

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

JUNE 30, 2014

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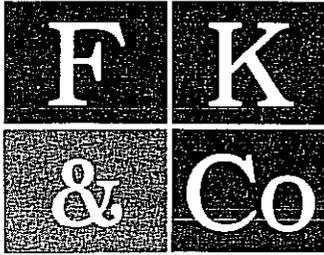
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City of Earlham

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>(Before January 2014)</b>		
Dusky Terry	Mayor	January 1, 2014
Mike Golightly	Council Member	January 1, 2014
Dale McNair	Council Member	January 1, 2014
Jamie Royster	Council Member	January 1, 2014
Jeff Lillie	Council Member	January 1, 2016
Heather Stancil	Council Member	January 1, 2016
Linette Crouch	City Clerk/Treasurer	Indefinite
Sam Braland	Attorney	Indefinite
<b>(After January 2014)</b>		
Dusky Terry	Mayor	January 1, 2016
Jeff Lillie	Council Member	January 1, 2016
Heather Stancil	Council Member	January 1, 2016
Jamie Royster	Council Member	January 1, 2018
Scott Petersen	Council Member	January 1, 2018
Chris Swalla	Council Member	January 1, 2018
Linette Crouch	City Clerk/Treasurer	Indefinite
Sam Braland	Attorney	Indefinite

City of Earlham



FALLER, KINCHELOE & CO, PLC

Certified Public Accountants

Independent Auditor's Report

To the Honorable Mayor and  
Members of the City Council:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Earlham, Iowa, (City) as of and for the year ended June 30, 2014, and the related Notes to Financial Statements, which collectively comprise the basic financial statements of the City's primary government as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### Basis for Modified Opinions

As permitted by the Code of Iowa, the accounting records of the City have not been audited for all prior years. Accordingly, we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2013.

### Basis for Adverse Opinion on Aggregate Discretely Presented Component Units

The financial statements referred to above do not include financial data for the City's legally separate component units. The basis of cash receipts and disbursements require financial data for these component units to be reported with the financial data of the City's primary government unless the City also issues financial statements for the financial reporting entity that include the financial data for its component units. The City has not issued such reporting entity financial statements. The amount by which this departure would affect the receipts, disbursements and the cash basis balances of the government-wide financial statement for the omitted discretely presented component units has not been determined.

### Opinions

#### *Adverse Opinion on Aggregate Discretely Presented Component Units*

In our opinion, because of the significance of the matter described in the "Basis for Adverse Opinion on Aggregate Discretely Presented Component Units" paragraph, the financial statements referred to above do not present fairly the financial position of the aggregate discretely presented component units of the City as of June 30, 2014, or the changes in financial position thereof for the year then ended in conformity with the basis of accounting described in Note 1.

#### *Modified Opinions*

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2013, as discussed in a preceding paragraph, 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 as of June 30, 2014, and the respective changes in cash basis financial position for the year then ended in accordance with the basis of accounting described in Note 1.

### Basis of Accounting

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

### Other Matters

#### *Supplementary and Other Information*

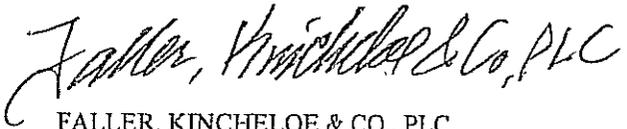
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's primary government financial statements. The supplementary information included in Schedules 1 through 3 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the primary government financial statements. Such information has been subjected to the auditing procedures applied in the audit of the primary government financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the primary government financial statements or to the primary government financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2013, as discussed in the "Basis for Modified Opinions" paragraph, the supplementary information is fairly stated in all material respects in relation to the primary government financial statements taken as a whole.

The other information, Management's Discussion and Analysis and the budgetary comparison information on pages 8 through 13 and 27 through 28 has not been subjected to the auditing procedures applied in the audit of the primary government financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated January 20, 2015, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City's internal control over financial reporting and compliance.

  
FALLER, KINCHELOE & CO., PLC

Des Moines, Iowa  
January 20, 2015

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Earlham (City) provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2014. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

Because the City is not required to be audited annually, much of the information is not easily comparable to prior years. Comparative data has been provided if available.

### 2014 FINANCIAL HIGHLIGHTS

- The cash basis net position of the City's governmental activities increased approximately \$129,000 during the fiscal year, primarily due to collecting more property taxes and road use tax monies than was spent during the year.
- The cash basis net position of the City's business type activities decreased approximately \$73,000 during the fiscal year, primarily due to disbursements exceeding receipts in the Enterprise, Sewer Fund.

### 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 Cash Basis Statement of Activities and Net Position. 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 financial statement by providing information about the most significant funds.

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

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

Supplementary Information provides detailed information about the non-major governmental funds and the City's indebtedness.

## BASIS OF ACCOUNTING

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

## REPORTING THE CITY'S FINANCIAL ACTIVITIES

### *Government-wide Financial Statement*

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

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

The Cash Basis Statement of Activities and Net Position 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 water system, the sanitary sewer system and the community center. These activities are financed primarily by user charges.

### *Fund Financial Statements*

The City has three 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 Local Option Sales Tax funds, 3) the Debt Service Fund, 4) the Capital Projects Fund and, 5) the Permanent Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statements for governmental funds are 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 three Enterprise Funds to provide separate information for the Water Fund and the Sewer Fund, considered to be major funds of the City. The Community Center Fund is considered to be a non-major fund of the City.

The required financial statements for proprietary funds are a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

3) Fiduciary funds account for resources held for others. The Fiduciary fund consists of the Agency Fund.

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

Net position 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 approximately \$.345 million to approximately \$.474 million. The analysis that follows focuses on the changes in cash basis net position of governmental activities.

Changes in Cash Basis Net Position of Governmental Activities (Expressed in Thousands)	
	Year ended June 30, 2014
Receipts:	
Program receipts:	
Charges for service	\$ 213
Operating grants, contributions and restricted interest	259
Capital grants, contributions and restricted interest	6
General receipts:	
Property tax	494
Local option sales tax	92
Rent	2
Miscellaneous	3
Sale of capital assets	9
Total receipts	<u>1,078</u>
Disbursements:	
Public safety	188
Public works	328
Culture and recreation	172
Community and economic development	9
General government	143
Debt service	226
Capital projects	30
Total disbursements	<u>1,096</u>
Change in cash basis net position before transfers	(18)
Transfers, net	<u>147</u>
Change in cash basis net position	129
Cash basis net position beginning of year	<u>345</u>
Cash basis net position end of year	<u>\$ 474</u>

Total business type activities cash basis net position decreased approximately \$73,000 from a year ago, from \$667,038 to \$594,444.

