

**CITY OF EARLHAM**

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

**JUNE 30, 2009**

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**City of Earlham**

**Officials**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Andrew Arnburg	Mayor	Jan 2010
Doug Waugh	Mayor Pro tem	Jan 2010
Jeff Beisner	Council Member	Jan 2010
David Hollander	Council Member	Jan 2010
Scott Petersen	Council Member	Jan 2012
Jeff Lillie	Council Member	Jan 2012
Linette Crouch	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, 2009, 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, 2009, 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 February 19, 2010 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 30 through 32 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. We previously audited, in accordance with standards referred to in the second paragraph of this report, the financial statements for the year ended June 30, 2008 and 2007 (which are not presented herein) and expressed unqualified opinions on those financial statements which were prepared in conformity with an other comprehensive basis of accounting. 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.C.*

February 19, 2010

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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, 2009. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

### **2009 FINANCIAL HIGHLIGHTS**

- Receipts of the City's governmental activities increased 50.8%, or approximately \$495,000, from fiscal 2008 to fiscal 2009. Property tax increased by approximately \$57,000 and note proceeds increased approximately \$438,000.
- Disbursements of the City's governmental activities increased 61.1%, or approximately \$524,000, in fiscal 2009 from fiscal 2008. Public works and capital projects increased approximately \$72,000 and \$426,000, respectively, with debt service expenditures decreasing approximately \$30,000.
- The City's total cash basis net assets increased 8.6%, or approximately \$108,000, from June 30, 2008 to June 30, 2009. Of this amount, the assets of the governmental activities increased approximately \$88,000 and the assets of the business type activities increased approximately \$20,000.

### **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.

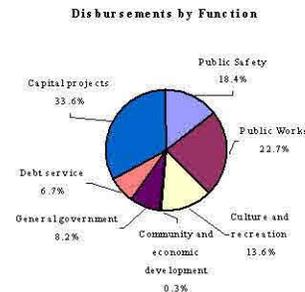
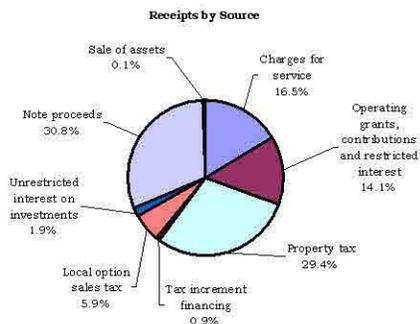
2) **Proprietary funds** account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains two Enterprise Funds to provide separate information for the water and sewer funds, considered to be major funds of the City.

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 City's cash balance for governmental activities increased from a year ago, increasing from \$448,250 to \$535,971. 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,	
	2009	2008
Receipts and transfers:		
Program receipts:		
Charges for service	\$ 234,154	\$ 226,654
Operating grants, contributions and restricted interest	199,936	204,010
General receipts:		
Property tax	417,548	359,849
Tax increment financing	12,627	32,086
Local option sales tax	84,253	92,028
Unrestricted interest on investments	27,192	31,200
Note proceeds	437,961	-
Sale of assets	1,150	-
Other general receipts	5,902	21,908
Transfers, net	48,169	6,577
Total receipts and transfers	<u>1,468,892</u>	<u>974,312</u>
Disbursements:		
Public Safety	203,899	158,418
Public Works	314,055	242,004
Culture and recreation	188,365	185,084
Community and economic development	4,294	3,755
General government	113,693	107,140
Debt service	92,884	122,493
Capital projects	463,981	38,236
Total disbursements	<u>1,381,171</u>	<u>857,130</u>
Increase (Decrease) in cash basis net assets	87,721	117,182
Cash basis net assets beginning of year	448,250	331,068
Cash basis net assets end of year	<u>\$ 535,971</u>	<u>\$ 448,250</u>



The City's total receipts for governmental activities increased 50.8%, or approximately \$495,000. The total cost of all programs and services increased approximately \$524,000, or 61.1%, with no new programs added this year. The increase in receipts was primarily the result of issuances of debt and an increase in property tax levies.

Taxable property valuations for fiscal 2009 increased \$4,343,584 and the City increased property tax rates for 2009 resulting in a tax asking increase of \$59,081. The City decreased levy rates for 2010, however an increase in taxable property valuations resulted in a budgeted increase in property tax receipts of approximately \$3,800.

