

CITY OF LAKE CITY, IOWA

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

AS OF AND FOR THE YEAR ENDED JUNE 30, 2013

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City of Lake City, Iowa

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Gary Fahan	Mayor	Jan 2016
Gary Bellinghausen	Mayor Pro Tem	Jan 2016
Kim Kramer	Council Member	Jan 2014
Terry Himes	Council Member	Jan 2014
Tamela Green	Council Member	Jan 2014
Matt Ringgenberg	Council Member	Jan 2016
Kim Kelly	Administrator/Clerk	Jan 2014
Lois Smith	Treasurer	Jan 2014
David Willis	Attorney	Jan 2014

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Certified Public Accountants

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Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Lake City, Iowa, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which along with the discretely presented component unit, collectively comprise the City's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in Note 1. This includes determining the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design

audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Basis for Disclaimer of Opinion

The financial statement of the Lake City Library Foundation has not been audited, and we were not engaged to audit The Lake City Library Foundation's financial statement as part of our audit of the City's basic financial statements. The Lake City Library Foundation's financial activities are included in the City's basic financial statements as a discretely presented component unit and represents 100 percent of the receipts and disbursements of the City's aggregate discretely presented component units.

Disclaimer of Opinion

Because Lake City Library Foundation's financial statement has not been audited, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the financial statement of the aggregate discretely presented component unit of the City of Lake City, as of and for the year ended June 30, 2013.

Opinions

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 Lake City as of June 30, 2013, 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.

Basis of Accounting

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

Other Matters

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Lake City's basic financial statements. We previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the year ended June 30, 2012, (which is not presented herein) and expressed unqualified opinions on those financial statements other than a disclaimer of opinion on the discretely presented component unit, which were prepared on the basis of cash receipts and disbursements. We previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the year ended June 30, 2011 (which is not presented herein) and expressed an adverse opinion on the governmental activities and the General Fund, an unqualified opinion on the business type activities, each major fund, except the General Fund, and the aggregate remaining fund and a disclaimer of opinion on the discretely presented component unit, which were prepared on the basis of cash receipts and disbursements. We previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the two years ended June 30, 2010, (which is not presented herein) and expressed unqualified opinions on those financial statements other than a disclaimer of opinion on the discretely presented component unit, which were prepared on the basis of cash receipts and disbursements. Other auditors previously audited in accordance with the standards referred to in the third paragraph of this report, the financial statements for the five years ended June 30, 2008 (which are not presented (herein) and expressed unqualified opinions on those financial statements which were prepared on the basis of cash receipts and disbursements. The supplementary information included in Schedules 1 through 4, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The other information, Management's Discussion and Analysis and the budgetary comparison information on pages 6 through 11 and 31 through 33 has not be 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.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated January 10, 2014 on our consideration of the City of Lake City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City of Lake City's internal control over financial reporting and compliance.

Cornwell, Frideres, Maher & Associates, P.L.C.

Cornwell, Frideres, Maher & Associates, P.L.C.

Certified Public Accountants

January 10, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Lake City 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, 2013. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2013 FINANCIAL HIGHLIGHTS

- Operating receipts (other than transfers in) of the City's governmental activities decreased 3%, or approximately \$39,159, from fiscal year 2012 to fiscal year 2013, due primarily to decreases in miscellaneous revenues.
- Disbursements of the City's governmental activities increased 69% or approximately \$692,704, in fiscal year 2013 from fiscal year 2012. Community and economic development and general government decreased by \$216 and \$125,112, respectively; whereas, public safety, public works, culture & recreation, debt service and capital projects increased \$97,631, \$179,069, \$12,615, \$414,019, and \$114,698.
- The City's total cash basis net positions increased approximately 28% or approximately \$500,000 from June 30, 2012 to June 30, 2013. Of this amount, the assets of the governmental activities increased approximately \$20,000 and the assets of the business type activities increased approximately \$480,000.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Positions. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Other Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Supplementary Information provides detailed information about the nonmajor governmental funds and the City's indebtedness.

BASIS OF ACCOUNTING

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

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

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

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

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

- Governmental Activities include public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the waterworks, sanitary and storm sewer systems, and solid waste. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax, 3) the Debt Service Fund, 4) the Capital Projects Fund and 5) the Permanent Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

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

2) Proprietary funds account for the City's Enterprise Funds and for the Internal Service Fund. Enterprise Funds are used to report business type activities. The City maintains four Enterprise Funds to provide separate information for the water, sewer, storm sewer, and solid waste funds. The water, sewer and solid waste funds are considered to be major funds of the City. Internal Service Funds are an accounting device used to accumulate and allocate costs internally among the City's various functions.

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

Reconciliations between the government-wide statement and the fund financial statements follow 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 decreased from a year ago, decreasing from \$1,423,254 to \$1,442,951. The analysis that follows focuses on the changes in cash basis net assets of governmental activities.

Changes in Cash Basis Net Position of Governmental Activities		
	Year ended June 30,	
	2013	2012
Receipts:		
Program receipts:		
Charges for Services:	\$ 37,034	\$ 21,046
Operating grants, contributions, restricted interest:	227,566	206,594
Capital grants, contributions, restricted interest:	145,152	231,814
General receipts:		
Property Tax:	707,256	714,748
Local option sales tax:	132,312	105,654
Unrestricted interest on investments:	2,592	7,133
Other general receipts:	433,129	30,945
Total receipts	<u>\$ 1,685,041</u>	<u>\$ 1,317,934</u>
Disbursements:		
Public safety:	297,401	199,770
Public works:	351,623	172,554
Culture & recreation:	168,226	155,611
Community, Economic development:	675	891
General government:	60,186	185,298
Debt service:	657,132	243,113
Capital projects:	130,101	15,403
Total disbursements	<u>\$1,665,344</u>	<u>\$ 972,640</u>
Change in cash basis net positions:	\$ 19,697	345,294
Cash basis net position beginning of year:	<u>\$ 1,423,254</u>	<u>1,077,960</u>
Cash basis net position end of year:	<u>\$ 1,442,951</u>	<u>\$ 1,423,254</u>

City's total receipts for governmental activities increased approximately \$367,000 primarily due to transfer in from the water utility to cover applicable debt service expenses. The total cost of all programs and services increased approximately \$693,000 mostly due to the purchase of a patrol vehicle, major street repair project and payment of refinanced debt.