Changes in Cash Basis Net Position of Business Type Activities (Expressed in Thousands)	
	Year ended June 30, 2014
Receipts:	
Program receipts:	
Charges for service:	
Water	\$ 291
Sewer	230
Community center	20
General receipts:	
Rent	1
Miscellaneous	7
Total receipts	<u>549</u>
Disbursements:	
Water	254
Sewer	193
Community center	28
Total disbursements	<u>475</u>
Change in cash basis net position before transfers	74
Transfers, net	<u>(147)</u>
Change in cash basis net position	(73)
Cash basis net position beginning of year	<u>667</u>
Cash basis net position end of year	<u>\$ 594</u>

#### INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City completed the year, its governmental funds reported a combined fund balance of \$474,347, an increase of \$129,063 above last year's total of \$345,284. 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 by \$82,876 from the prior year to \$332,848. The City has been watching the General Fund very close in order to increase the balance in this fund.
- The Special Revenue, Road Use Tax Fund cash balance increased by \$26,768 from the prior year to \$54,637. This increase was just due to spending less from this fund in fiscal year 2014.
- The Special Revenue, Local Option Sales Tax Fund cash balance decreased by \$31,318 during the fiscal year to a total of \$83,422. This decrease is due to costs associated with remodeling City Hall and street related repairs and maintenance.
- The Debt Service Fund cash balance increased by \$5,129 during the fiscal year to a total of \$0 at June 30, 2014. The City uses all of the debt service tax levy to pay on general obligation debt.

- The Permanent, Cemetery Perpetual Care Fund cash balance increased by \$3,532 during the fiscal year to a total of \$88,450 at June 30, 2014. The only activity in this fund consists of perpetual care receipts and bank interest income.

**INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS**

- The Enterprise, Water Fund cash balance increased by \$12,780 to \$356,824, primarily due to minimal capital project costs incurred in the year.
- The Enterprise, Sewer Fund cash balance decreased by \$77,434 to \$241,389, due to capital projects completed during the fiscal year.

**BUDGETARY HIGHLIGHTS**

During the course of the year, the City amended its budget two times. The amendments were adopted to more closely reflect anticipated receipts and disbursements for the fiscal year.

The City's receipts were \$115 more than budgeted.

Total disbursements were \$148,490 less than the budget. Actual disbursements for culture and recreation, debt service, and public safety were \$70,805, \$66,754 and \$30,664, respectively, less than the budget.

Even though the City did not go over budget in total, disbursements in the business type activities function were \$73,813 in excess of the amended budget amounts.

**DEBT ADMINISTRATION**

At June 30, 2014, the City had \$1,960,000 in bonds and notes outstanding, compared to \$2,205,000 last year, as shown below.

Outstanding Debt at Year-End (Expressed in Thousands)		
	June 30,	
	2014	2013
General obligation bonds and notes	\$ 985	1,190
Revenue note	975	1,015
Total	<u>\$ 1,960</u>	<u>2,205</u>

Debt decreased as a result of retiring debt in the fiscal year.

The amount of general obligation debt a political subdivision of the State of Iowa can incur is controlled by constitutional debt limit, which is an amount equal to 5% of the actual value of property within the corporate limits, taken from the last county tax list. The City's debt limit, based upon said valuation, amounts to the following:

Actual Value of Property, 2012	\$ 69,712,085
Debt Limit	<u>5%</u>
	<u>\$ 3,485,604</u>

The City's outstanding general obligation debt of \$985,000 is below the constitutional debt limit of \$3,485,604.

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

The City's elected and appointed officials and citizens considered many factors when setting the fiscal year 2015 budget, tax rates, and fees that will be charged for various City activities.

The fiscal year 2015 budget contains total receipts of \$2,143,964 and disbursements of \$2,341,280, which is an increase from the fiscal year 2014 budget which contained total amended receipts of \$1,619,414 and amended disbursements of \$1,720,070.

The fiscal year 2015 property tax levy is \$12.0000 per \$1,000 of taxable valuation, a decrease from \$12.04811 per \$1,000 of taxable valuation for fiscal year 2014. The debt service levy decreased from \$1.18312 per \$1,000 of taxable valuation for fiscal year 2014 to \$0.80227 per \$1,000 of taxable valuation for fiscal year 2015.

These parameters were taken into account when adopting the budget for fiscal year 2015.

## **CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

The financial report is designed to provide our citizens, taxpayer, 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 Ave., Earlham, Iowa 50072.

**Primary Government Financial Statements**

## City of Eartham

Exhibit A

## Cash Basis Statement of Activities and Net Position

As of and for the year ended June 30, 2014

	Disbursements	Program Receipts			Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	Total
<b>Functions / Programs:</b>							
<b>Governmental activities:</b>							
Public safety	\$ 188,314	208	59,215	-	(128,891)	-	(128,891)
Public works	327,856	171,578	144,788	2,380	(9,110)	-	(9,110)
Culture and recreation	172,152	29,960	53,738	3,516	(84,938)	-	(84,938)
Community and economic development	9,114	-	-	-	(9,114)	-	(9,114)
General government	143,444	11,293	1,596	-	(130,555)	-	(130,555)
Debt service	226,012	-	-	-	(226,012)	-	(226,012)
Capital projects	29,585	-	-	-	(29,585)	-	(29,585)
Total governmental activities	1,096,477	213,039	259,337	5,896	(618,205)	-	(618,205)
<b>Business type activities:</b>							
Water	254,230	290,472	-	-	-	36,242	36,242
Sewer	192,769	230,318	-	-	-	37,549	37,549
Community center	28,104	20,164	-	-	-	(7,940)	(7,940)
Total business type activities	475,103	540,954	-	-	-	65,851	65,851
<b>Total</b>	<b>\$ 1,571,580</b>	<b>753,993</b>	<b>259,337</b>	<b>5,896</b>	<b>(618,205)</b>	<b>65,851</b>	<b>(552,354)</b>
<b>General Receipts and Transfers:</b>							
<b>Property and other city tax levied for:</b>							
General purposes					445,173	-	445,173
Debt service					48,867	-	48,867
Local option sales tax					91,961	-	91,961
Unrestricted interest on investments					467	-	467
Rent					2,430	834	3,264
Miscellaneous					3,400	7,171	10,571
Sale of capital assets					8,520	-	8,520
Transfers					146,450	(146,450)	-
Total general receipts and transfers					747,268	(138,445)	608,823
Change in cash basis net position					129,063	(72,594)	56,469
Cash basis net position beginning of year					345,284	667,038	1,012,322
Cash basis net position end of year					\$ 474,347	594,444	1,068,791
<b>Cash Basis Net Position</b>							
<b>Restricted:</b>							
<b>Nonexpendable:</b>							
Cemetery perpetual care					\$ 88,450	-	88,450
<b>Expendable:</b>							
Library					224	-	224
Museum					825	-	825
Debt service					-	58,196	58,196
Customer deposits					-	57,812	57,812
Streets					54,637	-	54,637
Other purposes					117,779	-	117,779
Unrestricted					212,432	478,436	690,868
Total cash basis net position					\$ 474,347	594,444	1,068,791

