

OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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Auditor of State

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NEWS RELEASE

FOR RELEASE

September 15, 2014

Contact: Andy Nielsen
515/281-5834

Auditor of State Mary Mosiman today released an audit report on the City of Farnhamville, Iowa.

The City's receipts totaled \$3,754,105 for the year ended June 30, 2013. The receipts included \$143,091 in property tax, \$689,195 from charges for service, \$72,719 from operating grants, contributions and restricted interest, \$1,294,055 from capital grants, contributions and restricted interest, \$29,527 from local option sales tax, \$2,540 from unrestricted interest on investments, \$1,519,152 of revenue note proceeds of and \$3,826 from other general receipts.

Disbursements for the year ended June 30, 2013 totaled \$3,716,602, and included \$164,810 for general government, \$59,924 for public safety and \$44,237 for community and economic development. Also, disbursements for business type activities totaled \$3,417,241.

The City's General Fund unrestricted deficit increased to \$191,887 at June 30, 2013, an increase of \$71,517 during the year ended June 30, 2013. The deficit is approximately 86% of the City's recurring General Fund receipts of \$222,877 during the year ended June 30, 2013. In addition, the City credited approximately \$73,300 of property tax to the General Fund from an erroneous debt service levy during the four years ended June 30, 2013.

A copy of the audit report is available for review in the City Clerk's Office, in the Office of Auditor of State and on the Auditor of State's web site at <http://auditor.iowa.gov/reports/1322-0103-B00F.pdf>.

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CITY OF FARNHAMVILLE
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
SUPPLEMENTARY AND OTHER INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2013

Table of Contents

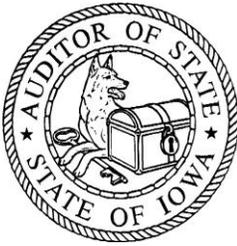
		<u>Page</u>
Officials		3
Independent Auditor’s Report		5-7
Management’s Discussion and Analysis		9-13
Basic Financial Statements:	<u>Exhibit</u>	
Government-wide Financial Statement:		
Cash Basis Statement of Activities and Net Position	A	16-17
Governmental Fund Financial Statement:		
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	B	18
Proprietary Fund Financial Statement:		
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	C	20
Notes to Financial Statements		21-26
Other Information:		
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances - Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Funds		28-29
Notes to Other Information – Budgetary Reporting		30
Supplementary Information:	<u>Schedule</u>	
Schedule of Indebtedness	1	32-33
Note Maturities	2	34
Schedule of Expenditures of Federal Rewards	3	35
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 <u>Government Auditing Standards</u>		37-38
Independent Auditor’s Report on Compliance for Each Major Federal Program and on Internal Control over Compliance Required by OMB Circular A-133		41-42
Schedule of Findings and Questioned Costs		43-48
Staff		49

City of Farnhamville

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Frank Morgan	Mayor	Jan 2014
Barbara Gregg	Council Member	Jan 2014
Gary Hall	Council Member	Jan 2014
Jeff Kicklighter	Council Member	Jan 2014
Herman Seil	Council Member	Jan 2016
Calvin Wooters	Council Member	Jan 2016
Emily Bendickson	City Clerk	Indefinite
James Kramer	Attorney	Indefinite

City of Farnhamville



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Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business type activities and each major fund of the City of Farnhamville, Iowa, as of and for the year ended June 30, 2013, 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 audit opinions.

Basis for 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 at July 1, 2012.

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, 2012, 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 and each major fund of the City of Farnhamville as of June 30, 2013, and the respective changes in its cash basis financial position for the year then ended, in accordance with the basis of accounting described in Note 1.

Basis of Accounting

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

Emphasis of a Matter

The City's General Fund unrestricted deficit increased to \$191,887 at June 30, 2013, an increase of \$71,517 during the year ended June 30, 2013. The deficit is approximately 86% of the City's recurring General Fund receipts of \$222,877 during the year ended June 30, 2013. In addition, the City credited approximately \$73,300 of property tax to the General Fund from an erroneous debt service levy during the four years ended June 30, 2013.

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 Farnhamville's basic financial statements. The supplementary information included in Schedules 1 through 3, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The other information, Management's Discussion and Analysis and the budgetary comparison information on pages 9 through 13 and 28 through 30, has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated July 28, 2014 on our consideration of the City of Farnhamville'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 Farnhamville's internal control over financial reporting and compliance.