The cost of all governmental activities this year was approximately \$1,665,000 compared to approximately \$973,000 last year. However, as shown in the Statement of Cash Receipts and Disbursements, the amount taxpayers ultimately financed for these activities was only \$1,256,000 because some of the cost was paid by those directly benefited from the programs (approximately \$37,000) or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest (approximately \$373,000).

Changes in Cash Basis Net Position of Business Type Activities		
	Year Ended	
	2013	2012
Receipts:		
Program Receipts:		
Charges for Service:		
Water	\$ 222,857	\$ 201,161
Sewer	\$ 163,590	168,225
Solid waste	\$ 126,405	125,970
Storm sewer	\$ 9,589	9,762
General Receipts:		
Capital grants, contributions, restricted interest	\$ 48,092	
Unrestricted interest on investments:	\$ 202	96
Bond Proceeds:	\$1,105,900	18,400
Other general receipts:	\$ 3,823	5,690
Total receipts	<u>\$1,680,458</u>	<u>\$ 529,304</u>
Disbursements:		
Transfers out, water	\$ 406,266	---
Water	\$ 876,642	188,773
Sewer	\$ 178,806	149,136
Solid waste	\$ 137,408	130,435
Storm sewer	\$ 7,246	391
Total disbursements	<u>\$ 1,200,102</u>	<u>\$ 468,735</u>
Change in cash basis net position	\$ 480,356	60,569
Cash basis net positions beginning of year	<u>\$ 341,043</u>	<u>280,474</u>
Cash basis net positions end of year	<u>\$ 821,399</u>	<u>\$ 341,043</u>

Total business type activities receipts for the fiscal year were approximately \$1,680,000 compared to \$529,000 last year. The increase was due primarily to the bond proceeds received in 2013. The cash balance decreased approximately \$480,356 from the prior year as a result of receiving bond proceeds for the water project. Total disbursements for the fiscal year decreased approximately 56% to approximately \$1,200,000 due to the water projects and transfer out of bond proceeds for payment of refinanced bonds.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As Lake City completed the year, its governmental funds reported a combined fund balance of \$1,442,951, an increase of more than \$19,697 from last year's total of \$1,423,254. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance decreased \$120,378 from the prior year to \$143,905 primarily due to reassignment of ambulance funds to the Ambulance Capital Fund.
- The Special Revenue, Road Use Tax Fund, cash balance decreased \$164,057 to \$100,442 during the fiscal year. The decrease in reserves was attributable to a major street repair project implemented during the year.
- The Special Revenue, Employee Benefits, cash balance increased \$19,050 to \$96,123 during the fiscal year. The increase was due primarily to a decrease in anticipated expenses.
- The deficit in the Debt Service Fund cash balance decreased \$2,153 to \$1,268 during the fiscal year. This decrease was due to property tax funding.
- The Capital Project, Pool Project Fund, cash balance increased \$138,585 to \$978,000. This increase is primarily due to pool project contributions.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance increased \$502,912 to \$566,545, due to bond proceeds for the water project.
- The Sewer Fund cash balance decreased approximately \$14,500 to \$119,213, due to purchase of a backhoe.
- The Solid Waste Fund cash balance decreased \$10,376 to \$57,170, due to purchase of a backhoe.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget once, approved May 20, 2013. This amendment resulted in an increase in estimated operating disbursements of approximately \$799,000 within Public Safety, Public Works, Culture & Recreation, Community and Economic Development, Debt Service and Capital Projects. In addition, anticipated Business expenses increased by nearly \$1,117,000 and transfers out increased by approximately \$553,000.

The City's anticipated receipts increased \$2.1 million. The City's receipts were less than budgeted primarily due to anticipated CDBG funds which were not received during 2013.

DEBT ADMINISTRATION

As of June 30, 2013, the City had \$1,735,000 general obligation bonds outstanding compared to \$1,210,000 last year.

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$1,735,000 is within its constitutional debt limit of approximately \$2.7 million. Additional information about the City's long term debt is presented in Note 3 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

Lake City's elected and appointed officials and citizens considered many factors, including the US Consumer Price Index when setting the fiscal year 2014 budget, tax rates and fees charged for various City activities.

These indicators were taken into account when adopting the budget for fiscal year 2013. Amounts available for appropriation in the operating budget are approximately \$2.166 million, approximately 61% of the final 2013 revenues; primarily due to bond proceeds received for the water projects. Budgeted disbursements are expected to increase approximately \$542,000 primarily due to the water project in process.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Kimberly Kelly, City Administrator, 105 N Center St, Lake City, Iowa 51449.

