



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE January 15, 2004

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Auditor of State David A. Vaudt today released an audit report on the City of Earlham, Iowa.

The City's receipts totaled \$1,195,738 for the year ended June 30, 2003, a 13 percent increase from 2002. The receipts included \$281,806 in property tax, \$16,411 in tax increment financing collections, \$171,169 from other governments and \$28,254 in interest on investments. The City also received sewer revenue note proceeds of \$612,918 that are reported as an other financing source. The increase in City receipts is primarily due to an increase in sewer rental fees.

Disbursements for the year totaled \$1,793,183, a 4 percent increase from the prior year, and included \$691,465 for capital projects, \$401,336 for business type activities, and \$209,642 for public works.

This report contains recommendations to the City Council and other City officials. For example, the City should review its internal control procedures and segregate duties to the extent possible, establish policies and procedures regarding the use and operation of its computer system and prepare monthly book to bank reconciliations. The City's responses are included in the audit report.

A copy of the audit report is available for review in the Office of Auditor of State and the City Clerk's office.

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CITY OF EARLHAM
INDEPENDENT AUDITOR'S REPORTS
FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2003

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City of Earlham

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Richard Rothert	Mayor	Jan 2004
Truman Payne	Council Member	Jan 2004
William Hunter (Appointed)	Council Member	Jan 2004
Doug Waugh	Council Member	Jan 2006
Jeff Beisner	Council Member	Jan 2006
Andrew Arnburg	Council Member	Jan 2006
Marilyn Sesker	Clerk/Treasurer	Indefinite
Samuel Braland	Attorney	Indefinite

City of Earlham



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Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements, listed as exhibits in the table of contents of this report, of the City of Earlham, Iowa, as of and for the year ended June 30, 2003. These financial statements are the responsibility of the City of Earlham's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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

As discussed in note 9, the City of Earlham intends to implement Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments; Statement No. 37, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus; and Statement No. 38, Certain Financial Statement Note Disclosures, for the year ending June 30, 2004. The effects of these statements are expected to significantly impact the presentation of the City's financial statements and related notes in the year of implementation. The revised requirements include an analytical overview of the City's financial activities in the Management's Discussion and Analysis introduction to the financial statements.

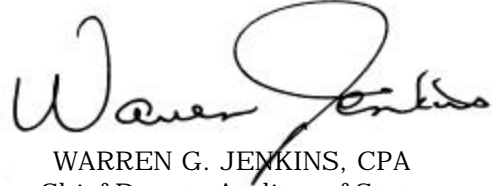
In our opinion, the aforementioned financial statements present fairly, in all material respects, the results of the cash transactions of the funds of the City of Earlham as of and for the year ended June 30, 2003, and its indebtedness at June 30, 2003, on the basis of accounting described in note 1.

In accordance with Government Auditing Standards, we have also issued our reports dated August 21, 2003 on our consideration of the City of Earlham's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. Those reports are an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the aforementioned financial statements taken as a whole. The supplemental information included in Schedules 1 through 9, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in our audit of the aforementioned financial statements and, in our opinion, is fairly stated in all material respects in relation to the aforementioned financial statements taken as a whole.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

August 21, 2003

Financial Statements

City of Earlham
 Combined Statement of Cash Transactions
 All Fund Types
 Year ended June 30, 2003

	Governmental Fund Types		
	General	Special Revenue	Debt Service
Receipts:			
Property tax	\$ 270,086	-	11,720
Tax increment financing collections	-	16,411	-
Licenses and permits	11,075	-	-
Use of money and property	3,730	-	-
Intergovernmental	65,495	105,674	-
Charges for service	101,326	-	-
Special assessments	-	-	-
Miscellaneous	43,960	4,893	-
Total receipts	<u>495,672</u>	<u>126,978</u>	<u>11,720</u>
Disbursements:			
Public safety	172,766	-	-
Public works	138,930	70,712	-
Culture and recreation	142,438	-	-
General government	94,173	-	-
Debt service	-	16,760	29,439
Capital projects	-	-	-
Business type activities	-	-	-
Total disbursements	<u>548,307</u>	<u>87,472</u>	<u>29,439</u>
Excess (deficiency) of receipts over (under) disbursements	<u>(52,635)</u>	<u>39,506</u>	<u>(17,719)</u>
Other financing sources (uses):			
Sewer revenue note proceeds	-	-	-
Sale of general fixed assets	1,585	-	-
Lease purchase agreement proceeds	42,656	-	-
Operating transfers in	24,000	-	118,321
Operating transfers out	(14,000)	-	-
Total other financing sources (uses)	<u>54,241</u>	<u>-</u>	<u>118,321</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	1,606	39,506	100,602
Balance beginning of year	<u>91,591</u>	<u>145,940</u>	<u>(119,592)</u>
Balance end of year	<u>\$ 93,197</u>	<u>185,446</u>	<u>(18,990)</u>

See notes to financial statements.

