

CITY OF CORWITH

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

JUNE 30, 2014

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CITY OF CORWITH

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January 2014)		
Jay Gourley	Mayor	Jan 2016
Mike Petersen	Mayor Pro-tem	Jan 2016
Matt Hobscheidt	Council Member	Jan 2014
Matt Tindall	Council Member	Jan 2014
Sharon Spellins	Council Member	Jan 2016
Wade Nall	Council Member	Jan 2016
Donna Hilbert	City Clerk	July 2015
David L. Fenchel	Attorney	July 2015
(After January 2014)		
Jay Gourley	Mayor	Jan 2016
Mike Petersen	Mayor Pro-tem	Jan 2016
Matt Hobscheidt	Council Member	Jan 2017
David Wagner	Council Member	Jan 2016
Sharon Spellins	Council Member	Jan 2016
Wade Nall	Council Member	Jan 2016
Donna Hilbert	City Clerk	July 2015
David L. Fenchel	Attorney	July 2015

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 City of Corwith, Iowa, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of City of Corwith 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 City of Corwith's basic financial statements. We previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the two years ended June 30, 2013 (which is not presented herein) and expressed a qualified opinion on those financial statements which were prepared on the basis of cash receipts and disbursements. 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 basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The other information, Management's Discussion and Analysis and the budgetary comparison information on pages 6 through 12 and 25 through 26 has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated September 24, 2014 on our consideration of City of Corwith'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 City of Corwith's internal control over financial reporting and compliance.

September 24, 2014

Renner & Birchem, P.C.
Britt, Iowa

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Corwith 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.

2014 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities increased 38.9% or \$77,205, from fiscal 2013 to fiscal 2014. Charges for service and other general receipts decreased \$374 and \$33,270, respectively, while property tax increased by \$5,050 and TIF revenue increased \$93,123.
- Disbursements increased 6.8% or \$16,070 in fiscal 2014 from fiscal 2013. Public safety, community and economic development and general government disbursements increased \$4,136, \$20,182 and \$10,656, respectively. Public works, culture and recreation, and capital projects disbursements decreased \$18,787, \$622 and \$45, respectively.
- The City's total cash basis net position increased 21.79%, or \$88,727, from June 30, 2013 to June 30, 2014. Of this amount, the cash basis net position of the governmental activities decreased \$1,331 and the cash basis net position of the business type activities increased by \$90,058.

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 City's indebtedness.

Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, 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 Cash Basis Statement of Activities and Net Position reports information that helps answer this question.

The Cash Basis Statement of Activities and Net Position presents 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, health and social services, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the waterworks, electric, 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, 3) the Debt Service Fund and 4) the Capital Projects Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statement for governmental funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

- 2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains three Enterprise Funds to provide separate information for the water, sewer and electric 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 position may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased from a year ago, decreasing from \$78,971 to \$77,640. 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	
	Year ended June 30,	
	2014	2013
Receipts:		
Program receipts:		
Charges for service	\$3,130	3,504
Operating grants, contributions and restricted interest	42,105	45,857
General receipts:		
Property tax	68,592	63,542
TIF revenue	93,123	
Local option sales tax	24,585	24,910
Unrestricted investment earnings	19	6
Other general receipts	43,675	60,205
Total receipts	<u>275,229</u>	<u>198,024</u>

Disbursements:		
Public safety	21,527	17,391
Public works	51,368	70,155
Culture and recreation	45,106	45,728
Community & economic development	35,100	14,918
General government	67,504	56,848
Debt service	29,647	29,097
Capital projects	2,609	2,654
Total disbursements	<u>252,861</u>	<u>236,791</u>
		(38,767
Change in cash basis net position before transfers	22,368)
	(23,699	
Transfers, net)	<u>54,834</u>
Change in cash basis net position	(1,331)	16,067
Cash basis net position beginning of year	<u>78,971</u>	<u>62,904</u>
Cash basis net position end of year	<u><u>\$77,640</u></u>	<u><u>78,971</u></u>

The City's total receipts for governmental activities increased by 38.9%, or \$77,205. The total cost of all programs and services increased by \$16,070, or 6.8%, with the Urban Renewal Tax Increment program added this year.

