

CLEAR LAKE SANITARY DISTRICT
FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
JUNE 30, 2012

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**CLEAR LAKE SANITARY DISTRICT
Officials**

| <u>Name</u> | <u>Title</u> | <u>Term Expires</u> |
|--|------------------------|---------------------|
| Board of Trustees (as of June 30, 2012) | | |
| John R. Miller | President/Trustee | January 1, 2013 |
| Kelly McLaughlin | Vice President/Trustee | January 1, 2017 |
| Robert Wolfram | Clerk/Trustee | January 1, 2015 |
| Lothar Meyer | Treasurer/Trustee | January 1, 2017 |
| Tim Clark | Trustee | January 1, 2013 |
| Attorney | | |
| Douglas R. Grabinski | | |
| Administrator | | |
| Kevin Moler | | |

Independent Auditor's Report

To the Board of Trustees
Clear Lake Sanitary District

We have audited the accompanying financial statements of the Clear Lake Sanitary District as of and for the year ended June 30, 2012. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion 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 statements presentation. We believe our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Clear Lake Sanitary District at June 30, 2012, and the changes in its financial position and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated December 14, 2012 on our consideration of the Clear Lake Sanitary District'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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

U.S. generally accepted accounting principles require Management's Discussion and Analysis on pages 3 through 6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplemental information in accordance with U.S. generally accepted auditing standards, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the required supplementary information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Potter & Brant, P.L.C.

Potter & Brant, P.L.C.
Certified Public Accountants
Clear Lake, IA

December 14, 2012

CLEAR LAKE SANITARY DISTRICT
Management's Discussion and Analysis
June 30, 2012

The Clear Lake Sanitary District 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 District's financial statements, which follow.

FINANCIAL HIGHLIGHTS

- The District's operating revenues increased 1%, or \$14,829, from fiscal year 2011 to fiscal year 2012.
- The District's operating expenses were 6%, or \$115,503, more in fiscal year 2012 than in fiscal year 2011.
- The District's net assets increased 3%, or \$369,293, from June 30, 2011 to June 30, 2012.

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 District's financial activities.
- The Statement of Net Assets presents information on the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.
- The Statement of Revenues, Expenses and Changes in Net Assets is the basic statement of activities for proprietary funds. This statement presents information on the District's operating revenues and expenses, non-operating revenues and expenses and whether the District's financial position has improved or deteriorated as a result of the year's activities.
- The Statement of Cash Flows presents the change in the District's cash and cash equivalents during the year. This information can assist readers of the report in determining how the District financed its activities and how it met its cash requirements.
- Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.
- Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year.

FINANCIAL ANALYSIS OF THE DISTRICT

Statement of Net Assets

As noted earlier, net assets may serve over time as a useful indicator of the District's financial position. The District's net assets at the end of fiscal year 2012 totaled approximately \$16,123,000. This compares to approximately \$15,754,000 at the end of fiscal year 2011. For 2012, unrestricted net assets totaled approximately \$15,599,000 and restricted assets totaled approximately \$524,000.

**CLEAR LAKE SANITARY DISTRICT
Management's Discussion and Analysis
June 30, 2012**

A summary of the District's net assets is presented below.

| Net Assets | | |
|---|-----------------|---------------|
| | June 30, | |
| | 2012 | 2011 |
| Current assets | \$ 3,724,369 | \$ 3,571,942 |
| Capital assets, at cost, less accumulated depreciation | 16,767,568 | 17,526,492 |
| Noncurrent assets | 204,443 | 222,596 |
| Total assets | 20,696,380 | 21,321,030 |
| Current liabilities | 938,458 | 1,052,401 |
| Noncurrent liabilities | 3,635,000 | 4,515,000 |
| Total liabilities | 4,573,458 | 5,567,401 |
| Net assets: | | |
| Unrestricted | 15,598,578 | 15,339,474 |
| Restricted | 524,344 | 414,155 |
| Total net assets | \$ 16,122,922 | \$ 15,753,629 |

The unrestricted portion of the District's net assets (97%) may be used to meet the District's obligations as they come due. The remaining net assets are restricted for the Sinking Fund, Reserve Fund, Debt Service Fund, Sewer Revenue Improvement Fund and County Sewer Line Fund.

