

CITY OF LEHIGH, IOWA

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

JUNE 30, 2015

**T. P. ANDERSON & COMPANY, P.C.
Certified Public Accountants**

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CITY OF LEHIGH, IOWA

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Paula Martin	Mayor	12/31/17
Dave Hrubes	Council Member	12/31/19
Victor Ruthart	Council Member	12/31/17
Troy Twito	Council Member	12/31/17
Valora Timmons	Council Member	12/31/17
Douglas Dellachiesa	Council Member	12/31/19
Kathy Gambill	City Clerk	Indefinite



T.P. ANDERSON & COMPANY, P.C.
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Lehigh, Iowa, as of and for the year ended June 30, 2015, and the related Notes to 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 modified audit opinions.

Basis of Qualified 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 as of July 1, 2014.

Qualified 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, 2014, as discussed in the 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 of Lehigh, Iowa as of June 30, 2015, and the respective changes in its cash basis financial position for the year ended in accordance with the basis of accounting described in Note 1.

Basis of Accounting

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

Emphasis of a Matter

As disclosed in Note 4 to the financial statements, the City of Lehigh adopted new accounting guidance related to Governmental Accounting Standards Board (GASB) Statement No. 68, Accounting and Financial Reporting for Pensions. Our opinions are 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 of Lehigh's basic financial statements. The supplementary information included in Schedules 1 through 4, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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 the 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 the budgetary comparison information, the Schedule of the City's Proportionate Share of the Net Pension Liability and the Schedule of City Contributions on pages 5 through 11 and 24 through 29, 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 *Governmental Auditing Standards*, we have also issued our report dated April 25, 2016 on our consideration of the City of Lehigh'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 of Lehigh's internal control over financial reporting and compliance.

T.P. Anderson & Company, P.C.

April 25, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Lehigh, Iowa 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, 2015. 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. Should the city choose to have audits in consecutive years, comparisons would be more meaningful and would go farther to explain the City's financial position and results of operations.

2015 FINANCIAL HIGHLIGHTS

- Revenues excluding bond proceeds of the City's governmental activities were approximately \$305,000. Over 70% of total revenues were received from property taxes of approximately \$89,000, other city tax of approximately \$67,000 and charges for services of approximately \$65,000.
- Governmental activity disbursements were approximately \$382,000 in fiscal 2015. Comprising a majority of the total disbursement balance were 33% for public works and 23% for public safety activities.
- The City's total cash basis net position increased 6%, or approximately \$34,000 from June 30, 2014 to June 30, 2015. Of this amount, the cash basis net position of the governmental activities increased approximately \$14,000 and the cash basis net position of the business type activities increased by approximately \$20,000.

USING THIS ANNUAL REPORT

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

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

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

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

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

Other Information further explains and supports the financial statements with a comparison of the City's budget for the year and the City's proportionate share of the net pension liability and related contributions.

Supplementary Information provides detailed information about the nonmajor 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 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 which 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, 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 solid waste, waterworks, electric, sanitary sewer and storm sewer systems. 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 service. 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. 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 include a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

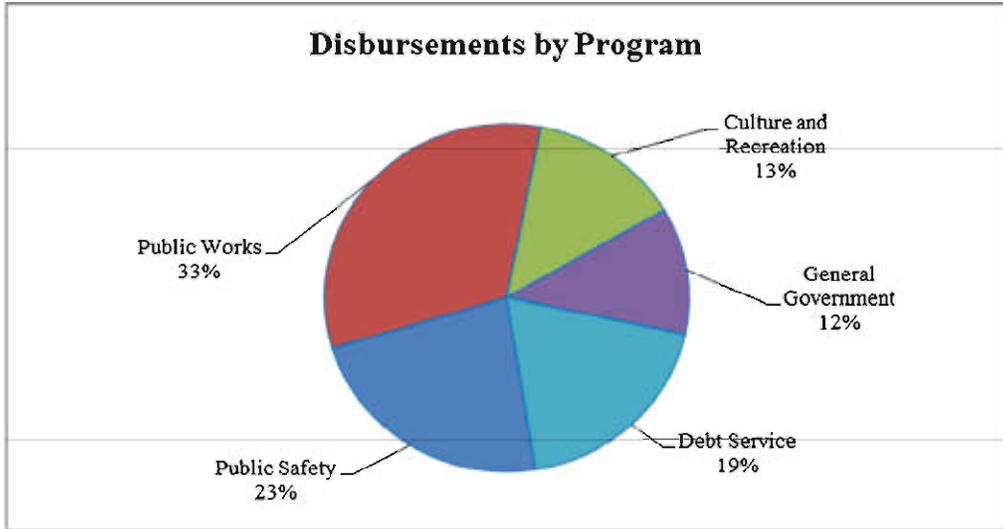
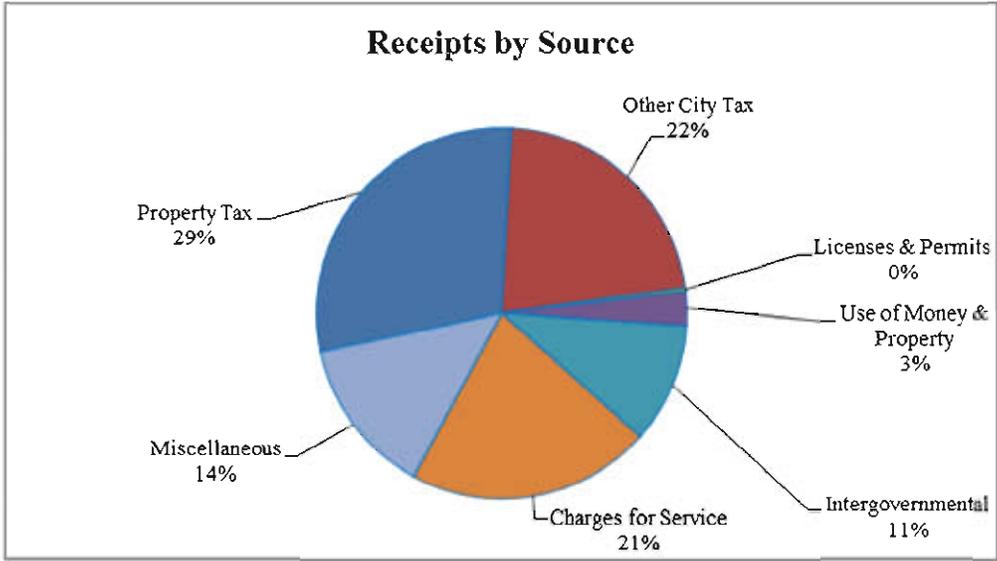
2) Proprietary funds account for the City’s Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains three Enterprise Funds to provide separate information for the water, electric and sewer funds.