The cost of all governmental activities this year was \$252,861 compared to \$236,791, last year. However, as shown in the Statement of Activities and Net Position on page 14, the amount taxpayers ultimately financed for these activities was only \$200,939 because some of the cost was paid by those directly benefited from the programs (\$3,130) or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest (\$48,792). Overall, the City's governmental activities receipts, including intergovernmental aid and fees for service totaled \$51,922. The City paid for the remaining "public benefit" portion of governmental activities with \$200,939 in tax (some of which could only be used for certain programs) and with other receipts, such as interest and general entitlements.

Changes in Cash Basis Net Position of Business Type Activities		
	Year ended June 30,	
	2014	2013
Receipts:		
Program receipts:		
Charges for service:		
Water	\$38,346	44,973
Sewer	31,825	33,380
Electric	468,872	427,336
General receipts:		
Unrestricted interest on investments	809	427
Other general receipts		9,562
Total receipts	<u>539,852</u>	<u>515,678</u>
Disbursements:		
Water	47,521	79,610
Sewer	32,379	40,059
Electric	393,593	356,913
Total disbursements	<u>473,493</u>	<u>476,582</u>
Change in cash basis net position before transfers	66,359	39,096
Transfers, net	23,699	(54,834)
Change in cash basis net position	90,058	(15,738)
Cash basis net position beginning of year	<u>328,163</u>	<u>343,901</u>
Cash basis net position end of year	<u>\$418,221</u>	<u>328,163</u>

Total business type activities receipts for the fiscal year were \$539,852 compared to \$515,678 last year. Total disbursements for the fiscal year decreased by .6 % to a total of \$473,493. The cash balance increased by \$90,058 during the fiscal year compared to a decrease of \$15,738 last year.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Corwith completed the year, its governmental funds reported a combined fund balance of \$77,640, a decrease of \$1,331 from last year's total of \$78,971. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance decreased \$10,985 from the prior year to a deficit of (\$9,849). Net transfers of \$23,699 were paid to other funds.
- The Road Use Tax Fund cash balance increased by \$1,714 to \$19,907 during the fiscal year.
- The Employee Benefits Fund balance decreased by \$3,355 to a deficit of (\$126) during the fiscal year.

- There was an increase in the Debt Service Fund cash balance of \$1 for an ending balance of \$8,206.
- Capital Projects Fund cash balance increased from \$48,208 to \$59,501. The increase is due to the receipt of donations for the fire station project.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance increased by \$680 to \$35,721 during the fiscal year.
- The Sewer Fund cash balance increased by \$4,594 to \$84,002 during the fiscal year.
- The Electric Fund cash balance increased by \$84,784 to \$298,498 during the fiscal year.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget. The amended budget was approved on May 19, 2014 to provide for an increase of \$14,698 in disbursements.

DEBT ADMINISTRATION

At June 30, 2014, the City had \$144,953 in bonds and other long-term debt outstanding, compared to \$181,484 last year, as shown below.

	Outstanding Debt at Year-End	
	June 30,	
	2014	2012
General obligation bonds and short-term borrowing	\$69,000	79,000
Revenue notes	75,953	102,484
Total	\$144,953	181,484

The constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$69,000 is significantly below its constitutional debt limit of approximately \$527,132.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

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

These indicators were taken into account when adopting the budget for fiscal year 2015. Amounts available for appropriation in the operating budget are \$841,767, an increase of 3% from the final 2014 budget. Budgeted disbursements are expected to rise by \$20,602.

If these estimates are realized, the City's budgeted cash balance is expected to increase \$20,190 by the close of 2015. Actual amounts can and usually do differ from budgeted amounts.

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 Donna Hilbert, City Clerk, 108 NW Elm Street, Corwith, Iowa.