See notes to financial statements.

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

As of and for the year ended June 30, 2014

	Special Revenue			Debt Service	Permanent	Nonmajor	Total
	General	Road Use Tax	Local Option Sales Tax		Cemetery Perpetual Care		
<b>Receipts:</b>							
Property tax	\$ 381,806	-	-	48,867	-	63,367	494,040
Other city tax	-	-	91,961	-	-	-	91,961
Licenses and permits	4,780	-	-	-	-	-	4,780
Use of money and property	2,766	-	-	-	132	16,800	19,698
Intergovernmental	70,137	144,788	-	-	-	-	214,925
Charges for service	159,249	-	-	-	-	-	159,249
Special assessments	25,789	-	-	-	-	-	25,789
Miscellaneous	56,728	-	-	-	3,400	-	60,128
<b>Total receipts</b>	<b>701,255</b>	<b>144,788</b>	<b>91,961</b>	<b>48,867</b>	<b>3,532</b>	<b>80,167</b>	<b>1,070,570</b>
<b>Disbursements:</b>							
<b>Operating:</b>							
Public safety	161,005	-	-	-	-	27,309	188,314
Public works	182,510	86,732	41,410	-	-	17,204	327,856
Culture and recreation	159,050	-	-	-	-	13,102	172,152
Community and economic development	9,114	-	-	-	-	-	9,114
General government	89,431	-	45,085	-	-	8,928	143,444
Debt service	-	-	-	226,012	-	-	226,012
Capital projects	-	-	-	-	-	29,585	29,585
<b>Total disbursements</b>	<b>601,110</b>	<b>86,732</b>	<b>86,495</b>	<b>226,012</b>	<b>-</b>	<b>96,128</b>	<b>1,096,477</b>
<b>Excess (deficiency) of receipts over (under) disbursements</b>	<b>100,145</b>	<b>58,056</b>	<b>5,466</b>	<b>(177,145)</b>	<b>3,532</b>	<b>(15,961)</b>	<b>(25,907)</b>
<b>Other financing sources (uses):</b>							
Sale of capital assets	8,520	-	-	-	-	-	8,520
Operating transfers in	-	-	-	182,274	-	58,037	240,311
Operating transfers out	(25,789)	(31,288)	(36,784)	-	-	-	(93,861)
<b>Total other financing sources (uses)</b>	<b>(17,269)</b>	<b>(31,288)</b>	<b>(36,784)</b>	<b>182,274</b>	<b>-</b>	<b>58,037</b>	<b>154,970</b>
<b>Change in cash balances</b>	<b>82,876</b>	<b>26,768</b>	<b>(31,318)</b>	<b>5,129</b>	<b>3,532</b>	<b>42,076</b>	<b>129,063</b>
<b>Cash balances beginning of year</b>	<b>249,972</b>	<b>27,869</b>	<b>114,740</b>	<b>(5,129)</b>	<b>84,918</b>	<b>(127,086)</b>	<b>345,284</b>
<b>Cash balances end of year</b>	<b>\$ 332,848</b>	<b>54,637</b>	<b>83,422</b>	<b>-</b>	<b>88,450</b>	<b>(85,010)</b>	<b>474,347</b>
<b>Cash Basis Fund Balances</b>							
<b>Nonspendable:</b>							
Cemetery perpetual care	\$ -	-	-	-	88,450	-	88,450
<b>Restricted for:</b>							
Library	224	-	-	-	-	-	224
Museum	825	-	-	-	-	-	825
Streets	-	54,637	-	-	-	-	54,637
Other purposes	-	-	83,422	-	-	34,357	117,779
Unassigned	331,799	-	-	-	-	(119,367)	212,432
<b>Total cash basis fund balances</b>	<b>\$ 332,848</b>	<b>54,637</b>	<b>83,422</b>	<b>-</b>	<b>88,450</b>	<b>(85,010)</b>	<b>474,347</b>

See notes to financial statements.