MARY MOSIMAN, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

July 28, 2014

City of Farnhamville

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Farnhamville 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, 2013. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

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

2013 FINANCIAL HIGHLIGHTS

- The cash basis net position of the City's governmental activities decreased approximately \$46,000. The General Fund cash balance decreased approximately \$72,000. This decrease was offset by an increase in the Special Revenue, Road Use Tax Fund of approximately \$26,000.
- The City's total cash basis net position of the City's business type activities increased approximately \$83,000.

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 overall view of the City's finances.

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

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

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

Supplementary Information provides detailed information about the City's indebtedness. In addition, the Schedule of Expenditures of Federal Awards provides details of various federal programs benefiting the City.

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, readers should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

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

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

The Cash Basis Statement of Activities and Net Position is divided into two kinds of activities:

- Governmental Activities include public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the waterworks and the sanitary sewer, electric and garbage 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 services. These focus on how money flows into and out of those funds and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund and 2) the Special Revenue, Road Use Tax Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

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

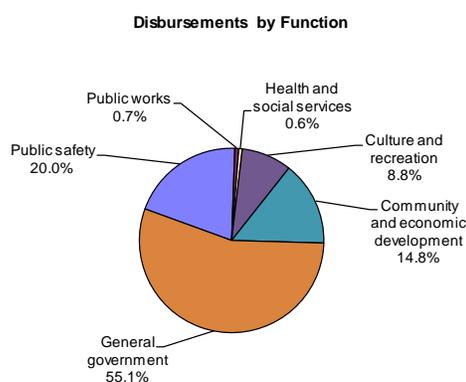
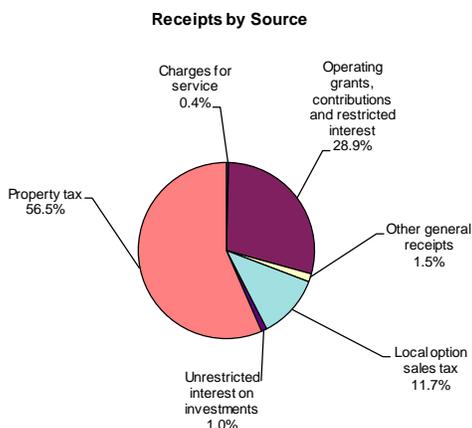
2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains four Enterprise Funds to provide separate information for water, sewer, electric and garbage operations.

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased from a year ago, decreasing from \$45,819 to \$178. The analysis that follows focuses on the changes in cash basis net position of governmental activities.

Changes in Cash Basis Net Position of Governmental Activities	
	Year ended June 30, 2013
Receipts:	
Program receipts:	
Charges for service	\$ 1,072
Operating grants, contributions and restricted interest	72,719
General receipts:	
Property tax	143,091
Local option sales tax	29,527
Unrestricted interest on investments	2,510
Other general receipts	3,826
Total receipts	<u>252,745</u>
Disbursements:	
Public safety	59,924
Public works	2,114
Health and social services	1,935
Culture and recreation	26,341
Community and economic development	44,237
General government	164,810
Total disbursements	<u>299,361</u>
Change in cash basis net position before transfers	(46,616)
Transfers, net	<u>975</u>
Change in cash basis net position	(45,641)
Cash basis net position beginning of year	<u>45,819</u>
Cash basis net position end of year	<u>\$ 178</u>



The cash basis net position of the City's governmental activities decreased, primarily due to the disbursement of Community Development Block Grant housing grant funds received in the current and prior year.

Changes in Cash Basis Net Position of Business Type Activities	
	Year ended June 30, 2013
Receipts:	
Program receipts:	
Charges for service:	
Water	\$ 80,731
Sewer	43,799
Electric	524,598
Garbage	38,995
Capital grants, contributions and restricted interest	1,294,055
General receipts:	
Unrestricted interest on investments	30
Revenue note proceeds	1,519,152
Total receipts	<u>3,501,360</u>
Disbursements:	
Water	2,495,034
Sewer	415,314
Electric	468,854
Garbage	38,039
Total disbursements	<u>3,417,241</u>
Change in cash basis net position before transfers	84,119
Transfers, net	<u>(975)</u>
Change in cash basis net position	83,144
Cash basis net position beginning of year	<u>347,265</u>
Cash basis net position end of year	<u>\$ 430,409</u>