Basic Financial Statements

City of Lake City, Iowa
Cash Basis Statement of Activities and Net Position
As of and for the year ended June 30, 2013

		Program Receipts		
	Disbursements	Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions/Programs:				
Governmental activities:				
Public safety	\$ 297,401	5,696	-	-
Public works	351,623	-	165,388	-
Culture and recreation	168,226	31,338	43,030	2,650
Community and economic development	675	-	-	-
General government	60,186	-	-	-
Debt service	657,132	-	-	-
Capital projects	130,101	-	19,148	142,502
Total governmental activities	1,665,344	37,034	227,566	145,152
Business type activities:				
Water	470,376	222,857	-	48,092
Sewer	178,806	163,590	-	-
Solid waste	137,408	126,405	-	-
Storm sewer	7,246	9,589	-	-
Total business type activities	793,836	522,441	-	48,092
Total primary government	\$ 2,459,180	559,475	227,566	193,244
Component Unit:				
Library Foundation	\$ 2,161	-	8,184	-
General Receipts and Transfers:				
Property and other city tax levied for:				
General purposes				
Debt service				
Local option sales tax				
Unrestricted interest on investments				
Bond proceeds				
Miscellaneous				
Sale of capital assets				
Transfers				
Total general receipts and transfers				
Change in cash basis net position				
Cash basis net position beginning of year				
Cash basis net position end of year				
Cash Basis Net Position				
Restricted:				
Nonexpendable:				
Cemetery perpetual care				
Expendable:				
Ambulance				
Streets				
Pool construction				
Community development or capital improvements				
Library				
Parks				
Debt service				
Capital projects				
Other purposes				
Committed for housing rehabilitation				
Unrestricted				
Total cash basis net position				

Net (Disbursements) Receipts and Changes in Cash Basis Net Position			Component
Primary Government			Unit
Governmental Activities	Business Type Activities	Total	Library Foundation
(291,705)	-	(291,705)	-
(186,235)	-	(186,235)	-
(91,208)	-	(91,208)	-
(675)	-	(675)	-
(60,186)	-	(60,186)	-
(657,132)	-	(657,132)	-
31,549	-	31,549	-
<u>(1,255,592)</u>	<u>-</u>	<u>(1,255,592)</u>	<u>-</u>
-	(199,427)	(199,427)	-
-	(15,216)	(15,216)	-
-	(11,003)	(11,003)	-
-	2,343	2,343	-
-	(223,303)	(223,303)	-
<u>(1,255,592)</u>	<u>(223,303)</u>	<u>(1,478,895)</u>	<u>-</u>
-	-	-	6,023
463,571	-	463,571	-
243,685	-	243,685	-
132,312	-	132,312	-
2,592	202	2,794	-
-	1,105,900	1,105,900	-
21,863	3,823	25,686	-
5,000	-	5,000	-
406,266	(406,266)	-	-
<u>1,275,289</u>	<u>703,659</u>	<u>1,978,948</u>	<u>-</u>
19,697	480,356	500,053	6,023
<u>1,423,254</u>	<u>341,043</u>	<u>1,764,297</u>	<u>59,951</u>
<u>\$ 1,442,951</u>	<u>821,399</u>	<u>2,264,350</u>	<u>65,974</u>
\$ 12,000	-	12,000	-
36,675	-	36,675	-
100,442	-	100,442	-
978,000	-	978,000	-
161,849	-	161,849	-
17,886	-	17,886	65,974
3,163	-	3,163	-
-	18,400	18,400	-
-	483,008	483,008	-
103,355	-	103,355	-
10,000	-	10,000	-
19,581	319,991	339,572	-
<u>\$ 1,442,951</u>	<u>821,399</u>	<u>2,264,350</u>	<u>65,974</u>

City of Lake City, Iowa
Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Governmental Funds

As of and for the year ended June 30, 2013

	<u>General</u>	<u>Special Revenue</u>	
		<u>Road Use Tax</u>	<u>Employee Benefits</u>
Receipts:			
Property tax	\$ 297,815	-	139,328
Other city tax	19,836	-	6,593
Licenses and permits	5,266	-	-
Use of money and property	4,768	-	-
Intergovernmental	29,337	165,387	-
Charges for service	31,769	-	-
Miscellaneous	34,980	-	980
Total receipts	<u>423,771</u>	<u>165,387</u>	<u>146,901</u>
Disbursements:			
Operating:			
Public safety:			
Police	198,153	-	79,998
Civil defense	396	-	-
Fire	15,895	-	2,959
	<u>214,444</u>	<u>-</u>	<u>82,957</u>
Public works:			
Roadway maintenance	-	319,444	32,179
	<u>-</u>	<u>319,444</u>	<u>32,179</u>
Culture and recreation:			
Library	71,313	-	7,690
Park	10,247	-	-
Swimming pool	40,704	-	2,820
Cemetery	8,069	-	272
Community building	16,247	-	1,396
	<u>146,580</u>	<u>-</u>	<u>12,178</u>

<u>Capital Project</u>		Other Nonmajor Governmental	
<u>Pool Project</u>	<u>Debt Service</u>	<u>Funds</u>	<u>Total</u>
-	232,680	-	669,823
-	11,005	132,312	169,746
-	-	-	5,266
8,387	-	1,660	14,815
-	-	-	194,724
-	-	17,502	49,271
134,115	-	5,055	175,130
<u>142,502</u>	<u>243,685</u>	<u>156,529</u>	<u>1,278,775</u>
-	-	-	278,151
-	-	-	396
-	-	-	18,854
-	-	-	297,401
-	-	-	351,623
-	-	-	79,003
-	-	9,468	19,715
-	-	-	43,524
-	-	-	8,341
-	-	-	17,643
-	-	9,468	168,226

(continued)

City of Lake City, Iowa
Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Governmental Funds

As of and for the year ended June 30, 2013

	<u>General</u>	<u>Special Revenue</u>	
		<u>Road Use Tax</u>	<u>Employee Benefits</u>
Community and economic development Beautification	675	-	-
General government	59,649	-	537
Debt service	-	-	-
Capital projects	-	-	-
Total disbursements	<u>421,348</u>	<u>319,444</u>	<u>127,851</u>
Excess (deficiency) of receipts over (under) disbursements	<u>2,423</u>	<u>(154,057)</u>	<u>19,050</u>
Other financing sources			
Operating transfers in	8,410	-	-
Operating transfers out	<u>(131,211)</u>	<u>(10,000)</u>	<u>-</u>
Total other financing sources (uses)	<u>(122,801)</u>	<u>(10,000)</u>	<u>-</u>
Net change in cash balances	(120,378)	(164,057)	19,050
Cash balances beginning of year	264,283	264,499	77,073
Cash balances end of year	<u>\$ 143,905</u>	<u>100,442</u>	<u>96,123</u>
Cash Basis Fund Balances			
Nonspendable:			
Cemetery perpetual care	\$ -	-	-
Restricted for:			
Streets	-	100,442	-
Pool construction	-	-	-
Community development or capital improvements	-	-	-
Library	-	-	-
Parks	-	-	-
Ambulance	-	-	-
Other purposes	-	-	96,123
Committed for housing rehabilitation	-	-	-
Unassigned	143,905	-	-
Total cash basis fund balances	<u>\$ 143,905</u>	<u>100,442</u>	<u>96,123</u>

See notes to financial statements.

