

**CITY OF EARLHAM**

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

**JUNE 30, 2007**

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**City of Earlham**

**Officials**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Ron TeKippe	Mayor	Jan 2008
Doug Waugh	Mayor Pro tem	Jan 2010
Alan Howarth	Council Member	Jan 2008
Scott Petersen	Council Member	Jan 2008
Andrew Arnburg	Council Member	Jan 2010
Jeff Beisner	Council Member	Jan 2010
Kathleen Timmerman	Clerk/Treasurer	Indefinite
Dean Nelson	Attorney	Indefinite

**City of Earlham**



"Our Goal is Client Success"

Independent Auditor's Report

To the Honorable Mayor and  
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Earlham, Iowa, as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Earlham as of June 30, 2007, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated November 15, 2007 on our consideration of the City of Earlham'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 compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 12 and 28 through 30 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management

regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted 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 years ended June 30, 2006 and 2005 (which are not presented herein) were audited by other auditors who expressed unqualified opinions on those financial statements which were prepared in conformity with an other comprehensive basis of accounting. Other supplementary information included in Schedules 1 through 4 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Short & Company, CPA, P.L.C.*

November 15, 2007

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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The City of Earlham 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, 2007. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

### 2007 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities increased 6.5%, or approximately \$56,000, from fiscal 2006 to fiscal 2007. Operating grants, contributions and restricted interest increased approximately \$59,000 and note proceeds increased approximately \$30,000. Capital grants, contributions and restricted interest decreased approximately \$33,000.
- Disbursements of the City's governmental activities increased 4.4%, or approximately \$40,000, in fiscal 2007 from fiscal 2006. Capital projects disbursements increased approximately \$51,000.
- The City's total cash basis net assets increased 0.6%, or approximately \$6,000, from June 30, 2006 to June 30, 2007. Of this amount, the assets of the governmental activities decreased approximately \$31,000 and the assets of the business type activities increased approximately \$39,000.

### USING THIS ANNUAL REPORT

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

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

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

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

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

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

## **REPORTING THE CITY'S FINANCIAL ACTIVITIES**

### *Government-wide Financial Statement*

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information which helps 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) 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 and Urban Renewal Tax Increment, 3) the Debt Service Fund, 4) the Capital Projects Fund and 5) the Permanent Funds. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

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

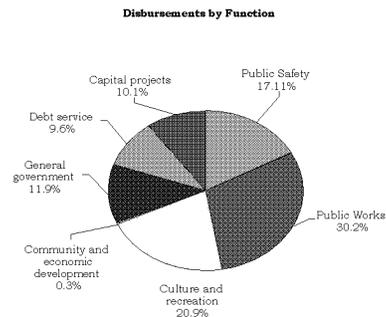
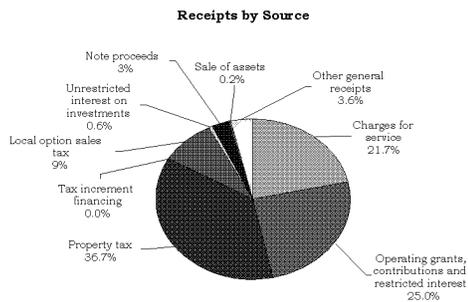
2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains two Enterprise Funds to provide information for the water and sewer funds, which are considered to be major funds of the City.

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

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased from a year ago, decreasing from \$362,656 to \$331,068. The analysis that follows focuses on the changes in cash basis net assets for governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities		
	Year ended June 30,	
	2007	2006
Receipts and transfers:		
Program receipts:		
Charges for service	\$ 201,470	\$ 198,066
Operating grants, contributions and restricted interest	231,646	172,189
Capital grants, contributions and restricted interest	-	32,835
General receipts:		
Property tax	340,693	365,467
Tax increment financing	106	15,694
Local option sales tax	83,537	80,637
Unrestricted interest on investments	5,211	2,578
Note proceeds	30,024	-
Sale of assets	1,467	-
Other general receipts	33,383	12,973
Transfers, net	-	(9,707)
Total receipts and transfers	927,537	870,732
Disbursements:		
Public Safety	164,114	182,777
Public Works	289,341	272,121
Culture and recreation	199,989	211,389
Community and economic development	2,883	4,233
General government	114,357	134,156
Debt service	91,677	68,929
Capital projects	96,764	45,225
Total disbursements	959,125	918,830
Decrease in cash basis net assets	(31,588)	(48,098)
Cash basis net assets beginning of year	362,656	410,754
Cash basis net assets end of year	\$ 331,068	\$ 362,656



The City's total receipts for governmental activities increased 6.5%, or approximately \$56,000. The total cost of all programs and services increased approximately \$40,000, or 4.4%, with no new programs added this year. The increase in receipts was primarily the result of note proceeds of approximately \$30,000 and contributions to the Community Center and Volunteer Fire and Rescue Association.

Taxable property valuations for fiscal 2007 increased \$983,769, however, the City decreased property tax rates for 2007 resulting in a tax asking decrease of \$23,591. The City did increase levy rates for 2008, for a budgeted increase in property tax receipts of approximately \$20,000.

The cost of all governmental activities this year was \$959,125 compared to \$918,830 last year. However, as shown in the Statement of Activities and Net Assets on pages 14-15, the amount taxpayers ultimately financed for these activities was only \$526,009 because some of the cost was paid by those directly benefited from the programs (\$201,470) or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest (\$231,646). Overall, the City's governmental activities receipts, including intergovernmental aid and fees for service, increased in 2007 from approximately \$403,000 to approximately \$433,000, principally due to contributions to the Community Center and Volunteer Fire and Rescue Association. The City paid for the remaining "public benefit" portion of governmental activities with approximately \$424,000 in tax (some of which could only be used for certain programs) and other receipts, such as interest and general entitlements.