The cash basis net position of the City's business type activities increased 24%, or \$83,144, primarily as a result of the receipt of note proceeds.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Farnhamville completed the year, its governmental funds reported a combined fund balance of \$178, a decrease of \$45,641 from last year's total of \$45,819. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance decreased \$71,517 to (\$191,887) during the fiscal year. The decrease is due primarily to the disbursement of grant funds received in the current and prior year and the timing of payments occurring at year end.
- The Special Revenue, Road Use Tax Fund cash balance increased \$25,876 to \$192,065 during the fiscal year. The increase is due to receipts exceeding disbursements during the year.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Enterprise, Water Fund cash balance increased \$44,904 to \$87,662, due primarily to an increase in grant and loan proceeds.
- The Enterprise, Sewer Fund cash balance decreased \$17,515 to \$53,728, due primarily to an increase in debt service payments resulting from refunding the 1994 sewer revenue note.
- The Enterprise, Electric Fund cash balance increased \$54,799 to \$255,292, due primarily to an increase in receipts as a result of an increase in electric rates.
- The Enterprise, Garbage Fund cash balance remained stable during the year.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City did not amend its budget. The City's receipts were \$2,098,667 less than budgeted due to the City receiving fewer grant proceeds than anticipated and not receiving anticipated loan proceeds until July 2013. Total disbursements were \$442,098 less than budgeted. The variance between budget and actual for business type activities is primarily due to the water system improvement project and related reimbursements progressing slower than anticipated. During the year ended June 30, 2013, disbursements exceeded the amounts budgeted in the public safety, culture and recreation and general government functions.

DEBT ADMINISTRATION

At June 30, 2013, the City had \$2,373,302 of notes and other long-term debt outstanding, compared to \$1,216,088 at June 30, 2012, as follows:

	Outstanding Debt at Year-End	
	June 30, 2013	2012
Sewer revenue notes	\$ -	344,796
Sewer refunding notes	342,302	-
Water revenue loan anticipation note	2,031,000	865,848
Police vehicle note	-	5,444
Total	<u>\$ 2,373,302</u>	<u>1,216,088</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 had no outstanding general obligation debt at June 30, 2013. The City of Farnhamville's general obligation constitutional debt limit is approximately \$898,000.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City of Farnhamville's elected and appointed officials and citizens considered many factors when setting the fiscal year 2014 budget, tax rates and fees charged for various City activities.

The fiscal year 2014 budget includes receipts of \$814,494 and disbursements of \$926,100. These amounts represent a decrease in anticipated receipts and disbursements from fiscal year 2013 due to anticipated completion of the water system improvement project.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Emily Bendickson, City Clerk, 240 Hardin Street, Farnhamville, Iowa 50538.

City of Farnhamville

Basic Financial Statements

City of Farnhamville

Cash Basis Statement of Activities and Net Position

As of and for the year ended June 30, 2013

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions/Programs:				
Governmental activities:				
Public safety	\$ 59,924	755	24,044	-
Public works	2,114	297	29,868	-
Health and social services	1,935	-	-	-
Culture and recreation	26,341	-	15,135	-
Community and economic development	44,237	-	3,672	-
General government	164,810	20	-	-
Total governmental activities	299,361	1,072	72,719	-
Business type activities:				
Water	2,495,034	80,731	-	1,294,055
Sewer	415,314	43,799	-	-
Electric	468,854	524,598	-	-
Garbage	38,039	38,995	-	-
Total business type activities	3,417,241	688,123	-	1,294,055
Total	\$ 3,716,602	689,195	72,719	1,294,055

General Receipts and Transfers:

Property tax and other city tax levied for:
 General purposes
 Debt service
 Local option sales tax
 Unrestricted interest on investments
 Revenue note proceeds
 Miscellaneous
 Transfers
 Total general receipts and transfers
 Change in cash basis net position
 Cash basis net position beginning of year
 Cash basis net position end of year

Cash Basis Net Position

Restricted:
 Streets
 Debt service
 Capital projects
 Unrestricted

Total cash basis net position

See notes to financial statements.

Net (Disbursements) Receipts and Changes in Cash Basis Net Position		
Governmental Activities	Business Type Activities	Total
(35,125)	-	(35,125)
28,051	-	28,051
(1,935)	-	(1,935)
(11,206)	-	(11,206)
(40,565)	-	(40,565)
(164,790)	-	(164,790)
(225,570)	-	(225,570)
-	(1,120,248)	(1,120,248)
-	(371,515)	(371,515)
-	55,744	55,744
-	956	956
-	(1,435,063)	(1,435,063)
(225,570)	(1,435,063)	(1,660,633)
117,855	-	117,855
25,236	-	25,236
29,527	-	29,527
2,510	30	2,540
-	1,519,152	1,519,152
3,826	-	3,826
975	(975)	-
179,929	1,518,207	1,698,136
(45,641)	83,144	37,503
45,819	347,265	393,084
\$ 178	430,409	430,587
\$ 192,065	-	192,065
-	3,664	3,664
-	14,209	14,209
(191,887)	412,536	220,649
\$ 178	430,409	430,587

