

CITY OF EARLHAM

Earlham, Iowa

FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

June 30, 2005

With Independent Auditor's Reports

CITY OF EARLHAM
Contents

	<u>Pages</u>
City Officials	1
Independent Auditor's Report	2 - 3
Management's Discussion and Analysis	4 - 9
Statement of Assets and Net Assets – Cash Basis	10 - 11
Statement of Cash Receipts, Disbursements and Changes in Cash Balances – Governmental Funds	12 - 13
Statement of Cash Receipts, Disbursements and Changes in Cash Balances – Proprietary Funds	14
Notes to the Financial Statements	15 - 20
Budgetary Comparison Schedule of Receipts, Disbursements And Changes in Cash Balances – Budget and Actual (Cash Basis) All Governmental Funds and Proprietary Funds	21 - 22
Schedule of Cash Receipts, Disbursements and Changes in Cash Balances – Nonmajor Governmental Funds	23
Schedule of Long-Term Debt and Interest	24 - 25
Bond and Note Maturities	26 - 27
Schedule of Receipts by Source and Disbursements by Function – All Governmental Funds	28
Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting	29 - 30
Schedule of Findings	31 - 34

CITY OF EARLHAM
City Officials
June 30, 2005

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Richard Rothert	Mayor	December 31, 2007
Andrew Arnburg	Mayor Pro Tem	December 31, 2005
Jeff Beisner	Council Member	December 31, 2005
Alan Horwath	Council Member	December 31, 2005
Scott Petersen	Council Member	December 31, 2007
Doug Waugh	Council Member	December 31, 2005
Marilyn Sesker	City Clerk	Indefinite
Samuel Braland	City Attorney	Indefinite

INDEPENDENT AUDITOR'S REPORT

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

I have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Earlham, Iowa, as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents of this report. These financial statements are the responsibility of City officials. My responsibility is to express an opinion on these financial statements based on my audit.

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

As described more fully in Note 1, the financial statements referred to above have been prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In my 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 Earlham, Iowa as of June 30, 2005 and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, I have also issued my report dated February 21, 2006 on my consideration of the City of Earlham's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of my audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 9 and 21 through 22 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. I applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. I did not audit the information and express no opinion on it.

My audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Earlham's basic financial statements. The financial statements for the two years ended June 30, 2004 (none of which are presented herein) were previously audited by other auditors who expressed unqualified opinions on those financial statements. Other supplementary information presented on pages 23 through 28 is presented for purposes of additional analysis and is not a required part of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

S/ Stanley E. Siebke

Urbandale, Iowa
February 21, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

2005 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities increased by 13%, or \$130,398, from fiscal year 2004-2005. Property taxes decreased \$3,962.
- Disbursements for the City's governmental activities increased 16%, or \$159,119 from fiscal year 2004-2005. General government disbursements decreased \$29,169, while public safety and capital projects disbursements increased \$70,883 and \$154,527 respectively.
- The City's total cash basis net assets decreased 3.8% or \$39,848, from June 30, 2004 to June 30, 2005. Of this amount, the assets of the governmental activities increased \$31,219 and assets of the business type activities decreased \$71,067.

USING THIS ANNUAL REPORT

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

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

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

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

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

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

Other Supplementary Information provides detailed information about the nonmajor governmental funds.

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, or accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

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

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

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

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

Fund Financial Statements

The City has two kinds of funds:

- 1) Government 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 government funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Tax Increment Financing, 3) 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 governmental operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

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

- 2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains two Enterprise Funds to provide separate information for the water and sewer funds, considered to be major funds of the City.

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The analysis that follows focuses on the changes in cash balances for governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities

	<u>Year Ended</u> <u>June 30, 2005</u>	<u>Year Ended</u> <u>June 30, 2004</u>
Receipts:		
Program Receipts:		
Charges for Service	\$ 131,924	122,743
Operating grants, contributions and restricted interest	227,527	86,213
Capital grants, contributions and restricted interest	14,227	36,515
General Receipts:		
Property tax	315,519	319,481
Tax increment financing	85,462	15,823
Grants and contributions not restricted to Specific purpose	0	131,432
Unrestricted interest on investments	1,123	19,974
Note proceeds	288,920	313,975
Transfers	41,567	0
Other general receipts	18,264	921
Local option sales tax receipts	<u>52,942</u>	<u>0</u>
Total Receipts	<u>\$1,177,475</u>	<u>1,047,077</u>
Disbursements:		
Public safety	\$ 203,851	132,968
Public works	209,269	249,564
Culture and recreation	156,372	144,262
Community and economic development	23,862	37,472
General government	108,381	137,550
Debt service	46,904	42,231
Capital projects	<u>397,617</u>	<u>243,090</u>
Total Disbursements	<u>\$1,146,256</u>	<u>987,137</u>
Increase in cash basis net assets	31,219	59,940
Cash basis net assets beginning of year	<u>379,535</u>	<u>319,595</u>
Cash basis net assets end of year	<u>\$ 410,754</u>	<u>379,535</u>

The City's total receipts for governmental activities were \$1,135,908. The total cost of all programs and services was \$1,146,256, with one new program being added (LOST) this year.

The City increased property tax rates for 2005 by an average of 1.9 percent. This increase was offset by the rollback for a decrease in tax receipts by \$3,962 in 2005.