Capital Project	Debt	Other	
Pool Project	Service	Nonmajor	Total
		Governmental	
		Funds	
-	-	-	675
-	-	-	60,186
-	657,132	-	657,132
3,917	-	126,184	130,101
3,917	657,132	135,652	1,665,344
138,585	(413,447)	20,877	(386,569)
-	415,600	153,680	577,690
-	-	(30,213)	(171,424)
-	415,600	123,467	406,266
138,585	2,153	144,344	19,697
839,415	(3,421)	(18,595)	1,423,254
978,000	(1,268)	125,749	1,442,951
-	-	12,000	12,000
-	-	-	100,442
978,000	-	-	978,000
-	-	161,849	161,849
-	-	17,886	17,886
-	-	3,163	3,163
-	-	36,675	36,675
-	-	7,232	103,355
-	-	10,000	10,000
-	(1,268)	(123,056)	19,581
978,000	(1,268)	125,749	1,442,951

City of Lake City, Iowa

Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Proprietary Funds

As of and for the year ended June 30, 2013

	Enterprise Funds		
	<u>Water</u>	<u>Sewer</u>	<u>Solid Waste</u>
Operating receipts:			
Charges for service	\$ 222,857	163,590	126,405
Miscellaneous	2,503	693	627
Total operating receipts	<u>225,360</u>	<u>164,283</u>	<u>127,032</u>
Operating disbursements:			
Business type activities:			
Personal services	104,370	99,302	7,198
Contractual services	22,756	4,512	120,571
Utilities	21,447	5,431	700
Repairs and maintenance	6,106	11,459	-
Other supplies and expenses	22,977	14,635	2,847
Total operating disbursements	<u>177,656</u>	<u>135,339</u>	<u>131,316</u>
Excess (deficiency) of operating receipts over (under) operating disbursements	<u>47,704</u>	<u>28,944</u>	<u>(4,284)</u>
Non-operating receipts (disbursements):			
Intergovernmental	48,092	-	-
Interest on investments	202	-	-
General obligation bond proceeds	1,105,900	-	-
Capital projects	(292,720)	(43,467)	(6,092)
Net non-operating receipts (disbursements)	<u>861,474</u>	<u>(43,467)</u>	<u>(6,092)</u>
Excess (deficiency) of receipts over (under) disbursements	<u>909,178</u>	<u>(14,523)</u>	<u>(10,376)</u>
Other financing sources:			
Operating transfers in	9,334	-	-
Operating transfers out	(415,600)	-	-
Total other financing sources (uses)	<u>(406,266)</u>	<u>-</u>	<u>-</u>
Net change in cash balances	502,912	(14,523)	(10,376)
Cash balances beginning of year	63,633	133,736	67,546
Cash balances end of year	<u>\$ 566,545</u>	<u>119,213</u>	<u>57,170</u>
Cash Basis Fund Balances			
Restricted for:			
Debt service	18,400	-	-
Capital projects	483,008	-	-
Unrestricted	65,137	119,213	57,170
Total cash basis fund balances	<u>\$ 566,545</u>	<u>119,213</u>	<u>57,170</u>

See notes to financial statements.

Nonmajor	
Storm	
<u>Sewer</u>	<u>Total</u>
9,589	522,441
-	3,823
<u>9,589</u>	<u>526,264</u>
-	210,870
-	147,839
-	27,578
	17,565
<u>183</u>	<u>40,642</u>
<u>183</u>	<u>444,494</u>
<u>9,406</u>	<u>81,770</u>
-	48,092
-	202
-	1,105,900
<u>(7,063)</u>	<u>(349,342)</u>
<u>(7,063)</u>	<u>804,852</u>
<u>2,343</u>	<u>886,622</u>
-	9,334
-	(415,600)
-	(406,266)
<u>2,343</u>	<u>480,356</u>
<u>76,128</u>	<u>341,043</u>
<u>78,471</u>	<u>821,399</u>
-	18,400
-	483,008
<u>78,471</u>	<u>319,991</u>
<u>78,471</u>	<u>821,399</u>

City of Lake City, Iowa

Notes to Financial Statements

June 30, 2013

(1) Summary of Significant Accounting Policies

The City of Lake City is a political subdivision of the State of Iowa located in Calhoun County.

It was first incorporated in 1856 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, culture and recreation, community and economic development, and general government services. The City also provides water, sewer and solid waste utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Lake City 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.

Discretely Presented Component Unit

The Lake City Library Foundation is a separate nonprofit organization whose purpose is to help raise funds for a new library building. The Foundation's records are prepared on the modified cash basis of accounting. Under that basis, assets recognized are cash and marketable securities, and no liabilities are recognized. The only non-cash transactions recognized are increases or decreases in market value. The modified cash basis differs from accounting principles generally accepted in the United States of America primarily because promises to give, accrued investment income and accounts payable are not included in these financial statements. No modifications have been made to the foundations' financial information in the City's reporting entity for these differences. The Lake City Public Library Foundation meets the definition of a component which should be discretely presented. The Foundation's financial statement has not been audited and we do not express any opinion on the financial statement.