Exhibit B

City of Farnhamville

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

As of and for the year ended June 30, 2013

	Special Revenue		Total
	General	Road Use Tax	
Receipts:			
Property tax	\$ 143,091	-	143,091
Local option sales tax	29,527	-	29,527
Licenses and permits	20	-	20
Use of money and property	2,510	-	2,510
Intergovernmental	37,624	29,868	67,492
Charges for service	757	-	757
Miscellaneous	9,348	-	9,348
Total receipts	222,877	29,868	252,745
Disbursements:			
Operating:			
Public safety	59,924	-	59,924
Public works	1,622	492	2,114
Health and social services	1,935	-	1,935
Culture and recreation	26,341	-	26,341
Community and economic development	44,237	-	44,237
General government	164,810	-	164,810
Total disbursements	298,869	492	299,361
Excess (deficiency) of receipts over (under) disbursements	(75,992)	29,376	(46,616)
Other financing sources (uses):			
Operating transfers in	4,475	-	4,475
Operating transfers out	-	(3,500)	(3,500)
Total other financing sources (uses)	4,475	(3,500)	975
Change in cash balances	(71,517)	25,876	(45,641)
Cash balances beginning of year	(120,370)	166,189	45,819
Cash balances end of year	\$ (191,887)	192,065	178
Cash Basis Fund Balances			
Restricted for streets	\$ -	192,065	192,065
Unassigned	(191,887)	-	(191,887)
Total cash basis fund balances	\$ (191,887)	192,065	178

See notes to financial statements.

City of Farnhamville

Exhibit C

City of Farnhamville

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

As of and for the year ended June 30, 2013

	Enterprise				
	Water	Sewer	Electric	Garbage	Total
Operating receipts:					
Charges for service	\$ 80,731	43,799	522,656	38,995	686,181
Miscellaneous	-	-	1,942	-	1,942
Total operating receipts	80,731	43,799	524,598	38,995	688,123
Operating disbursements:					
Business type activities	48,582	25,375	468,854	38,039	580,850
Excess of operating receipts over operating disbursements	32,149	18,424	55,744	956	107,273
Non-operating receipts (disbursements):					
Intergovernmental	1,294,055	-	-	-	1,294,055
Interest on investments	-	-	30	-	30
Note/loan proceeds	1,165,152	354,000	-	-	1,519,152
Debt service	-	(389,939)	-	-	(389,939)
Capital projects	(2,446,452)	-	-	-	(2,446,452)
Net non-operating receipts (disbursements)	12,755	(35,939)	30	-	(23,154)
Excess (deficiency) of receipts over (under) disbursements	44,904	(17,515)	55,774	956	84,119
Operating transfers out	-	-	(975)	-	(975)
Change in cash balances	44,904	(17,515)	54,799	956	83,144
Cash balances beginning of year	42,758	71,243	200,493	32,771	347,265
Cash balances end of year	\$ 87,662	53,728	255,292	33,727	430,409
Cash Basis Fund Balances					
Restricted for:					
Debt service	\$ -	3,664	-	-	3,664
Capital improvements	14,209	-	-	-	14,209
Unrestricted	73,453	50,064	255,292	33,727	412,536
Total cash basis fund balances	\$ 87,662	53,728	255,292	33,727	430,409

See notes to financial statements.

City of Farnhamville

Notes to Financial Statements

June 30, 2013

(1) Summary of Significant Accounting Policies

The City of Farnhamville is a political subdivision of the State of Iowa located in Calhoun and Webster Counties. It was first incorporated in 1855 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, health and social services, culture and recreation, community and economic development and general government services. The City also provides water, sewer, electric and garbage utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Farnhamville has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City. The City has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations

The City participates in several jointly governed organizations which 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: Calhoun County Assessor's Conference Board, Calhoun County Emergency Management Commission and Calhoun County Joint E911 Service Board.

B. Basis of Presentation

Government-wide Financial Statement - The Cash Basis Statement of Activities and Net Position (previously referred to as net assets) reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

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

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

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

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

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

The City reports the following major governmental funds:

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

The Special Revenue, 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 City reports the following major proprietary funds:

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

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

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

The Enterprise, Garbage Fund accounts for the operation and maintenance of the City's solid waste management system.

C. Measurement Focus and Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable,

accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net position available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

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

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

D. Governmental Cash Basis Fund Balances

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

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.

Unassigned – All amounts not included in the preceding classification.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information. During the year ended June 30, 2013, disbursements exceeded the amounts budgeted in the public safety, culture and recreation and general government functions.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2013 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 has no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3, as amended by Statement No. 40.