The cost of all governmental activities this year was \$1,146,256. As shown in the Statement of Activities and Net Assets, the amount taxpayers ultimately financed for these activities was only \$772,578 because some of the cost was paid by those who directly benefited from the programs (\$131,924) or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest (\$241,754).

Changes in Cash Basis Net Assets of Business Type Activities

	<u>Year Ended June 30, 2005</u>	<u>Year Ended June 30, 2004</u>
Receipts:		
Program receipts:		
Charges for service:		
Water	\$286,533	284,801
Sewer	172,920	183,972
General receipts:		
Unrestricted interest on investments	<u>2,560</u>	<u>3,333</u>
Total Receipts	<u>\$462,013</u>	<u>472,106</u>
 Disbursements:		
Water	348,880	329,251
Sewer	142,633	139,832
Transfers	<u>41,567</u>	<u>0</u>
Total Disbursements	<u>\$533,080</u>	<u>469,083</u>
 Increase (Decrease) in cash basis net assets	(71,067)	3,023
Cash basis net assets beginning of year	<u>660,820</u>	<u>657,797</u>
Cash basis net assets end of year	<u>\$589,753</u>	<u>660,820</u>

Total business type activities receipts for the fiscal year were \$462,013 compared to \$472,106 last year. Total disbursements for the fiscal year increased by 4.8% to a total of \$491,513.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Earlham completed the year, its governmental funds reported a combined fund balance of \$410,754, an increase of \$31,219 over last year's total of \$379,535. The following are major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance decreased \$18,270 from the prior year to \$62,555.
- The Road Use Tax fund increased \$33,091 over the prior year to \$185,238.
- The Library Trust fund cash balance of \$385,161 did not change significantly from the prior year.
- The Capital Projects fund cash balance decreased by \$52,903 to (\$334,162) due to project costs.
- The Permanent fund (Cemetery Perpetual Care) cash balance of \$65,946 did not change from the prior year.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance decreased by \$60,815 to \$220,661 due to water main improvement project.
- The Sewer Fund cash balance decreased by \$10,252 to \$369,092 due to debt repayment.

BUDGETARY HIGHLIGHTS

The City amended its budget one time in 2005. The amendment was approved February 22, 2005. The amendment provided for pay off of interim financing and adjustments to various departments according to revenue and expenditures to date.

DEBT ADMINISTRATION

As of June 30, 2005, the City had \$2,808,873 in outstanding notes and other long term debt compared to \$2,880,750 last year, as shown below.

	<u>Outstanding Debt at Year-End</u>	
	<u>June 30</u>	
	<u>2005</u>	<u>2004</u>
General obligation capital loan notes	\$ 295,000	270,000
Water service agreement	1,114,957	1,125,524
Sewer revenue notes	1,206,000	1,260,000
TIF revenue notes	60,000	70,000
Lease purchase agreements	<u>132,916</u>	<u>155,226</u>
Total	<u>\$2,808,873</u>	<u>2,880,750</u>

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 \$487,916 is significantly below its constitutional debt limit of \$2,580,735.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City of Earlham's elected and appointed officials and department heads considered many factors when setting the fiscal 2006 budget, tax rates and fees that will be charged for various City activities.

When adopting the budget for fiscal year 2006, the council considered the needs of each department against projected revenue. The City expects less revenue due to rollback so there were few extras included with the budget. The only added program was Local Option.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with an overview of the City's accountability for the money it receives. This report will be available for review at Earlham City Hall, 140 S Chestnut Avenue, Earlham, Iowa 50072.

CITY OF EARLHAM
Statement of Activities and Net Assets - Cash Basis
As of and For the Year Ended June 30, 2005

	<u>Disbursements</u>	<u>Charges for Service</u>	<u>Program Receipts Operating Grants, Contributions and Restricted Interest</u>
Function / Programs:			
Governmental activities:			
Public safety	\$ 203,851	0	84,144
Public works	209,269	90,022	110,542
Culture and recreation	156,372	41,902	32,841
Community and economic development	23,862	0	0
General government	108,381	0	0
Debt service	319,479	0	0
Capital projects	125,042	0	0
Total Governmental Activities	<u>1,146,256</u>	<u>131,924</u>	<u>227,527</u>
Business type activities:			
Water	348,880	286,533	1,532
Sewer	142,633	172,920	1,028
Total Business Type Activities	<u>491,513</u>	<u>459,453</u>	<u>2,560</u>
 Total	 <u>\$ 1,637,769</u>	 <u>591,377</u>	 <u>230,087</u>

General Receipts:

Property tax levied for:
 General purposes
 Tax increment financing
 Debt service
Local option sales tax
Unrestricted interest on investments
Proceeds of long - term debt
Miscellaneous
Transfers

 Total General Receipts

Change in Cash Basis Net Assets

Cash Basis Net Assets at Beginning of Year

Cash Basis Net Assets at End of Yea

Cash Basis Net Assets:

Restricted:
 Streets
 Urban renewal purposes
 Debt service
 Other
Unrestricted

The accompanying notes are an integral part of these financial statements.