The cost of all governmental activities this year was \$1,381,171 compared to \$857,130 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 \$947,081 because some of the cost was paid by those directly benefited from the programs (\$234,154) or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest (\$199,936). Overall, the City's governmental activities receipts, including intergovernmental aid and fees for service, increased in 2009 from approximately \$430,000 to approximately \$434,000, which is relatively insignificant. The City paid for the remaining "public benefit" portion of governmental activities with approximately \$514,000 in tax (some of which could only be used for certain programs) and other receipts, such as interest, proceeds from debt and general entitlements.

Changes in Cash Basis Net Assets of Business Type Activities		
	Year ended June 30,	
	2009	2008
Receipts:		
Program receipts:		
Charges for service:		
Water	\$ 279,275	\$ 271,196
Sewer	178,374	183,353
General receipts:		
Unrestricted interest on investments	3,926	5,659
Other general receipts	4,122	17,457
Total receipts	<u>465,697</u>	<u>477,665</u>
Disbursements:		
Water	206,792	230,623
Sewer	190,519	138,847
Total disbursements	<u>397,311</u>	<u>369,470</u>
Increase in cash basis net assets before transfers	68,386	108,195
Transfers, net	<u>(48,169)</u>	<u>(6,577)</u>
Increase in cash basis net assets	20,217	101,618
Cash basis net assets beginning of year	<u>807,440</u>	<u>705,822</u>
Cash basis net assets end of year	<u>\$ 827,657</u>	<u>\$ 807,440</u>

Total business type activities receipts for the fiscal year were \$465,697 compared to \$477,665 last year. This slight decrease occurred due to decreased usage of utility services. The cash balance increased by approximately \$20,000 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 \$535,971, an increase of more than \$87,000 above last year's total of \$448,250. 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 increased \$70,255 from the prior year to a balance of \$69,337. This was accomplished through a decrease in spending in the public works function and use of note proceeds to fund the purchase of equipment.
- The Special Revenue, Road Use Tax Fund cash balance decreased \$59,384 to \$108,723 during the fiscal year. This decrease was attributable to street projects and capital purchases in fiscal year 2009.
- The Special Revenue, Local Option Sales Tax Fund cash balance increased \$50,286 during the fiscal year. The collection of local option sales tax continues to exceed amounts designated for capital projects by the Council.
- The Capital Projects cash balance increased \$33,981 to (\$353,207) during the fiscal year. The increase is due to the continuance of collecting special assessments for completed projects and transferring funds from local option sales tax fund as designated by special resolution of the Council.
- 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 \$408,191, an increase of \$2,900 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 \$3,843 to \$74,977 during the fiscal year. The increase is not significant.

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

- The Water Fund cash balance increased by \$33,878 to \$382,352, due primarily to a decrease in expenditures that can be attributed to fewer capital projects.
- The Sewer Fund cash balance decreased by \$13,661 to \$445,305 during the fiscal year. The increase in expenditures is attributed to repairs.

## **BUDGETARY HIGHLIGHTS**

Over the course of the year, the City amended its budget two times. The first amendment was approved on November 10, 2008 and resulted in an increase in operating disbursements in four functions of approximately \$496,895 for expenses related to a new shelter house, increase in interest payments in debt service, addition of water main and street repair capital projects and additional cost for sewer lining. The second amendment was approved April 27, 2009 to provide for the purchase of a street sweeper and roof replacement on city hall and fire station.

The City's receipts were \$13,004 less than budgeted receipts. This was primarily due to the City budgeting charges for services and special assessments too high.

Even with the budget amendments, total disbursements were \$50,045 more than budgeted for public works and \$34 more than budgeted in debt service. The actual disbursements for the public safety, culture and recreation, community and economic development, general government, capital projects and business type activities functions were \$14,498, \$18,378, \$2,826, \$83,161,

\$18,764, and \$88,436, less than the amended budget. This was primarily due to budgeting for employee benefits in the general government function and overbudgeting capital projects.

The City exceeded the amount budgeted in public works due to not budgeting for full amount of street sweeper. The debt service budget was exceeded due to unbudgeted bond expenses.