(3) Notes Payable

Sewer Revenue Refunding Notes

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay \$354,000 of sewer revenue refunding notes issued April 24, 2013. The notes were issued for the purpose of refunding the City's outstanding Series 1994 sewer revenue notes. The City refunded the notes to reduce its total debt service payments by approximately \$75,700 and to obtain an economic gain (difference between the present value of the debt service payments on the old and new debt) of approximately \$39,900. The notes are payable solely and only out of the net earnings of the Sewer Utility System and are payable through 2031. The total principal and interest remaining to be paid on the notes is \$440,090. For the current year, principal and interest paid and total customer net receipts were \$12,829 and \$18,424, respectively. Annual principal and interest payments on these sewer revenue refunding bonds are expected to require less than 70% of net receipts.

The resolution providing for the issuance of the sewer revenue refunding notes 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) Sufficient monthly transfers shall be made to a sewer revenue note sinking fund for the purpose of making the note principal and interest payments when due.
- (c) User rates shall be established and charged to customers of the utility, including the City, to produce and maintain net receipts at least sufficient to pay the principal of and interest on the notes falling due in the same year.

Annual debt service requirements to maturity for the sewer revenue refunding notes are as follows:

Year Ending June 30,	Principal	Interest	Total
2014	\$ 15,593	10,066	25,659
2015	16,006	9,654	25,660
2016	16,464	9,196	25,660
2017	16,985	8,675	25,660
2018	17,497	8,163	25,660
2019-2023	95,694	32,604	128,298
2024-2028	111,009	17,289	128,298
2029-2031	53,054	2,141	55,195
Total	\$ 342,302	97,788	440,090

Water Revenue Loan Anticipation Note

On December 8, 2011, the City entered into a Water Revenue Loan Anticipation Note for the purpose of paying the cost of constructing improvements to the municipal waterworks system. The principal amount of the note shall not exceed \$2,031,000 and will bear interest at a rate of 4.50% per annum. At June 30, 2013, the City has drawn \$2,031,000 on the loan and accrued interest of approximately \$90,900. The note was scheduled to mature on December 1, 2013, but the City repaid the note in September 2013 with proceeds from a USDA water system improvement revenue note.

(4) Pension and Retirement Benefits

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

Most regular plan members are required to contribute 5.78% of their annual covered salary and the City is required to contribute 8.67% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contribution to IPERS for the year ended June 30, 2013 was \$13,073, equal to the required contribution for the 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 payable to employees at June 30, 2013, primarily relating to the General Fund, is approximately \$4,200. This liability has been computed based on rates of pay in effect at June 30, 2013.

(6) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2013 is as follows:

Transfer to	Transfer from	Amount
General	Special Revenue:	
	Road Use Tax	\$ 3,500
	Enterprise:	
	Electric	975
Total		<u>\$ 4,475</u>

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

(7) 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.

(8) Deficit Balance

The General Fund had a deficit balance of \$191,887 at June 30, 2013. The deficit balance was primarily the result of the deficit balance carried forward from prior years. The City plans to eliminate this deficit by not pursuing future projects until a reserve has been established.

(9) Subsequent Event

In September 2013, the City approved the issuance of \$2,102,000 of water system improvement revenue notes.

Other Information

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

Other Information

Year ended June 30, 2013

	Governmental Funds Actual	Proprietary Funds Actual	Total
Receipts:			
Property tax	\$ 143,091	-	143,091
Local option sales tax	29,527	-	29,527
Licenses and permits	20	-	20
Use of money and property	2,510	30	2,540
Intergovernmental	67,492	1,294,055	1,361,547
Charges for service	757	686,181	686,938
Miscellaneous	9,348	1,942	11,290
Total receipts	252,745	1,982,208	2,234,953
Disbursements:			
Public safety	59,924	-	59,924
Public works	2,114	-	2,114
Health and social services	1,935	-	1,935
Culture and recreation	26,341	-	26,341
Community and economic development	44,237	-	44,237
General government	164,810	-	164,810
Business type activities	-	3,417,241	3,417,241
Total disbursements	299,361	3,417,241	3,716,602
Deficiency of receipts under disbursements	(46,616)	(1,435,033)	(1,481,649)
Other financing sources (uses), net	975	1,518,177	1,519,152
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(45,641)	83,144	37,503
Balances beginning of year	45,819	347,265	393,084
Balances end of year	\$ 178	430,409	430,587

See accompanying independent auditor's report.