CITY OF EARLHAM
Statement of Activities and Net Assets - Cash Basis
As of and For the Year Ended June 30, 2005

Capital Grants, Contributions and Restricted <u>Interest</u>	Governmental <u>Activities</u>	Business Type <u>Activities</u>	<u>Total</u>
0	(119,707)	0	(119,707)
0	(8,705)	0	(8,705)
0	(81,629)	0	(81,629)
0	(23,862)	0	(23,862)
0	(108,381)	0	(108,381)
0	(319,479)	0	(319,479)
<u>14,227</u>	<u>(110,815)</u>	<u>0</u>	<u>(110,815)</u>
<u>14,227</u>	<u>(772,578)</u>	<u>0</u>	<u>(772,578)</u>
0	0	(60,815)	(60,815)
<u>0</u>	<u>0</u>	<u>31,315</u>	<u>31,315</u>
<u>0</u>	<u>0</u>	<u>(29,500)</u>	<u>(29,500)</u>
<u>14,227</u>	<u>(772,578)</u>	<u>(29,500)</u>	<u>(802,078)</u>
	284,617	0	284,617
	85,462	0	85,462
	30,902	0	30,902
	52,942	0	52,942
	1,123	0	1,123
	288,920	0	288,920
	18,264	0	18,264
	41,567	(41,567)	0
	<u>803,797</u>	<u>(41,567)</u>	<u>762,230</u>
	31,219	(71,067)	(39,848)
	379,535	660,820	1,040,355
	<u>\$ 410,754</u>	<u>589,753</u>	<u>1,000,507</u>
	\$ 185,238	0	185,238
	76,648	0	76,648
	(30,632)	102,730	72,098
	451,107	0	451,107
	<u>(271,607)</u>	<u>487,023</u>	<u>215,416</u>
	<u>\$ 410,754</u>	<u>589,753</u>	<u>1,000,507</u>

CITY OF EARLHAM
Statement of Cash Receipts, Disbursements
and Changes in Cash Balances - Governmental Funds
As of and For the Year Ended June 30, 2005

	<u>General</u>	<u>Special Revenue Road Use Tax</u>	<u>Capital Projects</u>	<u>Permanent Library Trust</u>
Receipts:				
Property tax	\$ 284,617	0	0	0
TIF revenues	0	0	0	0
Other city taxes	52,942	0	0	0
Licenses and permits	7,464	0	0	0
Use of money and property	2,928	0	147	14,063
Intergovernmental	91,142	110,542	0	0
Charges for services	131,941	0	0	0
Special assessments	0	0	9,879	0
Miscellaneous	20,758	0	4,201	0
Total Receipts	<u>591,792</u>	<u>110,542</u>	<u>14,227</u>	<u>14,063</u>
Disbursements:				
Operating:				
Public safety	203,851	0	0	0
Public works	131,818	77,451	0	0
Culture and recreation	156,179	0	0	193
Community and economic development	18,633	0	0	0
General government	108,381	0	0	0
Debt service	0	0	272,575	0
Capital outlay:				
Capital projects	0	0	125,042	0
Total Disbursements	<u>618,862</u>	<u>77,451</u>	<u>397,617</u>	<u>193</u>
Excess (Deficit) of Receipts over (under) Disbursements	<u>(27,070)</u>	<u>33,091</u>	<u>(383,390)</u>	<u>13,870</u>
Other Financing Sources:				
Transfers	8,800	0	41,567	(8,800)
Proceeds of long-term debt	0	0	288,920	0
Total Other Financing Sources	<u>8,800</u>	<u>0</u>	<u>330,487</u>	<u>(8,800)</u>
Net Change in Cash Balances	<u>(18,270)</u>	<u>33,091</u>	<u>(52,903)</u>	<u>5,070</u>
Cash Balances at Beginning of Year	<u>80,825</u>	<u>152,147</u>	<u>(281,259)</u>	<u>380,091</u>
Cash Balances at End of Year	<u>\$ 62,555</u>	<u>185,238</u>	<u>(334,162)</u>	<u>385,161</u>
Cash Basis Fund Balances:				
Reserved:				
Debt service	\$ 0	0	0	0
Unreserved:				
General fund	62,555	0	0	0
Special revenue funds	0	185,238	0	0
Capital projects fund	0	0	(334,162)	0
Permanent fund	0	0	0	385,161
Total Cash Basis Fund Balances	<u>\$ 62,555</u>	<u>185,238</u>	<u>(334,162)</u>	<u>385,161</u>

The accompanying notes are an integral part of these financial statements.

CITY OF EARLHAM
Statement of Cash Receipts, Disbursements
and Changes in Cash Balances - Governmental Funds
As of and For the Year Ended June 30, 2005

Other Nonmajor Governmental Funds	<u>Total</u>
30,902	315,519
85,462	85,462
0	52,942
0	7,464
0	17,138
0	201,684
0	131,941
0	9,879
0	24,959
116,364	846,988
0	203,851
0	209,269
0	156,372
5,229	23,862
0	108,381
46,904	319,479
0	125,042
52,133	1,146,256
64,231	(299,268)
0	41,567
0	288,920
0	330,487
64,231	31,219
47,731	379,535
111,962	410,754
(30,632)	(30,632)
0	62,555
76,648	261,886
0	(334,162)
65,946	451,107
111,962	410,754

CITY OF EARLHAM
Statement of Cash Receipts, Disbursements
and Changes in Cash Balances - Proprietary Funds
As of and For the Year Ended June 30, 2005