Changes in Cash Basis Net Assets of Business Type Activities		
	Year ended June 30,	
	2007	2006
Receipts and transfers:		
Program receipts:		
Charges for service:		
Water	\$ 279,416	\$ 272,198
Sewer	186,401	175,350
General receipts:		
Unrestricted interest on investments	4,366	2,833
Other general receipts	17,901	16,861
Transfers, net	-	9,707
Total receipts and transfers	<u>488,084</u>	<u>476,949</u>
Disbursements:		
Water	284,190	230,634
Sewer	164,613	169,527
Total disbursements	<u>448,803</u>	<u>400,161</u>
Increase in cash basis net assets	39,281	76,788
Cash basis net assets beginning of year	<u>666,541</u>	<u>589,753</u>
Cash basis net assets end of year	<u>\$ 705,822</u>	<u>\$ 666,541</u>

Total business type activities receipts for the fiscal year were \$488,084 compared to \$476,949 last year. This slight increase occurred due to increased usage of utility services and an increase on return of time deposits. The cash balance increased by approximately \$39,000 from the prior year because the City did not incur expenses that exceeded user fees during the year.

## **INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS**

As the City of Earlham completed the year, its governmental funds reported a combined fund balance of \$331,068, a decrease of more than \$31,000 below last year's total of \$362,656. 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 \$20,965 from the prior year to \$(28,149). This decrease is due to the city council budgeting expenditures in excess of revenues.
- The Special Revenue, Road Use Tax Fund cash balance decreased \$29,046 to \$139,424 during the fiscal year. This decrease was attributable to street projects and capital purchases.
- The Special Revenue, Local Option Sales Tax Fund cash balance increased \$83,537 during the fiscal year. The City established this fund in 2007 to separately account for this revenue. The city council did not budget any expenses from this source in 2007.
- The Special Revenue, Urban Renewal Tax Increment Fund cash balance decreased \$58,128 to \$0 during the fiscal year. The decrease is due to not collecting additional funds in 2007 and distributing remaining funds to the capital project fund.
- The Permanent, Hoadley Library Trust Fund was established to account for a bequest received by the Earlham Public Library. At the end of the fiscal year, the cash balance was \$396,298, an increase of \$7,483 over the previous year. Transfers from the Trust Fund to the Library operating fund (general fund) remained relatively the same as the prior year.
- The Permanent, Cemetery Perpetual Care Fund cash balance increased \$3,100 to \$69,390 during the fiscal year. The increase is not significant.

## **INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS**

- The Water Fund cash balance increased by \$13,679 to \$291,755, due primarily to an increase in the sale of water.
- The Sewer Fund cash balance increased by \$25,602 to \$414,067 during the fiscal year. Disbursements remained relatively the same as the prior year with a 2.8% decrease or approximately \$4,900. Receipts increased approximately \$11,000 due to an increase in usage.

## **BUDGETARY HIGHLIGHTS**

Over the course of the year, the City amended its budget two times. The first amendment was approved on September 25, 2006 and resulted in an increase in operating disbursements related to one function of approximately \$60,000 for capital projects related to street improvements. The second amendment was approved May 14, 2007 to provide for additional disbursements in certain city departments.

The City's receipts were \$257,383 less than budgeted receipts. This was primarily due to the City budgeting more in intergovernmental receipts for grants that were not received. Also, actual charges for services were \$111,285 less than budgeted, mainly due to water collections not being as great as expected.

With the amendments, total disbursements were \$87,484 less than the amended budget. The actual disbursements for the public safety, public works, culture and recreation, capital projects and business type activities functions were \$16,094, \$14,126, \$3,082, \$14,736, and

\$43,525, less than the amended budget. This was primarily due to budgeting for equipment and engineering services in excess of actual disbursements.

The City exceeded the amounts budgeted in the general government and debt service functions for the year ended June 30, 2007 due to budgeting debt service payments in the wrong fund.

## **DEBT ADMINISTRATION**

At June 30, 2007, the City had \$2,609,707 in notes and other long-term debt outstanding, compared to \$2,718,902 last year, as shown below:

Outstanding Debt at Year-End		
	June 30,	
	2007	2006
General obligation capital loan notes	\$ 295,024	295,000
Urban renewal tax increment financing revenue notes	40,000	50,000
Revenue notes	1,093,000	1,150,000
Water service agreement	1,092,131	1,103,836
Lease-purchase agreements	89,552	120,066
Total	<u>\$ 2,609,707</u>	<u>2,718,902</u>

Debt decreased despite issuing new debt during the year. Two new notes were issued to a local bank for a total of \$30,024. \$139,219 of debt was redeemed during the 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 property within the City's corporate limits. The City's outstanding general obligation debt of \$1,516,707 is below its constitutional debt limit of \$2,552,900.

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES**

The City of Earlham's elected and appointed officials and citizens considered many factors when setting the fiscal year 2008 budget, tax rates, and fees charged for various City activities. One of these factors is the decrease in property valuations used to calculate tax askings and levy rates. Taxable property valuations for fiscal year 2008 decreased \$764,529 and tax rates were increased, which resulted in a tax asking increase of \$19,748.

These factors were taken into account when adopting the budget for fiscal year 2008. Amounts available for appropriation in the operating budget are \$1,321,591, a decrease of 18.4% over the final 2007 budget. The 2008 budgeted revenues are more in line with 2007 actual revenues. Budgeted disbursements are expected to decrease by approximately \$129,000. Budgeted decreases are in capital projects and business type activities functions. The City has added no major new programs or initiatives to the 2008 budget.

## **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 Kathy Timmerman, City Clerk, 140 S. Chestnut, Earlham, Iowa 50072.

## **Basic Financial Statements**

City of Earlham

Statement of Activities and Net Assets – Cash Basis

As of and for the year ended June 30, 2007

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
<b>Functions/Programs:</b>				
Governmental activities:				
Public Safety	\$ 164,114	425	48,205	-
Public Works	289,341	105,131	112,242	-
Culture and recreation	199,989	50,228	70,531	-
Community and economic development	2,883	-	325	-
General government	114,357	1,567	343	-
Debt service	91,677	-	-	-
Capital projects	96,764	44,119	-	-
Total governmental activities	959,125	201,470	231,646	-
Business type activities:				
Water	284,190	279,416	-	-
Sewer	164,613	186,401	-	-
Total business type activities	448,803	465,817	-	-
Total	\$ 1,407,928	667,287	231,646	-

**General Receipts:**

Property and other city tax levied for:
General purposes
Tax increment financing
Debt service
Local option sales tax
Unrestricted interest on investments
Note proceeds
Miscellaneous
Sale of assets
Total general receipts and transfers
Change in cash basis net assets
Cash basis net assets beginning of year
Cash basis net assets end of year

**Cash Basis Net Assets**

Restricted:
Streets
Urban renewal purposes
Debt service
Library Trust
Cemetery perpetual care
Other purposes
Unrestricted

**Total cash basis net assets**

See notes to financial statements.