City of Lake City, Iowa

Notes to Financial Statements

June 30, 2013

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: Calhoun County Emergency Management Commission, Calhoun County E911 Service Board, Lake City Ambulance Commission and Mid-Iowa Regional Housing Authority.

B. Basis of Presentation

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

The Cash Basis Statement of Activities and Net Position presents the City's nonfiduciary net position. Net position is reported in the following categories/components:

Nonexpendable restricted net position is subject to externally imposed stipulations which require them to be maintained permanently by the City, including the City's Permanent Fund.

Expendable restricted net position results when constraints placed on the use of cash balances are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position consists of cash balances not meeting the definition of the preceding categories. Unrestricted net position often have constraints on cash balances imposed by management, which can be removed or modified.

City of Lake City, Iowa

Notes to Financial Statements

June 30, 2013

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

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

The City reports the following major governmental funds:

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

Special Revenue:

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

The Employee Benefit Fund is used to account for the property tax levied to finance the payment of employee benefits.

Capital Projects:

The Pool Capital Projects Fund is used to account for all the resources to be used in the acquisition and construction of a pool.

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

City of Lake City, Iowa

Notes to Financial Statements

June 30, 2013

The City reports the following major proprietary funds:

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

The Enterprise, Sewer Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

The Enterprise, Solid Waste Fund accounts for the operation and maintenance of the City's solid waste system.

C. Measurement Focus and Basis of Accounting

The City of Lake 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.

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 position available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

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

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

City of Lake City, Iowa

Notes to Financial Statements

June 30, 2013

D. Governmental Cash Basis Fund Balances:

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

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

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

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 changes the specified use by taking the same action it employed to commit those amounts.

Unassigned – All amounts not included in other spendable classifications.

E. Budgets and Budgetary Accounting

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

(2) Cash

The City's deposits in banks at June 30, 2013 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

City of Lake City, Iowa

Notes to Financial Statements

June 30, 2013

The City had no investments at June 30, 2013. During the year ended June 30, 2013 the City invested its excess funds in savings accounts and certificates of deposit.

(3) Bonds and Notes Payable

Annual debt service requirements to maturity for general obligation bonds are as follows:

Ending June 30,	Bonds		Total
	Principal	Interest	
2014	\$ 240,000	\$ 42,345	282,345
2015	260,000	35,795	295,795
2016	260,000	32,310	292,310
2017	120,000	28,165	148,165
2018	120,000	24,790	144,790
2019-2023	480,000	65,655	545,655
2024-2028	255,000	18,925	273,925
Total	\$ 1,735,000	247,985	1,982,985

Other Than Bonded Debt

Interim Financing

The City entered into a Water Revenue Loan and Disbursement Agreement Anticipation Project Note (IFA Interim Loan and Disbursement Agreement) not to exceed \$88,400. This interim loan bears interest at 0% and has a maturity date of December 23, 2014. The proceeds of this note shall be used for the purposes of planning, designing and constructing improvements and extensions to the Municipal Waterworks System. This interim financing will be repaid upon issuance of revenue bonds. As of June 30, 2013, \$18,400 has been advanced to the City of Lake City. This loan was repaid in August 2013.

(4) Leases

In April 2011, the City entered a noncancelable long-term operating lease agreement. Total lease expense for the year ended June 30, 2013, was \$1,434.

Minimum future lease payments for the operating lease are as follows:

Year Ending <u>June 30,</u>	<u>Total</u>
2014	\$ 1,434
2015	1,434
2016	1,434
	<u>\$ 4,302</u>

City of Lake City, Iowa

Notes to Financial Statements

June 30, 2013

(5) 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 5.78% of their annual covered salary and the City is required to contribute 8.67% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2013, 2012 and 2011 were \$35,240, \$32,012, and \$29,644 respectively, equal to the required contributions for each year.

(6) Other Post Employment Benefits (OPEB)

Plan Description – The City operates a single-employer health benefit plan which provides medical/prescription drug benefits for employees and retirees and their spouses. As of January 2013, there are nine active and no retired members in the plan. Participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees.

Funding Policy – The contribution requirements of plan members are established and may be amended by the City. The City currently finances the benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the City and plan members are \$401 for single coverage and \$1,228 for family coverage. The same monthly premiums apply to retirees. For the year ended June 30, 2013, the City contributed \$126,020 and plan members eligible for benefits contributed \$0 to the plan.

City of Lake City, Iowa

Notes to Financial Statements

June 30, 2013

(7) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation or compensatory time for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation and compensatory time payable to employees at June 30, 2013, primarily relating to the General Fund, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$ 17,500
Compensatory time	<u>11,400</u>
Total	\$ <u>28,900</u>

This liability has been computed based on rates of pay in effect at June 30, 2013.

(8) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2013 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Special Revenue: Local Option Sales Tax	8,410
Debt Service	Enterprise: Water	415,600
Special Revenue: Parks Restoration	Special Revenue: Local Option Sales Tax	4,469
Capital Projects: Ambulance	Special Revenue: Local Option Sales Tax	8,000
	General	<u>131,211</u>
		139,211
Streets	Special Revenue: Road Use Tax	10,000
Enterprise: Water	Special Revenue: Local Option Sales Tax	<u>9,334</u>
Total		\$ <u>587,024</u>

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

City of Lake City, Iowa

Notes to Financial Statements

June 30, 2013

(9) Risk Management

The City 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 679 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine and boiler/machinery. There have been no reductions in insurance coverage from prior years.

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 300% 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 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-ending operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The City's property and casualty contributions to the risk pool are recorded as expenditures from its operating funds at the time of payment to the risk pool. The City's annual contributions to the Pool for the year ended June 30, 2013 were \$42,089.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000 per claim. For members requiring specific coverage from \$3,000,000 to \$15,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$250,000 each occurrence, each location, with excess coverage reinsured by Lexington Insurance Company.