The required financial statement for proprietary funds include 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 increased from a year ago, increasing from \$359,846 to \$373,850. The analysis that follows focuses on the changes in cash balances for governmental activities.

Changes in Cash Basis Net Position of Governmental Activities (Expressed in Thousands)	
	Year ended June 30, 2015
Receipts and transfers:	
Program receipts:	
Charges for service	\$ 65
Capital grants, contributions and restricted interest	-
Operating grants, contributions and restricted interest	32
General receipts:	
Property tax	89
Local option sales tax	67
Other general receipts	52
Proceeds from long term debt	91
Total receipts	<u>396</u>
Disbursements:	
Public safety	87
Public works	125
Culture and recreation	52
General government	45
Debt service	73
Total disbursements	<u>382</u>
Change in cash basis net position	14
Cash basis net position beginning of year	<u>360</u>
Cash basis net position end of year	<u>\$ 374</u>



The cost of all governmental activities this year was \$382,000. However, as shown in the Cash Basis Statement of Activities and Net Position on page 12, the amount taxpayers ultimately financed for these activities was only \$284,000 because some of the cost was paid by those directly benefited from the programs (\$65,000) or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest (\$32,000). The City paid for the remaining “public benefit” portion of governmental activities with approximately \$89,000 in tax (some of which could only be used for certain programs) and with other receipts, such as bond proceeds, interest and general entitlements.

Changes in Cash Basis Net Position of Business Type Activities (Expressed in Thousands)	
	Year ended June 30, 2015
Receipts:	
Program receipts:	
Charges for service:	
Water	\$ 80
Electric	238
Sewer	47
Total receipts	<u>365</u>
Disbursements:	
Water	56
Electric	248
Sewer	42
Total disbursements	<u>345</u>
Change in cash basis net position	20
Cash basis net position beginning of year	<u>183</u>
Cash basis net position end of year	<u>\$ 203</u>

Total business type activities receipts for the fiscal year were \$365,000. The cash balance increased by approximately \$20,000 from the prior year.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Lehigh completed the year, its governmental funds reported a combined fund balance of \$373,850, an increase of approximately \$14,000 from last year's balance of \$359,846. 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 \$62,710 from the prior year to \$204,217. The increase was a result of note proceeds received during the year of approximately \$91,000.
- The Special Revenue, Road Use Tax Fund cash balance decreased by \$11,377 to a balance of \$74,457 at June 30, 2015. The decrease was similar to what was budgeted for the year.
- The Special Revenue, Local Option Sales Tax Fund balance increased by \$29,010 during the year. The increase was similar to what was budgeted for the year.
- The Debt Service Fund cash balance decreased from the prior year by approximately \$73,000. This was a result of debt payments and other refinancing that were not accompanied by proper transfers.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance increased by \$24,828 as a result of regular operations during the year.
- The Electric Fund cash balance decreased by \$10,087 as a result of regular operations during the year.
- The Sewer Fund cash balance increased this fiscal year by \$5,227 as a result of regular operations during the year.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget one time. The amendment was approved on May 11, 2015 and resulted in increased disbursements of \$93,590. During the year ended June 30, 2015, disbursements exceeded the amounts budgeted in public safety, culture and recreation, general government and debt service functions.

DEBT ADMINISTRATION

At June 30, 2015, the City had approximately \$186,000 in bonds and other long-term debt outstanding.

Outstanding Debt at Year-End (Expressed in Thousands)	
	Year ended June 30, 2015
Water Revenue Notes	\$ 95
General Obligation Debt	91
Total	<u>\$ 186</u>

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's constitutional debt limit is \$571,694 and its outstanding general obligation debt is \$91,000.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's elected and appointed officials and citizens considered many factors when establishing the fiscal year 2015 budget, tax rates and fees charged for various City activities. A conservative approach was used and a balanced budget is anticipated.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

The City's financial statements are designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to demonstrate the City's accountability for

the money it receives. If you have questions about this report or need additional financial information, please contact the City Clerk at 241 Elm Street, Lehigh, IA 50557 or telephone (515) 359-2311.