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
Governmental Activities	Business Type Activities	Total
(115,484)	-	(115,484)
(71,968)	-	(71,968)
(79,230)	-	(79,230)
(2,558)	-	(2,558)
(112,447)	-	(112,447)
(91,677)	-	(91,677)
(52,645)	-	(52,645)
(526,009)	-	(526,009)
-	(4,774)	(4,774)
-	21,788	21,788
-	17,014	17,014
(526,009)	17,014	(508,995)
308,722	-	308,722
106	-	106
31,971	-	31,971
83,537	-	83,537
5,211	4,366	9,577
30,024	-	30,024
33,383	17,901	51,284
1,467	-	1,467
494,421	22,267	515,221
(31,588)	39,281	6,226
362,656	666,541	1,029,197
\$ 331,068	705,822	1,035,423
139,424	-	139,424
-	-	-
-	164,821	164,821
396,298	-	396,298
69,390	-	69,390
50,175	-	50,175
(324,219)	541,001	216,782
\$ 331,068	705,822	1,036,890

City of Earlham

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

As of and for the year ended June 30, 2007

	Special Revenue			
	General	Road Use Tax	Local Option Sales Tax	Urban Renewal Tax Increment
<b>Receipts:</b>				
Property tax	\$ 308,722	-	-	-
Tax increment financing	-	-	-	106
Other city tax	-	-	83,537	-
Licenses and permits	16,657	-	-	-
Use of money and property	12,753	-	-	-
Intergovernmental	41,889	108,182	-	-
Charges for service	148,070	-	-	-
Special assessments	-	-	-	-
Miscellaneous	50,221	4,060	-	-
<b>Total receipts</b>	<b>578,312</b>	<b>112,242</b>	<b>83,537</b>	<b>106</b>
<b>Disbursements</b>				
Operating:				
Public Safety	152,711	-	-	-
Public Works	148,053	141,288	-	-
Culture and recreation	199,740	-	-	-
Community and economic development	2,883	-	-	-
General government	114,357	-	-	-
Debt service	5,930	-	-	13,695
Capital projects	-	-	-	-
<b>Total disbursements</b>	<b>623,674</b>	<b>141,288</b>	<b>-</b>	<b>13,695</b>
Excess (deficiency) of receipts over (under) disbursements	(45,362)	(29,046)	83,537	(13,589)
<b>Other financing sources(uses):</b>				
Note proceeds	12,530	-	-	-
Sale of capital assets	1,467	-	-	-
Operating transfers in	10,400	-	-	-
Operating transfers out	-	-	-	(44,539)
<b>Total other financing sources(uses)</b>	<b>24,397</b>	<b>-</b>	<b>-</b>	<b>(44,539)</b>
Net change in cash balances	(20,965)	(29,046)	83,537	(58,128)
Cash balances beginning of year	(7,184)	168,470	-	58,128
Cash balances end of year	\$ (28,149)	139,424	83,537	-
<b>Cash Basis Fund Balances</b>				
Unreserved:				
General fund	(28,149)	-	-	-
Special revenue funds	-	139,424	83,537	-
Debt service fund	-	-	-	-
Capital projects fund	-	-	-	-
Permanent funds	-	-	-	-
<b>Total cash basis fund balances</b>	<b>\$ (28,149)</b>	<b>139,424</b>	<b>83,537</b>	<b>-</b>

See notes to financial statements.

Permanent			
Hoadley Library Trust	Cemetary Perpetual Care	Nonmajor	Total
-	-	31,971	340,693
-	-	-	106
-	-	-	83,537
-	-	-	16,657
18,132	1,384	1,228	33,497
-	-	1,151	151,222
-	1,700	-	149,770
-	-	44,119	44,119
-	16	22,148	76,445
18,132	3,100	100,617	896,046

-	-	11,403	164,114
-	-	-	289,341
249	-	-	199,989
-	-	-	2,883
-	-	-	114,357
-	-	72,052	91,677
-	-	96,764	96,764
249	-	180,219	959,125

17,883	3,100	(79,602)	(63,079)
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-	-	17,494	30,024
-	-	-	1,467
-	-	75,564	85,964
(10,400)	-	(31,025)	(85,964)
(10,400)	-	62,033	31,491
7,483	3,100	(17,569)	(31,588)
388,815	66,290	(311,863)	362,656
396,298	69,390	(329,432)	331,068

-	-	-	(28,149)
-	-	50,175	273,136
-	-	(22,710)	(22,710)
-	-	(356,897)	(356,897)
396,298	69,390	-	465,688
396,298	69,390	(329,432)	331,068

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

As of and for the year ended June 30, 2007

	Enterprise Funds		
	Water	Sewer	Total
Operating receipts:			
Charges for service	\$ 279,416	186,401	465,817
Total operating receipts	<u>279,416</u>	<u>186,401</u>	<u>465,817</u>
Operating disbursements:			
Business type activities	209,382	70,238	279,620
Excess (deficiency) of operating receipts over (under) operating disbursements	<u>70,034</u>	<u>116,163</u>	<u>186,197</u>
Non-operating receipts (disbursements)			
Interest on investments	2,492	1,874	4,366
Miscellaneous	15,961	1,940	17,901
Debt service	(74,808)	(94,375)	(169,183)
Total non-operating receipts (disbursements)	<u>(56,355)</u>	<u>(90,561)</u>	<u>(146,916)</u>
Excess of receipts over disbursements	13,679	25,602	39,281
Cash balances beginning of year	278,076	388,465	666,541
Cash balances end of year	<u>\$ 291,755</u>	<u>414,067</u>	<u>705,822</u>
<b>Cash Basis Fund Balances</b>			
Reserved for debt service	\$ 52,019	112,802	164,821
Unreserved	239,736	301,265	541,001
Total cash basis fund balances	<u>\$ 291,755</u>	<u>414,067</u>	<u>705,822</u>

See notes to financial statements.