City of Lake City, Iowa

Notes to Financial Statements

June 30, 2013

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event a series of casualty claims exhausts total member's equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. As of June 30, 2013, settled claims have not exceeded the risk pool or reinsurance coverage since the Pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all casualty claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their casualty capital contributions. If a member withdraws after the sixth year, the member is refunded 100% of its casualty capital contributions. However, the refund is reduced by an amount equal to the annual casualty operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

The City also carries commercial insurance purchased from other insurers for coverage associated with workers compensation in the amount of \$1,000,000. The City assumes liability for any deductibles, and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(10) Deficit Balances

The Debt Service Fund had a deficit fund balance of \$1,268 at June 30, 2013. The deficit balance is a result of omitting bond payments from the budget of prior years. The deficit should be eliminated by increasing the debt service levy.

The Streets Capital Projects Fund had a deficit balance of \$ 21,046 at June 30, 2013. The deficit balance is a result of payments for the street improvement project. Funds are being transferred to eliminate this deficit.

The Fire Station Capital Projects Fund had a deficit balance of \$102,010 at June 30, 2013. The deficit balance is a result of payments for the construction of a fire station. Funds should be transferred to eliminate this deficit.

City of Lake City, Iowa

Notes to Financial Statements

June 30, 2013

(11) Construction Commitments

The City has committed to a new pool project for approximately \$2 to \$2.4 million. As of June 31, 2013, \$22,317 has been expended on this project. This project will be funded by contributions, and local option sales tax, and issuance of bonds.

The City has committed to a couple of improvement projects for the water system for approximately \$962,000. These projects will be funded from a Community Development Block Grant and issuance of revenue bonds. As of June 30, 2013, \$272,324 has been expended on these projects.

(12) Subsequent Events

Subsequent events have been evaluated through January 10, 2014, which is the date the financial statements were available to be issued.

Other Information

City of Lake City, Iowa
 Budgetary Comparison Schedule
 of Receipts, Disbursements, and Changes in Balances -
 Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Funds

Other Information

Year ended June 30, 2013

	Governmental Funds <u>Actual</u>	Proprietary Funds <u>Actual</u>
Receipts:		
Property tax	\$ 669,823	-
Other city tax	169,746	-
Licenses and permits	5,266	-
Use of money and property	14,815	202
Intergovernmental	194,724	48,092
Charges for service	49,271	522,441
Miscellaneous	<u>175,130</u>	<u>3,823</u>
Total receipts	<u>1,278,775</u>	<u>574,558</u>
Disbursements:		
Public safety	297,401	-
Public works	351,623	-
Culture and recreation	168,226	-
Community and economic development	675	-
General government	60,186	-
Debt service	657,132	-
Capital Projects	130,101	-
Business type activities	<u>-</u>	<u>793,836</u>
Total disbursements	<u>1,665,344</u>	<u>793,836</u>
Excess (deficiency) of receipts over (under) disbursements	<u>(386,569)</u>	<u>(219,278)</u>
Other financing sources, net	<u>406,266</u>	<u>699,634</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements	19,697	480,356
Balances beginning of year	<u>1,423,254</u>	<u>341,043</u>
Balances end of year	<u>\$ 1,442,951</u>	<u>821,399</u>

See accompanying independent auditor's report.

Net	Budgeted Amounts		Final to
	Original	Final	Net Variance
669,823	673,596	673,596	(3,773)
169,746	141,670	141,670	28,076
5,266	4,975	4,975	291
15,017	11,212	12,858	2,159
242,816	187,486	609,238	(366,422)
571,712	525,300	525,300	46,412
178,953	22,118	45,777	133,176
<u>1,853,333</u>	<u>1,566,357</u>	<u>2,013,414</u>	<u>(160,081)</u>
297,401	196,591	320,407	23,006
351,623	149,390	367,000	15,377
168,226	149,277	192,115	23,889
675	-	1,000	325
60,186	201,330	64,590	4,404
657,132	243,000	658,000	868
130,101	2,000	138,184	8,083
793,836	486,343	1,603,293	809,457
<u>2,459,180</u>	<u>1,427,931</u>	<u>3,344,589</u>	<u>885,409</u>
<u>(605,847)</u>	<u>138,426</u>	<u>(1,331,175)</u>	<u>725,328</u>
<u>1,105,900</u>	<u>-</u>	<u>1,105,900</u>	<u>-</u>
500,053	138,426	(225,275)	725,328
<u>1,764,297</u>	<u>1,464,028</u>	<u>1,764,297</u>	<u>-</u>
<u>2,264,350</u>	<u>1,602,454</u>	<u>1,539,022</u>	<u>725,328</u>

City of Lake City, Iowa

Notes to Other Information – Budgetary Reporting

June 30, 2013

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. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Funds, the Permanent Fund and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$1,916,658, budgeted receipts by \$447,057, other financing sources by \$1,658,592 and transfers out by \$552,692. The budget amendment is reflected in the final budgeted amount.

Supplementary Information

City of Lake City, Iowa
Schedule of Cash Receipts, Disbursements
and Changes in Cash Balances
Nonmajor Governmental Funds

As of and for the year ended June 30, 2013

	Special Revenue		
	Local Option Sales Tax	Library Memorial	Park Restoration
Receipts:			
Other city tax	\$ 132,312	-	-
Use of money and property	-	-	14
Charges for service	-	-	-
Miscellaneous	-	-	-
Total receipts	132,312	-	14
Disbursements:			
Operating:			
Culture and recreation:			
Park	-	-	9,468
	-	-	9,468
Capital projects	-	-	-
Total disbursements	-	-	9,468
Excess (deficiency) of receipts over (under) disbursements	132,312	-	(9,454)
Other financing sources (uses):			
Operating transfers in	-	-	4,469
Operating transfers out	(30,213)	-	-
Total other financing sources (uses)	(30,213)	-	4,469
Net change in cash balances	102,099	-	(4,985)
Cash balances beginning of year	69,750	17,886	8,148
Cash balances end of year	\$ 171,849	17,886	3,163
Cash Basis Fund Balances			
Nonspendable - Cemetery perpetual care	\$ -	-	-
Restricted for:			
Community development or capital improvements	161,849	-	-
Library	-	17,886	-
Parks	-	-	3,163
Ambulance	-	-	-
Other purposes	-	-	-
Committed for housing rehabilitation	10,000	-	-
Unassigned	-	-	-
Total cash basis fund balances	\$ 171,849	17,886	3,163

See accompanying independent auditor's report.