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

As of and for the year ended June 30, 2014

	Enterprise			Total
	Water	Sewer	Nonmajor - Community Center	
Operating receipts:				
Use of money and property	\$ 548	286	20,164	20,998
Charges for service	290,472	230,318	-	520,790
Total operating receipts	<u>291,020</u>	<u>230,604</u>	<u>20,164</u>	<u>541,788</u>
Operating disbursements:				
Business type activities	187,385	112,769	28,104	328,258
Total operating disbursements	<u>187,385</u>	<u>112,769</u>	<u>28,104</u>	<u>328,258</u>
Excess (deficiency) of operating receipts over (under) operating disbursements	<u>103,635</u>	<u>117,835</u>	<u>(7,940)</u>	<u>213,530</u>
Non-operating receipts (disbursements):				
Miscellaneous	4,021	3,150	-	7,171
Debt service	(66,845)	-	-	(66,845)
Capital projects	-	(80,000)	-	(80,000)
Net non-operating receipts (disbursements)	<u>(62,824)</u>	<u>(76,850)</u>	<u>-</u>	<u>(139,674)</u>
Excess (deficiency) of receipts over (under) disbursements	<u>40,811</u>	<u>40,985</u>	<u>(7,940)</u>	<u>73,856</u>
Other financing sources (uses):				
Operating transfers out	(28,031)	(118,419)	-	(146,450)
Total other financing sources (uses)	<u>(28,031)</u>	<u>(118,419)</u>	<u>-</u>	<u>(146,450)</u>
Change in cash balances	12,780	(77,434)	(7,940)	(72,594)
Cash balances beginning of year	<u>344,044</u>	<u>318,823</u>	<u>4,171</u>	<u>667,038</u>
Cash balances end of year	<u>\$ 356,824</u>	<u>241,389</u>	<u>(3,769)</u>	<u>594,444</u>
<b>Cash Basis Fund Balances</b>				
Restricted for debt service	\$ 58,196	-	-	58,196
Restricted for customer deposits	44,283	13,529	-	57,812
Unrestricted	<u>254,345</u>	<u>227,860</u>	<u>(3,769)</u>	<u>478,436</u>
Total cash basis fund balances	<u>\$ 356,824</u>	<u>241,389</u>	<u>(3,769)</u>	<u>594,444</u>

See notes to financial statements.

City of Earlham

Exhibit D

Statement of Cash Receipts, Disbursements  
and Changes in Cash Balances  
Fiduciary Fund

As of and for the year ended June 30, 2014

	<u>Agency</u>
Additions:	
Interest, dividends and unrealized gains	\$ 67,652
Total additions	<u>67,652</u>
Deductions:	
Safety deposit box	56
Distributions	<u>13,893</u>
Total deductions	<u>13,949</u>
Change in cash and investment balances	53,703
Cash and investment balances beginning of year	<u>584,784</u>
Cash and investment balances end of year	<u>\$ 638,487</u>

See notes to financial statements.

City of Earlham

Notes to Financial Statements

June 30, 2014

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

The City of Earlham (City) is a political subdivision of the State of Iowa located in Madison County. It 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 governmental services. The City also provides water, sewer, and a community center for its citizens.

A. Reporting Entity

Except as discussed below, for financial reporting purposes, the City has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the City.

These financial statements present the City (the primary government) and exclude the City's component units. The component units discussed below are not included in the City's reporting entity although its operational or financial relationship with the City is significant.

Excluded Component Units

The Earlham Volunteer Fire and Rescue Association, Inc. was established under Chapter 504 of the Code of Iowa, is legally separate from the City, but has the potential to provide specific benefits to or impose specific financial burdens on the City. The purpose of the Earlham Volunteer Fire and Rescue Association, Inc. is to support the activities of the Earlham, Iowa fire department.

The Friends of Earlham Public Library was established under Chapter 504 of the Code of Iowa, is legally separate from the City, but has the potential to provide specific benefits to or impose specific financial burdens on the City. The purpose of the Friends of Earlham Public Library is to support the activities of the Earlham, Iowa public library.

The Earlham Community Center, Inc. was established under Chapter 504 of the Code of Iowa, is legally separate from the City, but has the potential to provide specific benefits to or impose specific financial burdens on the City. The purpose of the Earlham Community Center, Inc. is to support the activities of the Earlham, Iowa community center.

Jointly Governed Organizations

The City also participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Madison County Assessor's Conference Board, Madison County Emergency Management Commission, Madison County Joint E911 Service Board, Madison County Community Foundation and the Central Iowa Housing Authority.

## B. Basis of Presentation

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

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

Expendable restricted net position results when constraints placed on the use of cash balances are either externally imposed or imposed by law through constitutional provisions or enabling legislation. Enabling legislation did not result in any restricted net position.

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

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

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

The City reports the following major governmental funds:

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

### Special Revenue:

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

The Local Option Sales Tax Fund is used to account for the local option sales tax collections to be used for capital improvement projects as determined by the City Council.

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

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

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

Additionally, the City reports a fiduciary fund to account for assets held by the City Library as a trustee for the Stella Hoadley Library Trust.

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

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

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

D. Governmental Cash Basis Fund Balances

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

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

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

Unassigned – All amounts not included in the preceding classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information. During the year ended June 30, 2014, disbursements exceeded the amounts budgeted in the business type activities function.

(2) **Cash, Pooled Investments and Investments**

The City's deposits in banks at June 30, 2014 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 the 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, 2014, the agency fund, the Stella Hoadley Library Trust owned common stock with a fair value of \$313,045. It is unknown what the carrying amount of the common stock was at June 30, 2014. In addition, the common stock has no maturity date.

**(3) Bonds and Notes Payable**

Annual debt service requirements to maturity for general obligation bonds and notes, and the revenue bonds are as follows:

Year Ending June 30,	General Obligation Bonds and Notes		Water Revenue Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2015	\$ 210,000	17,060	40,000	25,805	250,000	42,865
2016	175,000	13,560	40,000	25,365	215,000	38,925
2017	175,000	10,370	40,000	24,925	215,000	35,295
2018	120,000	6,860	40,000	24,285	160,000	31,145
2019	85,000	5,420	40,000	23,645	125,000	29,065
2020-2024	220,000	7,760	220,000	105,555	440,000	113,315
2025-2029	-	-	255,000	74,825	255,000	74,825
2030-2034	-	-	300,000	31,763	300,000	31,763
	<u>\$ 985,000</u>	<u>61,030</u>	<u>975,000</u>	<u>336,168</u>	<u>1,960,000</u>	<u>397,198</u>

Water Revenue Bonds

The City has pledged future water customer receipts, net of specified operating disbursements, to repay \$1,055,000 of water revenue bonds issued in May 2012. Proceeds from the notes were used to pay off the loan from Warren Water District. The bonds are payable solely from water customer net receipts and are payable through 2034. Annual principal and interest payments on the bonds are expected to require less than 65% of net receipts. The total principal and interest remaining to be paid on the bonds is \$1,311,168. For the current year, principal and interest paid and total customer net receipts were \$66,845 and \$103,635, respectively.