BASIC FINANCIAL STATEMENTS

Cash Basis Statement of Activities and Net Position

As of and for the year ended June 30, 2014

	Program Receipts			Net (Disbursements) Receipts and Changes in Cash Basis Net Position		
	Disbursements	Operating Grants Contributions		Governmental Activities	Business Type Activities	Total
		Charges for Service	and Restricted Interest			
Functions / Programs:						
Governmental activities:						
Public safety	\$ 21,527		6,687	(14,840)		(14,840)
Public works	51,368	130	18,105	(33,133)		(33,133)
Culture and recreation	45,106	3,000	17,313	(24,793)		(24,793)
Community and economic development	35,100			(35,100)		(35,100)
General government	67,504			(67,504)		(67,504)
Debt service	29,647			(29,647)		(29,647)
Capital projects	2,609		6,687	4,078		4,078
Total governmental activities	252,861	3,130	48,792	(200,939)		(200,939)
Business type activities:						
Water	47,521	38,346			(9,175)	(9,175)
Sewer	32,379	31,825			(554)	(554)
Electric	393,593	468,872			75,279	75,279
Total business type activities	473,493	539,043			65,550	65,550
Total	\$ 726,354	542,173	48,792	(200,939)	65,550	(135,389)
General Receipts and Transfers:						
Property tax levied for:						
General purposes				\$ 61,777		61,777
Employees benefits and insurance				6,815		6,815
TIF revenue				93,123		93,123
Local option sales tax				24,585		24,585
Unrestricted interest on investments				19	809	828
Miscellaneous				33,738		33,738
Sale of capital assets				3,250		3,250
Transfers				(23,699)	23,699	
Total general receipts and transfers				199,608	24,508	224,116
Change in cash basis net position				(1,331)	90,058	88,727
Cash basis net position beginning of year				78,971	328,163	407,134
Cash basis net position end of year				\$ 77,640	418,221	495,861
Cash Basis Net Position						
Restricted:						
Expendable:						
Streets				\$ 19,907		19,907
Debt service				8,207	5,373	13,580
Unrestricted				49,526	412,848	462,374
Total cash basis net position				\$ 77,640	418,221	495,861

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						Total
	General	Road Use Tax	Employee Benefits	Urban Renewal Tax Increment	Debt Service	Capital Project	
Receipts:							
Property tax	\$ 61,777		6,815				68,592
TIF revenue				93,123			93,123
Other city tax	24,585						24,585
Licenses and permits	1,455						1,455
Use of money and property	4				16,740	15	16,759
Intergovernmental	24,000	18,105				6,687	48,792
Charges for services	3,130						3,130
Miscellaneous	8,343					7,200	15,543
Total receipts	123,294	18,105	6,815	93,123	16,740	13,902	271,979
Disbursements:							
Operating:							
Public safety	20,007		1,520				21,527
Public works	32,603	16,391	2,374				51,368
Culture and recreation	42,295		2,811				45,106
Community & economic development	2,500			32,600			35,100
General government	65,331		2,173				67,504
Debt service					29,647		29,647
Capital projects						2,609	2,609
Total disbursements	162,736	16,391	8,878	32,600	29,647	2,609	252,861
Excess (deficiency) of receipts over (under) disbursements	(39,442)	1,714	(2,063)	60,523	(12,907)	11,293	19,118
Other financing sources (uses):							
Sale of assets	3,250						3,250
Operating transfers in	49,792				12,908		62,700
Operating transfers out	(24,585)		(1,292)	(60,522)			(86,399)
Total other financing sources (uses)	28,457		(1,292)	(60,522)	12,908		(20,449)
Change in cash balances	(10,985)	1,714	(3,355)	1	1	11,293	(1,331)
Cash balances beginning of year	1,136	18,193	3,229		8,205	48,208	78,971
Cash balances end of year	\$ (9,849)	19,907	(126)	1	8,206	59,501	77,640
Cash Basis Fund Balances							
Restricted for:							
Debt service							
Streets		19,907		1	8,206		28,114
Employee benefits			(126)				(126)
Capital projects fund						59,501	59,501
Unassigned	\$ (9,849)						(9,849)
Total cash basis fund balances	\$ (9,849)	19,907	(126)	1	8,206	59,501	77,640

See notes to financial statements.