<u>Budgeted Amounts</u> Original/Final	Final to Total Variance
138,169	4,922
30,751	(1,224)
-	20
4,000	(1,460)
3,583,000	(2,221,453)
570,700	116,238
7,000	4,290
<u>4,333,620</u>	<u>(2,098,667)</u>
59,750	(174)
24,000	21,886
3,000	1,065
26,000	(341)
53,450	9,213
159,500	(5,310)
<u>3,833,000</u>	<u>415,759</u>
<u>4,158,700</u>	<u>442,098</u>
174,920	(1,656,569)
-	1,519,152
174,920	(137,417)
<u>492,662</u>	<u>(99,578)</u>
<u><u>667,582</u></u>	<u><u>(236,995)</u></u>

City of Farnhamville

Notes to Other Information – Budgetary Reporting

June 30, 2013

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

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

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Fund and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year the budget was not amended.

During the year ended June 30, 2013, disbursements exceeded the amounts budgeted in the public safety, culture and recreation and general government functions.

Supplementary Information

City of Farnhamville
Schedule of Indebtedness
Year ended June 30, 2013

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
Revenue notes:			
Sewer	Dec 23, 1994	4.50%	\$ 441,000
Sewer refunding	Apr 24, 2013	2.95	354,000
Total			
Water revenue loan anticipation note	Dec 8, 2011	4.50%	\$ 2,031,000
Police vehicle note	Oct 22, 2012	4.90%	\$ 24,912

See accompanying independent auditor's report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
344,796	-	344,796	-	27,814
-	354,000	11,698	342,302	1,131
<u>\$ 344,796</u>	<u>354,000</u>	<u>356,494</u>	<u>342,302</u>	<u>28,945</u>
<u>\$ 865,848</u>	<u>1,165,152</u>	<u>-</u>	<u>2,031,000</u>	<u>-</u>
<u>\$ 5,444</u>	<u>-</u>	<u>5,444</u>	<u>-</u>	<u>266</u>

Schedule 2

City of Farnhamville

Note Maturities

June 30, 2013

Year Ending June 30,	Sewer Revenue Refunding Notes	
	Issued April 24, 2013	
	Interest Rates	Amount
2014	2.95 %	\$ 15,593
2015	2.95	16,006
2016	2.95	16,464
2017	2.95	16,985
2018	2.95	17,497
2019	2.95	18,022
2020	2.95	18,548
2021	2.95	19,126
2022	2.95	19,702
2023	2.95	20,296
2024	2.95	20,894
2025	2.95	21,537
2026	2.95	22,186
2027	2.95	22,854
2028	2.95	23,538
2029	2.95	24,252
2030	2.95	24,983
2031	2.95	3,819
Total		<u>\$ 342,302</u>

See accompanying independent auditor's report.

City of Farnhamville
 Schedule of Expenditures of Federal Awards
 Year ended June 30, 2013

Grantor/Program	CFDA Number	Agency or Pass-through Number	Program Expenditures
Direct:			
U.S. Department of Agriculture: Water and Waste Disposal System for Rural Communities	10.760		\$2,210,131
Indirect:			
U.S. Department of Housing and Urban Development:			
Iowa Economic Development Authority:			
Community Development Block Grants/ State's Program and Non-Entitlement Grants in Hawaii	14.288	10-WS-026	206,700
Community Development Block Grants/ State's Program and Non-Entitlement Grants in Hawaii	14.288	07-HSG-031	<u>42,913</u>
Total indirect			<u>249,613</u>
Total			<u>\$2,459,744</u>

Basis of Presentation – The Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Farnhamville and is presented in conformity with an other comprehensive basis of accounting. The information in 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 basic financial statements.

See accompanying independent auditor's report.

City of Farnhamville



OFFICE OF AUDITOR OF STATE

STATE OF IOWA

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Auditor of State

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

To the Honorable Mayor and
Members of the City Council:

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in the Government Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities and each major fund of the City of Farnhamville, Iowa, as of and for the year ended June 30, 2013, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated July 28, 2014. 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, since we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2012.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Farnhamville'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 Farnhamville's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Farnhamville's internal control.