The resolutions providing for the issuance of the revenue bonds include the following provisions:

- (a) The bonds will only be redeemed from the future earnings of the enterprise activity and the bond holders hold a lien on the future earnings of the funds.
- (b) Sufficient monthly transfers shall be made to a separate water revenue bond sinking account within the Enterprise Funds for the purpose of making the bond principal and interest payments when due.
- (c) The City shall provide for the collection of rates sufficient to pay the expenses of the utility and to leave a balance of net revenues equal to at least 110% of the principal and interest due in the fiscal year.
- (d) The City shall maintain \$68,935 in a water reserve fund.
- (e) All users of the system, including the City, shall pay for usage.

The City did not establish a separate water revenue bond sinking account as required. The balance in the water reserve fund was deficient at June 30, 2014. Also, the City is not being charged for water service as required.

(4) **Pension and Retirement Benefits**

The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Most regular plan members are required to contribute 5.95% of their annual covered salary and the City is required to contribute 8.93% 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 year ended June 30, 2014 was \$25,344, equal to the required contributions for the year.

(5) **Other Postemployment Benefits (OPEB)**

Plan Description – The City operates a single-employer health benefit plan which provides medical/prescription drug benefits for employees, retirees and their spouses. There are 6 active and no retired members in the plan. Retired participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with CoOpportunity Health. Premium amounts for retirees under age 65 are based on the employees' age.

Funding Policy – The contribution requirements of plan members are established and may be amended by the City. The City currently finances the benefit plan on a pay-as-you go basis. The most recent active member monthly premiums are based on each employee's age. For the year ended June 30, 2014, the City contributed \$29,371 and plan members eligible for benefits contributed \$4,564 to the plan.

(6) **Compensated Absences**

City employees accumulate a limited amount of earned but unused paid time off 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 paid time off payable to employees at June 30, 2014, primarily relating to the General Fund was \$16,755. The liability has been computed based on the rates of pay in effect at June 30, 2014.

(7) **Interfund Transfers**

The detail of interfund transfers for the year ended June 30, 2014 is as follows:

Transfer to	Transfer from	Amount
Debt Service	General	\$ 4,536
	Special Revenue:	
	Road Use Tax	31,288
	Enterprise	
	Water	28,031
	Sewer	118,419
		<u>182,274</u>
Capital Projects	General	21,253
	Special Revenue:	
	Local Option Sales Tax	36,784
		<u>58,037</u>
Total		<u>\$ 240,311</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 \$3,607 during the year ended June 30, 2014.

**(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 Fund Balances**

The Capital Projects Fund and the Enterprise, Community Center Fund had deficit balances of \$119,367 and \$3,769, respectively, at June 30, 2014.

The Capital Projects Fund deficit balance was the result of project costs incurred many years ago without a source of funding available to pay for the projects. It is uncertain how the City will eliminate the deficit in this fund.

The Enterprise, Community Center Fund deficit balance was the result of increased disbursements without a corresponding increase in receipts. The City plans to increase rental rates in order to eliminate the deficit in this fund in fiscal year 2015.

**(11) Litigation**

The City is a defendant in a lawsuit. The City has referred this matter to their insurance company. At the present time, the outcome of the matter is uncertain and the amount of loss, if any, cannot be reasonably estimated.

**(12) Commitments**

The City accepted a bid for concrete repair for \$474,511 in fiscal year 2014. This project began in fiscal year 2015, and is anticipated to be completed in fiscal year 2015. The City intends to pay for this project from a loan. The costs of this project will be paid for as work progresses.

The City entered into a debt agreement for \$650,000 in fiscal year 2014, but the related debt proceeds were not received until fiscal year 2015. The City plans to use the proceeds from this debt to refinance some debt, and to pay for the costs of concrete repair.

The City received a community development block grant award of approximately \$397,000 to pay for the costs of water line repair and for housing rehabilitation. The City has committed local funds of approximately \$207,000 for these projects. It is anticipated that these projects will begin in fiscal year 2015. The costs of these projects will be paid for as work progresses.

**(13) Contingencies**

The City participates in a number of Federal and State grant programs. These programs are subject to program compliance audits by the grantors or their representatives. Entitlement to these resources is generally conditional upon compliance with the terms and conditions of grant and loan agreements and applicable federal and state regulations, including the expenditure of resources for allowable purposes. Any disallowance resulting from a federal or state audit may become a liability to the City. The City's management believes such revisions or disallowances, if any, will not be material to the City.

The City of Earlham Public Library Board of Trustees is the trustee for the Stella Hoadley Library Trust (Trust). The Trust has not filed income tax returns with the Internal Revenue Service in several years. In addition, the amount of distributions from the trust do not appear to be in compliance with the Trust requirements. At the present time, the outcome of these matters are uncertain and the amount of potential liability, if any, cannot be reasonably estimated.

**(14) Water Purchase Contract**

The Waterworks agreed to a forty year purchase agreement with Warren Water District in 2000. As part of this forty year agreement, the Waterworks agreed to purchase no more than 345,000 gallons of water per day.

Currently, the Waterworks buys all of its water for resale from Warren Water District. The total cost of water purchased was \$77,981 during the year ended June 30, 2014. The Waterworks does not have the capability to produce its own water for resale. It appears the only source of water available to the Waterworks is from Warren Water District.

**(15) Agreements**

The City has entered into an agreement with a private company for the rental of City facilities. The private company agreed to pay the City \$6,000 per year for the next 3 years for the rental of City facilities.

The City entered into an agreement with a solid waste disposal company to provide solid waste disposal services for the City and its residents. The agreement began on October 1, 2012, and continues for five years; however, the City can cancel the agreement with two months written notice. The total amount paid by the City to the solid waste disposal company in fiscal year 2014 was \$141,372.

**(16) Subsequent Events**

The City paid a company \$72,346 in August 2014 for sanitary and storm water lining.

The City has evaluated all subsequent events through January 20, 2015, the date the financial statements were available to be issued.

**(17) Prospective Accounting Change**

The Governmental Accounting Standards Board has issued Statement No. 68, Accounting and Financial Reporting for Pensions – an amendment of GASB No. 27. This statement will be implemented for the fiscal year ending June 30, 2015. The revised requirements establish new financial reporting requirements for state and local governments which provide their employees with pension benefits, including additional note disclosures and required supplementary information.