**DEBT ADMINISTRATION**

At June 30, 2009, the City had \$2,737,196 in notes and other long-term debt outstanding, compared to \$2,435,971 last year, as shown below:

Outstanding Debt at Year-End		
	June 30,	
	2009	2008
General obligation capital loan notes	\$ 595,000	\$ 235,000
Urban renewal tax increment financing revenue notes	20,000	30,000
Revenue notes	974,000	1,034,000
Water service agreement	1,066,847	1,079,812
Lease-purchase agreements	39,146	57,159
Installment-purchase agreements	42,203	-
Total	\$ 2,737,196	\$ 2,435,971

Debt increased as a result of issuing general obligation notes for a street, water and sanitary sewer project. In addition, the City issued installment-purchase agreements for the purchase of a police cruiser and street sweeper.

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 and TIF debt of \$1,763,196 is below its constitutional debt limit of \$3,242,594.

**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 2010 budget, tax rates, and fees charged for various City activities. One of these factors is deficit balances in the debt service and capital project funds.

These factors were taken into account when adopting the budget for fiscal year 2010. Amounts available for appropriation in the operating budget are \$1,440,129, a decrease of 0.1% under the final 2009 budget. The 2010 budgeted revenues reflect an anticipated increase of \$4,000 in property tax revenue.

**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 Linette Crouch, 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, 2009

	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	\$ 203,899	4,517	49,962	-
Public Works	314,055	129,069	107,695	-
Culture and recreation	188,365	54,952	36,671	-
Community and economic development	4,294	-	-	-
General government	113,693	5,804	5,608	-
Debt service	92,884	-	-	-
Capital projects	463,981	39,812	-	-
Total governmental activities	1,381,171	234,154	199,936	-
Business type activities:				
Water	206,792	279,275	-	-
Sewer	190,519	178,374	-	-
Total business type activities	397,311	457,649	-	-
Total	\$ 1,778,482	691,803	199,936	-
<b>General Receipts:</b>				
Property and other city tax levied for:				
General purposes				
Tax increment financing				
Debt service				
Local option sales tax				
Unrestricted interest on investments				
Note proceeds				
Sale of assets				
Miscellaneous				
Transfers				
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				
<b>Cash Basis Net Assets</b>				
Restricted:				
Streets				
Urban renewal purposes				
Debt service				
Library Trust				
Cemetery perpetual care				
Other purposes				
Unrestricted				
<b>Total cash basis net assets</b>				

See notes to financial statements.

Net (Disbursements) Receipts and  
Changes in Cash Basis Net Assets

Governmental Activities	Business Type Activities	Total
(149,420)	-	(149,420)
(77,291)	-	(77,291)
(96,742)	-	(96,742)
(4,294)	-	(4,294)
(102,281)	-	(102,281)
(92,884)	-	(92,884)
(424,169)	-	(424,169)
(947,081)	-	(947,081)
-	72,483	72,483
-	(12,145)	(12,145)
-	60,338	60,338
(947,081)	60,338	(886,743)

396,120	-	396,120
12,627	-	12,627
21,428	-	21,428
84,253	-	84,253
27,192	3,926	31,118
437,961	-	437,961
1,150	-	1,150
5,902	4,122	10,024
48,169	(48,169)	-
1,034,802	(40,121)	994,681
87,721	20,217	107,938
448,250	807,440	1,255,690
\$ 535,971	827,657	1,363,628

108,723	-	108,723
(234)	-	(234)
-	206,713	206,713
408,191	620,944	1,029,135
74,977	-	74,977
62,231	-	62,231
(117,917)	-	(117,917)
\$ 535,971	827,657	1,363,628