Financial Statements

CITY OF LEHIGH, IOWA

Exhibit A

CASH BASIS STATEMENT OF ACTIVITIES AND NET POSITION

AS OF AND FOR THE YEAR ENDED JUNE 30, 2015

	Program Receipts				Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
	Disbursements	Charges for Service	Operating Grants Contributions and Restricted Interest	Capital Grants Contributions and Restricted Interest	Governmental Activities	Business type Activities	Total
Functions/Programs							
Primary Government							
Governmental activities:							
Public safety	\$ 86,953	-	-	-	(86,953)	-	(86,953)
Public works	124,921	-	32,471	-	(92,450)	-	(92,450)
Culture and recreation	52,442	-	-	-	(52,442)	-	(52,442)
General government	44,713	64,937	-	-	20,224	-	20,224
Debt service	72,843	-	-	-	(72,843)	-	(72,843)
Total governmental activities	381,872	64,937	32,471	-	(284,464)	-	(284,464)
Business type activities							
Water	55,637	80,465	-	-	-	24,828	24,828
Electric	248,277	238,113	-	-	-	(10,164)	(10,164)
Sewer	41,532	46,759	-	-	-	5,227	5,227
Total business type activities	345,446	365,337	-	-	-	19,891	19,891
Total primary government	\$ 727,318	430,274	32,471	-	(284,464)	19,891	(264,573)
General Receipts:							
Property tax levied for:							
General purposes					89,018	-	89,018
Local option sales tax					66,733	-	66,733
Unrestricted interest on investments					371	77	448
Note proceeds					91,144	-	91,144
Miscellaneous					51,202	-	51,202
Operating transfers in (out)					-	-	-
Total general receipts and transfers					298,468	77	298,545
Change in cash basis net position					14,004	19,968	33,972
Cash basis net position, beginning of year					359,846	183,164	543,010
Cash basis net position, end of year					\$ 373,850	203,132	576,982
Restricted							
Streets					\$ 74,457	-	74,457
LOST					150,670	-	150,670
Other purposes					17,349	-	17,349
Unrestricted					131,374	203,132	334,506
Total cash basis net position					\$ 373,850	203,132	576,982

CITY OF LEHIGH, IOWA

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES
GOVERNMENTAL FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2015

	Special Revenue			
	General	Road Use Tax	LOST	Debt Service
Receipts:				
Property tax	\$ 71,625	-	-	-
Other city tax	-	-	66,733	-
Licenses and permits	770	-	-	-
Use of money and property	8,516	-	-	-
Intergovernmental	-	32,471	-	-
Charges for service	64,937	-	-	-
Miscellaneous	42,287	-	-	-
Total receipts	<u>188,135</u>	<u>32,471</u>	<u>66,733</u>	<u>-</u>
Disbursements:				
Operating:				
Public safety	86,953	-	-	-
Public works	34,697	43,848	37,723	-
Culture and recreation	52,442	-	-	-
General government	44,123	-	-	-
Debt service	-	-	-	72,843
Total disbursements	<u>218,215</u>	<u>43,848</u>	<u>37,723</u>	<u>72,843</u>
Excess (deficiency) of receipts over (under) disbursements	(30,080)	(11,377)	29,010	(72,843)
Other financing sources (uses):				
Note proceeds	91,144	-	-	-
Operating transfers in	1,646	-	-	-
Operating transfers out	-	-	-	-
Total other financing sources (uses)	<u>92,790</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in cash balances	62,710	(11,377)	29,010	(72,843)
Cash balances beginning of year	141,507	85,834	121,660	-
Cash balances end of year	<u>\$ 204,217</u>	<u>74,457</u>	<u>150,670</u>	<u>(72,843)</u>
Cash Basis Fund Balances				
Restricted for:				
LOST	-	-	150,670	-
Streets	-	74,457	-	-
Other purposes	-	-	-	-
Unassigned	204,217	-	-	(72,843)
Total cash basis fund balances	<u>\$ 204,217</u>	<u>74,457</u>	<u>150,670</u>	<u>(72,843)</u>

Nonmajor	Total
17,393	89,018
-	66,733
-	770
-	8,516
-	32,471
-	64,937
-	42,287
17,393	304,732
-	86,953
8,653	124,921
-	52,442
590	44,713
-	72,843
9,243	381,872
8,150	(77,140)
-	91,144
-	1,646
(1,646)	(1,646)
(1,646)	91,144
6,504	14,004
10,845	359,846
17,349	373,850
-	150,670
-	74,457
17,349	17,349
-	131,374
17,349	373,850

CITY OF LEHIGH, IOWA
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES
PROPRIETARY FUNDS

AS OF AND FOR THE YEAR ENDED JUNE 30, 2015

	Water	Electric	Sewer	Total
Operating receipts:				
Charges for service	\$ 80,465	238,113	46,759	365,337
Total operating receipts	<u>80,465</u>	<u>238,113</u>	<u>46,759</u>	<u>365,337</u>
Operating disbursements:				
Business type activities	55,637	248,277	41,532	345,446
Total operating disbursements	<u>55,637</u>	<u>248,277</u>	<u>41,532</u>	<u>345,446</u>
Excess (deficiency) of operating receipts over (under) operating disbursements	24,828	(10,164)	5,227	19,891
Non-operating receipts:				
Interest on investments	-	77	-	77
Total non-operating receipts	<u>-</u>	<u>77</u>	<u>-</u>	<u>77</u>
Excess (deficiency) of receipts and non-operating receipts over (under) disbursements and non-operating disbursements	24,828	(10,087)	5,227	19,968
Cash balances beginning of year	<u>81,146</u>	<u>75,498</u>	<u>26,520</u>	<u>183,164</u>
Cash balances end of year	<u>\$ 105,974</u>	<u>65,411</u>	<u>31,747</u>	<u>203,132</u>
Cash Basis Fund Balances				
Unrestricted	<u>\$ 105,974</u>	<u>65,411</u>	<u>31,747</u>	<u>203,132</u>
Total cash basis fund balances	<u>105,974</u>	<u>65,411</u>	<u>31,747</u>	<u>203,132</u>

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

(1) Summary of Significant Accounting Policies

The City of Lehigh is a political subdivision of the State of Iowa located in Webster County. It was first incorporated in 1880 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, and general government services. The City also provides electric, water and sewer utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Lehigh has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all other 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.