Statement of Revenues, Expenses and Changes in Net Assets

Operating revenues are received for property taxes and for sewer rental and connection fees. Operating expenses are expenses paid to operate the District. Non-operating revenues and expenses are for interest income and interest expense. The utilization of capital assets is reflected in the financial statements as depreciation, which allocates the cost of an asset over its expected useful life. A summary of revenues, expenses and changes in net assets for the years ended June 30, 2012 and 2011 is presented below.

| Changes in Net Assets | | |
|-------------------------------------|----------------------------|-------------|
| | Year ended June 30, | |
| | 2012 | 2011 |
| Operating revenues: | | |
| Property taxes | \$ 745,840 | \$ 762,702 |
| Sewer rentals and connection fees | 1,418,366 | 1,400,561 |
| Other operating revenues | 416,374 | 402,488 |
| Total operating revenues | 2,580,580 | 2,565,751 |
| Operating expenses: | | |
| Salaries | 483,002 | 459,628 |
| Payroll taxes and employee benefits | 202,304 | 180,739 |
| Office supplies | 33,080 | 22,570 |
| Professional fees | 15,055 | 15,693 |
| Printing and postage | 20,784 | 20,437 |
| Insurance | 44,385 | 39,293 |

CLEAR LAKE SANITARY DISTRICT
Management's Discussion and Analysis
June 30, 2012

| | | |
|------------------------------------|----------------------|----------------------|
| Dues and subscriptions | 2,441 | 5,788 |
| Trustee fees | 7,900 | 10,340 |
| Contract services | 0 | 864 |
| Telephone | 5,719 | 5,382 |
| Education and training | 2,795 | 4,721 |
| Travel and mileage | 2,500 | 3,846 |
| Repairs and maintenance | 136,725 | 52,604 |
| Engineering | 6,342 | 0 |
| Utilities | 145,029 | 194,074 |
| Sludge disposal | 20,095 | 32,069 |
| Programming | 2,480 | 4,332 |
| Plant and laboratory supplies | 61,076 | 50,968 |
| Depreciation | 914,225 | 893,687 |
| County sewer | 12,072 | 12,366 |
| Sump pump inspections | 0 | (7,418) |
| Miscellaneous | 5,328 | 5,851 |
| Total operating expenses | <u>2,123,337</u> | <u>2,007,834</u> |
| Operating income | <u>457,243</u> | <u>557,917</u> |
| Non-operating revenues (expenses): | | |
| Interest income | 5,340 | 5,221 |
| Gain on sale of capital asset | 100 | 0 |
| Interest expense and fees | (93,390) | (195,003) |
| Net non-operating (expenses) | <u>(87,950)</u> | <u>(189,782)</u> |
| Change in net assets | 369,293 | 368,135 |
| Net assets, beginning of year | <u>15,753,629</u> | <u>15,385,494</u> |
| Net assets, end of year | <u>\$ 16,122,922</u> | <u>\$ 15,753,629</u> |

The Statement of Revenues, Expenses and Changes in Net Assets reflects a positive year with an increase in net assets at the end of the fiscal year. In fiscal year 2012, operating revenues increased \$14,829, or 1%. Operating expenses increased \$115,503, or 6%, primarily a result of repairs and maintenance increasing approximately \$84,000.

Statement of Cash Flows

The Statement of Cash Flows presents information related to cash inflows and outflows, summarized by operating, capital and related financing and investing activities. Cash provided by operating activities includes property taxes and sewer rental and connection fees reduced by payments to employees and to suppliers. Cash used by capital and related financing activities includes long-term debt payments and the purchase of capital assets. Cash used by investing activities includes purchases and sales of certificates of deposit and interest income.

CLEAR LAKE SANITARY DISTRICT
Management's Discussion and Analysis
June 30, 2012

CAPITAL ASSETS

At June 30, 2012 the District had approximately \$16,768,000 invested in capital assets, net of accumulated depreciation of approximately \$15,525,000. Depreciation expense totaled \$914,225 for fiscal 2012. More detailed information about the District's capital assets is presented in Note 8 to the financial statements.

LONG-TERM DEBT

At June 30, 2012, the District had \$2,590,000 in general obligation bonds outstanding, a decrease of \$475,000 from 2011. The District also had \$1,925,000 in revenue bonds outstanding, a decrease of \$375,000 from 2011. Additional information about the District's long-term debt is presented in Note 4 to the financial statements.

The Constitution of the State of Iowa limits the amount of general obligation debt sanitary districts can issue to 5% of the assessed value of all taxable property within the District's corporate limits. The District's outstanding general obligation debt of \$2,590,000 is significantly below its constitutional debt limit of approximately \$23,000,000.

ECONOMIC FACTORS

The District continued to improve its financial position during the current fiscal year. However, the current condition of the economy in the state continues to be a concern for District officials. Some of the realities that may potentially become challenges for the District to meet are:

- Facilities at the District require constant maintenance and upkeep.
- Technology continues to expand and current technology becomes outdated presenting an on going challenge to maintain up-to-date technology at a reasonable cost.

The District anticipates the current fiscal year will be much like the last fiscal year and will maintain a close watch over resources to maintain the District's ability to react to unknown issues.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Clear Lake Sanitary District, 5631 235th Street, Clear Lake, Iowa 50428.

