<u>\$ 235,494</u>	<u>\$ 1,432,106</u>	<u>\$ 51,935</u>

See Independent Auditor's Report on the Supplementary Information.

CITY OF CALMAR
 BOND AND NOTE MATURITIES
 For the Year Ended June 30, 2012

Year Ending June 30,	Revenue Bonds		Special Assessment Bonds	
	Sewer Improvement		Street Improvement	
	Issued December 12, 2003		Issued February 13, 2008	
	Interest Rates	Amount	Interest Rates	Amount
2013	3.000%	\$ 96,000	4.65%	\$ 13,800
2014	3.000%	99,000	4.65%	13,800
2015	3.000%	102,000	4.65%	13,800
2016	3.000%	105,000	4.65%	13,800
2017	3.000%	108,000	4.65%	9,906
2018	3.000%	112,000		
2019	3.000%	115,000		
2020	3.000%	119,000		
2021	3.000%	122,000		
2022	3.000%	126,000		
2023	3.000%	130,000		
2024	3.000%	133,000		
Totals		\$ 1,367,000		\$ 65,106

See Independent Auditor's Report on the Supplementary Information.

123 West Water Street
P.O. Box 507
Decorah, Iowa 52101
Telephone 563 382-3637
Fax 563 382-5797

HACKER, NELSON & CO., P.C.
Certified Public Accountants
And Business Consultants

www.hackernelson.com

9 North Locust Avenue
P.O. Box 529
New Hampton, Iowa 50659
Telephone 641 394-2245
Fax 641 394-3138

**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
City of Calmar
Calmar, Iowa

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Calmar as of and for the year ended June 30, 2012, which collectively comprise City of Calmar's basic financial statements and have issued our report thereon dated September 4, 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

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, as discussed below that we consider to be significant deficiencies in internal control over financial reporting. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

1. Financial Report Preparation

Reporting financial data reliably in accordance with generally accepted accounting principles requires management to possess expertise in preparing year-end financial statements, including footnote disclosures. As is common in small entities, management has the knowledge of accounting principles and the ability to review the financial statements and footnote disclosures for errors, they presently lack the training to prepare the year-end financial statements and footnote disclosures on their own.

Obtaining additional generally accepted accounting principles knowledge through reading relevant accounting literature and attending local professional education courses should help management significantly improve in their ability to prepare and take responsibility for reliable generally accepted accounting principles financial statements.

Recommendation

The City office personnel should continue to obtain training in governmental accounting and reporting when possible.

Response

Management is cognizant of this limitation.

Conclusion

Response accepted.

2. Overlapping Duties

The City's offices are not large enough to permit an adequate segregation of duties for effective internal controls. The concentration of closely related duties and responsibilities such as the recording and processing of cash receipts, preparing grant expenditure reports, preparing financial information for posting and analyzing financial information by a small staff makes it impossible to establish an adequate system of automatic internal checks on the accuracy and reliability of the accounting records.

Recommendation

While we do recognize that the City is not large enough to permit a segregation of duties for effective internal controls, we believe it is important the Council be aware that this condition does exist.

Response

Management is cognizant of this limitation.

Conclusion

Response accepted.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Calmar's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have 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 noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of City of Calmar in a separate letter dated September 4, 2012.

City of Calmar's response to the findings identified in our audit is described above. We did not audit City of Calmar's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Mayor and City Council, management, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Hacker, Nelson & Co., P.C.

Decorah, Iowa
September 4, 2012

MANAGEMENT LETTER

To the Honorable Mayor and Members of the City Council
City of Calmar
Calmar, Iowa

In planning and performing our audit of the basic financial statements of the City of Calmar for the year ended June 30, 2012, we considered the City's internal control to determine our auditing procedures for the purpose of expressing opinions on the financial statements and not to provide assurance on internal control.

In accordance with Chapter 11 of the Code of Iowa, we are required to report on the City's compliance with certain sections of the Iowa Code, Attorney General's Opinions and other matters. Items 1 through 8 below are compliance comments required by the Iowa Auditor of State. A separate report dated September 4, 2012, contains our report on significant deficiencies in the City's internal control. This letter does not affect our report dated September 4, 2012 on the basic financial statements of the City of Calmar. We did not audit the City's responses and, accordingly, we express no opinion on them.

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

1. Certified Budget
Disbursements for the year ended June 30, 2012 did not exceed the amounts budgeted.
2. 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 25, 1979.
3. Travel Expense
No expenditures of City money for travel expenses of spouses of City official and/or employees were noted.
4. Business Transactions
The City did not engage in business transactions with City officials or employees.
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 we 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 Chapters 12B and 12C of the Code of Iowa and the City's investment policy were noted. During our audit, we noted the depository resolution has not been updated since July 5, 2005. We also discovered in the two months tested, the depository resolution was exceeded.

Recommendation

The City should update the depository resolution annually and to make sure they are following the policy.

Response

The City will update their depository resolution. The depository resolution was exceeded in the two months before large loan payments were due to come out of the bank account so the account balances quickly dropped back below the depository resolution amount.

Conclusion

Response accepted.

8. Revenue Notes
No instances of noncompliance with the revenue bond and note resolutions were noted.

9. Disbursements
During our audit, we noted two invoices for reimbursement that did not have supporting documentation.

Recommendation

We recommend all invoices have supporting documents including a form for reimbursement.

Response

The City Clerk will recommend a reimbursement form be made and filled out properly by employees.

Conclusion

Response accepted.

10. Payroll
During our audit, we noted timesheets were not signed by any individual other than the employee and one timesheet did not match the hours on paycheck stub.

Recommendation

We recommend timesheets be reviewed and signed off by either a department head or the City Clerk. We also recommend the City Clerk double check the addition of hours on the timesheets.

Response

City Clerk will review timesheets.

Conclusion

Response accepted.

11. Financial Condition

At June 30, 2012, the debt service fund had a deficit balance of \$3,103 and the employee benefits fund had a deficit balance of \$1,600.

Recommendation

The City should investigate alternatives to eliminate these deficits in order to return this fund to a sound financial position.

Response

The debt service fund has been restored to a positive balance. The negative balance was due to a home owner not paying their special assessments. The employee benefit fund had a negative balance due to three additional employees going on the family plan after the budget was prepared. The City will request more in the employee benefit fund in the future to account for this but will amend the current budget to transfer funds in to cover the shortage.

Conclusion

Response accepted.

This report, a public record by law, is intended solely for the information and use of the City Council, management, and citizens of the City of Calmar and federal awarding agencies and pass-through entities whom the City may report. The 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 the personnel of the City of Calmar during the course of our examination.

If you have any questions concerning these or other matters, we would be happy to discuss them with you at your convenience.

Hacker, Nelson & Co., P.C.

Decorah, Iowa
September 4, 2012