

SAMPLE GAAP CITY

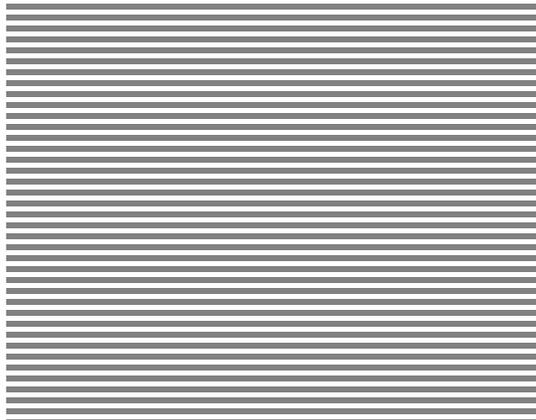
**INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

JUNE 30, 2014

Office of
**AUDITOR
OF STATE**
State Capitol Building • Des Moines, Iowa



Mary Mosiman, CPA
Auditor of State





OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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Fellow CPAs:

This sample report is presented by the Office of Auditor of State as required by Chapter 11.6 of the Code of Iowa. In developing this report, we have made every effort to ensure the highest professional standards have been followed while attempting to provide meaningful and useful information to the citizens, our ultimate client.

Audits of governmental subdivisions should be performed 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, if applicable, the Single Audit Act Amendments of 1996 and Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.

This sample report has been prepared in conformity with U.S. generally accepted accounting principles and conforms to guidelines provided in Governmental Accounting and Financial Reporting Standards published by the Governmental Accounting Standards Board.

The format shows the basic financial statements, required and supplementary information and the Schedule of Findings and Questioned Costs which are necessary to meet the requirements of this Office. The detail presented in the financial statements and supplementary information is the minimum breakdown that will be acceptable subject, of course, to materiality considerations. If the auditor and the local government feel more detail is necessary to provide a fair presentation, this of course will be welcome. A sample such as this cannot present all situations which you may encounter, so the auditor's professional judgment must be used in determining the additional information to be shown as well as the footnotes to be presented.

We have included as attachments to this letter some information related to municipal utility audits. We have also included an illustration of note disclosure for a city's participation in the Municipal Fire and Police Retirement System of Iowa (note X).

Cities with \$500,000 or more of federal expenditures are required to receive a Single Audit in accordance with OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Any questions concerning Single Audit requirements should be directed to the City's cognizant or oversight agency.

In accordance with OMB Circular A-133, the reporting package and Data Collection Form shall be submitted to the central clearinghouse the earlier of 30 days after issuance of the audit report or 9 months after the reporting period. The Office of Management and budget has designated the United States Department of Commerce, Bureau of the Census as the Single Audit Clearinghouse. The Data Collection Form and reporting package must be submitted using the Clearinghouse's Internet Data Entry System at <http://harvester.census.gov/facweb/>. The system requires the reporting package be uploaded in a single PDF file. Both the auditee and auditor contacts receive automated emails from the Federal Audit Clearinghouse as verification of the submission. In addition, reporting packages or notifications of audit should be submitted to grantor pass-through entities in accordance with the filing requirements of the Circular.

In December 2008, the Securities and Exchange Commission adopted an amendment to its Rule 15c2-12 governing ongoing disclosure by municipalities to the bond markets. The amendment was effective July 1, 2009 and widened those issuers subject to the ongoing filing requirements and now virtually any municipality which issues more than one million dollars of securities per issue is subject to an ongoing filing responsibility. The amendment requires, in part, all continuing disclosure submissions must be provided to the Municipal Securities Rulemaking Board (MSRB) through its Electronic Municipal Market Access (EMMA) system. In addition, submissions must be in an electronic format (PDF) and, effective January 1, 2010, such filings must be in a word-searchable PDF (not scanned) format.

The findings on compliance, items IV-A-14 through IV-G-14, IV-H-14 (if applicable) and IV-I-14 (if applicable) detail those items which are to be included regardless of whether there are any instances of non-compliance or not. Any instances of non-compliance in other areas should also be reported.

We have also included a page for listing the staff actually performing the audit. Although we have found this page to be helpful, you are not required to use it.

As required by Chapter 11 of the Code of Iowa, the news media are to be notified of the issuance of the audit report by the CPA firm, unless the firm has made other arrangements with the City for the notification. We have developed a standard news release to be used for this purpose. The news release may be completed by the City and a copy should be sent to this Office with two copies of the audit report sent by the CPA firm. Report filing requirements are detailed on the attached listing. We will make a copy of the audit report and news release available to the news media in this Office.