Basic Financial Statements

CLEAR LAKE SANITARY DISTRICT
Statement of Net Assets
June 30, 2012

ASSETS

| | | |
|--|------------|----------------------|
| Current assets: | | |
| Cash | \$ 545,038 | |
| Investments | 2,953,250 | |
| Receivables: | | |
| Accounts | 77,354 | |
| Taxes | 7,629 | |
| Delinquent special assessment | 56,257 | |
| Interest | 26,223 | |
| Prepaid expenses | 58,618 | |
| Total current assets | | 3,724,369 |
| Noncurrent assets: | | |
| Note receivable | 118,597 | |
| Unamortized bond issuance costs | 85,846 | |
| Capital assets (net of accumulated depreciation) | 16,767,568 | |
| Total noncurrent assets | | 16,972,011 |
| TOTAL ASSETS | | \$ 20,696,380 |

LIABILITIES

| | | |
|--|-----------|------------------|
| Current liabilities: | | |
| Accounts payable | \$ 26,428 | |
| Salaries and benefits payable | 21,629 | |
| Current portion of general obligation bonds payable | 505,000 | |
| Current portion of revenue bonds payable | 375,000 | |
| Accrued liabilities | 10,401 | |
| Total current liabilities | | 938,458 |
| Noncurrent liabilities: | | |
| General obligation bonds payable, less current portion | 2,085,000 | |
| Revenue notes payable, less current portion | 1,550,000 | |
| Total noncurrent liabilities | | 3,635,000 |
| Total Liabilities | | 4,573,458 |

NET ASSETS

| | | |
|---|------------|----------------------|
| Unrestricted: | | |
| Operations and maintenance fund | - | |
| Board designated: | | |
| Revenue fund | 125,000 | |
| Capital improvement fund | 12,663,799 | |
| Replacement fund | 2,809,779 | |
| Total unrestricted net assets | | 15,598,578 |
| Restricted: | | |
| Sinking fund | 33,973 | |
| Reserve fund | 266,000 | |
| Sewer revenue improvement fund | 157,500 | |
| Debt service fund | 33,924 | |
| County sewer line fund | 32,947 | |
| Total restricted net assets | | 524,344 |
| Total Net Assets | | 16,122,922 |
| TOTAL LIABILITIES AND NET ASSETS | | \$ 20,696,380 |

See accompanying notes to financial statements.

CLEAR LAKE SANITARY DISTRICT
Statement of Revenues, Expenses and Changes in Net Assets - Proprietary Funds
For the Year Ended June 30, 2012

| | Major Funds | | | | |
|---|--------------------------|-------------------------------|-------------------------|--------------------------|----------------------------|
| | Revenue Fund | Operations & Maintenance Fund | Sinking Fund | Reserve Fund | Capital Improvement Fund |
| Operating revenues: | | | | | |
| Real estate and personal property taxes | \$ 745,840 | \$ - | \$ - | \$ - | \$ - |
| Sewer rentals and connection fees | 1,418,366 | - | - | - | - |
| Interest on investments | 1,732 | - | - | - | - |
| Alliant project | 258,032 | - | - | - | - |
| County sewer | 21,027 | - | - | - | - |
| Other operating revenues | 81,074 | - | - | - | - |
| Total operating revenues | <u>2,526,071</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Operating expenses: | | | | | |
| Salaries | - | 483,002 | - | - | - |
| Payroll taxes and employee benefits | - | 202,304 | - | - | - |
| Office supplies | - | 24,191 | - | - | - |
| Professional fees | - | 15,055 | - | - | - |
| Printing and postage | - | 20,784 | - | - | - |
| Insurance | - | 44,385 | - | - | - |
| Dues and subscriptions | - | 2,441 | - | - | - |
| Trustee fees | - | 7,900 | - | - | - |
| Telephone | - | 5,719 | - | - | - |
| Education and training | - | 2,795 | - | - | - |
| Travel and mileage | - | 2,500 | - | - | - |
| Repairs and maintenance | - | 74,351 | - | - | - |
| Engineering | - | 6,342 | - | - | - |
| Utilities | - | 145,029 | - | - | - |
| Sludge disposal | - | 20,095 | - | - | - |
| Programming | - | 2,480 | - | - | - |
| Plant and laboratory supplies | - | 61,076 | - | - | - |
| Depreciation | - | - | - | - | 914,225 |
| County sewer | - | - | - | - | - |
| Miscellaneous | - | 5,328 | - | - | - |
| Total operating expenses | <u>-</u> | <u>1,125,777</u> | <u>-</u> | <u>-</u> | <u>914,225</u> |
| Operating income | <u>2,526,071</u> | <u>(1,125,777)</u> | <u>-</u> | <u>-</u> | <u>(914,225)</u> |
| Non-operating revenues (expenses): | | | | | |
| Interest income | 5,340 | - | - | - | - |
| Interest expense, amortization and fees | - | - | (44,064) | - | - |
| Sale of fixed asset | 100 | - | - | - | - |
| Net non-operating revenues (expenses) | <u>5,440</u> | <u>-</u> | <u>(44,064)</u> | <u>-</u> | <u>-</u> |
| Change in net assets | 2,531,511 | (1,125,777) | (44,064) | - | (914,225) |
| Transfers in (out) | (2,531,511) | 1,125,777 | 43,752 | - | 1,005,328 |
| Net assets, beginning of year | <u>125,000</u> | <u>-</u> | <u>34,285</u> | <u>266,000</u> | <u>12,572,696</u> |
| Net assets, end of year | <u>\$ 125,000</u> | <u>\$ -</u> | <u>\$ 33,973</u> | <u>\$ 266,000</u> | <u>\$12,663,799</u> |

See accompanying notes to financial statements.