**Other Information**

City of Earllham

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

Other Information

Year ended June 30, 2014

	Governmental Funds Actual	Proprietary Funds Actual	Total	Budgeted Amounts		Final to Total Variance
				Original	Final	
Receipts:						
Property tax	\$ 494,040	-	494,040	479,819	479,819	14,221
Other city tax	91,961	-	91,961	106,211	106,211	(14,250)
Licenses and permits	4,780	-	4,780	5,135	5,135	(355)
Use of money and property	19,698	20,998	40,696	31,811	39,311	1,385
Intergovernmental	214,925	-	214,925	195,180	196,490	18,435
Charges for service	159,249	520,790	680,039	749,500	749,500	(69,461)
Special assessments	25,789	-	25,789	29,807	29,807	(4,018)
Miscellaneous	60,128	7,171	67,299	925	13,141	54,158
Total receipts	1,070,570	548,959	1,619,529	1,598,388	1,619,414	115
Disbursements:						
Public safety	188,314	-	188,314	209,478	218,978	30,664
Public works	327,856	-	327,856	348,000	348,000	20,144
Culture and recreation	172,152	-	172,152	239,647	242,957	70,805
Community and economic development	9,114	-	9,114	16,650	16,650	7,536
General government	143,444	-	143,444	141,329	154,429	10,985
Debt service	226,012	-	226,012	226,021	292,766	66,754
Capital projects	29,585	-	29,585	-	45,000	15,415
Business type activities	-	475,103	475,103	468,035	401,290	(73,813)
Total disbursements	1,096,477	475,103	1,571,580	1,649,160	1,720,070	148,490
Excess (deficiency) of receipts over (under) disbursements	(25,907)	73,856	47,949	(50,772)	(100,656)	148,605
Other financing sources, net	154,970	(146,450)	8,520	-	-	8,520
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	129,063	(72,594)	56,469	(50,772)	(100,656)	157,125
Balances beginning of year	345,284	667,038	1,012,322	910,600	1,883,789	(871,467)
Balances end of year	\$ 474,347	594,444	1,068,791	859,828	1,783,133	(714,342)

See accompanying independent auditor's report.

City of Earlham

Notes to Other Information - Budgetary Reporting

June 30, 2014

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

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

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Funds, the Permanent 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 \$70,910. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2014, disbursements exceeded the amounts budgeted in the business type activities function.

Supplementary Information

City of Earlham

Schedule 1

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

As of and for the year ended June 30, 2014

	Special Revenue				Total
	Employee Benefits	Tax Increment Financing	Gendler Park	Capital Projects	
<b>Receipts:</b>					
Property tax	\$ 63,367	-	-	-	63,367
Use of money and property	-	-	16,800	-	16,800
<b>Total receipts</b>	<b>63,367</b>	<b>-</b>	<b>16,800</b>	<b>-</b>	<b>80,167</b>
<b>Disbursements:</b>					
<b>Operating:</b>					
Public safety	27,309	-	-	-	27,309
Public works	17,204	-	-	-	17,204
Culture and recreation	12,010	-	1,092	-	13,102
General government	8,928	-	-	-	8,928
Capital projects	-	-	-	29,585	29,585
<b>Total disbursements</b>	<b>65,451</b>	<b>-</b>	<b>1,092</b>	<b>29,585</b>	<b>96,128</b>
<b>Excess (deficiency) of receipts over (under) disbursements</b>	<b>(2,084)</b>	<b>-</b>	<b>15,708</b>	<b>(29,585)</b>	<b>(15,961)</b>
<b>Other financing sources:</b>					
Operating transfers in	-	-	-	58,037	58,037
<b>Total other financing sources</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>58,037</b>	<b>58,037</b>
<b>Change in cash balances</b>	<b>(2,084)</b>	<b>-</b>	<b>15,708</b>	<b>28,452</b>	<b>42,076</b>
<b>Cash balances beginning of year</b>	<b>6,939</b>	<b>313</b>	<b>13,481</b>	<b>(147,819)</b>	<b>(127,086)</b>
<b>Cash balances end of year</b>	<b>\$ 4,855</b>	<b>313</b>	<b>29,189</b>	<b>(119,367)</b>	<b>(85,010)</b>
<b>Cash Basis Fund Balances</b>					
Restricted for other purposes	\$ 4,855	313	29,189	-	34,357
Unassigned	-	-	-	(119,367)	(119,367)
<b>Total cash basis fund balances</b>	<b>\$ 4,855</b>	<b>313</b>	<b>29,189</b>	<b>(119,367)</b>	<b>(85,010)</b>

See accompanying independent auditor's report.

City of Earlham

Schedule of Indebtedness

Year ended June 30, 2014

Schedule 2

Obligation	Date of Issue	Interest Rates	Amount Originally Issued	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
General Obligation Bonds and Notes - Capital Loan Notes	August 15, 2008	4.20%	\$ 390,000	210,000	-	50,000	160,000	8,820	-
General Obligation Refunding Bonds	May 31, 2012	0.45%-2.00%	1,135,000	980,000	-	155,000	825,000	11,193	-
Total				\$1,190,000	-	205,000	985,000	20,013	-
Revenue Bonds - Water Revenue	May 31, 2012	1.10%-3.50%	\$ 1,055,000	1,015,000	-	40,000	975,000	26,245	-

See accompanying independent auditor's report.

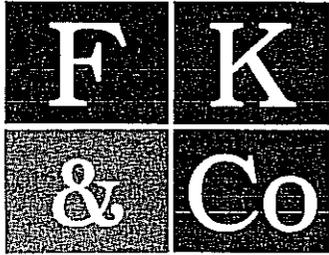
Bond and Note Maturities

June 30, 2014

General Obligation Bonds and Notes					
Year Ending June 30,	Capital Loan Notes		General Obligation Refunding Bonds		Total
	Issued August 15, 2008		Issued May 31, 2012		
	Interest Rates	Amount	Interest Rates	Amount	
2015	4.20%	\$ 50,000	0.75%	\$ 160,000	210,000
2016	4.20%	55,000	0.90%	120,000	175,000
2017	4.20%	55,000	1.00%	120,000	175,000
2018	-	-	1.20%	120,000	120,000
2019	-	-	1.60%	85,000	85,000
2020	-	-	1.60%	85,000	85,000
2021	-	-	2.00%	85,000	85,000
2022	-	-	2.00%	50,000	50,000
		<u>\$ 160,000</u>		<u>\$ 825,000</u>	<u>985,000</u>

Revenue Bonds		
Year Ending June 30,	Water Revenue	
	Issued May 31, 2012	
Interest Rates	Amount	
2015	1.10%	\$ 40,000
2016	1.10%	40,000
2017	1.60%	40,000
2018	1.60%	40,000
2019	1.60%	40,000
2020	2.15%	40,000
2021	2.15%	45,000
2022	2.15%	45,000
2023	2.65%	45,000
2024	2.65%	45,000
2025	2.65%	50,000
2026	3.00%	50,000
2027	3.00%	50,000
2028	3.00%	50,000
2029	3.25%	55,000
2030	3.25%	55,000
2031	3.25%	60,000
2032	3.50%	60,000
2033	3.50%	60,000
2034	3.50%	65,000
		<u>\$ 975,000</u>

See accompanying independent auditor's report.