In accordance with Chapter 11 of the Code of Iowa, this Office is to be notified immediately regarding any suspected embezzlement, theft or other significant financial irregularities.

Finally, I would like to express my appreciation to all CPA firms who are providing audit or other services to local governments. Together, we are able to provide a significant benefit to all taxpayers in the state.


MARY MOSIMAN, CPA
Auditor of State

Office of Auditor of State
Report Filing Requirements

Paper Copy Submission

Two paper copies of the audit report, including the management letter(s) if issued separately, are required to be filed with this Office upon release to the City within nine months following the end of the fiscal year subject to audit. In addition to the copies of the audit report, a copy of the CPA firm's per diem audit billing, including total cost and hours, and a copy of the news release or media notification should be sent to:

Office of Auditor of State
State Capitol Building
Room 111
1007 East Grand Avenue
Des Moines, Iowa 50319-0001

Electronic Submission

The entity or CPA firm must also e-mail a PDF copy of the audit report to the Auditor of State's Office at:

SubmitReports@auditor.state.ia.us

If you are unable to e-mail the file, you may mail a CD containing the PDF file to this Office. You may direct any questions about submitting the electronic copy of the audit report to the above e-mail address.

Filing Fee Submission

The filing fee should be mailed separately to:

Office of Auditor of State
PO Box 333
Des Moines, Iowa 50302-0333

The designated strata and applicable filing fees are as follows:

Budgeted Expenditures in Millions of Dollars	Filing Fee Amount
Under 1	\$100.00
At least 1 but less than 3	\$175.00
At least 3 but less than 5	\$250.00
At least 5 but less than 10	\$425.00
At least 10 but less than 25	\$625.00
25 and over	\$850.00

The Municipal Fire and Police Retirement System note has been updated. The note is as follows:

(X) Pension and Retirement System

The City contributes to the Municipal Fire and Police Retirement System of Iowa (the Plan), which is a cost-sharing, multiple-employer defined benefit pension plan administered by a Board of Trustees. The Plan provides retirement, disability and death benefits which are established by state statute to plan members and beneficiaries. The Plan issues a publicly available financial report which includes financial statements and required supplementary information. The report may be obtained by writing to Municipal Fire and Police Retirement System of Iowa, 7155 Lake Drive, Suite 201, West Des Moines, Iowa 50266.

Plan members are required to contribute 9.40% of earnable compensation and the City's contribution rate, based upon an actuarially determined normal contribution rate, is 30.12% of earnable compensation. Contribution rates are established by state statute. The City's contributions to the Plan for the years ended June 30, 2014, 2013 and 2012 were \$_____, \$_____ and \$_____, respectively, which (met) exceeded the required minimum contribution for each year.

Information Related to Municipal Utility Audits

Municipal Utility audit report format should include the following:

1. Officials
2. Independent Auditor's Report
3. Management's Discussion and Analysis
4. Financial Statements
5. Required Supplementary Information - comparison of budget to actual
6. 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
7. Schedule of Findings:

Findings Related to the Financial Statements

Other Findings Related to Required Statutory Reporting:

- a. Certified Budget
- b. Questionable Disbursements
- c. Travel Expense
- d. Business Transactions
- e. Bond Coverage
- f. Board Minutes
- g. Deposits and Investments
- h. Revenue Bonds/Notes (if applicable)
- i. Telecommunications Services (if applicable)

If applicable, findings (a) through (i) are to be included regardless of whether there are any instances of non-compliance or not. Additional notes number 4 on the next page provides more information relating to finding (i) on telecommunications services.

Municipal Utilities may be component units of a City which may affect the Independent Auditor's Report and the footnote disclosure of the reporting entity.

Municipal Utility audits must meet the reporting and filing requirements prescribed in Chapter 11 of the Code of Iowa and must be performed in accordance with the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Sample GAAP City

Outline of Major Changes

- A. Implemented GASB Statement No. 65, Items Previously Reported as Assets and Liabilities.
- B. Revised the Iowa Public Employees' Retirement System (IPERS) note disclosure (Note 7) for changes in the contribution rates effective July 1, 2013.
- C. Included a disclosure in the Notes to Financial Statements regarding a prospective accounting change for GASB Statement No. 68, Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27.