Schedule 1

Capital Project			Permanent	
Ambulance	Streets	Fire Station	Cemetery Perpetual Care	Total
-	-	-	-	132,312
1,646	-	-	-	1,660
17,502	-	-	-	17,502
4,500	-	-	555	5,055
<u>23,648</u>	<u>-</u>	<u>-</u>	<u>555</u>	<u>156,529</u>
-	-	-	-	9,468
-	-	-	-	9,468
<u>126,184</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>126,184</u>
<u>126,184</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>135,652</u>
<u>(102,536)</u>	<u>-</u>	<u>-</u>	<u>555</u>	<u>20,877</u>
139,211	10,000	-	-	153,680
-	-	-	-	(30,213)
<u>139,211</u>	<u>10,000</u>	<u>-</u>	<u>-</u>	<u>123,467</u>
36,675	10,000	-	555	144,344
-	(31,046)	(102,010)	18,677	(18,595)
<u>36,675</u>	<u>(21,046)</u>	<u>(102,010)</u>	<u>19,232</u>	<u>125,749</u>
-	-	-	12,000	12,000
-	-	-	-	161,849
-	-	-	-	17,886
-	-	-	-	3,163
36,675	-	-	-	36,675
-	-	-	7,232	7,232
-	-	-	-	10,000
-	(21,046)	(102,010)	-	(123,056)
<u>36,675</u>	<u>(21,046)</u>	<u>(102,010)</u>	<u>19,232</u>	<u>125,749</u>

City of Lake City, Iowa

Schedule of Indebtedness

Year ended June 30, 2013

<u>Obligation</u>	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount Originally Issued</u>
General obligation bonds:			
Municipal building	Sep 1, 2002	2.25-4.70 %	\$ 300,000
Street improvement	May 1, 2004	2.70-4.30	350,000
Street improvement	May 15, 2006	4.05-4.45	505,000
Street improvement	Apr 1, 2009	2.00-4.45	845,000
Water improvement and refunding bond	Mar 6, 2013	0.50-2.50	1,130,000

See accompanying independent auditor's report.

Schedule 2

<u>Balance Beginning of Year</u>	<u>Issued During Year</u>	<u>Redeemed During Year</u>	<u>Balance End of Year</u>	<u>Interest Paid</u>	<u>Interest Due and Unpaid</u>
30,000	-	30,000	-	1,410	-
70,000	-	70,000	-	2,928	-
440,000	-	440,000	-	19,188	-
670,000	-	65,000	605,000	25,758	-
<u> </u>	<u>1,130,000</u>	<u>-</u>	<u>1,130,000</u>	<u>-</u>	<u>-</u>
<u>\$ 1,395,000</u>	<u>1,130,000</u>	<u>605,000</u>	<u>1,735,000</u>	<u>49,284</u>	<u>-</u>

Bond and Note Maturities

June 30, 2013

Year Ending <u>June 30,</u>	Street Improvement Series 2009			Street Improvement Series 2009			<u>Total</u>
	Interest			Interest			
	<u>Rates</u>		<u>Amount</u>	<u>Rates</u>		<u>Amount</u>	
2014	3.50 %	\$	65,000	0.50 %	\$	175,000	240,000
2015	3.35		70,000	0.60		190,000	260,000
2016	3.75		70,000	0.80		190,000	260,000
2017	3.75		75,000	0.80		45,000	120,000
2018	4.20		75,000	0.80		45,000	120,000
2019	4.20		80,000	1.25		45,000	125,000
2020	4.50		85,000	1.25		45,000	130,000
2021	4.45		85,000	1.25		45,000	130,000
2022			-	1.25		45,000	45,000
2023			-	1.90		50,000	50,000
2024			-	1.90		50,000	50,000
2025			-	2.20		50,000	50,000
2026			-	2.20		50,000	50,000
2027			-	2.20		50,000	50,000
2028			-	2.50		55,000	55,000
Total		\$	<u>605,000</u>		\$	<u>1,130,000</u>	<u>1,735,000</u>

City of Lake City, Iowa

Schedule of Receipts By Source and Disbursements By Function -
All Governmental Funds

For the Last Ten Years

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Receipts:			
Property tax	\$ 669,823	683,588	664,387
Other city tax	169,746	136,814	145,339
Licenses and permits	5,266	5,540	4,833
Use of money and property	14,815	15,357	17,300
Intergovernmental	194,724	194,790	245,373
Charges for service	49,271	15,820	13,889
Miscellaneous	<u>175,130</u>	<u>266,025</u>	<u>184,243</u>
 Total	 <u>\$ 1,278,775</u>	 <u>1,317,934</u>	 <u>1,275,364</u>
Disbursements:			
Operating			
Public safety	\$ 297,401	199,770	375,506
Public works	351,623	172,554	105,244
Culture and recreation	168,226	155,611	165,226
Community and economic development	675	891	1,884
General government	60,186	185,298	203,303
Debt service	657,132	243,113	238,677
Capital projects	<u>130,101</u>	<u>15,403</u>	<u>26,282</u>
 Total	 <u>\$ 1,665,344</u>	 <u>972,640</u>	 <u>1,116,122</u>

See accompanying independent auditor's report.