City of Earlham

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

As of and for the year ended June 30, 2009

	Special Revenue			Capital Projects
	General	Road Use Tax	Local Option Sales Tax	
<b>Receipts:</b>				
Property tax	\$ 330,014	-	-	-
Tax increment financing	-	-	-	-
Other city tax	-	-	84,253	-
Licenses and permits	4,951	-	-	-
Use of money and property	9,798	-	-	-
Intergovernmental	57,762	107,695	-	-
Charges for service	159,273	-	-	-
Special assessments	-	-	-	34,558
Miscellaneous	39,772	-	-	5,253
<b>Total receipts</b>	<b>601,570</b>	<b>107,695</b>	<b>84,253</b>	<b>39,811</b>
<b>Disbursements</b>				
<b>Operating:</b>				
Public Safety	164,593	-	-	-
Public Works	175,873	124,395	1,243	-
Culture and recreation	168,518	-	5,000	-
Community and economic development	4,294	-	-	-
General government	81,602	-	12,724	-
Debt service	-	-	-	-
Capital projects	-	-	-	463,981
<b>Total disbursements</b>	<b>594,880</b>	<b>124,395</b>	<b>18,967</b>	<b>463,981</b>
Excess (deficiency) of receipts over (under) disbursements	6,690	(16,700)	65,286	(424,170)
<b>Other financing sources(uses):</b>				
Note proceeds	47,415	-	-	390,546
Sale of capital assets	1,150	-	-	-
Operating transfers in	15,000	-	-	95,925
Operating transfers out	-	(42,684)	(15,000)	(28,320)
<b>Total other financing sources(uses)</b>	<b>63,565</b>	<b>(42,684)</b>	<b>(15,000)</b>	<b>458,151</b>
Net change in cash balances	70,255	(59,384)	50,286	33,981
Cash balances beginning of year	(918)	168,107	162,953	(387,188)
Cash balances end of year	\$ 69,337	108,723	213,239	(353,207)
<b>Cash Basis Fund Balances</b>				
<b>Unreserved:</b>				
General fund	\$ 69,337	-	-	-
Special revenue funds	-	108,723	213,239	-
Debt service fund	-	-	-	-
Capital projects fund	-	-	-	(353,207)
Permanent funds	-	-	-	-
<b>Total cash basis fund balances</b>	<b>\$ 69,337</b>	<b>108,723</b>	<b>213,239</b>	<b>(353,207)</b>

See notes to financial statements.

Permanent			
Hoadley Library Trust	Cemetery Perpetual Care	Nonmajor	Total
-	-	87,534	417,548
-	-	12,627	12,627
-	-	-	84,253
-	-	-	4,951
18,091	1,293	7,411	36,593
-	-	-	165,457
-	2,550	-	161,823
-	-	-	34,558
-	-	18,777	63,802
18,091	3,843	126,349	981,612

-	-	39,306	203,899
-	-	12,544	314,055
191	-	14,656	188,365
-	-	-	4,294
-	-	19,367	113,693
-	-	92,884	92,884
-	-	-	463,981
191	-	178,757	1,381,171
17,900	3,843	(52,408)	(399,559)

-	-	-	437,961
-	-	-	1,150
-	-	38,248	149,173
(15,000)	-	-	(101,004)
(15,000)	-	38,248	487,280
2,900	3,843	(14,160)	87,721
405,291	71,134	28,871	448,250
408,191	74,977	14,711	535,971

-	-	-	69,337
-	-	78,443	400,405
-	-	(63,732)	(63,732)
-	-	-	(353,207)
408,191	74,977	-	483,168
408,191	74,977	14,711	535,971

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

As of and for the year ended June 30, 2009

	Enterprise Funds		
	Water	Sewer	Total
Operating receipts:			
Charges for service	\$ 279,275	178,374	457,649
Total operating receipts	279,275	178,374	457,649
Operating disbursements:			
Business type activities	131,984	96,864	228,848
Excess (deficiency) of operating receipts over (under) operating disbursements	147,291	81,510	228,801
Non-operating receipts (disbursements)			
Interest on investments	2,107	1,819	3,926
Miscellaneous	2,493	1,629	4,122
Debt service	(74,808)	(93,655)	(168,463)
Total non-operating receipts (disbursements)	(70,208)	(90,207)	(160,415)
Excess of receipts over disbursements	77,083	(8,697)	68,386
Operating transfers out	(43,205)	(4,964)	(48,169)
Net change in cash balances	33,878	(13,661)	20,217
Cash balances beginning of year	348,474	458,966	807,440
Cash balances end of year	\$ 382,352	445,305	827,657
<b>Cash Basis Fund Balances</b>			
Reserved for debt service	\$ 55,743	150,970	206,713
Unreserved	326,609	294,335	620,944
Total cash basis fund balances	\$ 382,352	445,305	827,657

See notes to financial statements.

**Notes to the Financial Statements**

City of Earlham

Notes to Financial Statements

June 30, 2009

**(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 units. The component units discussed below are included in the City's reporting entity because of the significance of their operational or financial relationship with the City.

**Blended Component Units**

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.