CLEAR LAKE SANITARY DISTRICT
Statement of Revenues, Expenses and Changes in Net Assets - Proprietary Funds
For the Year Ended June 30, 2012

| Debt Service Fund | Major Funds | | Nonmajor | Total |
|----------------------|--------------------------------------|---------------------|------------------------------|---------------------|
| | Sewer Revenue Improvement Fund | Replacement Fund | County Sewer Line Fund | |
| \$ - | \$ - | \$ - | \$ - | \$ 745,840 |
| - | - | - | - | 1,418,366 |
| - | - | 54,509 | - | 56,241 |
| - | - | - | - | 258,032 |
| - | - | - | - | 21,027 |
| - | - | - | - | 81,074 |
| <u>-</u> | <u>-</u> | <u>54,509</u> | <u>-</u> | <u>2,580,580</u> |
| - | - | - | - | 483,002 |
| - | - | - | - | 202,304 |
| - | - | 8,889 | - | 33,080 |
| - | - | - | - | 15,055 |
| - | - | - | - | 20,784 |
| - | - | - | - | 44,385 |
| - | - | - | - | 2,441 |
| - | - | - | - | 7,900 |
| - | - | - | - | 5,719 |
| - | - | - | - | 2,795 |
| - | - | - | - | 2,500 |
| - | - | 62,374 | - | 136,725 |
| - | - | - | - | 6,342 |
| - | - | - | - | 145,029 |
| - | - | - | - | 20,095 |
| - | - | - | - | 2,480 |
| - | - | - | - | 61,076 |
| - | - | - | - | 914,225 |
| - | - | - | 12,072 | 12,072 |
| - | - | - | - | 5,328 |
| <u>-</u> | <u>-</u> | <u>71,263</u> | <u>12,072</u> | <u>2,123,337</u> |
| <u>-</u> | <u>-</u> | <u>(16,754)</u> | <u>(12,072)</u> | <u>457,243</u> |
| - | - | - | - | 5,340 |
| (49,326) | - | - | - | (93,390) |
| - | - | - | - | 100 |
| <u>(49,326)</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>(87,950)</u> |
| (49,326) | - | (16,754) | (12,072) | 369,293 |
| 60,872 | 90,000 | 184,755 | 21,027 | - |
| <u>22,378</u> | <u>67,500</u> | <u>2,641,778</u> | <u>23,992</u> | <u>15,753,629</u> |
| <u>\$ 33,924</u> | <u>\$ 157,500</u> | <u>\$ 2,809,779</u> | <u>\$ 32,947</u> | <u>\$16,122,922</u> |

See accompanying notes to financial statements.

CLEAR LAKE SANITARY DISTRICT
Statement of Cash Flows
For the Year Ended June 30, 2012

| | |
|---|---------------------|
| Cash flows from operating activities: | |
| Cash received from real estate and personal property taxes | \$ 748,205 |
| Cash received from sewer rentals and connection fees | 1,431,535 |
| Cash received from other revenues | 418,247 |
| Cash paid to suppliers for goods and services | (863,261) |
| Cash paid to employees and trustees for services | (485,776) |
| Net cash provided by operating activities | <u>1,248,950</u> |
| Cash flows from capital and related financing activities: | |
| Principal paid on revenue notes | (375,000) |
| Interest and fees paid on revenue notes | (36,617) |
| Principal paid on general bonds | (475,000) |
| Interest and fees paid on general bonds | (39,313) |
| Payments for work in progress | (46,785) |
| Purchase of capital assets | (108,516) |
| Sale of capital assets | 100 |
| Net cash used by capital and related financing activities | <u>(1,081,131)</u> |
| Cash flows from investing activities: | |
| Purchase of certificates of deposit | (1,632,701) |
| Sale of certificates of deposit | 1,285,395 |
| Principal received on note receivable | 693 |
| Interest received on note receivable | 5,340 |
| Net cash used by investing activities | <u>(341,273)</u> |
| Net decrease in cash and cash equivalents | (173,454) |
| Cash and cash equivalents beginning of year | <u>718,492</u> |
| Cash and cash equivalents end of year | <u>\$ 545,038</u> |
| Reconciliation of operating income to net cash provided by operating activities: | |
| Operating income | <u>\$ 457,243</u> |
| Adjustments to reconcile operating income to net cash provided by operating activities: | |
| Depreciation | 914,225 |
| Changes in assets and liabilities: | |
| Decrease in accounts receivable | 22,906 |
| Increase in prepaid expenses | (1,481) |
| Decrease in accounts payable | (129,987) |
| Increase in salary and benefits payable | 5,126 |
| Decrease in accrued liabilities | (19,082) |
| Total adjustments | <u>791,707</u> |
| Net cash provided by operating activities | <u>\$ 1,248,950</u> |

See accompanying notes to financial statements.