	<u>Enterprise Funds</u>		<u>Total</u>
	<u>Water</u>	<u>Sewer</u>	
Operating Receipts:			
Charges for services	\$ 280,004	171,345	451,349
Miscellaneous	6,529	1,575	8,104
Total Operating Receipts	<u>286,533</u>	<u>172,920</u>	<u>459,453</u>
Operating Disbursements:			
Business type activities	274,072	47,673	321,745
Total Operating Disbursements	<u>274,072</u>	<u>47,673</u>	<u>321,745</u>
Excess of Operating Receipts over Operating Disbursements	<u>12,461</u>	<u>125,247</u>	<u>137,708</u>
Non-Operating Receipts (Disbursements):			
Use of money and property	1,532	1,028	2,560
Debt service	(74,808)	(94,960)	(169,768)
Transfers	0	(41,567)	(41,567)
Total Non-Operating Receipts (Disbursements)	<u>(73,276)</u>	<u>(135,499)</u>	<u>(208,775)</u>
Net Change in Cash Balances	(60,815)	(10,252)	(71,067)
Cash Balances at Beginning of Year	<u>281,476</u>	<u>379,344</u>	<u>660,820</u>
Cash Balances at End of Year	<u>\$ 220,661</u>	<u>369,092</u>	<u>589,753</u>
Cash Basis Fund Balances:			
Unrestricted:			
Reserved for debt service	\$ 25,237	77,493	102,730
Unreserved	195,424	291,599	487,023
	<u>\$ 220,661</u>	<u>369,092</u>	<u>589,753</u>

The accompanying notes are an integral part of these financial statements.

CITY OF EARLHAM
Notes to the Financial Statements
June 30, 2005

(1) Summary of Significant Accounting Policies

The City of Earlham is a political subdivision of the State of Iowa located in Madison County. The City operates under the mayor-council form of government with the mayor and council members elected on a non-partisan basis.

Reporting Entity

For financial reporting purposes, the 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.

These financial statements present the City of Earlham and its component unit. The component unit discussed below is included in the City's reporting entity because of the significance of its operational or financial relationship with the City.

The Earlham Fire/Rescue Department was established as a non-profit corporation in accordance with Chapter 504A of the Code of Iowa. The Department is legally separate from the City but is so intertwined with the City that it is, in substance, the same as the City. The Department is reported as part of the City and blended in the General Fund. The Department receives donations for the benefit of the Earlham Fire Department. These donations are to be used to purchase items which are not included in the City's budget.

The City also 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: Madison County Assessor's Conference Board, Madison County Joint E911 Service Board and Madison County Emergency Management Commission.

Basis of Presentation

Government-wide Financial Statement

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

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

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

Unrestricted net assets consist of net assets not meeting the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

CITY OF EARLHAM
Notes to the Financial Statements – Continued

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

Fund Financial Statements

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

The City reports the following major governmental funds:

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

Special Revenue Funds:

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

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

Permanent Fund – The Library Trust Fund is used to account for restricted donations to the City's Public Library.

The City reports the following major proprietary funds:

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

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

Measurement Focus and Basis of Accounting

The City of Earlham 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.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services 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 EARLHAM
Notes to the Financial Statements – Continued

Budgets and Budgetary Accounting

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended 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 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.

During the year ended June 30, 2005, the budget was amended under the statutorily prescribed procedures.

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2005, disbursements exceeded the amounts budgeted in the public works, community and economic development, general government, and debt service functions.

(2) Pooled Deposits and Investments

The City's deposits in banks at June 30, 2005 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.

Funds that have deficit cash in bank balances are considered to have borrowed cash from other 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 and the Treasurer of the State of Iowa; 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 City's investments are categorized to give an indication of the level of risk assumed by the City at year end. The City's investments are all Category 1, which means the investments are insured or registered or the securities are held by the City or its agent in the City's name.

The City's investments at June 30, 2005 are as follows:

<u>Type</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
Common stock	<u>\$ 111,900</u>	<u>165,196</u>

CITY OF EARLHAM
Notes to the Financial Statements – Continued

(3) Long-Term Debt

A summary of the City's June 30, 2005 general obligation, lease and revenue bond indebtedness is as follows:

Year Ending June 30,	Interest Rates	General Obligation		Leases		Revenue Bonds and Notes		Total
		Principal	Interest	Principal	Interest	Principal	Interest	
2006	2.70 - 7.25%	\$ 10,000	20,394	23,733	7,966	67,121	93,063	222,277
2007	2.70 - 7.25	40,000	14,048	25,212	6,487	68,705	90,799	245,251
2008	2.90 - 7.30	40,000	12,518	26,811	4,914	71,319	88,475	244,037
2009	3.00 - 7.40	40,000	10,917	18,013	3,241	72,965	86,059	231,195
2010	3.00 - 7.50	40,000	9,248	19,034	2,220	75,646	83,578	229,726
		<u>170,000</u>	<u>67,125</u>	<u>112,803</u>	<u>24,828</u>	<u>355,756</u>	<u>441,974</u>	<u>1,172,486</u>
2011-2015	3.00 - 7.55	185,000	22,338	20,113	1,140	421,750	377,150	1,027,491
2016-2020	3.00 - 5.125	0	0	0	0	497,987	302,553	800,540
2021-2025	3.00 - 5.125	0	0	0	0	307,995	214,945	522,940
2026-2030	5.125	0	0	0	0	171,745	168,275	340,020
2031-2035	5.125	0	0	0	0	221,787	118,233	340,020
2035-2040	5.125	0	0	0	0	286,409	53,611	340,020
2041	5.125	0	0	0	0	57,528	1,413	58,941
		<u>\$ 355,000</u>	<u>89,463</u>	<u>132,916</u>	<u>25,968</u>	<u>2,320,957</u>	<u>1,678,154</u>	<u>4,602,458</u>

Interest paid on General Obligation Bonds amounted to \$7,670, interest paid on leases amounted to \$9,390 and interest paid on Revenue Bonds and Notes amounted to \$95,237. The entire amount of \$112,297 was charged to expense.