**Notes to the Financial Statements**

City of Earlham

Notes to Financial Statements

June 30, 2007

**(1) Summary of Significant Accounting Policies**

The City of Earlham is a political subdivision of the State of Iowa located in Madison County. It was first incorporated in 1870 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 and sewer utilities for its citizens.

**A. Reporting Entity**

For financial reporting purposes, the City of Earlham 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 (the primary government) 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.

**Blended Component Unit**

The Earlham Volunteer Fire and Rescue Association was established as a non-profit corporation in accordance with Chapter 504A of the Code of Iowa. The Association is legally separate from the City but is so intertwined with the City that it is, in substance, the same as the City. The Association is reported as part of the City and blended in the Special Revenue Funds. The Association 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.

**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: Madison County Assessor's Conference Board, Madison

County Emergency Management Commission and Madison County Joint E911 Service Board.

B. Basis of Presentation

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

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

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

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

The City reports the following major governmental funds:

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

Special Revenue:

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

The Local Option Sales Tax Fund is used to account for the revenues from the tax authorized by referendum and used for capital improvement projects as determined by the council.

The Urban Renewal Tax Increment Fund is used to account for urban renewal projects financed by tax increment financing.

Permanent:

The Hoadley Library Trust Fund is utilized to account for resources held by the City which are legally restricted.

The Cemetery Perpetual Care Fund is utilized to account for resources that are legally restricted to where only the earnings, and not the principal, may be used for purposes of maintaining the City's cemetery.

The City reports the following major proprietary funds:

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

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

C. Measurement Focus and 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.

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

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

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2007, disbursements exceeded the amounts budgeted in the general government and debt service functions.

**(2) Cash and Pooled Investments**

The City's deposits in banks at June 30, 2007 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.

At June 30, 2007, the City had the following investments:

Type	Carrying Amount	Fair Value	Maturity
Common Stock	\$ 93,743	199,833	N/A

Investments in common stock were not identified as an allowable investment in the City's investment policy. The disclosures for concentration of credit risk, credit risk and interest rate risk are not applicable.

**(3) Notes and Water Service Agreement Payable**

Annual debt service requirements to maturity for general obligation notes, urban renewal tax increment financing revenue notes, sewer revenue notes and water service agreement are as follows:

Year Ending June 30,	General Obligation Notes		Urban Renewal Tax Increment Financing (TIF) Revenue Notes		Sewer Revenue Notes		Water Service Agreement		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2008	\$ 50,859	10,980	10,000	2,975	59,000	32,790	12,319	55,685	132,178	102,430
2009	39,165	8,972	10,000	2,245	60,000	31,020	12,965	55,039	122,130	97,276
2010	30,000	7,742	10,000	1,505	62,000	29,220	13,646	54,358	115,646	92,825
2011	30,000	6,753	10,000	775	65,000	27,360	14,362	53,642	119,362	88,530
2012	35,000	5,702	-	-	66,000	25,410	15,115	52,889	116,115	84,001
2013-2017	110,000	9,128	-	-	362,000	96,060	88,338	251,681	560,338	356,869
2018-2022	-	-	-	-	419,000	38,490	114,079	225,942	533,079	264,432
2023-2027	-	-	-	-	-	-	147,317	192,703	147,317	192,703
2028-2032	-	-	-	-	-	-	190,241	149,779	190,241	149,779
2033-2037	-	-	-	-	-	-	245,673	94,348	245,673	94,348
2038-2041	-	-	-	-	-	-	238,076	24,823	238,076	24,823
Total	\$ 295,024	49,277	40,000	7,500	1,093,000	280,350	1,092,131	1,210,889	2,520,155	1,548,016

**Revenue Notes**

The urban renewal tax increment financing (TIF) revenue notes were issued for the purpose of defraying a portion of the costs of carrying out an urban renewal project of the City. The notes are payable solely from the income and proceeds of the Special Revenue, Urban Renewal Tax Increment Fund and the taxes to be paid into the fund in accordance with Chapter 403.19 of the Code of Iowa.

The proceeds of the urban renewal tax increment financing revenue notes shall be expended only for the purposes which are consistent with the plans of the City's urban renewal area. The notes are not a general obligation of the City. However, the debt is subject to the constitutional debt limitation of the City.

The resolutions providing for the issuance of the TIF and sewer revenue notes include the following provisions.

- (a) The notes will only be redeemed from the future earnings of the respective activity and the note holders hold a lien on the future earnings of the funds.
- (b) Sufficient monthly transfers shall be made to separate sewer and TIF revenue note sinking accounts within the Enterprise Fund and Special Revenue Funds for the purpose of making the note principal and interest payments when due.
- (c) Additional monthly transfers of 25% of the sinking account requirements to a sewer reserve account and to a TIF revenue reserve account within the Enterprise Funds and Special Revenue Funds shall be made until specific minimum balances have been accumulated. These accounts are restricted for the purpose of paying for additional improvements, extensions or repairs of the system.

Water Service Agreement

The Warren Water District has entered into a loan with the USDA to construct a water supply distribution system. The City has entered into a water service agreement with the Warren Water District to purchase 345,000 gallons per day and pay a fee for connection to the system. The City owns capacity in the water line, is responsible for a portion of the loan and makes monthly payments to the Warren Water District.

During the year ended June 30, 2007, the City made monthly payments of \$5,667 to the Warren Water District for a total of \$68,004, of which \$56,299 was interest and \$11,705 was principal. The City also paid \$567 per month to the Warren Water District as a contribution to the reserve fund maintained by the District. The balance due on this agreement at June 30, 2007 is \$1,092,130.