City of Corwith

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

As of and for the year ended June 30, 2014

	Proprietary Funds			
	Water	Sewer Rental	Electric	Total
Operating receipts:				
Charges for service	\$ 38,346	31,825	468,872	539,043
Total operating receipts	38,346	31,825	468,872	539,043
Operating disbursements:				
Business type activities	31,299	32,379	393,593	457,271
Total operating disbursements	31,299	32,379	393,593	457,271
Excess (deficiency) of operating receipts over (under) operating disbursements	7,047	(554)	75,279	81,772
Non-operating receipts (disbursements):				
Interest on investments	21	397	391	809
Debt service	(16,222)			(16,222)
Net non-operating receipts (disbursements)	(16,201)	397	391	(15,413)
Excess (deficiency) of receipts over (under) disbursements	(9,154)	(157)	75,670	66,359
Other financing sources (uses):				
Operating transfers in	9,834	14,751	60,522	85,107
Operating transfers out		(10,000)	(51,408)	(61,408)
Total other financing sources (uses)	9,834	4,751	9,114	23,699
Change in cash balances	680	4,594	84,784	90,058
Cash balance beginning of year	35,041	79,408	213,714	328,163
Cash balances end of year	\$ 35,721	84,002	298,498	418,221
Cash Basis Fund Balances				
Restricted for debt service	\$ 5,373			5,373
Unrestricted	30,348	84,002	298,498	412,848
Total cash basis fund balances	\$ 35,721	84,002	298,498	418,221

See notes to financial statements.

CITY OF CORWITH

Notes to Financial Statements

June 30, 2014

(1) Summary of Significant Accounting Policies

The City of Corwith is a political subdivision of the State of Iowa located in Hancock County. It was first incorporated in 1886 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, culture and recreation, community and economic development and general government services. The City also provides water, sewer and electric utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, City of Corwith 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. The City has no component units which meet the Governmental Accounting Standards Board criteria.

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: Hancock County Assessor's Conference Board, Hancock County Development Commission and Hancock County Disaster/911 Service Board.

B. Basis of Presentation

Government-wide Financial Statement – The Cash Basis Statement of Activities and Net Position reports information on all 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.

CITY OF CORWITH

Notes to Financial Statements (continued)

June 30, 2014

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

Unrestricted net position consists of cash balances not meeting the definition of the preceding categories. Unrestricted net position 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. The City has elected to report all governmental funds as major 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 Employee Benefits fund is used to account for property tax collected and payment of employee benefits.

The Urban Renewal Tax Increment Fund is used to account for tax increment financing collections and the repayment of tax increment financing indebtedness.

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

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

CITY OF CORWITH

Notes to Financial Statements (continued)

June 30, 2014

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 wastewater treatment and sanitary sewer system.

The Enterprise, Electric Fund accounts for the operation and maintenance of the City's electric utility 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 position available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

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

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

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 are imposed by law through constitutional provisions or enabling legislation.

CITY OF CORWITH

Notes to Financial Statements (continued)

June 30, 2014

Assigned – Amounts the City Council intends to use for specific purposes.

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.

(2) Cash and Pooled 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 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.

The City's investment consisted entirely of certificates of deposits in local banks. The City had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3 as amended by Statement No. 40.

The City had no investments during the year ended June 30, 2014.

Interest Rate Risk

The City's investment policy limits the investment of operating funds (fund expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the City.