<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
585,869	526,082	579,815	601,956	564,551	550,640	615,975
140,637	150,836	-	-	-	-	-
3,703	4,225	4,920	4,605	4,865	4,218	4,138
22,114	9,314	17,306	28,804	17,194	7,352	7,415
201,862	179,648	180,648	175,246	175,784	296,730	179,138
19,849	11,599	32,137	35,336	25,978	19,341	15,873
<u>185,899</u>	<u>43,295</u>	<u>53,694</u>	<u>16,188</u>	<u>56,761</u>	<u>40,253</u>	<u>66,809</u>
<u>1,159,933</u>	<u>924,999</u>	<u>868,520</u>	<u>862,135</u>	<u>845,133</u>	<u>918,534</u>	<u>889,348</u>
228,232	241,143	209,052	213,706	190,301	303,633	180,490
120,089	119,244	148,559	188,241	98,927	137,946	126,072
163,742	156,482	184,364	125,997	113,928	142,335	124,553
-	-	-	-	-	-	-
181,392	150,987	140,195	125,845	110,734	112,907	116,052
202,564	207,680	216,285	219,069	209,422	213,215	259,465
<u>608,854</u>	<u>140,493</u>	<u>52,409</u>	<u>421,532</u>	<u>26,260</u>	<u>72,781</u>	<u>380,347</u>
<u>1,504,873</u>	<u>1,016,029</u>	<u>950,864</u>	<u>1,294,390</u>	<u>749,572</u>	<u>982,817</u>	<u>1,186,979</u>

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Independent Auditor's Report on Internal Control
over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

To the Honorable Mayor and
Members of the City Council:

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in the Governmental Auditing Standards issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Lake City, Iowa, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which along with the discretely presented component unit, collectively comprise the City's basic financial statements, and have issued our report thereon dated January 10, 2014. Our report expressed unmodified opinions on the primary government financial statements which were prepared in on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles. Our report also noted that the discretely presented component unit was not audited.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Lake City's internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the City of Lake City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Lake City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City of Lake City's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency described in Part I of the accompanying Schedule of Findings as item I-A-13 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. We consider the deficiencies described in Part I of the accompanying Schedule of Findings as items I-B-13 and I-C-13 to be significant deficiencies.

Compliance and Other Matters

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

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2013 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The City of Lake City's Responses to Findings

The City of Lake City's responses to findings identified in our audit are described in the accompanying Schedule of Findings. The City of Lake City's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

Cornwell, Frideres, Maher & Associates, P.L.C.
Cornwell, Frideres, Maher & Associates, P.L.C.
Certified Public Accountants

January 10, 2014

City of Lake City, Iowa

Schedule of Findings

Year ended June 30, 2013

Part I: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

SIGNIFICANT DEFICIENCIES:

I-A-13 Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that certain functions are not entirely segregated, such as preparing receipts and posting utility billing.

Recommendation – We realize that with a limited number of office employees, segregation of duties is difficult. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response – We feel we are doing the best we can with the limited personnel we have.

Conclusion – Response acknowledged.

I-B-13 Preparation of Financial Statements – Management is responsible for establishing and maintaining internal controls over financial reporting and procedures related to the fair presentation of the financial statements in accordance with the cash basis of accounting. The City of Lake City does not have an internal control system designed to provide for the preparation of the financial statements, including the accompanying footnotes as required by generally accepted accounting principles. The guidance in Statement of Auditing Standards No. 115, *Communicating Internal Control Related Matters Identified in an Audit*, requires us to communicate this matter to those charged with governance.

As auditors, we were requested to draft the financial statements and accompanying notes to the financial statements. The outsourcing of these services is not unusual in an organization of your size.

City of Lake City, Iowa

Schedule of Findings

Year ended June 30, 2013

Recommendation – We realize that obtaining the expertise necessary to prepare the financial statements, including all necessary disclosures, in accordance with the cash basis of accounting can be considered costly and ineffective. However, it is the responsibility of the City’s management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Response – Management feels that committing the resources to remain current on reporting requirements and corresponding footnote disclosures would lack benefit in relation to the cost, but will continue evaluating on a going forward basis.

Conclusion – Response accepted.

I-C-13 Personnel Policies – During the course of our audit, it was noted that the City has written policies concerning pay out of comp time hours, but these policies were not strictly followed.

Recommendation – The City should review and update their policies to insure that the written policies reflect the actual practice.

Response – We are in the process of reviewing our policies and have reduced the number of outstanding comp time hours.

Conclusion – Response accepted.

Part II: Other Findings Related to Statutory Reporting:

II-A-13 Certified Budget – Disbursements during the year ended June 30, 2013 exceeded the budget in Community and Economic Development prior to an amendment to the budget.

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – The budget will be amended prior to exceeding the budget in the future, if applicable.

Conclusion – Response accepted.

City of Lake City, Iowa

Schedule of Findings

Year ended June 30, 2013

- II-B-13 Questionable Disbursements – No disbursements were noted that may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979.
- II-C-13 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- II-D-13 Business Transactions – No business transactions between the City and City officials or employees were noted.
- II-E-13 Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage is reviewed annually to insure that coverage is adequate for current operations.
- II-F-13 Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not.
- II-G-13 Deposits and Investments - No instances of non-compliance with the deposit and investments provisions of Chapter 12B and 12C of the Code of Iowa and the City’s investment policy were noted.
- II-H-13 Financial Condition – The Debt Service Fund, Streets Capital Project Fund and Fire Station Capital Project Fund had deficit balances of \$1,268, \$21,046 and \$102,010 respectively at June 30, 2013.

Recommendation – The City should investigate alternatives to return these funds to a sound financial position.

Response – See footnote #10 in notes to the financial statements for an explanation how the City intends to eliminate these deficits.

Conclusion – Response accepted.