Capital Projects	Proprietary Fund Type Enterprise	Fiduciary Fund Type Trust	Total (Memorandum Only)
-	-	-	281,806
-	-	-	16,411
-	-	-	11,075
-	5,538	18,986	28,254
-	-	-	171,169
-	441,439	3,650	546,415
7,728	-	-	7,728
1,209	58,765	24,053	132,880
8,937	505,742	46,689	1,195,738
-	-	34,971	207,737
-	-	-	209,642
-	-	193	142,631
-	-	-	94,173
-	-	-	46,199
691,465	-	-	691,465
-	401,336	-	401,336
691,465	401,336	35,164	1,793,183
(682,528)	104,406	11,525	(597,445)
612,918	-	-	612,918
-	-	-	1,585
-	-	-	42,656
-	77,500	-	219,821
-	(195,821)	(10,000)	(219,821)
612,918	(118,321)	(10,000)	657,159
(69,610)	(13,915)	1,525	59,714
(346,091)	671,710	474,116	917,674
(415,701)	657,795	475,641	977,388

City of Earlham
 Comparison of Receipts, Disbursements and Changes in Balances -
 Actual to Budget
 Year ended June 30, 2003

	Actual
Receipts:	
Property tax	\$ 281,806
Tax increment financing collections	16,411
Licenses and permits	11,075
Use of money and property	28,254
Intergovernmental	171,169
Charges for service	546,415
Special assessments	7,728
Miscellaneous	132,880
Total receipts	1,195,738
Disbursements:	
Public safety	207,737
Public works	209,642
Culture and recreation	142,631
Community and economic development	-
General government	94,173
Debt service	46,199
Capital projects	691,465
Business type activities	401,336
Total disbursements	1,793,183
Excess (deficiency) of receipts over (under) disbursements	(597,445)
Other financing sources, net	657,159
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	59,714
Balance beginning of year	917,674
Balance end of year	\$ 977,388

See notes to financial statements.

Less Funds Not Required to be Budgeted	Net	Amended Budget	Variance Favorable (Unfavorable)	Net as % of Amended Budget
-	281,806	279,041	2,765	101%
-	16,411	16,460	(49)	100%
-	11,075	12,000	(925)	92%
1,088	27,166	19,400	7,766	140%
-	171,169	1,233,840	(1,062,671)	14%
3,650	542,765	618,327	(75,562)	88%
-	7,728	6,000	1,728	129%
24,053	108,827	42,656	66,171	255%
28,791	1,166,947	2,227,724	(1,060,777)	52%
34,971	172,766	196,236	23,470	88%
-	209,642	238,295	28,653	88%
-	142,631	157,953	15,322	90%
-	-	15,600	15,600	0%
-	94,173	98,051	3,878	96%
-	46,199	106,656	60,457	43%
-	691,465	39,400	(652,065)	1755%
-	401,336	1,406,795	1,005,459	29%
34,971	1,758,212	2,258,986	500,774	78%
(6,180)	(591,265)	(31,262)		
-	657,159	49,500		
(6,180)	65,894	18,238		
105,576	812,098	857,290		
99,396	877,992	875,528		

City of Earlham
Statement of Indebtedness
Year ended June 30, 2003

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
Tax increment financing revenue notes	Jun 1, 1999	6.60-7.55%	\$ 100,000
Water service agreement	Jun 1, 2002	5.125%	\$ 1,154,167
State Revolving Fund Sewer revenue notes:			
CS192180 01	Oct 24, 2001	3.00%	\$ 1,200,000
CS192180 02	Jun 25, 2002	3.00	250,000
Total			
Lease purchase agreements:			
Truck	Nov 9, 1998	5.75%	\$ 52,355
Pumper	Apr 23, 2002	5.50	150,038
Rescue box	Sept 16, 2002	7.25	42,656
Total			

See notes to financial statements.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
90,000	-	10,000	80,000	6,460
1,154,167	-	9,064	1,145,103	58,940
709,030	490,970	45,000	1,155,000	31,819
-	121,948	9,000	112,948	1,885
\$ 709,030	612,918	54,000	1,267,948	33,704
21,346	-	10,375	10,971	1,227
-	-	17,837	132,201	-
-	42,656	-	42,656	-
\$ 21,346	42,656	28,212	185,828	1,227

City of Earlham

City of Earlham

Notes to Financial Statements

June 30, 2003

(1) Summary of Significant Accounting Policies

The City of Earlham is a political subdivision of the State of Iowa located in Madison County. It was first incorporated in 1870 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, culture and recreation, general government and business type activities.

A. Reporting Entity

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

These financial statements present the City of Earlham (the primary government) and its component unit. The component unit discussed below is included in the City's reporting entity because of the significance of its operational or financial relationship with the City.

Blended Component Unit

The Earlham Fire Department was established as a non-profit corporation in accordance with Chapter 504A of the Code of Iowa. The Department is legally separate from the City but is so intertwined with the City that it is, in substance, the same as the City. The Department is reported as part of the City and blended as an Expendable Trust Fund. The Department receives donations for the benefit of the Earlham Fire Department. These donations would be used to purchase items which are not included in the City's budget.

Jointly Governed Organizations

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

B. Fund Accounting

The accounts of the City are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts which comprise its receipts, disbursements and balances. The various funds and their designated purposes are as follows:

Governmental Funds

General Fund - The General Fund is the general operating fund of the City.

All general tax receipts and other receipts that are 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 through other funds.

Special Revenue Funds - The Special Revenue Funds are utilized to account for receipts derived from specific sources which are usually required by law or regulation to be accounted for in separate funds.

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

Capital Projects Funds - The Capital Projects Funds are utilized to account for all resources used in the acquisition and construction of capital facilities, with the exception of those that are financed through Enterprise Funds.

Proprietary Funds

Enterprise Funds - The Enterprise Funds are utilized to finance and account for the acquisition, operation and maintenance of governmental facilities and services that are supported by user charges.