Assets restricted for the payment of bonds and notes at June 30, 2005 are as follows:

<u>Type of Indebtedness</u>	<u>Amount</u>
Water Service Agreement	\$ 25,237
Sewer Revenue Bonds and Notes	77,493
	<u>\$ 102,730</u>

The Sewer Revenue Bonds and Notes provide for monthly transfers to the Sewer Sinking Fund sufficient to cover the annual principal and interest payments on the Sewer Revenue Bonds and Notes. Minimum annual sinking fund requirements are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2006	\$ 92,180
2007	91,500
2008	91,790
2009	91,020
2010	91,220
	<u>457,710</u>
2011-2015	458,880
2016-2020	460,520
2021-2022	182,920
	<u>\$ 1,560,030</u>

CITY OF EARLHAM

Notes to the Financial Statements – Continued

(4) Retirement System - IPERS

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.

Plan members are required to contribute 3.70% of their annual salary and the City is required to contribute 5.75% of annual covered payroll except for police employees, in which case the percentages are 6.16% and 9.23%, respectively. For the year ended June 30, 2004, the contribution rates for police employees and the City were 5.93% and 8.90%, respectively, and for the year ended June 30, 2003, the contribution rates for police employees and the City were 6.04% and 9.07%, respectively. Contribution requirements are established by State statute. The City's contribution to IPERS for the years ended June 30, 2005, 2004 and 2003 were \$15,917, \$13,581 and \$13,785, respectively, equal to the required contributions for each year.

(5) General Long-Term Debt Account Group

Changes in the general long-term debt account group during the year ended June 30, 2005 are summarized as follows:

	General Obligation	Leases	TIF Revenue Notes	Total
Balance at beginning of year	\$ 270,000	155,226	70,000	495,226
New debt issued	295,000	0	0	295,000
Debt principal payments	(270,000)	(22,310)	(10,000)	(302,310)
Balance at end of year	<u>\$ 295,000</u>	<u>132,916</u>	<u>60,000</u>	<u>487,916</u>

(6) Compensated Absences

City employees accumulate vacation, sick leave, personal leave and comp time hours for subsequent use. These accumulations are not recognized as expenditures by the City until used or paid. The City's approximate maximum liability for unrecognized accrued employee benefits at June 30, 2005 is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$ 16,838
Sick leave	42,983
Personal leave	7,518
Comp time	2,770
	<u>\$ 70,109</u>

The liability has been computed based on rates of pay as of June 30, 2005.

(7) Risk Management

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

CITY OF EARLHAM

Notes to the Financial Statements - Continued

- (8) Property Tax Calendar
Property taxes are collected and remitted to the City by the county government. Taxes are levied annually on July 1 based on an assessment as of January 1. Taxes are due one-half on September 30 in the year following the levy and one-half on the subsequent March 31. The lien date is July 1. Current and delinquent tax payments are recognized as receipts by the City when received.
- (9) Related Party Transactions
During the year ended June 30, 2005, the City purchased goods and services from businesses owned or managed by members of the City Council totaling \$14,452.
- (10) Stewardship, Compliance and Accountability – Deficit Fund Balances
At June 30, 2005, the City of Earlham had a deficit fund balance in the Capital Projects Fund of \$334,162 as a result of disbursements exceeding receipts during the year ended June 30, 2005 and prior years. This deficit is to be eliminated through special assessments to property owners benefiting from the project expenditures. At June 30, 2005, the City of Earlham had a deficit fund balance in the Debt Service Fund of \$30,632 as the result of early payment of debt in prior years. This deficit will be eliminated through future property tax assessments.
- (11) Budget Overexpenditure
Per the Code of Iowa, disbursements may not legally exceed budgeted appropriations at the function level. During the year ended June 30, 2005, disbursements in the Public Works, Community and Economic Development, General Government and Debt Service functions exceeded amounts budgeted.

CITY OF EARLHAM
 Budgetary Comparison Schedule of Receipts, Disbursements
 and Changes in Cash Balances - Budget and Actual (Cash Basis)
 All Governmental and Proprietary Funds
 Year Ended June 30, 2005

	Governmental <u>Funds</u>	Proprietary <u>Funds</u>	<u>Total</u>
Receipts:			
Property tax	\$ 315,519	0	315,519
TIF revenues	85,462	0	85,462
Other city taxes	52,942	0	52,942
Licenses and permits	7,464	0	7,464
Use of money and property	17,138	2,560	19,698
Intergovernmental	201,684	0	201,684
Charges for services	131,941	459,453	591,394
Special assessments	9,879	0	9,879
Miscellaneous	24,959	0	24,959
Other financing sources	330,487	0	330,487
	<u>1,177,475</u>	<u>462,013</u>	<u>1,639,488</u>
Disbursements:			
Public safety	203,851	0	203,851
Public works	209,269	0	209,269
Culture and recreation	156,372	0	156,372
Community and economic development	23,862	0	23,862
General government	108,381	0	108,381
Debt service	319,479	0	319,479
Capital projects	125,042	0	125,042
Business type activities	0	491,513	491,513
Other financing uses	0	41,567	41,567
	<u>1,146,256</u>	<u>533,080</u>	<u>1,679,336</u>
Excess (Deficit) of Receipts over (under)			
Disbursements	31,219	(71,067)	(39,848)
Balances at Beginning of Year	379,535	660,820	1,040,355
	<u>\$ 410,754</u>	<u>589,753</u>	<u>1,000,507</u>