CLEAR LAKE SANITARY DISTRICT
Notes to Financial Statements
June 30, 2012

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Clear Lake Sanitary District is incorporated under the laws of the State of Iowa. The District operates under a Board of Trustees consisting of five members. The District is an independent taxing authority organized under Chapter 358 of the Iowa Code and has the ability to issue debt. Therefore, its financial statements are not included in the financial statements of the City of Clear Lake. The purpose of the District is to safely collect, treat, and properly dispose of wastewater generated by businesses and residents in an effort to protect the environment with an emphasis on lake water quality. Its territory includes the City of Clear Lake, Iowa, and Ventura, Iowa and the unincorporated area surrounding the lake, and is located in Cerro Gordo County.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

Reporting Entity

For financial reporting purposes, the District has included all funds, organizations, account groups, agencies, boards, commissions and authorities that are not legally separate. The District 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 District are such that exclusion would cause the District'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 District 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 District. The District has no component units which meet the Governmental Accounting Standards Board criteria.

Basis of Presentation

The accounts of the Clear Lake Sanitary District are organized as an Enterprise Fund. Enterprise Funds are used to account for operations (a) financed and operated in a manner similar to private business enterprises, where the intent of the governing body is the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or (b) where the governing body has decided periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes. The District reports the following major enterprise funds:

Revenue Fund – The majority of the District's revenue begins in this fund and is then distributed to the various funds according to bond requirements. The District has designated \$125,000 to remain in this fund after all other revenue is distributed.

Operations & Maintenance Fund – Most of the District's basic services are reported here, which include providing sanitary sewer lines and facilities for the safe treatment and disposal of wastewater for property owners in the District. Revenue is transferred to this fund each month to cover operating and maintenance expenses.

Sinking Fund – Revenue is transferred to this fund to cover the principal and interest payments on the Sewer Revenue Refunding Capital loan. Each month one sixth of the next interest payment due and one twelfth of the next principal payment due must be deposited into this fund.

Reserve Fund – This fund must maintain a balance equal to the lesser of a) the maximum annual amount of the principal and interest payment coming due on the note, b) 10% of the stated

CLEAR LAKE SANITARY DISTRICT
Notes to Financial Statements
June 30, 2012

principal amount of the note, or c) 125% of the average annual principal and interest coming due on the note.

Sewer Revenue Improvement Fund – This fund represents funds that are available for the payments of interest or principal when the Sinking Fund has insufficient funds available. If not needed for that purpose, then the funds can be used for the cost of extraordinary maintenance expenses or repairs, renewals and replacements, or other capital improvements not included in the annual budget of revenues and current expenses. Each month, \$7,500 should be set aside until the funds reach \$250,000.

Capital Improvement Fund – This fund represents funds that are available for upcoming capital improvements. The remaining revenue is distributed to this fund after all other fund balance requirements have been met.

Debt Service Fund – This fund is utilized to account for the payment of interest and principal on the District's general obligation long-term debt.

Replacement Fund – This fund represents an amount designated by the Board of Trustees for future equipment replacement and improvements.

Measurement Focus and Basis of Accounting

The District's basic financial statements are prepared in conformity with accounting principles generally accepted in the United States of America as they are applicable to governmental units. The Government Accounting Standard Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The financial statements are reported on the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The District applies all applicable GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure.

The District distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the District's principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

Assets, Liabilities and Net Assets

The following accounting policies are followed in preparing the Statement of Net Assets:

Cash, Investments and Cash Equivalents – The District considers all short-term investments that are highly liquid to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, have a maturity date no longer than three months. Cash investments not meeting the definition of cash equivalents at June 30, 2012 include certificates of deposit of \$2,953,250.

CLEAR LAKE SANITARY DISTRICT
Notes to Financial Statements
June 30, 2012

Restricted Investments – Funds set aside for payment of sinking fund, reserve fund, debt service fund and county sewer line fund costs are classified as restricted.

Capital Assets – Capital assets are accounted for at historical cost. Depreciation of all exhaustible capital assets is charged as an expense against operations. The cost of repair and maintenance is charged to expense while the cost of renewals or substantial betterments is capitalized. The cost and accumulated depreciation of assets disposed of are deleted, with any gain or loss recorded in current operations.

Reportable capital assets are defined by the District as assets with initial, individual costs in excess of \$5,000 and estimated useful lives in excess of two years.