Fiduciary Funds

Trust Funds - The Trust Funds are used to account for monies and properties received and held by the City in a trustee capacity. These include Expendable Trust Funds and Non-Expendable Trust Funds.

C. Basis of Accounting

The City of Earlham 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.

D. Budgets and Budgetary Accounting

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 for the blended component unit and non-expendable trust funds. The

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

Formal and legal budgetary control is based upon nine major classes of disbursements, known as functions, not by fund. These 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.

E. Total (Memorandum Only)

The total column on the combined statement of cash transactions is captioned "Memorandum Only" to indicate that it is presented only to facilitate financial analysis. Data in this column does not present financial position or results of operations in conformity with U.S. generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2003 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 investments are categorized to give an indication of the level of risk assumed by the City at year end. The City's investments are all category 1 which means that the investments are insured or registered or the securities are held by the City or its agent in the City's name.

The City's investments at June 30, 2003 are as follows:

<u>Type</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
Common stock	<u>\$ 42,267</u>	<u>64,944</u>

(3) Long-Term Debt

Lease Purchase Agreements

The City has entered into lease purchase agreements to lease a truck, pumper and rescue box. The following is a schedule of the future minimum lease payments, including interest ranging from 5.75% to 7.25% per annum, and the present value of net minimum payments under agreements in effect at June 30, 2003:

Year Ending June 30,	Truck	Pumper	Rescue Box	Total
2004	\$ 11,602	21,254	10,445	43,301
2005	-	21,254	10,445	31,699
2006	-	21,254	10,445	31,699
2007	-	21,253	10,446	31,699
2008	-	21,253	10,446	31,699
2009	-	21,253	-	21,253
2010	-	21,254	-	21,254
2011	-	21,253	-	21,253
Total minimum lease payments	11,602	170,028	52,227	233,857
Less amount representing interest	(631)	(37,827)	(9,571)	(48,029)
Present value of net minimum lease payments	\$ 10,971	132,201	42,656	185,828

Payments under lease purchase agreements for the year ended June 30, 2003 totaled \$11,602.

Water Service Agreement

The Warren Water District has entered into a loan with the USDA to construct a water supply distribution system.

The City has entered into a water service agreement with the Warren Water District to purchase 345,000 gallons per day and pay a fee for connection to the system.

The City owns capacity in the water line, is responsible for a portion of the loan and makes monthly payments to the Warren Water District.

A schedule of the City's portion of annual debt service requirements to maturity for the loan is as follows:

Year Ending June 30,	Water Service Agreement	
	Principal	Interest
2004	\$ 9,539	58,465
2005	10,040	57,964
2006	10,567	57,437
2007	11,121	56,883
2008	11,419	55,685
2009	12,065	55,039
2010	13,646	54,358
2011	14,362	53,642
2012-2022	1,052,344	1,512,351
Total	\$ 1,145,103	1,961,824

Notes Payable

The City entered into State Revolving Fund loan and disbursement agreements during the years ended June 30, 2002 and 2003 to finance a lagoon project. Since the City is still drawing funds on the 2003 revenue notes, a formal repayment schedule has not yet been adopted for that debt.

Annual debt service requirements for tax increment financing (TIF) revenue notes and sewer revenue notes are as follows:

Year Ending June 30,	TIF Revenue Notes		Revenue Notes CS192180 01		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2004	\$ 10,000	5,790	46,000	80,650	56,000	86,440
2005	10,000	5,105	47,000	80,270	57,000	85,375
2006	10,000	4,405	49,000	80,860	59,000	85,265
2007	10,000	3,695	50,000	80,390	60,000	84,085
2008	10,000	2,975	52,000	80,890	62,000	83,865
2009	10,000	2,245	53,000	80,330	63,000	82,575
2010	10,000	1,505	55,000	80,740	65,000	82,245
2011	10,000	755	57,000	81,090	67,000	81,845
2012-2022	-	-	746,000	886,850	746,000	886,850
Total	\$ 80,000	26,475	1,155,000	1,532,070	1,235,000	1,558,545

The resolution providing for the issuance of the sewer revenue notes issued under a loan agreement between the City of Earlham, the Iowa Finance Authority, the Iowa Department of Natural Resources and Wells Fargo Bank Iowa, N.A. includes the following provisions:

- (a) The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the funds.
- (b) Monthly transfers of 1/6 of the installment of interest next due and 1/12 of the installment of principal next due shall be made to the sewer revenue note and interest sinking account.
- (c) Additional monthly transfers of 25 percent of the amount required to be deposited in the sewer revenue note and interest sinking account shall be made to the sewer reserve account until \$97,500 is accumulated and maintained.
- (d) All funds remaining after payment of all maintenance and operating expenses and the transfers to the restricted accounts noted above can be used to retire any subordinate obligations and then can be used for any lawful purpose.
- (e) Notes maturing after June 1, 2005 may be called for redemption by the issuer and paid before maturity on June 1, 2005 or any interest payment date thereafter.

The City has not made the transfers as required by the sewer revenue note resolution.

(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.

Plan members are required to contribute 3.70% of their annual salary and the City is required to contribute 5.75% of annual covered payroll except for police employees, in which case the percentages are 6.04% and 9.07%, respectively. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2003, 2002, and 2001 were \$13,785, \$14,336, and \$12,099, respectively, equal to the required contributions for each year.

(5) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation and sick leave hours payable to employees at June 30, 2003, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Vacation	\$ 9,500
Sick leave	13,000
Compensatory time	<u>3,500</u>
Total	<u>\$ 26,000</u>

This liability has been computed based on rates of pay in effect at June 30, 2003.