Blended Component Units – The Lehigh Fire Department is an entity which is legally separate from the City, but is so intertwined with the City it is, in substance, the same as the City. It is reported as part of the City and blended into the appropriate funds.

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: Webster County Assessor's Conference Board, Webster County Emergency Management Commission, Webster County E911 Board, and Iowa Association of Municipal Utilities (IAMA).

B. Basis of Presentation

Government-wide Financial Statements – 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 services.

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

CITY OF LEHIGH, IOWA

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

Nonexpendable restricted net position is subject to externally imposed stipulations which require them to be maintained permanently by the City.

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 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 (LOST) is used to account for the receipt and disbursement of local option sales tax dollars.

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 City reports the following major proprietary funds:

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

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

CITY OF LEHIGH, IOWA

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

The Enterprise, Electric Fund accounts for the operation and maintenance of the City's electric distribution system.

C. Measurement Focus and Basis of Accounting

The City of Lehigh, Iowa 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-restricted 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.

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.

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

Unassigned- All amounts not included in the preceding classifications.

CITY OF LEHIGH, IOWA

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information. During the year ended June 30, 2015, disbursements exceeded the amounts budgeted in the public safety, culture and recreation, general government and debt service functions.

F. Subsequent Events

City management has evaluated events and transactions for potential recognition or disclosure through April 25, 2016, the date the financial statements were issued.

(2) **Cash and Pooled Investments**

The City's deposits at June 30, 2015 (which include certificates of deposit totaling \$33,401) 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 ensure 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; and certain joint investment trusts and warrants or improvement certificates of a drainage district.

(3) **Bonds and Notes Payable**

Annual debt service requirements to maturity for revenue bond and other long-term debt are as follows:

Year Ending June 30,	General Obligation Bonds		Water Revenue Notes		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2016	\$ 7,452	4,101	\$ 2,633	\$ 4,294	10,086	8,395
2017	7,788	3,766	2,752	4,175	10,539	7,941
2018	8,138	3,416	2,875	4,052	11,014	7,467
2019	8,504	3,049	3,005	3,922	11,509	6,972
2020	8,887	2,667	3,140	3,787	12,027	6,454
2021-2025	50,374	6,943	17,951	16,684	68,325	23,627
2026-2030	-	-	22,371	12,264	22,371	12,264
2031-2035	-	-	27,578	7,057	27,578	7,057
2036-2037	-	-	12,589	1,265	12,589	1,265
Total	\$ 91,144	23,942	\$ 94,894	\$ 57,500	186,038	81,442

The City has pledged future water customer receipts, net of specified operating disbursements, to repay

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

\$125,000 of water revenue notes issued in April 1998. Proceeds from the notes provided financing for the construction of the improvements of the water main extensions. The notes are payable solely from water customer net receipts and are payable through 2037. Annual principal and interest payments on the notes are expected to require less than 80% of net receipts. The total principal and interest remaining to be paid on the notes is \$152,394. For the current year, principal and interest paid and total customer net receipts were \$6,927 and \$24,828, respectively.

(4) Pension Plan

Plan Description- IPERS membership is mandatory for employees of the City, except for those covered by another retirement system. Employees of the City are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by Iowa Public Employees' Retirement System (IPERS). IPERS issues a stand-alone financial report which is available to the public by mail at 7401 Register Drive P.O. Box 9117, Des Moines, Iowa 50306-7117 or at www.ipers.org.

IPERS benefits are established under Iowa Code chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following brief description is provided for general informational purposes only. Refer to the plan document for more information.

Pension Benefits – A regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is age 65, anytime after reaching age 62 with 20 or more years of covered employment, or when the member's years of service plus the member's age at the last birthday equals or exceeds 88, whichever comes first. (These qualifications must be met on the member's first month of entitlement to benefits.) Members cannot begin receiving retirement benefits before age 55. The formula used to calculate a Regular member's monthly IPERS benefit includes:

- A multiplier (based on years of service)
- The member's highest five-year average salary. (For members with service before June 30, 2012, the highest three-year average salary as of that date will be used if it is greater than the highest five-year average salary.)

If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early-retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25 percent for each month that the member receives benefits before the member's earliest normal retirement age. For service earned starting July 1, 2012, the reduction is 0.50 percent for each month that the member receives benefits before age 65.

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member's lifetime. However, to combat the effects of inflation, retirees who began receiving benefits prior to July 1990 receive a guaranteed dividend with their regular November benefit payments.

Disability and Death Benefits - A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement, the member's beneficiary

CITY OF LEHIGH, IOWA

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

will receive a lifetime annuity or a lump-sum payment equal to the present actuarial value of the member's accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

Contributions - Effective July 1, 2012, as a result of a 2010 law change, the contribution rates are established by IPERS following the annual actuarial valuation, which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization Method. Statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS Contribution Rate Funding Policy requires that the actuarial contribution rate be determined using the "entry age normal" actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll, based on the Actuarial Amortization Method adopted by the Investment Board.

In fiscal year 2015, pursuant to the required rate, Regular members contributed 5.95 percent of pay and the City contributed 8.93 percent for a total rate of 14.88 percent.

The City's contributions to IPERS for the year ended June 30, 2015 were \$9,440.

Collective Net Pension Liabilities, Collective Pension Expense, and Collective Deferred Outflows of Resources and Collective Deferred Inflows of Resources Related to Pensions – At June 30, 2015, the City reported a liability of \$64,421 for its proportionate share of the net pension liability. The collective net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the collective net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the collective net pension liability was based on the City's share of contributions to the pension plan relative to the contributions of all IPERS participating employers. At June 30, 2014, the City's proportion was .0016244 percent, which was a decrease of 0.0001430 from its proportion measured as of June 30, 2013.