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City of Farnhamville's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies in internal control described in Part II of the accompanying Schedule of Findings and Questioned Costs as items II-A-13 through II-D-13 to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in Part II of the accompanying Schedule of Findings and Questioned Costs as items II-E-13 and II-F-13 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Farnhamville'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 an instance of non-compliance or other matters required to be reported under Government Auditing Standards which is described in the accompanying Schedule of Findings and Questioned Costs as item II-G-13. We also noted certain immaterial instances of non-compliance or other matters which 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, 2013 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The City of Farnhamville's Responses to the Findings

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

Purpose of this Report

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

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



MARY MOSIMAN, CPA
Auditor of State

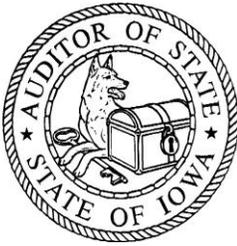


WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

July 28, 2014

City of Farnhamville

**Independent Auditor's Report on Compliance
for Each Major Program and on Internal Control over Compliance
Required by OMB Circular A-133**



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STATE OF IOWA

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Independent Auditor's Report on Compliance
for Each Major Program and on Internal Control over Compliance
Required by OMB Circular A-133

To the Honorable Mayor and
Members of the City Council:

Report on Compliance for Each Major Federal Program

We have audited Farnhamville, Iowa's compliance with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on the City of Farnhamville's major federal program for the year ended June 30, 2013. The City of Farnhamville's major federal program is identified in Part I of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grant agreements applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the City of Farnhamville's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, 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 OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance 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 Farnhamville's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the City of Farnhamville's compliance.

Opinion on the Major Federal Program

In our opinion, the City of Farnhamville complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2013.

Report on Internal Control Over Compliance

The management of the City of Farnhamville is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City of Farnhamville's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Farnhamville's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance such that there is a reasonable possibility material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



MARY MOSIMAN, CPA
Auditor of State



WARREN C. JENKINS, CPA
Chief Deputy Auditor of State

July 28, 2014

City of Farnhamville

Schedule of Findings and Questioned Costs

Year ended June 30, 2013

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

- (a) Qualified opinions were 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) Significant deficiencies and material weaknesses in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit disclosed non-compliance which is material to the financial statements.
- (d) No material weaknesses in internal control over the major program were noted.
- (e) An unmodified opinion was issued on compliance with requirements applicable to the major program.
- (f) The audit did not disclose audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) The major program was CFDA Number 10.760 – Water and Waste Disposal Systems for Rural Communities.
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) The City of Farnhamville did not qualify as a low-risk auditee.

Schedule of Findings and Questioned Costs

Year ended June 30, 2013

Part II: Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

II-A-13 Segregation of Duties – One important aspect of internal control is segregation of duties among employees and officials to prevent an individual employee from handling duties which are incompatible. For the City, one individual has control over each of the following areas:

- (1) Cash – handling, reconciling and recording.
- (2) Investments – recordkeeping, custody of investments and reconciling earnings.
- (3) Long-term debt – recording, debt payment processing and reconciling.
- (4) Receipts – collecting, recording, depositing, journalizing, reconciling and posting.
- (5) Utilities – billing, collecting, recording and reconciling.
- (6) Disbursements – purchasing, preparing, recording and reconciling.
- (7) Payroll – recordkeeping, preparing, posting and distributing.
- (8) Financial reporting – preparing and reconciling.

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

Response – We will assign oversight responsibility to different City Council members.

Conclusion – Response accepted.

II-B-13 Reconciliation of Utility Billings, Collections and Delinquent Accounts – Utility billings, collections and delinquent accounts were not reconciled on a monthly basis and the reconciliations and delinquent account listings were not reviewed by the City Council.

Recommendation – Monthly utility reconciliations should be prepared and the reconciliations and delinquent account listings should be reviewed and approved by the City Council.

Response – The assistant clerk will be more involved in the day to day operation of the utility billings.

Conclusion – Response acknowledged. Utility reconciliations should be prepared and the reconciliations and delinquent account listings should be reviewed and approved by the City Council.

City of Farnhamville

Schedule of Findings and Questioned Costs

Year ended June 30, 2013

II-C-13 Bank Reconciliations – Although book balances are reconciled to the bank and investment balances monthly, the reconciliations are not reviewed by an independent individual.

Recommendation – To improve financial accountability and control, the reconciliation of the book balances to the bank and investment balances should be reviewed by an independent individual and the review should be documented by the signature or initials of the reviewer and the date of review.

Response – We will assign this duty to a City Council member.

Conclusion – Response accepted.

II-D-13 Chart of Accounts and Financial Reporting – The City has not implemented the Uniform Chart of Accounts for Iowa City Governments recommended by the City Finance Committee. As a result, numerous adjustments were necessary and subsequently made to properly record the City's financial activity in the financial statements. In addition, property tax receipts were incorrectly posted as road use tax receipts.

Recommendation – To provide better financial information and control, the chart of accounts recommended by the City Finance Committee should be implemented. In addition, the City should implement procedures to ensure all receipts are properly classified and recorded in the City's financial statements.