Capital assets of the District are depreciated using the straight line method over the following estimated useful lives:

| | |
|----------------------------|---------------|
| Buildings and Improvements | 30 – 40 years |
| Machinery and Equipment | 4 – 20 years |
| Sewer Infrastructure | 8 – 50 years |

Long-term Obligations – Long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Bond issuance costs are reported as deferred charges and are amortized over the life of the bonds.

Compensated Absences – District employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, retirement or death. Employees are also allowed to bank overtime as comp time to be used at a later date. Accumulated sick leave is not paid out upon retirement or termination of employment. The District's liability for accumulated vacation and comp time at June 30, 2012 and 2011, was \$13,936 and \$10,879, respectively. This liability has been computed based on rates of pay in effect at June 30, 2012 and 2011.

NOTE 2. CASH AND POOLED INVESTMENTS

The District's deposits in banks at June 30, 2012 were entirely covered by federal depository insurance or 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 District 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 Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The District had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3, as amended by Statement No. 40.

Investments are in certificates of deposit and are stated at fair value.

At June 30, 2012, the District had the following investments:

| <u>Certificates of Deposit</u> | <u>Interest Rate</u> | <u>Date Matures</u> | <u>Cost</u> | <u>Fair Value</u> |
|--------------------------------|----------------------|---------------------|---------------------|---------------------|
| Farmers State Bank | 1.75% | 11/16/12 | \$ 822,835 | \$ 822,835 |
| Farmers State Bank | 2.25% | 06/20/14 | 600,000 | 600,000 |
| Farmers State Bank | 1.75% | 12/20/12 | 521,013 | 521,013 |
| Farmers State Bank | 1.50% | 08/16/13 | 505,644 | 505,644 |
| Farmers State Bank | 1.50% | 12/21/13 | 503,758 | 503,758 |
| | | | <u>\$ 2,953,250</u> | <u>\$ 2,953,250</u> |

CLEAR LAKE SANITARY DISTRICT
Notes to Financial Statements
June 30, 2012

NOTE 3. NOTES RECEIVABLE

On January 8, 2008, the District entered into an agreement with the City of Clear Lake to loan them \$120,000 to financially assist with the installation of sanitary sewer infrastructure serving the Industrial Park 3rd Addition. This loan of \$120,000 at four percent (4.0%) interest for a term of seven years will be forgivable proportionate to the culmination of sewer use and property tax revenues received by the District as generated by businesses/parcels within the Industrial Park 3rd Addition during the seven year term beginning January 1, 2008 and ending December 31, 2014.

The note's interest and principal payments are due from the City of Clear Lake as follows:

| <u>Year Ending June 30</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|----------------------------|------------------|-----------------|--------------|
| 2015 | \$ 118,597 | \$ 22,892 | \$ 141,490 |

NOTE 4. LONG-TERM LIABILITIES

General obligation bonds and revenue bonds have been issued by Clear Lake Sanitary District to improve the sanitary sewer plant and collection system. These bonds were refinanced in 2011 and are required to be fully paid within 6 years from the date of issue and are backed by the full faith and credit of the Clear Lake Sanitary District.

Annual debt service requirements to maturity for general obligation and revenue bonds of the District as of June 30, 2012 are as follows:

| <u>Year Ending June 30</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|----------------------------|--------------------|-------------------|---------------------|
| 2013 | \$ 880,000 | \$ 68,171 | \$ 948,171 |
| 2014 | 890,000 | 58,872 | 948,872 |
| 2015 | 900,000 | 47,814 | 947,814 |
| 2016 | 915,000 | 33,915 | 948,915 |
| 2017 | 930,000 | 16,620 | 946,620 |
| Totals | <u>\$4,515,000</u> | <u>\$ 225,392</u> | <u>\$ 4,740,392</u> |

A summary of the terms of the general obligation and revenue bond issues are as follows:

Project Construction – Iowa State Revolving Fund – Series 2010. Originally issued 2/25/97, refinanced 10/28/10, maturity date 6/1/17. Interest rate is from 0.80% to 2.25%. Outstanding balance as of June 30, 2012 and 2011, were \$1,925,000 and \$2,300,000, respectively.

Refinancing/refunding and sewer improvements – Series 2010B. Originally issued 5/31/05, refinanced 11/30/10, maturity date 6/1/17. Interest rate is from 0.60% to 1.95%. Outstanding balance as of June 30, 2012 and 2011, were \$2,590,000 and \$3,065,000, respectively.

The Code of Iowa requires that principal and interest on general obligation capital loan notes be paid from the Debt Service Fund.

The resolutions providing for the issuance of the general obligation capital loan notes dated May 2005 include the following provision:

The notes will be redeemed by a levy of annual tax on all taxable property in the Sanitary District, Cerro Gordo County, Iowa.