**(4) Lease Purchase Agreements**

The City has entered into lease purchase agreements to lease a fire pumper truck, a rescue unit box and a police cruiser. The following schedule of the future minimum lease payments, including interest at rates ranging from 5.75% to 7.25% per annum, and the present value of net minimum payments under agreements in effect at June 30, 2007:

Year Ending June 30,	Fire Pumper Truck	Rescue Unit Box	Police Cruiser	Total
2008	\$ 21,253	10,446	5,930	37,629
2009	21,253	-	-	21,253
2010	21,253	-	-	21,253
2011	21,253	-	-	21,253
Total minimum lease payments	85,012	10,446	5,930	101,388
Less amount representing interest	10,808	706	323	11,837
Present value of net minimum lease payments	\$ 74,204	9,740	5,607	89,551

Payments under lease purchase agreements during the year ended June 30, 2007 totaled \$37,627 from the General Fund.

**(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 3.70% of their annual covered salary and the City is required to contribute 5.75% 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, 2007, 2006, and 2005 were \$17,908, \$17,224, and \$15,917, respectively equal to the required contributions for each year.

**(6) Compensated Absences**

City employees accumulate a limited amount of earned but unused vacation, compensatory time and sick leave hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation, compensatory time and sick leave termination payments payable to employees at June 30, 2007, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Vacation	\$ 14,914
Compensatory time	5,315
Sick leave	<u>16,273</u>
Total	<u>\$ 36,502</u>

This liability has been computed based on rates of pay in effect at June 30, 2007.

**(7) Interfund Transfers**

The detail of interfund transfers for the year ended June 30, 2007 is as follows:

Transfer to	Transfer from	Amount
General	Permanent: Hoadley Library Trust	<u>\$ 10,400</u>
Debt Service	Capital Projects	<u>31,025</u>
Capital Projects	Special Revenue Urban Renewal Tax Increment	<u>44,539</u>
Total		<u>\$ 85,964</u>

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

**(8) Related Party Transactions**

The City had business transactions between the City and City officials totaling \$8,796 during the year ended June 30, 2007.

**(9) Risk Management**

The City 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.

**(10) Deficit Balances**

The General, Debt Service and Capital Project Funds had deficit balances of \$28,149, \$22,710 and \$356,897 at June 30, 2007. The General and Debt Service Fund deficits will be eliminated with future revenues. The City is considering several options including issuing bonds to eliminate the Capital Projects Fund deficit.

**Required Supplementary Information**

City of Earlham

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

Required Supplementary Information

Year ended June 30, 2007

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds not Required to be Budgeted
Receipts:			
Property tax	\$ 340,693	-	-
Tax increment financing	106	-	-
Other city tax	83,537	-	-
Licenses and permits	16,657	-	-
Use of money and property	33,497	4,366	1,228
Intergovernmental	151,222	-	1,151
Charges for service	149,770	465,817	-
Special assessments	44,119	-	-
Miscellaneous	76,445	17,901	20,045
Total receipts	896,046	488,084	22,424
Disbursements:			
Public safety	164,114	-	11,403
Public works	289,341	-	-
Culture and recreation	199,989	-	-
Community and economic development	2,883	-	-
General government	114,357	-	-
Debt service	91,677	-	-
Capital projects	96,764	-	-
Business type activities	-	448,803	-
Total disbursements	959,125	448,803	11,403
Excess (deficiency) of receipts over (under) disbursements	(63,079)	39,281	11,021
Other financing sources (uses), net	31,491	-	-
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(31,588)	39,281	11,021
Balances beginning of year	362,656	666,541	39,154
Balances end of year	\$ 331,068	705,822	50,175

See accompanying independent auditor's report.

Total	Budgeted Amounts		Final to Total Variance
	Original	Final	
340,693	325,670	325,670	15,023
106	13,695	59,661	(59,555)
83,537	11,926	11,926	71,611
16,657	12,850	12,850	3,807
36,635	17,000	17,000	19,635
150,071	293,073	293,073	(143,002)
615,587	611,872	726,872	(111,285)
44,119	52,353	52,353	(8,234)
74,301	83,660	119,684	(45,383)
1,361,706	1,422,099	1,619,089	(257,383)
152,711	167,682	168,805	16,094
289,341	306,435	303,467	14,126
199,989	187,242	203,071	3,082
2,883	5,000	5,000	2,117
114,357	109,545	114,091	(266)
91,677	85,747	85,747	(5,930)
96,764	51,500	111,500	14,736
448,803	492,328	492,328	43,525
1,396,525	1,405,479	1,484,009	87,484
(34,819)	16,620	135,080	(169,899)
31,491	-	-	31,491
(3,328)	16,620	135,080	(138,408)
990,043	739,707	708,874	281,169
986,715	756,327	843,954	142,761

City of Earlham

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2007

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

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

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. 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 Proprietary 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, two budget amendments increased budgeted disbursements by \$78,530. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2007, disbursements exceeded the amounts budgeted in the general government and debt service functions.

**Other Supplementary Information**

**Schedule 1**

## 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, 2007

	<u>Special Revenue</u>			
	Volunteer			
	Fire and Rescue Association	Debt Service	Capital Projects	Total
Receipts				
Property tax	\$ -	31,971	-	31,971
Use of money and property	1,228	-	-	1,228
Intergovernmental	1,151	-	-	1,151
Special assessments	-	-	44,119	44,119
Miscellaneous	20,045	-	2,103	22,148
Total receipts	<u>22,424</u>	<u>31,971</u>	<u>46,222</u>	<u>100,617</u>
Disbursements:				
Operating:				
Public safety	11,403	-	-	11,403
Debt service	-	72,052	-	72,052
Capital projects	-	-	96,764	96,764
Total disbursements	<u>11,403</u>	<u>72,052</u>	<u>96,764</u>	<u>180,219</u>
Excess (deficiency) of receipts over (under) disbursements	11,021	(40,081)	(50,542)	(79,602)
Other financing uses:				
Note proceeds	-	-	17,494	17,494
Operating transfers in	-	31,025	44,539	75,564
Operating transfers out	-	-	(31,025)	(31,025)
Total other financing sources(uses)	-	31,025	31,008	62,033
Net change in cash balances	11,021	(9,056)	(19,534)	(17,569)
Cash balances beginning of year	39,154	(13,654)	(337,363)	(311,863)
Cash balances end of year	<u>\$ 50,175</u>	<u>(22,710)</u>	<u>(356,897)</u>	<u>(329,432)</u>
<b>Cash Basis Fund Balances</b>				
Unreserved:				
Special revenue funds	\$ 50,175	-	-	50,175
Debt service fund	-	(22,710)	-	(22,710)
Capital projects fund	-	-	(356,897)	(356,897)
Total cash basis fund balances	<u>\$ 50,175</u>	<u>(22,710)</u>	<u>(356,897)</u>	<u>(329,432)</u>

See accompanying independent auditor's report.