CITY OF CORWITH

Notes to Financial Statements (continued)

June 30, 2014

(3) Bonds Payable

Annual debt service requirements to maturity for general obligation and revenue bonded indebtedness are as follows:

Year Ending June 30,	General Obligation Bonds		Revenue Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2015	\$ 10,000	3,450	16,819	4,285	26,819	7,735
2016	11,000	2,050	12,203	4,394	23,203	6,444
2017	11,000	2,400	13,030	2,667	24,030	5,067
2018	12,000	1,850	13,902	1,795	25,902	3,645
2019	12,000	1,250	14,834	864	26,834	2,114
2020	13,000	650	5,165	70	18,165	720
	<u>\$ 69,000</u>	<u>11,650</u>	<u>75,953</u>	<u>14,075</u>	<u>144,953</u>	<u>25,725</u>

(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 years ended June 30, 2014, 2013 and 2012 were \$7,531, \$7,247 and \$5,848 respectively, equal to the required contributions for each year.

(5) Other Postemployment Benefits (OPEB)

Plan Description – The City operates a single-employer retiree benefit plan which provides vision and dental benefits for retirees and their spouses. There are 2 active members in the plan. Retired participants must be age 55 or older at retirement.

The dental and vision benefits are provided through a fully-insured plan with True North. Retirees pay the same premium for the dental benefits as active employees.

CITY OF CORWITH

Notes to Financial Statements (continued)

June 30, 2014

Funding Policy – The contribution requirements of plan members are established and may be amended by the City. The City currently finances the benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the City and plan members are \$10 for single coverage and \$26 for family coverage for vision benefits and \$43 for single coverage and \$150 for family coverage for dental benefits. The same monthly premiums apply to retirees. For the year ended June 30, 2014 the City contributed \$1,279.

(6) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, retirement or death. Sick leave hours are accumulated for subsequent use but are not paid upon termination, retirement, or death. Comp time hours are accumulated for subsequent use but are not paid upon termination or retirement. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation payable to employees at June 30, 2014, primarily relating to the General Fund, is as follows:

<u>Type of Benefit</u>	<u>Amount June 30, 2014</u>
Vacation	\$ <u>2,280</u>

This liability has been computed based on rates of pay as of June 30, 2014.

(7) Interfund Transfers

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

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General Fund	Special Revenue:	
	Employee Benefits	\$ 1,292
	Enterprise:	
	Electric	38,500
	Sewer	<u>10,000</u>
		<u>49,792</u>
Debt Service	Enterprise:	
	Electric	<u>12,908</u>
Enterprise: Water	General	<u>9,834</u>
	Sewer	<u>14,751</u>
Electric	Special Revenue:	
	Urban Renewal	
	Tax Increment	<u>60,522</u>
	Total	<u>\$147,807</u>

CITY OF CORWITH

Notes to Financial Statements (continued)

June 30, 2014

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

(8) 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.

(9) Related Party Transactions

The City had business transactions between the City and City officials totaling \$8,849 during the year ended June 30, 2014.

(10) Deficit Balance

The General Fund and Employee Benefit Fund had deficit balances of \$9,849 and \$126, respectively at June 30, 2014. The deficit balances were incurred as a result of costs incurred prior to availability of funds.

(11) Subsequent Events

In August 2013, the City was awarded a \$50,000 grant from the USDA for the construction of a new fire station. No decision on fire station construction has been made as of June 30, 2014.

(12) 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 Corwith

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	\$ 68,592		68,592	67,464	67,464	1,128
TIF revenue	93,123		93,123	100,331	100,331	(7,208)
Other city tax	24,585		24,585	25,631	25,631	(1,046)
Licenses and permits	1,455		1,455	1,315	1,315	140
Use of money and property	16,759	809	17,568	535	535	17,033
Intergovernmental	48,792		48,792	44,206	52,006	(3,214)
Charges for services	3,130	539,043	542,173	462,805	477,805	64,368
Miscellaneous	15,543		15,543	40,600	43,800	(28,257)
Total receipts	271,979	539,852	811,831	742,887	768,887	42,944
Disbursements:						
Public safety	21,527		21,527	24,140	24,140	2,613
Public works	51,368		51,368	33,704	63,064	11,696
Culture and recreation	45,106		45,106	49,951	49,951	4,845
Community and economic development	35,100		35,100	35,100	35,100	
General government	67,504		67,504	58,203	69,086	1,582
Debt service	29,647		29,647	63,290	29,648	1
Capital projects	2,609		2,609	9,700	9,700	7,091
Business type activities		473,493	473,493	503,233	511,330	37,837
Total disbursements	252,861	473,493	726,354	777,321	792,019	65,665
Excess (deficiency) of receipts over (under) disbursements	19,118	66,359	85,477	(34,434)	(23,132)	108,609
Other financing sources, net	(20,449)	23,699	3,250	16,740	16,740	(13,490)
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(1,331)	90,058	88,727	(17,694)	(6,392)	95,119
Balances beginning of year	78,971	328,163	407,134	359,722	359,722	47,412
Balances end of year	\$ 77,640	418,221	495,861	342,028	353,330	142,531