CITY OF EARLHAM
 Budgetary Comparison Schedule of Receipts, Disbursements
 and Changes in Cash Balances - Budget and Actual (Cash Basis)
 All Governmental and Proprietary Funds
 Year Ended June 30, 2005

<u>Budgeted Amounts</u>		<u>Variance to Final</u>
<u>Original</u>	<u>Amended</u>	
306,216	306,216	9,303
152,155	303,325	(217,863)
13,257	13,257	39,685
12,900	12,900	(5,436)
19,000	15,400	4,298
223,415	208,340	(6,656)
539,803	579,470	11,924
8,000	12,000	(2,121)
139,476	141,871	(116,912)
103,371	124,123	206,364
<u>1,517,593</u>	<u>1,716,902</u>	<u>(77,414)</u>
160,475	204,212	361
213,109	190,298	(18,971)
170,573	162,394	6,022
12,250	13,500	(10,362)
88,983	106,253	(2,128)
43,329	46,105	(273,374)
50,000	320,430	195,388
477,071	568,089	76,576
103,371	124,123	82,556
<u>1,319,161</u>	<u>1,735,404</u>	<u>56,068</u>
198,432	(18,502)	(21,346)
726,376	726,376	313,979
<u>924,808</u>	<u>707,874</u>	<u>292,633</u>

CITY OF EARLHAM
Schedule of Cash Receipts, Disbursements
and Changes in Cash Balances -
Nonmajor Governmental Funds
As of and For the Year Ended June 30, 2005

	<u>Special Revenue TIF</u>	<u>Debt Service</u>	<u>Permanent Cemetery Perpetual Care</u>	<u>Total</u>
Receipts:				
Property tax	\$ 0	30,902	0	30,902
TIF revenues	85,462	0	0	85,462
Total Receipts	<u>85,462</u>	<u>30,902</u>	<u>0</u>	<u>116,364</u>
Disbursements:				
Operating:				
Community and economic development	5,229	0	0	5,229
Debt service	15,105	31,799	0	46,904
Total Disbursements	<u>20,334</u>	<u>31,799</u>	<u>0</u>	<u>52,133</u>
Net Change in Cash Balances	65,128	(897)	0	64,231
Cash Balances at Beginning of Year	11,520	(29,735)	65,946	47,731
Cash Balances at End of Year	<u>\$ 76,648</u>	<u>(30,632)</u>	<u>65,946</u>	<u>111,962</u>
Cash Basis Fund Balances:				
Unreserved:				
Special revenue fund	\$ 76,648	0	0	76,648
Debt service fund	0	(30,632)	0	(30,632)
Permanent fund	0	0	65,946	65,946
	<u>\$ 76,648</u>	<u>(30,632)</u>	<u>65,946</u>	<u>111,962</u>

CITY OF EARLHAM
Schedule of Long-Term Debt and Interest
Year Ended June 30, 2005

	<u>Date Issued</u>	<u>Interest Rates</u>	<u>Amount Originally Issued</u>
General Obligation:			
General Obligation Bonds and Notes:			
TIF Revenue Notes	June 1, 1999	6.60 - 7.55%	\$ 100,000
Interim financing	June 8, 2004	2.00%	270,000
G.O. Capital Loan Notes	November 15, 2004	2.70 - 4.15%	295,000
Leases:			
Pumper	April 23, 2002	5.50%	132,201
Rescue box	September 16, 2002	7.25%	42,656
Total General Obligation			
Revenue Bonds:			
Water:			
Water Service Agreement	June 1, 2002	5.125%	1,154,167
Sewer:			
2001 SRF	October 24, 2001	3.00%	1,200,000
2002 SRF	June 25, 2002	3.00%	250,000
Total Sewer			
Total Long-Term Debt			

CITY OF EARLHAM
Schedule of Long-Term Debt and Interest
Year Ended June 30, 2005

<u>Balance</u> <u>June 30, 2004</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Balance</u> <u>June 30, 2005</u>	<u>Interest</u> <u>Paid</u>
\$ 70,000	0	10,000	60,000	5,105
270,000	0	270,000	0	2,565
0	295,000	0	295,000	0
<u>340,000</u>	<u>295,000</u>	<u>280,000</u>	<u>355,000</u>	<u>7,670</u>
120,050	0	14,447	105,603	6,807
35,176	0	7,863	27,313	2,583
<u>155,226</u>	<u>0</u>	<u>22,310</u>	<u>132,916</u>	<u>9,390</u>
<u>495,226</u>	<u>295,000</u>	<u>302,310</u>	<u>487,916</u>	<u>17,060</u>
<u>1,125,524</u>	<u>0</u>	<u>10,567</u>	<u>1,114,957</u>	<u>57,437</u>
1,109,000	0	47,000	1,062,000	33,270
151,000	0	7,000	144,000	4,530
<u>1,260,000</u>	<u>0</u>	<u>54,000</u>	<u>1,206,000</u>	<u>37,800</u>
<u>\$ 2,880,750</u>	<u>295,000</u>	<u>366,877</u>	<u>2,808,873</u>	<u>112,297</u>