(6) 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.

(7) Budget Overexpenditure

Per the Code of Iowa, disbursements may not legally exceed budgeted appropriations at the functional level. During the year ended June 30, 2003, disbursements in the capital projects function exceeded the amount budgeted.

(8) Deficit Balance

The Capital Projects Fund had a deficit balance of \$415,701 at June 30, 2003. The deficit balance was a result of project costs incurred prior to availability of funds. The deficit will be eliminated upon receipt of special assessments from benefited property owners. The Debt Service Fund had a deficit balance of \$18,990 at June 30, 2003 because the City called several bonds early in previous years. The Enterprise Fund, Sewer Revenue Sinking Account had a deficit balance of \$64,433 at June 30, 2003 because the City has not made transfers as required by the sewer revenue note resolution.

(9) Prospective Accounting Change

The Governmental Accounting Standards Board has issued Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus; and Statement No. 38, Certain Financial Statement Note Disclosures. These statements will be implemented for the year ending June 30, 2004. The effects are expected to significantly impact the presentation of governmental financial statements in the year of implementation. The revised requirements include Management’s Discussion and Analysis to introduce the financial statements and to provide an analytical overview of the City’s financial activities.

City of Earlham

Supplemental Information

Schedule 1

City of Earlham
Schedule of Cash Transactions
General Fund
Year ended June 30, 2003

	General	Library	Total
Receipts:			
Property tax	\$ 270,086	-	270,086
Licenses and permits:			
Liquor	678	-	678
Cigarette	75	-	75
Building	10,317	-	10,317
Miscellaneous	5	-	5
	11,075	-	11,075
Use of money and property:			
Interest on investments	3,008	25	3,033
Rent	697	-	697
	3,705	25	3,730
Intergovernmental:			
State allocation	16,073	-	16,073
Bank franchise tax	5,931	-	5,931
Library open access program	-	1,914	1,914
County library allocation	-	11,361	11,361
Township contributions	29,979	-	29,979
Miscellaneous	237	-	237
	52,220	13,275	65,495
Charges for service:			
Garbage collection	80,028	-	80,028
Library fees	-	1,417	1,417
Animal control	340	-	340
Swimming pool	19,491	-	19,491
Miscellaneous	50	-	50
	99,909	1,417	101,326
Miscellaneous:			
Contributions	-	12,795	12,795
Refunds and reimbursements	8,356	-	8,356
Community building	19,735	-	19,735
Miscellaneous	2,342	732	3,074
	30,433	13,527	43,960
Total receipts	467,428	28,244	495,672

City of Earlham
Schedule of Cash Transactions
General Fund
Year ended June 30, 2003

	General	Library	Total
Disbursements:			
Public safety:			
Police:			
Personal services	85,485	-	85,485
Services and commodities	14,036	-	14,036
	<u>99,521</u>	<u>-</u>	<u>99,521</u>
Traffic safety	279	-	279
Fire department:			
Personal services	500	-	500
Services and commodities	17,505	-	17,505
Capital outlay	2,500	-	2,500
	<u>20,505</u>	<u>-</u>	<u>20,505</u>
Ambulance:			
Personal services	300	-	300
Services and commodities	9,154	-	9,154
Capital outlay	42,776	-	42,776
	<u>52,230</u>	<u>-</u>	<u>52,230</u>
Animal control:			
Contractual services	231	-	231
	<u>172,766</u>	<u>-</u>	<u>172,766</u>
Public works:			
Tree removal:			
Services and commodities	2,100	-	2,100
Street maintenance:			
Personal services	29,130	-	29,130
Services and commodities	6,445	-	6,445
	<u>35,575</u>	<u>-</u>	<u>35,575</u>
Street lighting:			
Services and commodities	16,271	-	16,271
Garbage:			
Services and commodities	84,984	-	84,984
	<u>138,930</u>	<u>-</u>	<u>138,930</u>

Schedule 1

City of Earlham
Schedule of Cash Transactions
General Fund
Year ended June 30, 2003

	General	Library	Total
Disbursements (continued):			
Culture and recreation:			
Library:			
Personal services	-	21,653	21,653
Services and commodities	1,727	26,819	28,546
Capital outlay	-	4,916	4,916
	<u>1,727</u>	<u>53,388</u>	<u>55,115</u>
Parks:			
Personal services	12,912	-	12,912
Services and commodities	5,619	-	5,619
Capital outlay	2,362	-	2,362
	<u>20,893</u>	<u>-</u>	<u>20,893</u>
Swimming pool:			
Personal services	18,427	-	18,427
Services and commodities	17,833	-	17,833
	<u>36,260</u>	<u>-</u>	<u>36,260</u>
Cemetery:			
Contractual services	465	-	465
Community center:			
Personal services	7,524	-	7,524
Services and commodities	22,181	-	22,181
	<u>29,705</u>	<u>-</u>	<u>29,705</u>
	<u>89,050</u>	<u>53,388</u>	<u>142,438</u>
General government:			
Mayor and council members:			
Personal services	2,774	-	2,774
Clerk and treasurer:			
Personal services	46,312	-	46,312
Services and commodities	38,500	-	38,500
Capital outlay	5,238	-	5,238
	<u>90,050</u>	<u>-</u>	<u>90,050</u>
Legal services:			
Services and commodities	1,349	-	1,349
	<u>94,173</u>	<u>-</u>	<u>94,173</u>
Total disbursements	<u>494,919</u>	<u>53,388</u>	<u>548,307</u>