See accompanying independent auditor's report.

City of Corwith

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 the Internal Service Fund. 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 Fund and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased disbursements by \$14,698. The budget amendment is reflected in the final budgeted amounts.

SUPPLEMENTARY INFORMATION

City of Corwith

Schedule of Indebtedness

Year ended June 30, 2014

Obligation	Date of Issue	Interest Rate	Amount Originally Issued	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
General Obligation:								
City Hall/Library	12/1/2003	5.00%	\$ 150,000	\$ 79,000		10,000	69,000	3,950
Revenue Bonds/notes:								
Water treatment note-Prairie Energy	10/15/2004	3.00%	\$ 40,000	6,050		4,515	1,535	120
Water treatment note-Corn Belt Power	10/15/2004	3.00	100,000	15,126		11,288	3,838	299
Post office lease participation note	9/30/2004	6.50	150,000	81,308		10,728	70,580	4,970
Total revenue bonds/debt				\$ 102,484		26,531	75,953	5,389

See accompanying independent auditor's report.

City of Corwith

Bond and Note Maturities

June 30, 2014

Year Ending June 30,	GENERAL OBLIGATION		REVENUE NOTES						
	City Hall/ Library Issued December 1, 2003		Water Treatment - PE Issued October 15, 2004		Water Treatment - CBP Issued October 15, 2004		Post Office Issued September 30, 2004		Total
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	
2015	5.00%	\$ 10,000	3.00	1,535	3.00	3,838	6.50	11,446	16,819
2016	5.00	11,000					6.50	12,203	12,203
2017	5.00	11,000					6.50	13,030	13,030
2018	5.00	12,000					6.50	13,902	13,902
2019	5.00	12,000					6.50	14,834	14,834
2020	5.00	13,000					6.50	5,165	5,165
Total		\$ 69,000		1,535		3,838		70,580	75,953

See accompanying independent auditor's report.

CITY OF CORWITH

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

For the Last Three Years

	2014	2013	2012
Receipts:			
Property tax	\$ 68,592	63,542	60,931
TIF revenue	93,123		
Other city tax	24,585	24,910	24,411
Licenses and permits	1,455	1,815	1,798
Use of money and property	16,759	15,351	16,748
Intergovernmental	48,792	45,857	45,837
Charges for service	3,130	3,504	2,180
Miscellaneous	15,543	42,045	40,770
Total	<u>\$ 271,979</u>	<u>197,024</u>	<u>192,675</u>
Disbursements:			
Operating:			
Public safety	\$ 21,527	17,391	20,238
Public works	51,368	70,155	60,905
Culture and recreation	45,106	45,728	40,154
Community and economic development	35,100	14,918	5,690
General government	67,504	56,848	44,354
Debt service	29,647	29,097	29,547
Capital projects	2,609	2,654	11,133
Total	<u>\$ 252,861</u>	<u>236,791</u>	<u>212,021</u>

See accompanying independent auditor's report.

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 financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of City of Corwith, Iowa, as of and for the year ended June 30, 2014, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated September 24, 2014. Our report expressed unmodified 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.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Corwith'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 of Corwith's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Corwith'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 significant deficiencies or material weaknesses and, therefore, significant deficiencies or material weaknesses 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.