The Friends of Earlham Public Library (Friends) was established as a non-profit corporation in accordance with Chapter 504A of the Code of Iowa. Friends is legally separate from the City but is so intertwined with the City that it is, in substance, the same as the City. The Friends of Earlham Library is reported as part of the City and blended in the Special Revenue Funds. Friends receives donations for the benefit of the Earlham Library. These donations are 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 non-fiduciary 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 non-fiduciary 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 Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

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, 2009, disbursements exceeded the amounts budgeted in the public works and debt service functions.

**(2) Cash and Pooled Investments**

The City's deposits in banks at June 30, 2009 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, 2009, the City had the following investments:

Type	Carrying Amount	Fair Value	Maturity
Common Stock	\$ 93,743	\$ 134,405	N/A

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
2010	\$ 70,000	24,122	10,000	1,505	62,000	29,220	13,646	54,358	155,646	109,205
2011	75,000	21,453	10,000	775	65,000	27,360	14,362	53,642	164,362	103,230
2012	80,000	18,512	-	-	66,000	25,410	15,115	52,889	161,115	96,811
2013	85,000	15,328	-	-	68,000	23,430	15,908	52,096	168,908	90,854
2014	85,000	11,880	-	-	70,000	21,390	16,743	51,261	171,743	84,531
2015-2019	200,000	15,310	-	-	384,000	74,040	97,853	242,167	681,853	331,517
2020-2024	-	-	-	-	259,000	15,690	126,364	213,656	385,364	229,346
2025-2029	-	-	-	-	-	-	163,183	176,837	163,183	176,837
2030-2034	-	-	-	-	-	-	210,730	129,290	210,730	129,290
2035-2039	-	-	-	-	-	-	272,130	67,890	272,130	67,890
2040-2042	-	-	-	-	-	-	120,813	6,078	120,813	6,078
Total	\$ 595,000	106,605	20,000	2,280	974,000	216,540	1,066,847	1,100,164	2,655,847	1,425,589

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, 2009, the City made monthly payments of \$5,667 to the Warren Water District for a total of \$68,004, of which \$55,039 was interest and \$12,965 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, 2009 is \$1,066,846.

**(4) Lease Purchase Agreements**

The City has entered into a lease purchase agreement to lease a fire pumper truck. The following schedule of the future minimum lease payments, including interest at 5.5% per annum, and the present value of net minimum payments under agreements in effect at June 30, 2009:

Year Ending June 30,	Fire Pumper Truck
2010	\$ 21,253
2011	21,253
Total minimum lease payments	42,506
Less amount representing interest	3,360
Present value of net minimum lease payments	\$ 39,146

Payments under lease purchase agreements during the year ended June 30, 2009 totaled \$21,253 from the Debt Service Fund.

**(5) Installment Purchase Agreements**

The City entered into two installment purchase agreements to purchase a police vehicle and street sweeper. The following is a schedule of the future maturities as of June 30, 2009:

Year Ending June 30,	Installment Purchases
2010	\$ 19,982
2011	19,873
2012	2,348
Total	<u>\$ 42,203</u>

**(6) 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 4.10% of their annual covered salary and the City is required to contribute 6.35% 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, 2009, 2008, and 2007 were \$16,257, \$15,927, and \$17,908, respectively equal to the required contributions for each year.

**(7) Compensated Absences**

City employees accumulate a limited amount of earned but unused paid time off and compensatory time for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation, compensatory time and sick leave termination payments payable to employees at June 30, 2009, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Paid time off	\$ 14,208
Compensatory time	<u>326</u>
Total	<u>\$ 14,534</u>

This liability has been computed based on rates of pay in effect at June 30, 2009.

**(8) Termination Benefit**

The City entered into an Early-out Agreement on November 12, 2007 with an employee. In exchange for the employee electing to participate in staff reduction, the City agreed to pay the employee's health insurance premiums under the City's health insurance plan through May 23, 2010, or the date of the employee's death, whichever occurs first. The agreement sets a maximum benefit of \$28,000. If health insurance premiums exceed the maximum benefit, the employee will become responsible for the payment of the premiums until the sunset of the agreement. The future liability to the City is as follows:

Total liability under the agreement	\$ 28,000
Payments made in fiscal year 2008	(6,546)
Payments made in fiscal year 2009	<u>(9,928)</u>
Remaining liability	<u>\$ 11,526</u>

The current monthly premium paid on behalf of the employee is \$813.