City of Earlham
 Schedule of Cash Transactions
 General Fund
 Year ended June 30, 2003

	General	Library	Total
Deficiency of receipts under disbursements	(27,491)	(25,144)	(52,635)
Other financing sources (uses):			
Sale of general fixed assets	1,585	-	1,585
Lease purchase agreement proceeds	42,656	-	42,656
Operating transfers in (out):			
General:			
General	-	14,000	14,000
Library	(14,000)	-	(14,000)
Trust:			
Library Trust	-	10,000	10,000
Total other financing sources (uses)	30,241	24,000	54,241
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	2,750	(1,144)	1,606
Balance beginning of year	83,320	8,271	91,591
Balance end of year	\$ 86,070	7,127	93,197

See accompanying independent auditor's report.

Schedule 2

City of Earlham
Combining Schedule of Cash Transactions
Special Revenue Funds
Year ended June 30, 2003

	Road Use Tax	Tax Increment Financing	Total
Receipts:			
Tax increment financing collections	\$ -	16,411	16,411
Intergovernmental:			
Road use tax allocation	105,674	-	105,674
Miscellaneous:			
Refunds and reimbursements	3,660	-	3,660
Miscellaneous	1,082	151	1,233
	4,742	151	4,893
Total receipts	110,416	16,562	126,978
Disbursements:			
Public works:			
Streets:			
Personal services	20,534	-	20,534
Services and commodities	19,453	-	19,453
Capital outlay	30,725	-	30,725
	70,712	-	70,712
Debt service:			
Principal redeemed	-	10,000	10,000
Interest paid	-	6,460	6,460
Registrar fee	-	300	300
	-	16,760	16,760
Total disbursements	70,712	16,760	87,472
Excess (deficiency) of receipts over (under) disbursements	39,704	(198)	39,506
Balance beginning of year	123,002	22,938	145,940
Balance end of year	\$ 162,706	22,740	185,446

See accompanying independent auditor's report.

City of Earlham
Schedule of Cash Transactions
Debt Service Fund
Year ended June 30, 2003

Receipts:	
Property tax	<u>\$ 11,720</u>
Disbursements:	
Debt service:	
Principal redeemed	28,212
Interest paid	<u>1,227</u>
Total disbursements	<u>29,439</u>
Deficiency of receipts under disbursements	(17,719)
Other financing sources:	
Operating transfers in:	
Enterprise:	
Water	<u>118,321</u>
Excess of receipts and other financing sources over disbursements	100,602
Balance beginning of year	<u>(119,592)</u>
Balance end of year	<u><u>\$ (18,990)</u></u>

See accompanying independent auditor's report.

Schedule 4

City of Earlham
Combining Schedule of Cash Transactions
Capital Projects Funds
Year ended June 30, 2003

	Sewer Project	Special Project	Total
Receipts:			
Special assessments	\$ -	7,728	7,728
Miscellaneous:			
Refunds and reimbursements	-	1,209	1,209
Total receipts	-	8,937	8,937
Disbursements:			
Capital projects:			
Services and commodities	46,060	12,724	58,784
Capital outlay	599,487	33,194	632,681
Total disbursements	645,547	45,918	691,465
Deficiency of receipts under disbursements	(645,547)	(36,981)	(682,528)
Other financing sources:			
Sewer revenue note proceeds	612,918	-	612,918
Deficiency of receipts and other financing sources under disbursements	(32,629)	(36,981)	(69,610)
Balance beginning of year	24,694	(370,785)	(346,091)
Balance end of year	\$ (7,935)	(407,766)	(415,701)

See accompanying independent auditor's report.

City of Earlham

City of Earlham
Combining Schedule of Cash Transactions
Enterprise Funds
Year ended June 30, 2003

	Water	Water Revenue Sinking	Sewer Rental
Receipts:			
Use of money and property:			
Interest on investments	\$ -	2,095	3,443
Charges for service:			
Sale of water	270,483	-	-
Sewer rental fees	-	-	157,137
	<u>270,483</u>	<u>-</u>	<u>157,137</u>
Miscellaneous:			
Customer deposits	-	-	-
Sale of pipeline	-	49,500	-
Miscellaneous	1,491	479	2,344
	<u>1,491</u>	<u>49,979</u>	<u>2,344</u>
Total receipts	<u>271,974</u>	<u>52,074</u>	<u>162,924</u>
Disbursements:			
Business type activities:			
Personal services	33,310	-	26,165
Services and commodities	97,414	6,804	19,010
Capital outlay	8,500	47,850	-
Debt service:			
Principal redeemed	-	9,064	-
Interest paid	-	58,940	-
Meter deposits refunded	-	-	-
Total disbursements	<u>139,224</u>	<u>122,658</u>	<u>45,175</u>
Excess (deficiency) of receipts over (under) disbursements	<u>132,750</u>	<u>(70,584)</u>	<u>117,749</u>
Other financing sources (uses):			
Operating transfers in (out):			
Debt Service	(118,321)	-	-
Enterprise:			
Water	-	77,500	-
Water Revenue Sinking	(77,500)	-	-
Total other financing sources (uses)	<u>(195,821)</u>	<u>77,500</u>	<u>-</u>