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 City of Corwith's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in Part I of the accompanying Schedule of Findings as items I-A-14 through I-C-14 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Corwith'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 Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 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 of Corwith's Responses to the Findings

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

Purpose of this Report

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

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

September 24, 2014

Renner & Birchem, P.C.
Britt, Iowa

CITY OF CORWITH

Schedule of Findings

Year Ended June 30, 2014

Part I: Findings Related to the Financial Statements:

Internal Control Deficiencies:

I-A-14 Segregation of Duties - One important aspect of internal accounting control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the cash receipts functions and the cash disbursement functions are all done by the same person.

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

Response - We will investigate this.

Conclusion - 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.

I-B-14 Preparation of Financial Statements – The City does not have an internal control system designed to provide for the preparation of the financial statements on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Therefore, as auditors, we were requested to draft the financial statements and accompanying notes to the financial statements. This circumstance is not unusual for the governmental entity similar in population to the City of Corwith. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Recommendation – We realize that obtaining the expertise necessary to prepare the financial statements, including all necessary disclosures, can be considered costly and ineffective. However, the City’s management and those charged with governance should decide whether to accept the degree of risk associated with this condition because of cost or other considerations.

Response – The City will continue to review and monitor procedures currently in place and evaluate the risks to be accepted in preparation of the financial statements.

Conclusion - Response accepted.

I-C-14 Reconciliation of Utility Billings, Collections and Delinquent Accounts – Utility billings, collections and delinquent accounts were not reconciled throughout the year.

Recommendation – Procedures should be established to reconcile utility billings, collections and delinquencies for each billing period and to reconcile collections to deposits. The City Council or a council-designated independent person should review the reconciliations.

CITY OF CORWITH
Schedule of Findings
Year Ended June 30, 2014

Part I: Findings Related to the Financial Statements (continued):

Response – We have implemented the procedures as recommended.

Conclusion – Response accepted.

Instances of Non-Compliance:

No matters were noted.

Part II: Other Findings Related to Required Statutory Reporting:

II-A-14 Questionable Disbursements – Certain disbursement we believe may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 since the public benefits to be derived have not been clearly documented were noted. The disbursement is detailed as follows:

<u>Paid to</u>	<u>Purpose</u>	<u>Amount</u>
Corwith Community Center	Monthly Maintenance Fee	\$ 100

According to the opinion, it is possible for such a disbursement to meet the test of serving a public purpose under certain circumstances, although such items will certainly be subject to a deserved close scrutiny. The line to be drawn between a proper and an improper purpose is very thin. The fee is deposited in an account registered in the name of an individual, under his identification number.

Recommendation – The Council should determine and document the public purpose served by the disbursement before authorizing any further payments. If this practice is continued, the City should establish written policies and procedures, including the requirements for proper documentation and the fee should not go to an account of an individual.

Response – We will comply with this recommendation. The City has levied for community center maintenance.

Conclusion – Response accepted.

II-B-14 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

II-C-14 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>
David Wagner, City Council Member	Mowing, per bid	\$8,849

The transaction with the City Council Member does not appear to represent a conflict of interest since it was entered into through competitive bidding in accordance with Chapter 362.5(3)(d) of the Code of Iowa.

CITY OF CORWITH
Schedule of Findings
Year Ended June 30, 2014

Part II: Other Findings Related to Required Statutory Reporting (continued):

- II-D-14 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 insure that the coverage is adequate for current operations.
- II-E-14 Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not.
- II-F-14 Deposits and Investments - We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy.
- II-G-14 Certified Budget – Disbursements during the year ended June 30, 2014 did not exceed the amounts budgeted.
- II-H-14 Revenue Bonds – No instances of non-compliance with the revenue bond and note resolutions were noted.
- II-I-14 Financial Condition – The General Fund and Employee Benefit Fund had deficit balances of \$9,849 and \$126 respectively, at June 30, 2014.

Recommendation – The City should investigate alternatives to eliminate the deficits to return the funds to sound financial condition.

Response – The deficits were subsequently eliminated.

Conclusion – Response accepted.