**(9) Interfund Transfers**

The detail of interfund transfers for the year ended June 30, 2009 is as follows:

Transfer to	Transfer from	Amount
General	Permanent: Hoadley Library Trust	\$ 15,000
Capital Projects	Special Revenue: Road Use Tax Local Option Sales Tax Enterprise: Water	42,684 15,000 <u>38,241</u> 95,925
Debt Service	Capital Projects	28,320
Special Revenue Early Out Benefits	Enterprise: Water Sewer	4,964 4,964 <u>9,928</u>
Total		<u>\$ 149,173</u>

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

**(10) Related Party Transactions**

The City had business transactions between the City and City officials totaling \$21,500 during the year ended June 30, 2009.

**(11) 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.

**(12) Deficit Balances**

The Capital Project, Urban Renewal Tax Increment, Early Out Benefits, Gendler Park and Debt Service Funds had deficit balances of \$353,207, \$234, \$1, \$109 and \$63,732 at June 30, 2009. The Urban Renewal Tax Increment, Early Out Benefits, Gendler Park and Debt Service Fund deficits will be eliminated with future revenues. The City has designated a percentage of annual local option sales tax collections to be used to eliminate the Capital Projects Fund deficit.

**(13) Subsequent Event**

In December 2009, the City issued \$236,186 of general obligation capital loan notes for the purpose of purchasing a pumper/tanker fire truck.

**City of Earlham**

**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, 2009

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds not Required to be Budgeted
Receipts:			
Property tax	\$ 417,548	-	-
Tax increment financing	12,627	-	-
Other city tax	84,253	-	-
Licenses and permits	4,951	-	-
Use of money and property	36,593	3,926	611
Intergovernmental	165,457	-	-
Charges for service	161,823	457,649	-
Special assessments	34,558	-	-
Miscellaneous	63,802	4,122	17,300
Total receipts	981,612	465,697	17,911
Disbursements:			
Public safety	203,899	-	16,557
Public works	314,055	-	-
Culture and recreation	188,365	-	941
Community and economic development	4,294	-	-
General government	113,693	-	-
Debt service	92,884	-	-
Capital projects	463,981	-	-
Business type activities	-	397,311	-
Total disbursements	1,381,171	397,311	17,498
Excess (deficiency) of receipts over (under) disbursements	(399,559)	68,386	413
Other financing sources (uses), net	487,280	(48,169)	-
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	87,721	20,217	413
Balances beginning of year	448,250	807,440	61,818
Balances end of year	\$ 535,971	827,657	62,231

See accompanying independent auditor's report.

Total	Budgeted Amounts		Final to Total Variance
	Original	Final	
417,548	403,391	403,391	14,157
12,627	13,010	13,010	(383)
84,253	91,499	91,499	(7,246)
4,951	6,825	6,825	(1,874)
39,908	28,948	28,948	10,960
165,457	170,357	170,357	(4,900)
619,472	635,570	636,270	(16,798)
34,558	59,073	59,073	(24,515)
50,624	33,029	33,029	17,595
1,429,398	1,441,702	1,442,402	(13,004)
187,342	208,340	201,840	14,498
314,055	248,510	264,010	(50,045)
187,424	194,112	205,802	18,378
4,294	7,120	7,120	2,826
113,693	151,854	196,854	83,161
92,884	73,337	92,850	(34)
463,981	30,000	482,745	18,764
397,311	466,300	485,747	88,436
1,760,984	1,379,573	1,936,968	175,984
(331,586)	62,129	(494,566)	162,980
439,111	-	390,546	48,565
107,525	62,129	(104,020)	211,545
1,193,872	565,898	565,898	627,974
1,301,397	628,027	461,878	839,519

City of Earlham

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2009

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 units. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Funds, the Permanent Funds and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, two budget amendments increased budgeted disbursements by \$557,395. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2009, disbursements exceeded the amounts budgeted in the public works and debt service functions.