**City of Earlham**

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City of Earlham

Schedule of Indebtedness

Year ended June 30, 2007

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Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation notes:			
Street and sidewalk improvements	Nov 15, 2004	2.70 - 4.15%	\$ 295,000
Street improvements (TIF)	Dec 1, 2006	6.50%	17,494
Building improvements (LOST)	Apr 23, 2007	6.75%	12,530
Total			
Urban renewal tax increment financing (TIF) revenue notes			
	Jun 1, 1999	6.60 - 7.55%	\$ 100,000
Revenue notes:			
Sewer	Oct 22, 2001	3.00%	\$ 1,200,000
Sewer	Jun 25, 2002	3.00%	250,000
Total			
Water service agreement:			
Warren Water District	Jul 10, 2000	5.125%	\$ 1,154,167
Lease-purchase agreements:			
Fire truck	Apr 23, 2002	5.50%	\$ 132,201
Rescue unit box	Sep 16, 2002	7.25%	42,656
Police cruiser	Jun 22, 2005	5.75%	15,902
Total			

See accompanying independent auditor's report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
\$ 295,000	-	30,000	265,000	10,353
-	17,494	-	17,494	-
-	12,530	-	12,530	-
<u>\$ 295,000</u>	<u>30,024</u>	<u>30,000</u>	<u>295,024</u>	<u>10,353</u>
<u>\$ 50,000</u>	<u>-</u>	<u>10,000</u>	<u>40,000</u>	<u>3,695</u>
\$ 1,013,000	-	50,000	963,000	30,390
137,000	-	7,000	130,000	4,110
<u>\$ 1,150,000</u>	<u>-</u>	<u>57,000</u>	<u>1,093,000</u>	<u>34,500</u>
<u>\$ 1,103,836</u>	<u>-</u>	<u>11,705</u>	<u>1,092,131</u>	<u>56,299</u>
\$ 90,337	-	16,131	74,206	5,122
18,820	-	9,081	9,739	1,365
10,909	-	5,302	5,607	628
<u>\$ 120,066</u>	<u>-</u>	<u>30,514</u>	<u>89,552</u>	<u>7,115</u>

City of Earlham

Note and Water Service Agreement Maturities

June 30, 2007

Year Ending June 30,	General Obligation Notes						Urban Renewal Tax Increment Financing (TIF) Revenue Notes	
	Street and Sidewalk Improvements		Street Improvements (TIF)		Building Improvements (LOST)		Issued Jun 1, 1999	
	Issued Nov 15, 2004		Issued Dec 1, 2006		Issued Apr 23, 2007			
	Interest		Interest		Interest		Interest	
Rates	Amount	Rates	Amount	Rates	Amount	Rates	Amount	
2008	2.90 %	\$ 30,000	6.50 %	\$ 8,329	6.75 %	\$ 12,530	7.30 %	\$ 10,000
2009	3.10	30,000	6.50	9,165	-	-	7.40	10,000
2010	3.30	30,000	-	-	-	-	7.50	10,000
2011	3.50	30,000	-	-	-	-	7.55	10,000
2012	3.70	35,000	-	-	-	-	-	-
2013	3.85	35,000	-	-	-	-	-	-
2014	4.00	35,000	-	-	-	-	-	-
2015	4.15	40,000	-	-	-	-	-	-
2016	-	-	-	-	-	-	-	-
2017	-	-	-	-	-	-	-	-
2018	-	-	-	-	-	-	-	-
2019	-	-	-	-	-	-	-	-
2020	-	-	-	-	-	-	-	-
2021	-	-	-	-	-	-	-	-
2022	-	-	-	-	-	-	-	-
2023	-	-	-	-	-	-	-	-
2024	-	-	-	-	-	-	-	-
2025	-	-	-	-	-	-	-	-
2026	-	-	-	-	-	-	-	-
2027	-	-	-	-	-	-	-	-
2028	-	-	-	-	-	-	-	-
2029	-	-	-	-	-	-	-	-
2030	-	-	-	-	-	-	-	-
2031	-	-	-	-	-	-	-	-
2032	-	-	-	-	-	-	-	-
2033	-	-	-	-	-	-	-	-
2034	-	-	-	-	-	-	-	-
2035	-	-	-	-	-	-	-	-
2036	-	-	-	-	-	-	-	-
2037	-	-	-	-	-	-	-	-
2038	-	-	-	-	-	-	-	-
2039	-	-	-	-	-	-	-	-
2040	-	-	-	-	-	-	-	-
2041	-	-	-	-	-	-	-	-
Total		<u>\$ 265,000</u>		<u>\$ 17,494</u>		<u>\$ 12,530</u>		<u>\$ 40,000</u>

See accompanying independent auditor's report.