For the year ended June 30, 2015 the City's collective pension expense, collective deferred outflows and collective deferred inflows totaled \$4,822, \$3,543 and \$24,569 respectively.

Actuarial Assumptions – The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Rate of inflation (effective June 30, 2014)	3.00 percent per annum
Rates of salary increase (effective June 30, 2010)	4.00 to 17.00 percent, average, including inflation. Rates vary by membership group.
Long-term investment rate of return (effective June 30, 1996)	7.50 percent, compounded annually, net of investment expense, including inflation

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of actuarial experience studies with dates corresponding to those listed above.

Mortality rates were based on the RP-2000 Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to

CITY OF LEHIGH, IOWA

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
US Equity	23%	6.31
Non US Equity	15	6.76
Private Equity	13	11.34
Real Estate	8	3.52
Core Plus Fixed Income	28	2.06
Credit Opportunities	5	3.67
TIPS	5	1.92
Other Real Assets	2	6.27
Cash	1	(0.69)
Total	<u>100%</u>	

Discount Rate - The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the contractually required rate and that contributions from the City will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5 percent) or 1-percentage-point higher (8.5 percent) than the current rate.

	<u>1% Decrease (6.5%)</u>	<u>Discount Rate (7.5%)</u>	<u>1% Increase (8.5%)</u>
City's proportionate share of the net pension liability/(asset)	\$ 121,722	\$ 64,421	\$ 16,053

Pension Plan Fiduciary Net Position - Detailed information about the pension plan's fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS' website at www.ipers.org.

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

(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 3 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 Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees.

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 average monthly premiums for the City and plan members are \$1,016 for family coverage. For the year ended June 30, 2015, the City contributed \$33,575 and plan members eligible for benefits contributed \$0 to the plan.

(6) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation hours for subsequent use. Earned vacation is paid when used or when employment is terminated upon retirement or death. These accumulations are not recognized as expenditures by the City until they are paid.

The City’s approximate liability for earned vacation termination payments payable to employees at June 30, 2015, primarily relating to the General Fund, is as follows:

<u>Type of Benefits</u>	<u>Amount</u>
Vacation	\$ 980

This liability has been computed based on rates of pay in effect at June 30, 2015.

(7) Interfund Transfers

The detail of interfund transfers, for the year ended June 30, 2015 is as follows:

<u>Transfer In</u>	<u>Transfer From</u>	<u>Amount</u>
General	Emergency	\$ 1,646
		<u>\$ 1,646</u>

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

(8) Risk Management

The City of Lehigh 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 disaster. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of

CITY OF LEHIGH, IOWA

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(9) Deficit Fund Balance

The Debt Service Fund had a deficit balance of \$72,843. This was a result of an inadequate transfer to cover the debt payments that were required during the year. The City plans to make the appropriate transfers during the next fiscal year.

(10) Property Taxes

Property taxes are recognized as income when received in accordance with the cash basis of accounting. The property tax calendar is as follows for the City of Lehigh. Property taxes become liens on property as of July 1, 2014 and are payable in September and March of the fiscal year. The valuation for the taxes were based on January 1, 2013 assessed property valuations, and are based on a certified budget from March of 2014.

Other Information

CITY OF LEHIGH, IOWA

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

**OTHER INFORMATION
Year Ended June 30, 2015**

	Governmental Funds Activity	Proprietary Funds Activity	Total	Budgeted Amounts		Final to Total Variance
				Original	Final	
Receipts:						
Property tax	\$ 89,018	-	89,018	88,455	88,455	563
Other city tax	66,733	-	66,733	61,203	67,336	(603)
Licenses and permits	770	-	770	1,000	1,000	(230)
Use of money and property	8,516	77	8,593	9,500	8,414	179
Intergovernmental	32,471	-	32,471	83,329	83,329	(50,858)
Charges for service	64,937	365,337	430,274	406,500	415,404	14,870
Miscellaneous	42,287	-	42,287	-	4,556	37,731
Total receipts	304,732	365,414	670,146	649,987	668,494	1,652
Disbursements:						
Program						
Public Safety	86,953	-	86,953	37,132	80,077	(6,876)
Public Works	124,921	-	124,921	74,560	125,828	907
Culture & Recreation	52,442	-	52,442	41,686	46,238	(6,204)
General government	44,713	-	44,713	67,000	44,393	(320)
Debt Service	72,843	-	72,843	-	21,254	(51,589)
Business-type activities	-	345,446	345,446	355,000	351,178	5,732
Total Disbursements	381,872	345,446	727,318	575,378	668,968	58,350
Excess (deficiency) of receipts over disbursements	(77,140)	19,968	(57,172)	74,609	(474)	(56,698)
Other financing sources, net	91,144	-	91,144	-	39,555	51,589
Excess of receipts and other financing sources over (under) disbursements and other financing uses	14,004	19,968	33,972	74,609	39,081	(5,109)
Balance - beginning of year	359,846	183,164	543,010	482,288	482,288	60,722
Balance - end of year	\$ 373,850	203,132	576,982	556,897	521,369	55,613

See Accompanying Independent Auditor's Report

CITY OF LEHIGH, IOWA

Notes to Other Information- Budgetary Reporting

June 30, 2015

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, 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 or fund type. 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, Special Revenue Funds, the Debt Service Fund, the Capital Projects Fund and 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 revenues and other financing sources by \$46,570 and disbursements by \$93,590. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2015, disbursements exceeded the amounts budgeted in the public safety, culture and recreation, general government and debt service functions.