Additional Notes

1. Also attached are a sample Corrective Action Plan for Federal Audit Findings (See **Sample A**) and a sample Summary Schedule of Prior Federal Audit Findings (See **Sample B**). These are provided for illustrative purposes only and are not required to be bound in the regular audit or filed with our office.
2. The attached sample Corrective Action Plan refers the user to the City's response to the auditor's comment for the detailed corrective action planned. If the City's response to the auditor's comment does not include the details of its planned corrective action, this information should be included in the Corrective Action Plan itself.
3. If the City has deposits in credit unions at June 30, 2014, Note 2 should be modified to indicate whether the deposits were covered by federal depository insurance, collateralized with securities or letters of credit held by the City or the City's agent in the City's name or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa.
4. Under Chapter 388.10 of the Code of Iowa, a City or Municipal Utility providing telecommunications services has the responsibility to comply with various financial and operating provisions, as well as the responsibility for annual certification of compliance with these provisions. Chapter 11.6(1) of the Code of Iowa requires the audit of a City which owns or operates a Municipal Utility providing telecommunications services to include an audit of the City's compliance with Chapter 388.10. In any year in which the City or Municipal Utility is not audited, the City or Municipal Utility must contract with the Auditor of State or a certified public accountant to "attest to the certification."

Based on an audit of the City or Municipal Utility, a statutory comment on compliance with Chapter 388.10 should be included in the audit report. If the Municipal Utility is audited as part of the city, the required comment would be included in the City's audit report. If the Municipal Utility is audited separately, the required comment would be included in the Municipal Utility's audit report. These audit reports must be filed with the Auditor of State and the appropriate filing fee paid as provided in Chapter 11 of the Code of Iowa.

In a year when the City or Municipal Utility is not audited, the attestation report should indicate compliance with the provisions of Chapter 388.10. These attestation reports are public records, by law, and are to be filed with this Office. These reports are not subject to the payment of a filing fee.

Following are sample audit report comments for reporting on telecommunication services.

No non-compliance noted – for separate Municipal Utility audit or City audit which includes the Utility:

Telecommunications Services – No instances of non-compliance with Chapter 388.10 of the Code of Iowa were noted.

Non-compliance noted – for separate Municipal Utility audit or City audit which includes the Utility:

Telecommunications Services – The City (or Utility) did not consistently allocate the cost of use of City (or Utility) employees, equipment and other services used by the telecommunications municipal utility as required by Chapter 388.10 of the Code of Iowa. The allocation of costs to the Utility was based on time studies of certain City (or Utility) employees, but the percentage allocations included mathematical errors. The errors resulted in an understatement of telecommunication services expenses of \$7,616 for the year ended June 30, 2014.

Recommendation – A corrective transfer of \$7,616 should be made from the Telecommunications Services Fund to the Gas Fund.

Response – A corrective transfer will be made.

Conclusion – Response accepted.

5. Following is an example footnote for an early retirement or other benefit plan or policy that meets the definition of a “termination benefit”, as defined by GASB Statement No. 47.

Sample Note – Termination Benefits

In September 2012, the City approved a voluntary early retirement plan for employees. The plan was only offered to employees for one year. Eligible employees must have completed at least fifteen years of full-time service to the City and must have reached the age of fifty-five on or before June 30, 2013. The application for early retirement was subject to approval by the City Council.

Early retirement benefits equal 60% of the employee’s salary in effect during the employee’s last year of employment, with a maximum retirement benefit of \$30,000.

The policy requires early retirement benefits be paid in three equal installments beginning January 1, 2014. The second and third payments will be paid July 1, 2014 and July 1, 2015, respectively.

At June 30, 2014, the City has obligations to eleven participants with a total liability of \$171,285. Actual early retirement expenditures for the year ended June 30, 2014 totaled \$85,642.

6. Legislation enacted by the 2012 Legislature, House File 2460, made changes to Iowa’s TIF (tax increment financing) laws, including new reporting requirements. The legislation requires cities with urban renewal areas to approve and file an annual urban renewal report on or before December 1.