The resolutions providing for the issuance of the Clean Water State Revolving Fund loan dated February 1997 includes the following provision:

A Sinking Fund shall be created. The Sinking Fund shall be used solely for the purpose of paying principal and interest on the loan.

CLEAR LAKE SANITARY DISTRICT
Notes to Financial Statements
June 30, 2012

NOTE 5. BUDGETS AND BUDGETARY ACCOUNTING

The budgetary comparison and related disclosures are reported as required supplementary information.

NOTE 6. PENSION AND RETIREMENT BENEFITS

The District 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.

Plan members are required to contribute 5.38% of their annual covered salary and the District is required to contribute 8.07% of covered salary. Contribution requirements are established by state statute. The District's contribution to IPERS for the years ended June 30, 2012, 2011, and 2010 were \$38,915, \$31,197, and \$26,885 respectively, equal to the required contribution for each year.

NOTE 7. LONG-TERM CONTRACT

The District entered into a contract with Alliant Energy (IPL) on July 25, 2003 for water use and discharge services for the term of 25 years, subject to right of termination by both parties. IPL shall have the option to extend the term of this agreement for a renewable term of 10 years from the expiration of the initial term. IPL paid for the direct costs associated with the design, procurement, and construction of certain improvements to the District's Wastewater Treatment System. IPL makes monthly payments to the District, which began at \$18,000 per month and will adjust annually on the anniversary date by the percent increase or decrease in the Consumer Price Index, All Urban Consumers, U.S. City Average (CPI-U). Total received on the contract for the year ended June 30, 2012 was \$258,032.

NOTE 8. CAPITAL ASSETS

A summary of capital assets at June 30, 2012 is as follows:

| | Balance Beginning of Year | Increases | Decreases | Balance End of Year |
|---|--|---------------------|--------------------|------------------------------------|
| Capital assets not being depreciated: | | | | |
| Land | \$ 58,532 | \$ --- | \$ --- | \$ 58,532 |
| Construction-in-progress | 344,199 | 46,785 | 344,199 | 46,785 |
| Total capital assets not being depreciated | <u>\$ 402,731</u> | <u>\$ 46,785</u> | <u>\$ 344,199</u> | <u>\$ 105,317</u> |
| Capital assets being depreciated: | | | | |
| Buildings | \$ 6,292,628 | \$ --- | \$ --- | \$ 6,292,628 |
| Improvements | 333,770 | 13,456 | --- | 347,226 |
| Machinery & equipment | 1,781,804 | 62,274 | 8,995 | 1,835,083 |
| Sewer infrastructure | 23,360,504 | 376,986 | 24,424 | 23,713,066 |
| Total capital assets being depreciated | <u>\$ 31,768,706</u> | <u>\$ 452,716</u> | <u>\$ 33,419</u> | <u>\$ 32,188,003</u> |
| Less accumulated depreciation for: | | | | |
| Buildings | \$ (2,095,886) | \$ (169,596) | \$ --- | \$ (2,265,482) |
| Improvements | (56,615) | (10,046) | --- | (66,661) |
| Machinery & equipment | (1,375,897) | (114,859) | (8,995) | (1,481,761) |
| Sewer infrastructure | (11,116,547) | (619,725) | (24,424) | (11,711,848) |
| Total accum. depreciation for capital assets depreciated | <u>\$(14,644,945)</u> | <u>\$ (914,226)</u> | <u>\$ (33,419)</u> | <u>\$(15,525,752)</u> |
| Total capital assets, net | <u>\$ 17,526,492</u> | <u>\$ (414,725)</u> | <u>\$ ---</u> | <u>\$ 16,767,568</u> |

CLEAR LAKE SANITARY DISTRICT
Notes to Financial Statements
June 30, 2012

NOTE 9. RISK MANAGEMENT

The District is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose approximate 659 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public official liability, police professional liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 200% of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

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

The District's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The District's contributions to the Pool for the year ended June 30, 2012 were \$33,540.

NOTE 10. DUE FROM AND DUE TO OTHER FUNDS

The detail of inter-fund receivables and payables at June 30, 2012 is as follows:

| <u>Receivable Fund</u> | <u>Payable Fund</u> | <u>Amount</u> |
|--------------------------|---------------------|---------------|
| Capital Improvement | Revenue | \$ (280,417) |
| Debt Service | Capital Improvement | 2,530,000 |
| Sinking | Capital Improvement | 1,871,000 |
| Capital Improvement | Various | (4,134,927) |
| Operations & Maintenance | Capital Improvement | 14,344 |

NOTE 11. EVALUATION OF SUBSEQUENT EVENTS

The District has evaluated subsequent events through December 14, 2012, the date which the financial statements were available to be issued.