Sewer Revenue Sinking	Sewer Improvement	Sewer Reserve	Meter Deposits	Total
-	-	-	-	5,538
-	-	-	-	270,483
13,819	-	-	-	170,956
13,819	-	-	-	441,439
-	-	-	4,650	4,650
-	-	-	-	49,500
-	134	167	-	4,615
-	134	167	4,650	58,765
13,819	134	167	4,650	505,742
-	-	-	-	59,475
-	-	-	-	123,228
-	-	-	-	56,350
54,000	-	-	-	63,064
33,704	-	-	-	92,644
3,583	-	-	2,992	6,575
91,287	-	-	2,992	401,336
(77,468)	134	167	1,658	104,406
-	-	-	-	(118,321)
-	-	-	-	77,500
-	-	-	-	(77,500)
-	-	-	-	(118,321)

City of Earlham
Combining Schedule of Cash Transactions
Enterprise Funds
Year ended June 30, 2003

	Water	Water Revenue Sinking	Sewer Rental
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(63,071)	6,916	117,749
Balance beginning of year	<u>287,278</u>	<u>66,729</u>	<u>234,579</u>
Balance end of year	<u>\$ 224,207</u>	<u>73,645</u>	<u>352,328</u>

See accompanying independent auditor's report.

Sewer Revenue Sinking	Sewer Improvement	Sewer Reserve	Meter Deposits	Total
(77,468)	134	167	1,658	(13,915)
13,035	20,000	25,000	25,089	671,710
(64,433)	20,134	25,167	26,747	657,795

Schedule 6

City of Earlham
Combining Schedule of Cash Transactions
Trust Funds
Year ended June 30, 2003

	Non- Expendable Trust	Expendable Trust		Total
	Cemetery Perpetual Care	Library Trust	Fire/Rescue Department	
Receipts:				
Use of money and property:				
Interest on investments	\$ 359	17,898	729	18,986
Charges for service:				
Cemetery lot sales	3,650	-	-	3,650
Miscellaneous:				
Donations	610	-	23,443	24,053
Total receipts	<u>4,619</u>	<u>17,898</u>	<u>24,172</u>	<u>46,689</u>
Disbursements:				
Public safety:				
Fire/rescue department:				
Services and commodities	-	-	14,586	14,586
Capital outlay	-	-	20,385	20,385
Culture and recreation:				
Library:				
Services and commodities	-	193	-	193
Total disbursements	<u>-</u>	<u>193</u>	<u>34,971</u>	<u>35,164</u>
Excess (deficiency) of receipts over (under) disbursements	4,619	17,705	(10,799)	11,525
Other financing uses:				
Operating transfers out:				
General:				
Library	-	(10,000)	-	(10,000)
Excess (deficiency) of receipts over (under) disbursements and other financing uses	4,619	7,705	(10,799)	1,525
Balance beginning of year	<u>60,384</u>	<u>368,540</u>	<u>45,192</u>	<u>474,116</u>
Balance end of year	<u>\$ 65,003</u>	<u>376,245</u>	<u>34,393</u>	<u>475,641</u>

See accompanying independent auditor's report.

City of Earlham

Note Maturities

June 30, 2003

TIF Revenue Notes			Water Service Agreement		
Year	Issued June 1, 1999		Year	Water Service Agreement	
Ending	Interest		Ending	Interest	
June 30,	Rates	Amount	June 30,	Rates	Amount
2004	6.85%	\$ 10,000	2004	5.125%	\$ 9,539
2005	7.00	10,000	2005	5.125	10,040
2006	7.10	10,000	2006	5.125	10,567
2007	7.20	10,000	2007	5.125	11,121
2008	7.30	10,000	2008	5.125	11,419
2009	7.40	10,000	2009	5.125	12,065
2010	7.50	10,000	2010	5.125	13,646
2011	7.55	10,000	2011	5.125	14,362
			2012-2042		1,052,344
Total		\$ 80,000	Total		\$ 1,145,103

Sewer		
Revenue Note		
Year	CS192180 01	
Ending	Interest	
June 30,	Rate	Amount
2004	3.00%	\$ 46,000
2005	3.00	47,000
2006	3.00	49,000
2007	3.00	50,000
2008	3.00	52,000
2009	3.00	53,000
2010	3.00	55,000
2011	3.00	57,000
2012-2022	3.00	746,000
Total		\$ 1,155,000

See accompanying independent auditor's report.

Schedule 8

City of Earlham

Comparison of Taxes and Intergovernmental Receipts

	Years ended June 30,			
	2003	2002	2001	2000
Property tax and other city tax	\$ 281,806	273,598	295,755	299,759
Tax increment financing collections	16,411	17,122	8,189	2,427
Intergovernmental:				
State allocation	16,073	16,948	16,802	19,534
Bank franchise tax	5,931	-	3,689	669
Road use tax allocation	105,674	103,967	95,459	93,850
County library allocation	11,361	10,823	10,259	9,772
Open access grant	1,914	-	-	241
Community development block grant	-	-	391,900	4,050
Fire township fees	22,484	17,037	19,397	-
Ambulance township fees	7,495	5,679	6,234	-
Automation grant	-	-	3,894	4,098
Miscellaneous	237	469	752	566
	<u>171,169</u>	<u>154,923</u>	<u>548,386</u>	<u>132,780</u>
Total	<u>\$ 469,386</u>	<u>445,643</u>	<u>852,330</u>	<u>434,966</u>

See accompanying independent auditor's report.