CITY OF LEHIGH, IOWA
Schedule of the City's Proportionate Share of the Net Pension Liability

Iowa Public Employees' Retirement System
Last Fiscal Year*

Other Information

	2015
City's proportionate share of the net pension liability	0.001624%
City's proportionate share of the net pension liability	64,421
City's covered-employee payroll	106,291
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	60.61%
Plan fiduciary net position as a percentage of the total pension liability	87.61%

* The amounts presented for the fiscal year were determined as of June 30

See accompanying independent auditors report.

Note: GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the City will present information for those years for which information is available.

CITY OF LEHIGH, IOWA

Schedule of City Contributions

Iowa Public Employees' Retirement System
Last Fiscal Year*

Other Information

	<u>2015</u>	<u>2014</u>
Statutorily required contribution	\$ 9,440	\$ 9,492
Contributions in relation to the statutorily required contribution	<u>9,440</u>	<u>9,492</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
City's covered-employee payroll	105,710	106,291
Contributions as a percentage of covered-employee payroll	8.93%	8.93%

See accompanying independent auditor's report.

***Note:** GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the City will present information for those years in which information is readily available.

CITY OF LEHIGH, IOWA

Notes to Other Information- Pension Liability

Year ended June 30, 2015

Changes of benefit terms:

Legislation passed in 2010 modified benefit terms for current Regular members. The definition of final average salary changed from the highest three to the highest five years of covered wages. The vesting requirement changed from four years of service to seven years. The early retirement reduction increased from 3 percent per year measured from the member's first unreduced retirement age to a 6 percent reduction for each year of retirement before age 65.

In 2008, legislative action transferred four groups – emergency medical service providers, county jailers, county attorney investigators, and National Guard installation security officers – from Regular membership to the protection occupation group for future service only.

Benefit provisions for sheriffs and deputies were changed in the 2004 legislative session. The eligibility for unreduced retirement benefits was lowered from age 55 by one year each July 1 (beginning in 2004) until it reached age 50 on July 1, 2008. The years of service requirement remained at 22 or more. Their contribution rates were also changed to be shared 50-50 by the employee and employer, instead of the previous 40-60 split.

Changes of assumptions:

The 2014 valuation implemented the following refinements as a result of a quadrennial experience study:

- Decreased the inflation assumption from 3.25 percent to 3.00 percent
- Decreased the assumed rate of interest on member accounts from 4.00 percent to 3.75 percent per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Reduced retirement rates for sheriffs and deputies between the ages of 55 and 64.
- Moved from an open 30 year amortization period to a closed 30 year amortization period for the UAL beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20 year period.

The 2010 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted retiree mortality assumptions.
- Modified retirement rates to reflect fewer retirements.
- Lowered disability rates at most ages.
- Lowered employment termination rates
- Generally increased the probability of terminating members receiving a deferred retirement benefit.
- Modified salary increase assumptions based on various service duration.

The 2007 valuation adjusted the application of the entry age normal cost method to better match projected contributions to the projected salary stream in the future years. It also included in the calculation of the UAL amortization payments the one-year lag between the valuation date and the effective date of the annual actuarial contribution rate.

The 2006 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted salary increase assumptions to service based assumptions.
- Decreased the assumed interest rate credited on employee contributions from 4.25 percent to 4.00 percent.
- Lowered the inflation assumption from 3.50 percent to 3.25 percent.
- Lowered disability rates for sheriffs and deputies and protection occupation members.

CITY OF LEHIGH, IOWA
 SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES
 NONMAJOR GOVERNMENTAL FUNDS

AS OF AND FOR THE YEAR ENDED JUNE 30, 2015

	Special Revenue		
	Employee Benefits	Emergency	Total
Receipts:			
Property tax	\$ 15,747	1,646	17,393
Total receipts	<u>15,747</u>	<u>1,646</u>	<u>17,393</u>
Disbursements:			
Operating:			
Public works	8,653	-	8,653
General government	590	-	590
Total disbursements	<u>9,243</u>	<u>-</u>	<u>9,243</u>
Excess of receipts over disbursements	6,504	1,646	8,150
Other financing sources (uses):			
Operating transfers out	-	(1,646)	(1,646)
Total other financing sources (uses)	<u>-</u>	<u>(1,646)</u>	<u>(1,646)</u>
Net change in cash balances	6,504	-	6,504
Cash balances beginning of year	8,304	2,541	10,845
Cash balances end of year	<u>\$ 14,808</u>	<u>2,541</u>	<u>17,349</u>
Cash Basis Fund Balances			
Restricted for:			
Other purposes	<u>14,808</u>	<u>2,541</u>	<u>17,349</u>
Total cash basis fund balances	<u>\$ 14,808</u>	<u>2,541</u>	<u>17,349</u>

Supplementary Information

CITY OF LEHIGH, IOWA
SCHEDULE OF INDEBTEDNESS
YEAR ENDED JUNE 30, 2015

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: Ambulance	April 23, 2015	4.50%	\$ 91,144	\$ -	\$ 91,144	\$ -	\$ 91,144	\$ -	\$ -
General Obligation Bonds: Pumper truck	March 27, 2009	4.50%	\$ 113,000	\$ 62,845	\$ -	\$ 62,845	\$ -	\$ 3,061	\$ -
Water Revenue Notes Water Improvements	May 14, 1998	4.50%	\$ 125,000	\$ 97,436	\$ -	\$ 2,542	\$ 94,894	\$ 4,385	\$ -

See Accompanying Independent Auditor's Report.