Response – At this time, we will use our current Chart of Accounts.

Conclusion – Response acknowledged. To provide better financial information and control, the chart of accounts recommended by the City Finance Committee should be implemented.

II-E-13 Accounting Policies and Procedures Manual - The City does not have written accounting policies and procedures for the following:

- Investments and investment transactions.
- Write-offs of uncollectable accounts.
- Personnel policies, including policies for vacation accrual, regular evaluations of employee performance and travel.
- Credit card usage.

Recommendation - An accounting policies and procedures manual should be developed to provide the following benefits:

- (1) Aid in training additional or replacement personnel.
- (2) Help achieve uniformity in accounting and in the application of policies and procedures.
- (3) Save supervisory time by recording decisions so they will not have to be made each time the same, or a similar, situation arises.

City of Farnhamville

Schedule of Findings and Questioned Costs

Year ended June 30, 2013

Response – We will work on an employee handbook and an accounting policy and procedures manual to address the items above.

Conclusion – Response accepted.

- II-F-13 Payroll – Time card approval by the employee’s supervisor or by an independent official who is not involved with payroll was not documented.

Recommendation – Time cards should be approved, initialed and dated by the employee’s supervisor or by an independent official who is not involved with payroll.

Response – This will be enforced by a City Council member.

Conclusion – Response accepted.

INSTANCE OF NON-COMPLIANCE:

- II-G-13 Debt Service Levy – The City erroneously levied \$24,500 of property tax for debt service to be collected during fiscal year 2013 for a sewer project revenue note obligation (sewer revenue note). During the year ended 2013, \$25,236 of property tax for debt service was collected and credited to the General Fund. However, the sewer revenue note principal and interest were paid from the net receipts of the sewer system recorded in the Enterprise, Sewer Fund.

The City also erroneously levied \$48,874 of property tax for the sewer revenue note using the debt service levy for fiscal years 2010 and 2011. For fiscal years 2014 and 2015, the City levied \$24,500 and \$123,858, respectively, of property tax using the debt service levy for the sewer revenue note and, for fiscal year 2015, a water revenue note. The total amount of erroneously levied property tax is \$221,732.

Recommendation – The City should discontinue the debt service levy and consult the City Attorney and County officials to determine the disposition of the erroneously levied tax, including the amounts credited to the General Fund. Chapter 445.60 of the Code of Iowa requires the County Board of Supervisors to require the County Treasurer to refund to the taxpayers any tax found to have been erroneously or illegally paid. In addition, should the City incur debt payable from a debt service levy in the future, procedures should be established to ensure property tax collections for debt service are accounted for in a Debt Service Fund.

Response – We will discuss this issue with the Department of Management to discontinue this levy.

Conclusion – Response acknowledged. The City should also consult the City Attorney and County officials to determine the disposition of the excess debt service levy collected.

City of Farnhamville

Schedule of Findings and Questioned Costs

Year ended June 30, 2013

Part III: Findings and Questioned Costs for Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCIES:

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

City of Farnhamville

Schedule of Findings and Questioned Costs

Year ended June 30, 2013

Part IV: Other Findings Related to Required Statutory Reporting:

IV-A-13 Certified Budget – Disbursements during the year ended June 30, 2013 exceeded the amounts budgeted in the public safety, culture and recreation and general government functions. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

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

Response – We will be diligent in reviewing the budget this year and in the future.

Conclusion – Response accepted.

IV-B-13 Questionable Disbursements – No disbursements we believe may not meet the requirements of public purpose as defined in an Attorney General’s Opinion dated April 25, 1979 were noted.

IV-C-13 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

IV-D-13 Business Transactions – No business transactions between the City and City officials or employees were noted.

IV-E-13 Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure the coverage is adequate for current operations.

IV-F-13 City Council Minutes – No transactions were found that we believe should have been approved in the City Council minutes but were not.

IV-G-13 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-H-13 Revenue Notes – No instances of non-compliance with the revenue note requirements for the year ended June 30, 2013 were noted.

IV-I-13 Financial Condition – The General Fund had a deficit balance of \$191,887 at June 30, 2013.

Recommendation – The City should investigate alternatives to eliminate the deficit in order to return the fund to a sound financial position.

Response – At our next Council meeting August 11, 2014, we will address this issue. We will not pursue any more projects until our reserve is built up.

Conclusion – Response accepted.

City of Farnhamville

Staff

This audit was performed by:

Suzanne R. Dahlstrom, CPA, Manager
Jenny R. Lawrence, Senior Auditor
Ryan Pithan, Assistant Auditor

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

Andrew E. Nielsen, CPA
Deputy Auditor of State