City of Earlham
 Schedule of Expenditures of Federal Awards
 Year ended June 30, 2003

Grantor/Program	CFDA Number	Agency Pass-through Number	Program Expendi- tures
Indirect:			
U.S. Environmental Protection Agency:			
Iowa Department of Natural Resources:			
Capitalization Grants for Clean Water -			
State Revolving Fund			
	66.458	CS192180 01,02	<u>\$ 510,371</u>

Basis of Presentation - The Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Earlham and is presented in conformity with an other comprehensive basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

See accompanying independent auditor's report.

City of Earlham



**OFFICE OF AUDITOR OF STATE
STATE OF IOWA**

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Auditor of State

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Des Moines, Iowa 50319-0004

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Independent Auditor's Report on Compliance
and on Internal Control over Financial Reporting

To the Honorable Mayor and
Members of the City Council:

We have audited the financial statements of the City of Earlham, Iowa, as of and for the year ended June 30, 2003, and have issued our report thereon dated August 21, 2003. Our report expressed an unqualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City of Earlham's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance that are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2003 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. Prior year statutory comments have been resolved except for item IV-L-03.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Earlham's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect City of Earlham's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part II of the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe items II-A-03, II-B-03 and II-G-03 are material weaknesses. The prior year reportable condition has not been resolved and is repeated as item II-A-03.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Earlham and other parties to whom the City of Earlham may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Earlham during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

August 21, 2003

**Independent Auditor's Report on Compliance with Requirements
Applicable to Each Major Program and Internal Control over Compliance**

City of Earlham



**OFFICE OF AUDITOR OF STATE
STATE OF IOWA**

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Independent Auditor's Report on Compliance with Requirements
Applicable to Each Major Program and Internal Control over Compliance

To the Honorable Mayor and
Members of the City Council:

Compliance

We have audited the compliance of the City of Earlham, Iowa, with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal program for the year ended June 30, 2003. The City of Earlham's major federal program is identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the City of Earlham's management. Our responsibility is to express an opinion on the City of Earlham's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Earlham's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Earlham's compliance with those requirements.

In our opinion, the City of Earlham complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2003.

Internal Control Over Compliance

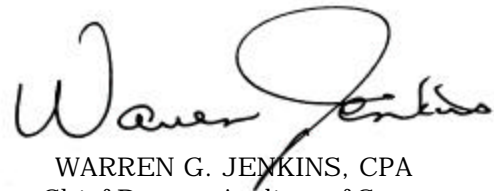
The management of the City of Earlham is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City of Earlham's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that non-compliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Earlham and other parties to whom the City of Earlham may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

August 21, 2003

City of Earlham

Schedule of Findings and Questioned Costs

Year ended June 30, 2003

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

- (a) An unqualified opinion was issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
- (b) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, including material weaknesses.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) No material weaknesses in internal control over the major program were disclosed by the audit of the financial statements.
- (e) An unqualified opinion was issued on compliance with requirements applicable to the major program.
- (f) The audit did not disclose any audit findings which are required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) The City's major program was CFDA Number 66.458 - Capitalization Grants for Clean Water - State Revolving Fund.
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) The City of Earlham did not qualify as a low-risk auditee.

City of Earlham

Schedule of Findings and Questioned Costs

Year ended June 30, 2003

Part II: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

II-A-03 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties that are incompatible. One individual has control over the following areas for the City:

- (1) Accounting system - performance of all general accounting functions and custody of assets.
- (2) Bank reconciliation - preparation and maintenance of accounting records.
- (3) Investments - investing, recording and custody.
- (4) Receipts - collecting, depositing, journalizing and posting.
- (5) Utility receipts - billing, collecting, depositing, posting and reconciling.
- (6) Disbursements - performance of all purchasing functions, preparation, recording and reconciling.
- (7) Payroll - preparation and distribution.

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 - The Mayor reviews all checks and co-signs checks over \$500. The Council receives a copy of the check/deposit register in their council packets, then signs the register when approving the bills.

Conclusion - Response acknowledged. However, incompatible duties should be segregated to the extent possible utilizing existing personnel.

II-B-03 Reconciliation of Utility Billings, Collections and Delinquencies - Utility billings, collections and delinquent accounts were not reconciled throughout the year. Also, a delinquent accounts listing was not prepared monthly.

Recommendation - A listing of delinquent accounts should be prepared monthly. Procedures should be established to reconcile utility billings, collections and delinquencies for each billing period. The Council or other independent person should review the reconciliation and monitor delinquencies.

City of Earlham

Schedule of Findings and Questioned Costs

Year ended June 30, 2003

Response – Reconciliation will begin immediately. Listing of delinquent accounts will be retained.

Conclusion – Response accepted.

- II-C-03 Payroll – Timesheets for supervisors did not indicate they had been approved before the payroll was prepared.

Recommendation – There should be written documentation that each time sheet was reviewed and approved before payroll warrants are prepared.

Response – The Clerk reviews timesheets routinely when doing payroll. The Clerk will initial Department Head's timesheets, and the Mayor will review the Clerk's time sheet.

Conclusion – Response accepted.

- II-D-03 Dual Signed Checks – On August 12, 2002, the City Council adopted a policy that requires all checks written for \$500 or more to be signed by the City Clerk and Mayor. We noted nine checks written over \$500 were not dual signed.

Recommendation – The City should establish procedures to ensure the policy to dual sign checks over \$500 is followed.

Response – There were no checks written without the Mayor's approval, and those over \$500 sent without a co-signature were approved as a part of the budget, however we will do better.

Conclusion – Response accepted.

- II-E-03 Receipts – Checks received were not restrictively endorsed immediately upon receipt.