Required Supplementary Information

CLEAR LAKE SANITARY DISTRICT
Budgetary Comparison Schedule of Receipts, Disbursements
and Changes in Balances - Budget & Actual (Cash Basis)
Required Supplementary Information
For the Year Ended June 30, 2012

| | <u>Total Actual</u> | <u>Final Budget</u> | <u>Final to Actual Variance</u> |
|---|----------------------------|----------------------------|-------------------------------------|
| Receipts: | | | |
| Real estate and personal property taxes | \$ 748,205 | \$ 744,116 | \$ 4,089 |
| Sewer rentals and connection fees | 1,431,535 | 1,405,039 | 26,496 |
| Interest income | 55,787 | 50,750 | 5,037 |
| Alliant project | 258,032 | 256,500 | 1,532 |
| County sewer | 21,027 | 21,600 | (573) |
| Other | 88,841 | 71,100 | 17,741 |
| Total receipts | <u>2,603,427</u> | <u>2,549,105</u> | <u>54,322</u> |
| Disbursements: | | | |
| Operations, maintenance & replacement | 1,340,981 | 1,184,957 | 156,024 |
| County sewer | 12,072 | 21,600 | (9,528) |
| Capital improvements | 155,301 | 589,756 | (434,455) |
| Debt service fund | 524,327 | 534,491 | (10,164) |
| Sinking fund | 419,065 | 411,825 | 7,240 |
| Total disbursements | <u>2,451,746</u> | <u>2,742,629</u> | <u>(290,883)</u> |
| Excess (deficiency) of receipts over (under) disbursement | 151,681 | (193,524) | 345,205 |
| Balances, beginning of year | <u>3,413,616</u> | <u>2,448,407</u> | <u>965,209</u> |
| Balances, end of year | <u><u>\$ 3,565,297</u></u> | <u><u>\$ 2,254,883</u></u> | <u><u>\$ 1,310,414</u></u> |

See accompanying independent auditor's report.

**CLEAR LAKE SANITARY DISTRICT
Budget to GAAP Reconciliation
Required Supplementary Information
For the Year Ended June 30, 2012**

| | <u>Cash Basis</u> | <u>Accrual Adjustments</u> | <u>Accrual Basis</u> |
|--|----------------------------|--------------------------------|-----------------------------|
| Revenues | \$ 2,603,427 | \$ (17,407) | \$ 2,586,020 |
| Expenditures/expenses | <u>(2,451,746)</u> | <u>235,019</u> | <u>(2,216,727)</u> |
| Net | 151,681 | 217,612 | 369,293 |
| Beginning fund balances/net assets | <u>3,413,616</u> | <u>12,340,013</u> | <u>15,753,629</u> |
| Ending fund balances/net assets | <u><u>\$ 3,565,297</u></u> | <u><u>\$ 12,557,625</u></u> | <u><u>\$ 16,122,922</u></u> |

See accompanying independent auditor's report.

CLEAR LAKE SANITARY DISTRICT
Notes to Required Supplementary Information - Budgetary Reporting
For the Year Ended June 30, 2012

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41.

In accordance with the Code of Iowa, the District 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 business type activities. Function disbursements required to be budgeted include disbursements for the General Fund and the Debt Service Fund. During the year, no budget amendments were made.

**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**

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 Board of Trustees
Clear Lake Sanitary District

We have audited the accompanying financial statements of the Clear Lake Sanitary District as of and for the year ended June 30, 2012, and have issued our report thereon dated December 14, 2012. 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 Clear Lake Sanitary District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Clear Lake Sanitary District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Clear Lake Sanitary District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Clear Lake Sanitary District's internal control over financial reporting.

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

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

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Clear Lake Sanitary District'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 required to be reported under Government Auditing Standards.

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

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the Clear Lake Sanitary District during the course of our audit. Should you have any questions concerning the above matters, we shall be pleased to discuss them with you at your convenience.

Potter & Brant, P.L.C.

Potter & Brant, P.L.C.
Certified Public Accountants
Clear Lake, IA

December 14, 2012

CLEAR LAKE SANITARY DISTRICT
Schedule of Findings
For the Year Ended June 30, 2012

Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

- (A) Segregation of Duties - An important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. One person has control over each of the following areas for the District:
- (1) Accounting system - record keeping for revenues, expenses and related reporting.
 - (2) Receipts - collecting, depositing, journalizing and posting.
 - (3) Payroll - changes to master list, preparation and distribution

Recommendation - We realize segregation of duties is difficult with a limited number of office employees. However, the District should review its operating procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff or Board members.

Response - We recognize our limitations, however, it is not fiscally responsible to add additional staff at this time.

Conclusion - Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

Other Findings Related to Required Statutory Reporting:

- (1) Questionable Expenses - No expenses we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.
- (2) Travel Expense - No expenditures of money for travel expenses of spouses of District officials or employees were noted.
- (3) Board Minutes - No transactions were found that we believe should have been approved in the District minutes but were not.
- (4) Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa were noted.
- (5) Bond Coverage - Surety bond coverage of District trustees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure the coverage is adequate for current operations.