FALLER, KINCHELOE & CO, PLC

Certified Public Accountants

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

To the Honorable Mayor and  
Members of the City Council:

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the primary government 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 (City) as of and for the year ended June 30, 2014, and the related Notes to Financial Statements, which collectively comprise the City's primary government financial statements, and have issued our report thereon dated January 20, 2015. Our report expressed modified opinions on the financial statements which were prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles, since we were unable to satisfy ourselves as to the distribution by fund of the total fund balances at July 1, 2013. Our report expressed an adverse opinion on the primary government financial statements of the aggregate discretely presented component units due to the omission of the Earlham Volunteer and Fire and Rescue Association, Inc., the Friends of Earlham Public Library and the Earlham Community Center, Inc.

Internal Control Over Financial Reporting

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

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

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

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying Schedule of Findings as item (C) to be a significant deficiency.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters which 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, 2014 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.

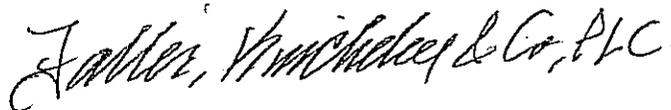
### City's Responses to the Findings

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

### Purpose of this Report

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

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



FALLER, KINCHELOE & CO., PLC

Des Moines, Iowa  
January 20, 2015

City of Earlham

Schedule of Findings

Year ended June 30, 2014

**Findings Related to the Financial Statements:**

**INTERNAL CONTROL 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. Although two full-time individuals are involved in the accounting duties of the City of Earlham, (City) there is insufficient segregation of duties to prevent one individual from having control over each of the following areas for the City:

- 1) Cash – reconciling bank accounts, initiating cash receipts and handling and recording cash.
- 2) Investments – detailed record keeping, custody and reconciling.
- 3) Long-term debt – recording and reconciling.
- 4) Receipts – collecting, depositing, posting and reconciling.
- 5) Accounting system – performing all general accounting functions and having custody of City assets.
- 6) Disbursements – preparing checks, signing checks and access to the accounting records.
- 7) Petty cash – custody, reconciling and recording.
- 8) Payroll – recordkeeping, preparation and distribution.
- 9) Utilities – billing, collecting, depositing, posting, entering rates into the system and maintaining detailed accounts receivable and write-off records.
- 10) Computer system – performing all general accounting functions and controlling all data input and output.
- 11) Financial reporting – preparing and reconciling.

Recommendation – We realize with a limited number of office employees, segregation of duties is difficult. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials. Evidence of review of reconciliations should be indicated by initials of the independent reviewer and date of the review.

Response – The City will review its control procedures to obtain the maximum internal control possible with the limited staff it has.

Conclusion – Response acknowledged.

(B) Financial Reporting – We noted that while management is capable of preparing accurate financial statements that provide information sufficient for City Council members to make management decisions, reporting financial data reliably in accordance with an other comprehensive basis of accounting (OCBOA) requires management to possess sufficient knowledge and expertise to select and apply accounting principles and prepare year-end financial statements, including note disclosures. Due to the technical nature of these requirements, management does not prepare this information, which is a common situation in small entities.

Recommendation – Obtaining additional knowledge through reading relevant accounting literature and attending local professional education courses should help management significantly improve in the ability to prepare OCBOA financial statements.

City of Earlham

Schedule of Findings

Year ended June 30, 2014

Response -- These are very technical issues that the average citizen would not understand. This issue relates to auditor independence issues, and we accept the risk associated with not being able to prepare these documents and apply accounting principles in accordance with the OCBOA requirement.

Conclusion -- Response acknowledged.

- (C) Transfers -- The City transfers money to and from various funds periodically. However, these transfers were made by the City prior to City Council approval.

Recommendation -- The City should implement procedures to ensure all transfers are approved by the City Council prior to the transfer being made.

Response -- We will implement this recommendation.

Conclusion -- Response acknowledged.

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

City of Earlham

Schedule of Findings

Year ended June 30, 2014

**Other Findings Related to Required Statutory Reporting:**

- (1) Certified Budget – Disbursements during the year ended June 30, 2014 exceeded the amounts budgeted in the business type activities function. Chapter 384.20 of the Code of Iowa states, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

In some instances, the beginning budget balances on the second budget amendment did not agree to the ending budget balances as recorded on the first budget amendment.

The City’s budget amendment was passed in May, 2014. The July, 2013 cash balance on the budget amendment passed in May, 2014 was \$1,883,789, but the actual July, 2013 cash balance was \$1,012,322, or a difference of over \$870,000. It appears the City did not realize the budget forms documenting the cash balances were inaccurate.

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. In addition, the beginning budget balances on a budget amendment should agree to the ending balances as recorded on the previous budget amendment. Also, the City needs to ensure the amounts on the budget amendment approved by the City Council reflect actual known balances.

Response – We will implement these recommendations.

Conclusion – Response acknowledged.

- (2) Questionable Disbursements – We noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979.
- (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>
Mike Golightly, City Council Owner of Golightly Construction	Water line repair, backhoe work	\$ 2,168
Jeff Lillie, City Council Owner of Lillie Plumbing, Heating and Electric	Repair and miscellaneous services	1,439

In accordance with Chapter 362.5(3)(k) of the Code of Iowa, the transactions with the City Council members do not appear to represent a conflict of interest since total transactions with the City Council members were less than \$2,500 during the fiscal year.

- (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.

City of Earlham

Schedule of Findings

Year ended June 30, 2014

- (6) City Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.