Recommendation – Checks should be restrictively endorsed (for deposit only) upon receipt.

Response – We will begin endorsing checks on receipt.

Conclusion – Response accepted.

- II-F-03 Electronic Data Processing Systems – During our review of internal control, the existing control activities in the City's computer based systems were evaluated in order to determine that activities, from a control standpoint, were designed to provide reasonable assurance regarding the achievement of objectives in the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. The following weaknesses in the City's computer based systems were noted:

City of Earlham

Schedule of Findings and Questioned Costs

Year ended June 30, 2003

The City does not have written policies for:

- Logging off unattended computers.
- Password privacy and confidentiality.
- Backups for personal computer hard drives.
- Requiring the use of an anti-virus program on computers.
- Ensuring that only software licensed to the City is installed on computers
- Usage of the internet
- Personal use of computer equipment and software

Also, the City does not have a written disaster recovery plan.

Recommendation – The City should develop written policies addressing the above items in order to improve the City's control over computer based systems. A written disaster recovery plan should be developed.

Response – This will be corrected.

Conclusion – Response accepted.

II-G-03 Bank Reconciliations – Monthly reconciliations of the Clerk's balances to the bank accounts and investments were not prepared. The Clerk reconciles deposits and warrants written during the month to the bank statement, but the Clerk's ending balances are not reconciled to the bank account and investments.

Recommendation – To improve financial accountability and control a monthly reconciliation of the book and bank balances should be prepared and retained. Any variances should be investigated and resolved in a timely manner.

Response – We will change the way we are reconciling for better accountability.

Conclusion – Response accepted.

City of Earlham
Schedule of Findings and Questioned Costs
Year ended June 30, 2003

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

No material weaknesses in internal control over the major program were noted.

City of Earlham

Schedule of Findings and Questioned Costs

Year ended June 30, 2003

Part IV: Other Findings Related to Statutory Reporting:

IV-A-03 Official Depositories – A resolution naming official depositories has been approved by the City Council. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2003.

IV-B-03 Certified Budget – Disbursements during the year ended June 30, 2003 exceeded the amount budgeted in the capital projects function. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

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

Response – The City did not anticipate the effect the conversion would have on our budget, or we would have amended.

Conclusion – Response accepted.

IV-C-03 Questionable Disbursements – No disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.

IV-D-03 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

IV-E-03 Business Transactions – No business transactions between the City and City officials were noted.

IV-F-03 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.

IV-G-03 Council Minutes – Except as noted below, no transactions were found that we believe should have been approved in the Council minutes but were not.

The City did not publish annual gross salaries as required by an Attorney General's opinion dated April 12, 1978.

Additionally, the Council minutes did not reflect approval of one employee's authorized salary.

Recommendation – The City should publish annual individual salaries as required and employee salaries should be approved by the Council and documented in the minutes.

Response – Non-publication of gross salaries was an oversight. Wages are approved by resolution and the resolution published. We will also note in the minutes.

Conclusion – Response accepted.

City of Earlham

Schedule of Findings and Questioned Costs

Year ended June 30, 2003

IV-H-03 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City's investment policy were noted.

IV-I-03 Revenue Notes – The City has established the Sewer Revenue Sinking Account and the Sewer Reserve Account required by the revenue note resolution. However, the City did not make the required transfers to either of these accounts.

Recommendation – City officials should review the revenue note resolutions and comply with the provisions of each resolution. The City should also periodically review the accounts to insure the required transfers have been made and established rates will result in sufficient funds to meet future obligations.

Response – The Earlham City Council has considered the auditor's comments and agrees that we need to put money into reserve and sinking funds according to the sewer note resolutions.

Conclusion – Response accepted.

IV-J-03 Vacation Usage – The City does not have a written policy regarding pay-out in lieu of use of vacation time during employment.

Recommendation – The City should adopt a written policy regarding pay-out in lieu of use of vacation time during employment. That policy should include prior written approval from the Council.

Response – This will become a part of our employee policy.

Conclusion – Response accepted.

IV-K-03 Prepayment of Expenses – At June 30, 2003, the City wrote a check to Earlham Building Center for \$2,000 for expenses that had not yet been incurred.

Recommendation – The City should only write checks for those expenses that they have already incurred.

Response – We accept that it is not a good business practice to prepay.

Conclusion – Response acknowledged. Checks should not be written before expenses are incurred.

IV-L-03 Financial Condition – The Capital Projects Fund had a deficit balance at June 30, 2003 of \$415,701. Also at June 30, 2003, the Debt Service Fund had a deficit balance of \$18,990 and the Enterprise Fund, Sewer Revenue Sinking Account had a deficit balance of \$64,433.

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

Response – We will investigate alternatives to eliminate the deficits.

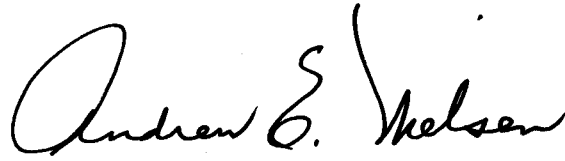
Conclusion – Response accepted.

City of Earlham

Staff

This audit was performed by:

Joe Marturello, CIA, Manager
Shawn P. Limback, CPA, Staff Auditor
Mary Crystal Berg, CPA, Staff Auditor

A handwritten signature in black ink that reads "Andrew E. Nielsen". The signature is written in a cursive style with a large initial "A" and "N".

Andrew E. Nielsen, CPA
Deputy Auditor of State