CITY OF EARLHAM
 Bond and Note Maturities
 June 30, 2005

Year Ending June 30,	<u>TIF Revenue Notes</u> <u>Issued 6/1/99</u>		<u>G.O. Capital Loan Notes</u> <u>Issued 11/15/04</u>		<u>General Obligation</u> <u>Pumper Lease</u> <u>Issued 4/23/02</u>	
	Interest		Interest		Interest	
	<u>Rates</u>	<u>Amount</u>	<u>Rates</u>	<u>Amount</u>	<u>Rates</u>	<u>Amount</u>
2006	7.10%	\$ 10,000	--	--	5.50%	15,266
2007	7.20	10,000	2.70%	30,000	5.50	16,131
2008	7.30	10,000	2.90	30,000	5.50	17,046
2009	7.40	10,000	3.10	30,000	5.50	18,013
2010	7.50	10,000	3.30	30,000	5.50	19,034
2011	7.55	10,000	3.50	30,000	5.50	20,113
2012	--	--	3.70	35,000	--	--
2013	--	--	3.85	35,000	--	--
2014	--	--	4.00	35,000	--	--
2015	--	--	4.15	40,000	--	--
		\$ 60,000		295,000		105,603

Water Service Agreement
Issued 6/1/02

	Interest	
	<u>Rates</u>	<u>Amount</u>
2006	5.125%	\$ 11,121
2007	5.125	11,705
2008	5.125	12,319
2009	5.125	12,965
2010	5.125	13,646
2011	5.125	14,362
2012	5.125	15,115
2013	5.125	15,908
2014	5.125	16,743
2015	5.125	17,622
2016	5.125	18,546
2017	5.125	19,519
2018	5.125	20,544
2019	5.125	21,622
2020	5.125	22,756
2021	5.125	23,950
2022	5.125	25,207
2023	5.125	26,529
2024	5.125	27,922
2025	5.125	29,387
2026 - 2030	5.125	171,745
2031 - 2035	5.125	221,787
2036 - 2040	5.125	286,409
2041	5.125	57,528
		\$ 1,114,957

2001 SRF
Issued 10/24/01

	Interest	
	<u>Rates</u>	<u>Amount</u>
2006	3.00%	\$49,000
2007	3.00	50,000
2008	3.00	52,000
2009	3.00	53,000
2010	3.00	55,000
2011	3.00	57,000
2012	3.00	58,000
2013	3.00	60,000
2014	3.00	62,000
2015	3.00	64,000
2016	3.00	66,000
2017	3.00	67,000
2018	3.00	69,000
2019	3.00	72,000
2020	3.00	74,000
2021	3.00	76,000
2022	3.00	78,000
2023	--	--
2024	--	--
2025	--	--
2026 - 2030	--	--
2031 - 2035	--	--
2036 - 2040	--	--
2041	--	--
		\$ 1,062,000

CITY OF EARLHAM
 Bond and Note Maturities
 June 30, 2005

Rescue Box Lease

Issued 9/16/02

Interest

<u>Rates</u>	<u>Amount</u>	<u>Total</u>
7.25%	8,467	33,733
7.25	9,081	65,212
7.25	9,765	66,811
--	--	58,013
--	--	59,034
--	--	60,113
--	--	35,000
--	--	35,000
--	--	35,000
--	--	40,000
	<u>27,313</u>	<u>487,916</u>

2002 SRF

Issued 6/25/02

Interest

<u>Rates</u>	<u>Amount</u>	<u>Total</u>
3.00%	7,000	56,000
3.00	7,000	57,000
3.00	7,000	59,000
3.00	7,000	60,000
3.00	7,000	62,000
3.00	8,000	65,000
3.00	8,000	66,000
3.00	8,000	68,000
3.00	8,000	70,000
3.00	9,000	73,000
3.00	9,000	75,000
3.00	9,000	76,000
3.00	9,000	78,000
3.00	10,000	82,000
3.00	10,000	84,000
3.00	10,000	86,000
3.00	11,000	89,000
--	--	--
--	--	--
--	--	--
--	--	--
--	--	--
--	--	--
	<u>144,000</u>	<u>1,206,000</u>

CITY OF EARLHAM
Schedule of Receipts by Source and Disbursements by Function
All Governmental Funds

	<u>Years Ended June 30,</u>		
	<u>2005</u>	<u>2004</u>	<u>2003</u>
Receipts:			
Property tax	\$ 315,519	319,481	281,806
TIF revenues	85,462	15,823	16,411
Other city taxes	52,942	0	0
Licenses and permits	7,464	10,157	11,075
Use of money and property	17,138	19,974	22,716
Intergovernmental	201,684	179,195	171,169
Charges for services	131,941	102,251	104,976
Special assessments	9,879	11,055	7,728
Miscellaneous	24,959	75,166	74,115
 Total Receipts	 <u>\$ 846,988</u>	 <u>733,102</u>	 <u>689,996</u>
Disbursements:			
Public safety	\$ 203,851	132,968	207,737
Public works	209,269	249,564	209,642
Culture and recreation	156,372	144,262	142,631
Community and economic development	23,862	37,472	0
General government	108,381	137,550	94,173
Debt service	319,479	42,231	46,199
Capital projects	125,042	243,090	691,465
 Total Disbursements	 <u>\$ 1,146,256</u>	 <u>987,137</u>	 <u>1,391,847</u>

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING

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

I have audited the financial statements of the City of Earlham, Iowa as of and for the year ended June 30, 2005 and have issued my report thereon dated February 21, 2006. My report expressed an unqualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. I conducted my audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

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

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2005 are based exclusively on knowledge obtained from procedures performed during my audit of the financial statements of the City. Since my audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior year statutory comments have been resolved except for items 05-III-A, 05-III-B, 05-III-H, 05-III-I and 05-III-J.