Sewer Revenue Notes				Water Service Agreement	
Issued Oct 22, 2001		Issued June 25, 2002		Issued Jul 10, 2000	
Interest		Interest		Interest	
Rates	Amount	Rates	Amount	Rates	Amount
3.00 %	\$ 52,000	3.00 %	\$ 7,000	5.125 %	\$ 12,319
3.00	53,000	3.00	7,000	5.125	12,965
3.00	55,000	3.00	7,000	5.125	13,646
3.00	57,000	3.00	8,000	5.125	14,362
3.00	58,000	3.00	8,000	5.125	15,115
3.00	60,000	3.00	8,000	5.125	15,908
3.00	62,000	3.00	8,000	5.125	16,743
3.00	64,000	3.00	9,000	5.125	17,622
3.00	66,000	3.00	9,000	5.125	18,546
3.00	67,000	3.00	9,000	5.125	19,519
3.00	69,000	3.00	9,000	5.125	20,544
3.00	72,000	3.00	10,000	5.125	21,622
3.00	74,000	3.00	10,000	5.125	22,756
3.00	76,000	3.00	10,000	5.125	23,950
3.00	78,000	3.00	11,000	5.125	25,207
	-		-	5.125	26,529
	-		-	5.125	27,921
	-		-	5.125	29,387
	-		-	5.125	30,929
	-		-	5.125	32,551
	-		-	5.125	34,259
	-		-	5.125	36,057
	-		-	5.125	37,949
	-		-	5.125	39,940
	-		-	5.125	42,036
	-		-	5.125	44,242
	-		-	5.125	46,563
	-		-	5.125	49,006
	-		-	5.125	51,578
	-		-	5.125	54,284
	-		-	5.125	57,132
	-		-	5.125	60,130
	-		-	5.125	63,285
	-		-	5.125	57,529
	<u>\$ 963,000</u>		<u>\$ 130,000</u>		<u>\$ 1,092,131</u>

**City of Earlham**

City of Earlham

Schedule of Receipts by Source and Disbursements by Function –  
All Governmental Funds

For the Last Five Years

	2007	2006	2005	2004	2003
Receipts:					
Property tax	\$ 340,693	352,574	315,519	319,481	281,806
Tax increment financing	106	15,694	85,462	15,823	16,411
Other city tax	83,537	93,530	52,942	-	-
Licenses and permits	16,657	9,667	7,464	10,157	11,075
Use of money and property	33,497	44,225	17,138	19,974	22,716
Intergovernmental	151,222	150,985	201,684	179,195	171,169
Charges for service	149,770	128,333	131,941	102,251	104,976
Special assessments	44,119	51,510	9,879	11,055	7,728
Miscellaneous	76,445	33,921	24,959	75,166	74,115
Total	\$ 896,046	880,439	846,988	733,102	689,996
Disbursements:					
Operating:					
Public Safety	\$ 164,114	182,777	203,851	132,968	207,737
Public Works	289,341	272,121	209,269	249,564	209,642
Culture and recreation	199,989	211,389	156,372	144,262	142,631
Community and economic development	2,883	4,233	23,862	37,472	-
General government	114,357	134,156	108,381	137,550	94,173
Debt service	91,677	68,929	319,479	42,231	46,199
Capital projects	96,764	45,225	125,042	243,090	691,465
Total	\$ 959,125	918,830	1,146,256	987,137	1,391,847

See accompanying independent auditor's report.



"Our Goal is Client Success"

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 the accompanying financial statements of the governmental activities, 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, 2007, which collectively comprise the City's basic financial statements listed in the table of contents and have issued our report thereon dated November 15, 2007. Our report expressed an unqualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and other deficiencies we consider to be material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with an other comprehensive basis of accounting such that there is more than a remote likelihood a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control. We consider the deficiencies in internal control described in the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by the City's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe item A is material weaknesses.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Earlham'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 the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2007 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 Earlham's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the City's responses, we did not audit the City's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of 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 these specified parties.

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

*Short & Company, CPA, P.C.*

November 15, 2007

**City of Earlham**

City of Earlham

Schedule of Findings

Year ended June 30, 2007

**Findings Related to the Financial Statements:**

**SIGNIFICANT DEFICIENCIES:**

- (A) 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. When duties are properly segregated, the activities of one employee act as a check on those of another. The cash receipts listing, bank deposits and the posting of cash receipts to the cash receipts journal, utility billing and collection, disbursement preparation and check signing, payroll and bank reconciliations are all done by the same person.

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

Response – We will review control procedures to determine if further segregation is possible.

Conclusion – Response acknowledged. The City should segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

- (B) Records of Accounts – The City maintains separate bank accounts for the library operating, community center and library trust which pertain to those operations. The financial transactions and the resulting balances were not entirely included in the City's accounting records and were not included in the City's annual budget or monthly financial reports. However, those financial transactions and the resulting balances are included in these financial statements.

Recommendation – Chapter 384.20 of the Code of Iowa states, in part, "A City shall keep accounts which show an accurate and detailed statement of all public funds collected, received, or expended for any City purpose." For better accountability, financial and budgetary control, the financial activity and balances of all City accounts should be included in the City's accounting records and annual budget and should be reported to the Council on a monthly basis.

Response – The Library activity was brought into the City's accounting records as of July 1, 2007. We will discuss this with the community center to determine how to include the accounts with the City's records.

Conclusion – Response acknowledged. The records of the activity of the community center and the library trust can be maintained separately by the governing boards but the boards must provide sufficient information to the City so that the activity can be included in the City's accounting records.

City of Earlham

Schedule of Findings

Year ended June 30, 2007

- (C) Electronic Data Processing Systems – During our review of internal control, the existing control activities in the City’s computer-based systems were evaluated in order to determine that activities, from a control standpoint, were designed to provide reasonable assurance regarding the achievement of objectives in the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. The following weaknesses in the City’s computer-based systems were noted:

The City does not have written policies for:

- Internet and personal usage.
- Password privacy and usage.
- A disaster recovery plan.

Recommendation – The City should develop written policies addressing the above items in order to improve the City’s control over computer-based systems.

Response – We will work to establish written policies for these.

Conclusion – Response accepted.

- (D) Earlham Volunteer Fire and Rescue Association – The Earlham Volunteer Fire and Rescue Association maintains records legally separate from the City of Earlham but reported in this audit report. One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The cash receipts listing, bank deposits, disbursement preparation, check signing and bank reconciliations are all done by the same person. Also, prenumbered receipts are not used to record each collection made by the Association.

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

Response – Association members review a list of paid bills and financial reports at monthly meetings. Also, the Association has obtained and is currently using prenumbered receipts.