**Other Supplementary Information**

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, 2009

	Special Revenue			
	Urban Renewal Tax Increment	Volunteer Fire and Rescue Association	Employee Benefits	Early Out Benefits
Receipts				
Property tax	\$ -	-	66,106	-
Tax increment financing	12,627	-	-	-
Use of money and property	-	611	-	-
Miscellaneous	-	13,189	1,086	391
Total receipts	12,627	13,800	67,192	391
Disbursements:				
Operating:				
Public safety	-	16,557	22,749	-
Public works	-	-	12,544	-
Culture and recreation	-	-	6,327	-
General government	-	-	9,016	10,351
Debt service	12,645	-	-	-
Total disbursements	12,645	16,557	50,636	10,351
Excess (deficiency) of receipts over (under) disbursements	(18)	(2,757)	16,556	(9,960)
Other financing uses:				
Operating transfers in	-	-	-	9,928
Total other financing sources(uses)	-	-	-	9,928
Net change in cash balances	(18)	(2,757)	16,556	(32)
Cash balances beginning of year	(216)	61,818	-	31
Cash balances end of year	\$ (234)	59,061	16,556	(1)
<b>Cash Basis Fund Balances</b>				
Unreserved:				
Special revenue funds	\$ (234)	\$ 59,061	16,556	(1)
Debt service fund	-	-	-	-
Total cash basis fund balances	\$ (234)	\$ 59,061	16,556	(1)

See accompanying independent auditor's report.

Friends of Library	Gendler Park	Debt Service	Total
-	-	21,428	87,534
-	-	-	12,627
-	6,800	-	7,411
4,111	-	-	18,777
4,111	6,800	21,428	126,349
-	-	-	39,306
-	-	-	12,544
941	7,388	-	14,656
-	-	-	19,367
-	-	80,239	92,884
941	7,388	80,239	178,757
3,170	(588)	(58,811)	(52,408)
-	-	28,320	38,248
-	-	28,320	38,248
3,170	(588)	(30,491)	(14,160)
-	479	(33,241)	28,871
3,170	(109)	(63,732)	14,711
3,170	(109)	-	78,443
-	-	(63,732)	(63,732)
3,170	(109)	(63,732)	14,711

City of Earlham  
Schedule of Indebtedness  
Year ended June 30, 2009

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, water and sanitary sewer improvements	Aug 11, 2008	4.20%	390,000
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
Police explorer	Nov 28, 2008	6.50%	19,076
Street sweeper	Apr 27, 2009	6.20%	28,339
Total			

See accompanying independent auditor's report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
\$ 235,000	-	30,000	205,000	8,673
-	390,000	-	390,000	13,013
<u>\$ 235,000</u>	<u>390,000</u>	<u>30,000</u>	<u>595,000</u>	<u>21,686</u>
\$ 30,000	-	10,000	20,000	2,245
\$ 911,000	-	53,000	858,000	27,330
123,000	-	7,000	116,000	3,690
<u>\$ 1,034,000</u>	<u>-</u>	<u>60,000</u>	<u>974,000</u>	<u>31,020</u>
\$ 1,079,812	-	12,965	1,066,847	55,039
\$ 57,159	-	18,013	39,146	3,240
-	19,076	5,212	13,864	1,288
-	28,339	-	28,339	-
<u>\$ 57,159</u>	<u>47,415</u>	<u>23,225</u>	<u>81,349</u>	<u>4,528</u>

City of Earlham

Note and Water Service Agreement Maturities

June 30, 2009

General Obligation Notes						
Year Ending June 30,	Street and Sidewalk Improvements		Street, Water, and Sanitary Sewer Improvements		Urban Renewal Tax Increment Financing (TIF) Revenue Notes	
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount
2010	3.30 %	\$ 30,000	4.20 %	\$ 40,000	7.50 %	\$ 10,000
2011	3.50	30,000	4.20	45,000	7.55	10,000
2012	3.70	35,000	4.20	45,000		-
2013	3.85	35,000	4.20	50,000		-
2014	4.00	35,000	4.20	50,000		-
2015	4.15	40,000	4.20	50,000		-
2016		-	4.20	55,000		-
2017		-	4.20	55,000		-
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>\$ 205,000</u>		<u>\$ 390,000</u>		<u>\$ 20,000</u>

See accompanying independent auditor's report.