Internal Control over Financial Reporting

In planning and performing my audit, I considered the City of Earlham's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, I noted certain matters involving internal control over financial reporting and its operation that I consider to be reportable conditions. Reportable conditions

involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in my judgement, could adversely affect the City of Earlham's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part II of the accompanying Schedule of Findings.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, I believe none of the items are material weaknesses. Prior year reportable conditions have been resolved except for Item 05-II-A.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Earlham and other parties to whom the City of Earlham may report. This report is not intended to be and should not be used by anyone other than those specified parties.

S/ Stanley E. Siebke

Urbandale, Iowa
February 21, 2006

CITY OF EARLHAM
Schedule of Findings
Year Ended June 30, 2005

Part I: Summary of the Independent Auditor's Results

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

CITY OF EARLHAM
Schedule of Findings
Year Ended June 30, 2005

Part II: Findings Related to the Financial Statements

Instances of Non-compliance

No matters were noted.

Reportable Conditions

05-II-A Segregation of Duties

One important aspect of the internal control over financial reporting is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. I noted that one employee is involved in cash receipts, bank deposits, bank reconciliations, cash disbursements and general ledger accounting.

I realize that with the limited number of employees, improvement of these controls is not economically feasible. However, I believe that management of the City should be aware of the situation.

Response: The Council is aware of the situation.

Conclusion: Response accepted.

CITY OF EARLHAM
Schedule of Findings
Year Ended June 30, 2005

Part III: Other Findings Related to Statutory Reporting

05-III-A Official Depositories

A resolution naming official depositories has been approved by the City. The maximum deposit amounts named in the resolution were exceeded during the year ended June 30, 2005. City officials should review the depository resolution to determine if it needs to be increased to cover current deposit levels.

Response: The maximum deposit amount was only exceeded during a period with an unusually high level of cash. It does not appear necessary to increase the maximum deposit amount.

Conclusion: Response accepted.

05-III-B Certified Budget

City expenditures during the year ended June 30, 2005 exceeded amounts budgeted therefore in the Public Works, Community and Economic Development, General Government and Debt Service functions. Chapter 384 of the Code of Iowa prohibits such budget overruns. City officials should carefully monitor expenditures and prepare budget amendments when necessary.

Response: We will carefully monitor expenditures to avoid budget overruns.

Conclusion: Response accepted.

05-III-C Questionable Disbursements

I noted no expenditures for parties, banquets, or other entertainment for employees that I believe may constitute an unlawful expenditure from public funds as defined in an Attorney General's opinion dated April 25, 1979.

05-III-D Travel Expense

No expenditures of City money for travel expenses of spouses of City officials and/or employees were noted.

05-III-E Business Transactions

The City purchased goods and services from the following City officials during the year:

Andrew Arnborg	Earlham Building Center	\$ 7,227
Jeff Beisner	Associated Grading and Excavating	7,225

Since the payments are in excess of \$2,500, they appear to be in violation of Chapter 362.5(11) of the Code of Iowa.

Response: The City's policy is to purchase goods and services from local businesses whenever possible. In addition, the purchases were made using a competitive bidding process.

Conclusion: Response accepted.

05-III-F Bond Coverage

Surety bond coverage of City officials and employees is in accordance with statutory provisions.

CITY OF EARLHAM
Schedule of Findings
Year Ended June 30, 2005

05-III-G Council Minutes

No transactions were found that I believe should have been approved in the Council minutes but were not.

I did note occasions when the Council minutes were not published within fifteen days of the Council meeting in accordance with Chapter 372.13(b) of the Code of Iowa. In addition, the published Council minutes did not include a summary of all receipts. The City should publish the Council minutes and required information within fifteen days of the Council meeting.

Response: We will attempt to do this.

Conclusion: Response accepted.

05-III-H Sewer Revenue Bonds

The Sewer Revenue Notes require annual transfers to the Sewer Reserve Account until the account reaches a balance of \$97,500. These transfers were not made during the year ended June 30, 2005. The City should review the provisions of the Sewer Revenue Bonds and make the required annual transfers.

Response: We will make the required transfers.

Conclusion: Response accepted.

05-III-I Deposits and Investments

The Earlham Public Library has made an investment in common stock, which is a violation of Chapter 12B.10(5) of the Code of Iowa and the City's investment policy. The City should only make investments which comply with Chapter 12B.10(5) and Chapter 12C of the Code of Iowa and the City's investment policy.

Response: The Library Board has been made aware of this violation but chooses to continue with this investment.

Conclusion: It is not appropriate for the Library Board to violate provisions of the Code of Iowa and the City's investment policy.

05-III-J Deficit Fund Balances

At June 30, 2005, the City had deficit fund balances in the Debt Service Fund of \$30,632 and the Capital Projects Fund of \$334,162. The City should take appropriate steps to eliminate these deficits.

Response: We are working to eliminate the deficits.

Conclusion: Response accepted.