Chapter 372.13(6) of the Code of Iowa requires the publication of the City Council minutes to include a list of all claims allowed. The City's publications did not include all of the Special Revenue, Employee Benefits Fund claims.

Recommendation – The City should publish all claims as required by the Code of Iowa.

Response – We will implement this recommendation.

Conclusion – Response acknowledged.

- (7) Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City's investment policy were noted.

- (8) Water Revenue Bonds – The following instances of non-compliance with the water revenue bond resolutions were noted:

- The water revenue bond resolutions require the City to establish a reserve fund of \$68,935 until the bonds are fully paid. The reserve fund balance at June 30, 2014 was \$58,196, which is deficient.
- The water revenue bond resolutions require all users of the system, including the City, be charged for usage. The City is not currently charged for water usage.
- The water revenue bond resolutions require the City to make sufficient monthly transfers to a separate water revenue bond sinking account for the purpose of making the bond principal and interest payments when due. The City has not established a water revenue bond sinking account.

Recommendation – The City should comply with the revenue bond requirements and maintain a balance in the reserve fund of \$68,935 until the bonds are fully paid. The City should also ensure all City departments pay for water usage, and should make transfers to the water revenue bond sinking account for the purpose of making the bond principal and interest payments when due.

Response – We will implement these recommendations.

Conclusion – Response acknowledged.

- (9) Credit Cards – The City has credit cards for use by various employees while on City business. The City has not adopted a formal policy to regulate the use of credit cards and to establish procedures for the proper accounting of credit card charges.

Recommendation – The City should adopt a formal written policy regulating the use of City credit cards. The policy, at a minimum, should address who controls the credit cards, who is authorized to use credit cards and for what purposes, as well as the types of supporting documentation required to substantiate charges.

Response – We will attempt to implement this recommendation.

Conclusion – Response acknowledged.

City of Earlham

Schedule of Findings

Year ended June 30, 2014

- (10) Garbage Collection – The City passed an ordinance setting the rate for garbage collection, including the assessment of an administration fee. However, the administration fee was not defined in the ordinance.

Recommendation – The City Council should review the ordinance setting garbage rates and consult legal counsel for clarification on how the administration fee should be assessed

Response – This has been implemented in June, 2014.

Conclusion – Response acknowledged.

- (11) Local Option Sales Tax – Local option sales tax (LOST) receipts are recorded in a Special Revenue Fund, and the LOST ballot requires the receipts to be used for capital projects. However, it appears the City used the LOST receipts to reimburse the Capital Projects Fund for some capital project costs which were incurred prior to the date the local option sales tax became effective in the City. As a result, the City may be using the LOST receipts for purposes which are not in compliance with the LOST ballot.

Recommendation – The City should consult with their attorney to ensure the City is in compliance with the local option sales tax ballot requirements.

Response – We will review this and take appropriate action.

Conclusion – Response acknowledged.

- (12) Financial Condition – At June 30, 2014, the City had deficit balances of \$119,367 and \$3,769 in the Capital Projects and Enterprise, Community Center Funds, respectively.

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

Response – We will analyze this and attempt to bring the above funds to a positive balance in the future.

Conclusion – Response acknowledged.

- (13) Money Not Collected – The City has not collected \$6,000 from a lease, with the lease payment due to the City on April 1, 2014. The City did not realize the lease had not been paid until we brought it to their attention.

Recommendation – The City should implement procedures to ensure all monies due to the City are identified and received on a timely basis.

Response – We are in the process of obtaining the \$6,000 from the lease.

Conclusion – Response acknowledged.

- (14) Health Insurance Premiums – The City's health insurance premium amounts are aged based. However, according to an Attorney General's opinion, aged based premiums for public employees do not appear to be allowable in accordance with the Code of Iowa requirements.

Recommendation – The City should consult with their attorney in relation to the legality of aged based health insurance premiums.

City of Earlham

Schedule of Findings

Year ended June 30, 2014

Response – We will consult with our attorney in relation to this.

Conclusion – Response acknowledged.

(15) Stella Hoadley Library Trust – The City’s Library Board of Trustees are the trustees for the Stella Hoadley Library Trust (Trust). Our review of the Trust noted the following concerns:

- It does not appear the Trust has filed income tax returns in several years with the Internal Revenue Service.
- The amount of Trust distributions in fiscal year 2014 do not appear to be in compliance with the requirements of the Trust.

Recommendation – The City Library Board of Trustees should consult with their attorney in relation to the above issues in order to determine an appropriate course of action.

Response – Our attorney is reviewing the above issues.

Conclusion – Response acknowledged.

(16) Annual Financial Report – The City prepared the Annual Financial Report for the year ended June 30, 2014. However, in certain instances, the receipts, disbursements and cash basis fund balances by fund/fund type were materially misstated.

Recommendation – The City should implement procedures to ensure the Annual Financial Report is accurate in total as well as by fund/fund type.

Response – More training, time and attention will be given to the preparation of the Annual Financial Reports to ensure proper reporting in the future.

Conclusion – Response acknowledged.

(17) Tax Increment Financing (TIF) – Chapter 403.19 of the Code of Iowa provides a municipality may certify loans, advances, indebtedness and bonds (indebtedness) to the County Auditor which qualify for reimbursement from incremental property tax. The County Auditor provides for the division of property tax to repay the certified indebtedness and provides available incremental property tax in subsequent fiscal years without further certification by the City until the amount of certified indebtedness is paid.

We noted that the City certified \$44,558 of estimated costs for future projects on the City’s TIF debt certification dated November 11, 2013. These costs do not represent TIF debt and, accordingly, are not allowable uses of tax increment financing receipts in accordance with Chapter 403.19 of the Code of Iowa.

Recommendation – The City should consult TIF legal counsel to determine the disposition of the City’s TIF certifications, including the amount of TIF debt to be decertified, if any. The City should ensure the TIF debt certification complies with Chapter 403 of the Code of Iowa and includes only allowable debt approved by the City Council prior to certification.

Response – The City will consult TIF legal counsel, make corrections to the TIF certification and approve debt prior to certifying.

Conclusion – Response acknowledged.

City of Earlham

Schedule of Findings

Year ended June 30, 2014

(18) Urban Renewal Annual Report – The urban renewal annual report was properly approved and certified to the Iowa Department of Management on or before December 1 and no exceptions were noted.