Sewer Revenue Notes				Water Service Agreement	
Issued Oct. 22, 2001		Issued June 25, 2002		Issued July 10, 2000	
Interest		Interest		Interest	
Rates	Amount	Rates	Amount	Rates	Amount
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>\$ 858,000</u>		<u>\$ 116,000</u>		<u>\$ 1,066,847</u>

City of Earlham

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

For the Last Seven Years

	2009	2008	2007	2006
Receipts:				
Property tax	\$ 417,548	359,849	340,693	352,574
Tax increment financing	12,627	32,086	106	15,694
Other city tax	84,253	92,028	83,537	93,530
Licenses and permits	4,951	5,738	16,657	9,667
Use of money and property	36,593	41,360	33,497	44,225
Intergovernmental	165,457	168,656	151,222	150,985
Charges for service	161,823	155,706	149,770	128,333
Special assessments	34,558	37,149	44,119	51,510
Miscellaneous	63,802	75,163	76,445	33,921
Total	981,612	967,735	896,046	880,439
Disbursements:				
Operating:				
Public Safety	203,899	158,418	164,114	182,777
Public Works	314,055	242,004	289,341	272,121
Culture and recreation	188,365	185,084	199,989	211,389
Community and economic development	4,294	3,755	2,883	4,233
General government	113,693	107,140	114,357	134,156
Debt service	92,884	122,493	91,677	68,929
Capital projects	463,981	38,236	96,764	45,225
Total	\$ 1,381,171	857,130	959,125	918,830

See accompanying independent auditor's report.

2005	2004	2003
315,519	319,481	281,806
85,462	15,823	16,411
52,942	-	-
7,464	10,157	11,075
17,138	19,974	22,716
201,684	179,195	171,169
131,941	102,251	104,976
9,879	11,055	7,728
24,959	75,166	74,115
846,988	733,102	689,996

203,851	132,968	207,737
209,269	249,564	209,642
156,372	144,262	142,631
23,862	37,472	-
108,381	137,550	94,173
319,479	42,231	46,199
125,042	243,090	691,465
1,146,256	987,137	1,391,847



"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, 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, 2009, which collectively comprise the City's basic financial statements listed in the table of contents and have issued our report thereon dated February 19, 2010. Our report expressed unqualified opinions on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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, including 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 and, accordingly would not necessarily disclose all 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, 2009 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.*

February 19, 2010

**City of Earlham**

City of Earlham

Schedule of Findings

Year ended June 30, 2009

**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 – The City continues to strive for maximum segregation of duties and will continue to review control procedures and job duties to this end.

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 City Council will discuss these separate bank accounts with the library and community center to rectify the situation.

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, 2009

- (C) 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.

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 – The City Council will discuss the need for segregation of duties with the Volunteer Fire and Rescue Association.

Conclusion – Response acknowledged. The Association should develop policies and procedures to ensure proper control is in place of accounts.

**INSTANCES OF NON-COMPLIANCE:**

No matters were reported.

City of Earlham

Schedule of Findings

Year ended June 30, 2009

**Findings Related to Statutory Reporting:**

- (1) Certified Budget – Disbursements during the year ended June 30, 2009 exceeded the amounts budgeted in the public works and debt service functions. In addition, disbursements in the capital projects function exceeded budget before the budget was amended April 27, 2009. 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 – All future budgets will be amended prior to exceeding the budgeted expenditures.

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 Arnburg, Mayor, Manager of Earlham Building Center	Lumber and supplies	\$ 12,711
Doug Waugh, Council Member, Parts Manager at Adel Chrysler, Inc.	Repairs	583
Jeff Lillie, Council Member, son of Randy Lillie of Randy Lillie Plumbing & Heating	Repairs	8,206

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 Mayor Andrew Arnburg and Council Member Jeff Lillie appear to represent a conflict of interest since total transactions were greater than \$2,500 during the fiscal year.

City of Earlham

Schedule of Findings

Year ended June 30, 2009

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

Response – The City Council will continue to approve all expenses and will obtain competitive quotes to ensure no conflict of interest when using companies associated with the mayor or council members.

Conclusion – Response accepted.

- (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 – No instances of non-compliance with the deposit and investment provisions of 12B and 12C of the Code of Iowa and the City's investment policy were noted.
- (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 – The City will establish a TIF sinking and TIF reserve fund for future TIF debt.

Conclusion – Response accepted.

City of Earlham

Schedule of Findings

Year ended June 30, 2009

- (9) Financial Condition - The Capital Projects, Urban Renewal, Early Out Benefits, Gendler Park, and Debt Service Funds had deficit balances at June 30, 2009 of \$353,207, \$234, \$1, \$109 and \$63,732, respectively.

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

Response - The City will continue to appropriate funds to eliminate the fund deficits in the Capital Projects, Urban Renewal, Early Out Benefits, Gendler Park and Debt Service Funds.

Conclusion - Response acknowledged. The City should periodically review fund activity to ensure funding sources are in place to adequately cover expenses.