CITY OF LEHIGH, IOWA
BOND AND NOTE MATURITIES
JUNE 30, 2015

Year Ending June 30,	General Obligation Bonds Ambulance		Revenue Notes Water Improvements	
	Issued April 23, 2015		Issued May 14, 1998	
	Interest Rates	Amount	Interest Rates	Amount
2016	4.50%	7,452	4.50%	2,633
2017	4.50	7,788	4.50	2,752
2018	4.50	8,138	4.50	2,875
2019	4.50	8,504	4.50	3,005
2020	4.50	8,887	4.50	3,140
2021	4.50	9,287	4.50	3,281
2022	4.50	9,705	4.50	3,429
2023	4.50	10,142	4.50	3,583
2024	4.50	10,598	4.50	3,745
2025	4.50	10,642	4.50	3,913
2026		-	4.50	4,089
2027		-	4.50	4,273
2028		-	4.50	4,465
2029		-	4.50	4,666
2030		-	4.50	4,876
2031		-	4.50	5,096
2032		-	4.50	5,325
2033		-	4.50	5,465
2034		-	4.50	5,715
2035		-	4.50	5,977
2036		-	4.50	6,250
2037		-	4.50	6,339
		<u>\$ 91,144</u>		<u>\$ 94,894</u>

See accompanying independent auditor's report.

CITY OF LEHIGH, IOWA

SCHEDULE OF RECEIPTS BY SOURCE AND DISBURSEMENTS BY FUNCTION -
ALL GOVERNMENTAL FUNDS
FOR THE LAST YEAR

	<u>2015</u>
Receipts	
Property tax	\$ 89,018
Other city tax	66,733
Licenses and permits	770
Use of money and property	8,516
Intergovernmental	32,471
Charges for service	64,937
Miscellaneous	42,287
	<u>\$ 304,732</u>
Disbursements:	
Operating:	
Public safety	\$ 86,953
Public works	124,921
Culture and recreation	52,442
General government	44,713
Debt service	72,843
	<u>\$ 381,872</u>



T.P. ANDERSON & COMPANY, P.C.
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

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 the financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States, 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 Lehigh, Iowa as of and for the year ended June 30, 2015, and the related Notes to the Financial Statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated April 25, 2016. Our report expressed qualified 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, we considered the City of Lehigh'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 Lehigh's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Lehigh'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 over financial reporting that might be significant deficiencies or material weaknesses and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control over financial reporting that 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 combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City of Lehigh's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in Part II of the accompanying Schedule of Findings to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Lehigh'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 that are described in Part III of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2015 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 Lehigh's Response to the Findings

The City of Lehigh's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the City's responses we did not audit the responses 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 *Governmental 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 Lehigh 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.

T.P. Anderson & Company, P.C.

April 25, 2016

CITY OF LEHIGH, IOWA
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2015

Part I: Summary of the Independent Auditor's Results:

- (a) As a result of the City's accounting records not being audited annually, as permitted by the Code of Iowa, we were unable to satisfy ourselves as to the distribution of the beginning balance of cash basis net position and the distribution by fund of the total fund balance as of July 1, 2014, therefore modified opinions were issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. general accepted accounting principles.
- (b) Material weaknesses in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.

CITY OF LEHIGH, IOWA
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2015

Part II: Findings Related to the Financial Statements

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCIES:

II-A-15 Segregation of Duties – Generally, we noted that one individual has control over each of the following areas:

- 1) Utilities – billings, collecting, depositing, posting, entering rates into the system and maintaining detailed accounts receivable and write-off records.
- 2) Payroll – entering rates and hours into the system, recordkeeping, preparing, signing and distributing.
- 3) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
- 4) Financial Reporting and Budgeting – preparing and reconciling.
- 5) Receipts – opening mail, collecting, depositing, journalizing, reconciling and posting.
- 6) Checks – Dual signatures on checks are not a required policy for the City.
- 7) Library – The library does not include a list of all approved checks with their council minutes so it is impossible to determine what was approved by the board.

Criteria - An important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible.

Condition – There is a limited staff size that makes having an appropriate segregation of duties difficult for the City.

Effect – The City’s internal control system is not as strong as it could be with a proper segregation of duties.

Recommendation – The City should review its operating procedures to obtain the maximum internal control possible under the circumstances.

Response - We believe that we are close to the maximum degree of segregation of duties possible with the limited number of office employees. We will investigate additional procedures to cost effectively improve internal control.

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.

II-B-15 Reconciliation of Bank Accounts – The City did not complete formal bank account reconciliation at June 30, 2015.

CITY OF LEHIGH, IOWA
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YEAR ENDED JUNE 30, 2015

Criteria – Bank reconciliations prepared on a timely basis are a key tool in ensuring accuracy and completeness of the accounting records.

Condition – The new City Clerk was not aware of the importance of a formal bank reconciliation process.

Effect – Failure to complete timely bank reconciliations leaves the City vulnerable to inaccurate accounting records.

Recommendation – We recommend the City begin performing monthly bank reconciliations as well as implement a month-end checklist to monitor the procedures required to be completed.

Response – We will consider the recommendation and take steps to address this issue.

Conclusion – Response accepted.

II-C-15

Reconciliation of utility Billings and Collections – Utility billings and collections were not reconciled monthly throughout the whole year.

Criteria – Reconciliations of all significant assets and revenue streams is a proper internal control over financial reporting.

Cause – The City regularly reviews accounts receivable from utility billing but had not taken the step to reconcile the collections on those accounts with the clerks report.

Effect – The controls over utility revenue is not as strong as it could be.

Recommendation – Procedures should be established to reconcile utility billings and collections for each billing period. The Council or a Council designated independent person should review the accuracy and timeliness of the reconciliation's.

Response – We will implement procedures to reconcile our utility billings and collections in a timely manner.

Conclusion – Response accepted.

II-D-15

Fire Department – The Fire Department maintains separate accounting records for certain operations. These transactions and resulting balances are not included in the City's accounting records. There is no board or other governing body to monitor the transactions that flow through the fire department's separate checking account. Furthermore, certain records could not be located due to a fire and there were a number of questionable disbursements.