Conclusion – Response accepted.

City of Earlham

Schedule of Findings

Year ended June 30, 2007

- (E) Records of Investments – A detailed record of investment transactions was not maintained.

Recommendation – A detailed record of investment transactions by fund should be maintained. This record should include investment number, purchase date, redemption date, interest rate, amount of investment and interest received.

Response – Investment record will be created at the first opportunity.

Conclusion – Response accepted.

- (F) Segregation of Duties – Library – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal, disbursement preparation, check signing and payroll are all done by the same person.

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

Response – These duties have been included with the City's accounting records as of July 1, 2007.

Conclusion – See item (A) on previous page.

**INSTANCES OF NON-COMPLIANCE:**

No matters were reported.

City of Earlham

Schedule of Findings

Year ended June 30, 2007

**Findings Related to Statutory Reporting:**

- (1) Certified Budget – Disbursements during the year ended June 30, 2007 exceeded the amounts budgeted in the general government and debt service functions. Chapter 384.20 of the Code of Iowa states in part “Public monies may not be expended or encumbered except under an annual or continuing appropriation.

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

Response – Changes will be made to correctly report the debt service function and proper budget amendments will be performed in the future.

Conclusion – Response accepted.

- (2) Questionable Disbursements – No disbursements we believe may not meet the requirements of public purpose as defined by an Attorney General’s opinion dated April 25, 1979 were noted.
- (3) Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- (4) Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

<u>Name, Title, and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Andrew Arnburn, Council Member, Manager of Earlham Building Center	Lumber and supplies	\$ 8,731
Doug Waugh, Council Member, Parts Manager at Adel Chrysler, Inc.	Repairs	65

In accordance with Chapter 362.5(10) of the Code of Iowa, the transactions with Council Member, Doug Waugh do not appear to represent a conflict of interest since total transactions were less than \$2,500 during the fiscal year. The transactions with Council Member, Andrew Arnburn appear to represent a conflict of interest since total transactions were greater than \$2,500 during the fiscal year.

Recommendation – The City should consult legal counsel to determine the disposition of this matter.

Response – We will consult legal counsel in regard to this matter.

Conclusion – Response accepted.

City of Earlham

Schedule of Findings

Year ended June 30, 2007

- (5) Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that the coverage is adequate for current operations.
- (6) Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.
- (7) Deposits and Investments – The City Library Board has an investment in common stock which appears to violate Chapter 12B.10(5) of the Code of Iowa and the City’s investment policy. Also, the City’s investment policy refers to Chapter 452 of the Code of Iowa, but the provisions previously contained in Chapter 452 have been moved to Chapters 12B and 12C of the Code of Iowa.

Recommendation – The City should comply with Chapter 12B and Chapter 12C of the Code of Iowa and the City’s investment policy. The City should amend the investment policy to refer to the proper sections of the Code of Iowa.

Response – We will amend the investment policy to refer to the proper sections of the Code of Iowa.

Conclusion – Response acknowledged. The City Library Board should consult legal counsel to determine the allowability of the investment in common stock. If it is found to be an unallowable investment, the City Library Board should take appropriate action to resolve the issue.

- (8) Revenue Notes – Except as follows, the City is in compliance with the resolutions providing for the issuance of the urban renewal tax increment financing and sewer revenue notes.

The urban renewal tax increment financing revenue note resolution states, in part, “The City will establish sinking and reserve funds to pay debt when due.” The City has not established these funds.

Recommendation – The City should establish a TIF sinking fund and a TIF reserve fund and make the required transfers to these funds and pay the TIF debt from the TIF sinking fund.

Response – We will establish the required sinking and reserve funds for this note.

Conclusion – Response accepted.

City of Earlham

Schedule of Findings

Year ended June 30, 2007

- (9) Special Revenue Fund – The City has levied taxes for employee benefits and recorded the resulting property tax receipts and employee benefits disbursements in the General and Road Use Tax Funds.

Recommendation – The City should establish a Special Revenue, Employee Benefits Fund. The employee benefits levy collections should be recorded in this fund and employee benefits related only to the General and Road Use Tax Funds should be paid from this fund.

Response – This fund has been created in the accounting software and we will begin using the fund on July 1, 2008.

Conclusion – Response accepted.

- (10) Annual Report for Cemeteries – Chapter 523I.813 of the Code of Iowa requires each perpetual care cemetery to file an annual written report within four months of the cemetery's fiscal year end.

The City did not file an annual report for fiscal year 2007.

Recommendation – The City should develop policies and procedures to ensure compliance with the filing requirements for the perpetual care cemetery.

Response – The City will develop policies and procedures to ensure compliance.

Conclusion – Response accepted.

- (11) Financial Condition – The General, Debt Service, and Capital Projects Funds had a deficit balances at June 30, 2007 of \$28,149, \$22,710 and \$356,897, respectively.

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

Response – We will investigate these in order to bring them to sound financial positions. The General and Debt Service Fund deficits will be eliminated with future revenues. The City is considering its options to eliminate the Capital Project fund deficit.



"Our Goal is Client Success"

NEWS RELEASE

Contact: John Short  
515.993.4640

FOR RELEASE

Short & Company CPA, P.L.C. today released an audit report on the City of Earlham, Iowa.

The City's receipts totaled \$1,384,130 for the year ended June 30, 2007, a 2.7 percent increase from fiscal year 2006. The receipts included \$340,693 in property tax, \$106 from tax increment financing collections, \$667,287 from charges for service, \$231,646 from operating grants, contributions and restricted interest, \$83,537 from local option sales tax, \$9,577 from unrestricted interest on investments, and \$51,284 from other general receipts.

Disbursements for the year totaled \$1,407,928, a 6.7 percent increase from the prior year, and included \$289,341 for public works, \$199,989 for culture and recreation and \$164,114 for public safety. Also, disbursements for business type activities totaled \$448,803.

A copy of the audit report is available for review in the City Clerk's Office, in the Office of Auditor of State, and on the Auditor of State's web site at <http://auditor.iowa.gov/reports/reports.htm>.