Criteria – An internal control system that is functioning properly should include monitoring procedures for all public funds collected.

CITY OF LEHIGH, IOWA
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2015

Condition – Regular month-end practices do not include reviewing and approving the fire department transactions with the City’s normal monthly processes.

Effect – Supporting documentation was not available to support fire department disbursements and a public purpose could not always be found.

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

Additionally, the City Council should determine and document the public purpose served before authorizing any payments for the fire department. If this practice is continued, the City should establish written policies and procedures, including the requirements for proper public purpose documentation

Response – We will consider the recommendation and take steps to address this issue.

Conclusion – Response accepted.

CITY OF LEHIGH, IOWA
 SCHEDULE OF FINDINGS
 YEAR ENDED JUNE 30, 2015

Part III: Other Findings Related to Statutory Reporting:

III-A-15 Certified Budget – Disbursements during the year ended June 30, 2015 exceeded the amounts budgeted in the public safety, culture and recreation, general government and debt service functions.

Criteria - Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

Cause – The City did not discontinue issuing disbursements when the budgeted limits were reached.

Effect – The City did not comply with Chapter 384.20 of the Code of Iowa.

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

Response – The budget will be amended in the future, if applicable.

Conclusion – Response accepted.

III-B-15 Questionable Disbursements – During the audit, we noted a certain expenditure approved by the City Council that may not meet the requirements of public purpose as defined in the Attorney General’s opinion dated April 25, 1979. The expense was as follows:

Paid to	Transaction Description	Amount
Wanda Ganeff	Accrued Vacation– Per review of the personnel manual, vacation is not to be carried forward unless there is prior council approval. Wanda had been carrying over vacation since she started in 2007 and there was no documented council approval. Additionally, there was no documented approval by the City Council for this payment.	\$ 1,765
Wanda Ganeff	Accrued Sick Leave– Per review of the personnel manual, sick leave is never to be paid out upon termination. Additionally, there was no documented approval by the City Council for this payment.	1,240
Grow Advertising	I-text Program– This was for a fundraiser for the fire department but the fundraiser didn’t happen.	2,210
Trinity Regional	Unknown – No receipt could be located.	18
Fareway	Pork loin – Bought for a benefit for an injured fireman but the benefit didn’t happen.	321
Office Depot	Unknown– No receipt could be located.	505

CITY OF LEHIGH, IOWA

SCHEDULE OF FINDINGS

YEAR ENDED JUNE 30, 2015

Sportsman's Warehouse	Ice fishing gear– Bought as prizes for a fundraiser that didn't happen. We physically noted the gear included in the fire department building still in bags to be used for this year's fundraiser.	1,186
Office Depot	Unknown– No receipt could be located.	54

According to the opinion, it is possible for such disbursements 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 improper purpose is very thin.

Criteria – In accordance with the Code of Iowa, public expenditures are required to have a clearly identifiable documented public purpose.

Cause – The City did not identify a clear documented public purpose for the questioned disbursement.

Effect – The City did not comply with the Attorney General's opinion dated April 25, 1979.

Recommendation – The City Council should determine and document the public purpose served by these disbursements before authorizing any further payments.

Response – We will comply with this recommendation.

Conclusion – Response accepted.

III-C-15 Travel Expense - No disbursements of City money for travel expense of spouses of City officials or employees were noted.

III-D-15 Business Transactions – No business transactions between the City and its officials or employees were noted.

III-E-15 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.

III-F-15 Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not.

III-G-15 Deposits and Investments – The City of Lehigh could not locate their written investment policy.

Criteria - Chapter 12B.10B of the Code of Iowa states “Political subdivisions shall approve written investment policies which incorporate the guidelines specified in section 12B.10, sections 12B.10A through 12B.10C, and any other provisions deemed necessary to adequately safeguard invested public

CITY OF LEHIGH, IOWA
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funds.”

Cause – The City only invested funds in certificates of deposit and never had reason to question whether that would be allowed because the investment policy, if located, was not reviewed on a periodic basis.

Effect – The City did not comply for the entire year with Chapter 12B.10B of the Code of Iowa.

Recommendation - The city should adopt a written investment policy to comply with the Code of Iowa and to implement added controls over city funds.

Response – We will adopt a written investment policy that complies with the Code of Iowa.

Conclusion – Response accepted.

III-H-15 Fund Balance – While the Annual Financial Report was submitted by the deadline of December 1, 2015, it contained errors and could not be reconciled to the City’s financials.

Criteria – The City is required to complete and publish an Annual Financial Report that shows the City’s beginning cash balance, its receipts and disbursements, and the end of year cash balance.

Cause – No one at the city reviewed the reported cash fund balance at June 30 and compared it to the City’s monthly accounting reports.

Effect – The Annual Financial Report reported a cash fund balance and other activity that was significantly different than the internal accounting reports.

Recommendation – The City should review the Annual Financial Report prior to submission to ensure all amounts being reported reconcile to the City’s financials.

Response – We will comply with the recommendation.

III-I-15 General Obligation Debt – It was noted the City borrowed \$91,144 from a local bank during the year ended June 30, 2015 without holding a public hearing prior to issuance.

Criteria – The Code of Iowa requires that prior to issuing debt, a City must publish notice of a public hearing and then hold a public hearing to discuss the issuance.

Cause – The City was not aware of this Code requirement.

Effect – The City did not comply with the Code of Iowa when borrowing money during the year.

Recommendation – The City should consult with its attorney to discuss remedies to the situation.

CITY OF LEHIGH, IOWA
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YEAR ENDED JUNE 30, 2015

Response – We will discuss the matter with our attorney and take steps to address this issue.

Conclusion – Response accepted.