The legislation also requires an audit of cities to include an examination of the City’s compliance with the annual urban renewal reporting requirements. As such, the auditor is required to include a statutory comment on the Annual Urban Renewal Report, regardless of whether there are any instances of non-compliance or not. An example to report non-compliance is included as item IV-I-14 in the Schedule of Findings and Questioned Costs of the Sample GAAP City report. The following is an example statutory comment if no instances of non-compliance are noted:

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

Additional Notes (continued)

Sample A

Sample Entity

Corrective Action Plan for Federal Audit Findings

Year ended June 30, 2014

Comment Number	Comment Title	Corrective Action Plan	Contact Person, Title, Phone Number	Anticipated Date of Completion
2014-001	Unsupported Expenditures	The corrective action plan was documented in our response to the auditor's comment. See the Schedule of Findings and Questioned Costs.	Tom Claim, Sample Entity Administrator, (515) YYY-XXXX	Documentation to support expenditures will be maintained effective immediately. The questioned costs were returned to the Iowa Economic Development Authority on October 3, 2014.
2014-002	Segregation of Duties over Federal Revenues	The corrective action plan was documented in our response to the auditor's comment. See the Schedule of Findings and Questioned Costs.	Julie Ledger, Sample Entity Treasurer, (515) YYY-XXXX	November 2, 2014
2014-003	Financial Reporting	As reported in our response to the auditor's comment, we have implemented an independent review process which requires review by the Sample Entity Program Director, effective immediately. In addition, beginning with the December 2014 quarterly report, we will submit federal financial reports within the required time frame.	Joe Smith, Program Director, (515) YYY-XXXX	Review procedures have been implemented. Timely report filing will begin with the quarter ending December 2014.

Additional Notes (continued)

Sample B

Sample Entity

Summary Schedule of Prior Federal Audit Findings

Year ended June 30, 2014

Comment Reference	Comment Title	Status	If not corrected, provide planned corrective action or other explanation
III-C-11 III-B-12 III-B-13	Minority Business Enterprise/ Women Business Enterprise (MBE/WBE)	No longer valid; does not warrant further action.	Over two years have passed since the reporting of this audit finding. The Grantor Agency has not followed up on this finding, nor has a management decision been issued on its part.
III-A-12 III-A-13	Segregation of Duties over Federal Revenues	Not corrected.	Plan to segregate duties for custody, recordkeeping and reconciling among Sample Entity staff.
III-C-12 III-C-13	Capital Assets	Corrective action taken.	
III-D-13	Financial Reporting	Partially corrected.	Review procedures have been implemented. Timely report filing will begin with the quarter ending December 2014.



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NEWS RELEASE

Contact:

FOR RELEASE _____

Auditor of State Mary Mosiman today released an audit report on Sample GAAP City, Iowa.

The City's revenues totaled \$_____ for the year ended June 30, 2014, a(n) ____% increase (decrease) from the prior year. Revenues included \$_____ in property tax, \$_____ for tax increment financing, \$_____ from charges for service, \$_____ from operating grants, contributions and restricted interest, \$_____ from capital grants, contributions and restricted interest, \$_____ from local option sales tax, \$_____ from unrestricted investment earnings and \$_____ from other general revenues.

Expenses for City operations for the year ended June 30, 2014 totaled \$_____, a(n) ____% increase from the prior year. Expenses included \$_____ for _____ a _____, \$_____ for _____ b _____, and \$_____ for _____ c _____, (a, b, c – functions with the three highest expense totals). Also, expenses for business type activities totaled \$_____.

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/index.html>.

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SAMPLE GAAP CITY

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

JUNE 30, 2014

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Sample GAAP City

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January 2014)		
Rosemary Jones	Mayor	Jan 2016
Dan Parks	Mayor Pro tem	Jan 2016
Rose Arnoldson	Council Member	Jan 2014
Betty Dager	Council Member	Jan 2014
Sarah Greene	Council Member	Jan 2014
Tom Taylor	Council Member	Jan 2014
Kevin Linden	Council Member	Jan 2016
Alan Notchwood	Council Member	Jan 2016
Alan Mead	Finance Director	Indefinite
Marilyn Martin	City Clerk/Treasurer	Indefinite
Carl Pearce	Attorney	Indefinite
(After January 2014)		
Rosemary Jones	Mayor	Jan 2016
Dan Parks	Mayor Pro tem	Jan 2016
Kevin Linden	Council Member	Jan 2016
Alan Notchwood	Council Member	Jan 2016
Rose Arnoldson	Council Member	Jan 2018
Betty Dager	Council Member	Jan 2018
Sarah Greene	Council Member	Jan 2018
Tom Taylor	Council Member	Jan 2018
Alan Mead	Finance Director	Indefinite
Marilyn Martin	City Clerk/Treasurer	Indefinite
Carl Pearce	Attorney	Indefinite

Sample GAAP City



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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, the discretely presented component unit, each major fund and the aggregate remaining fund information of Sample GAAP City, Iowa, as of and for the year ended June 30, 2014, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements 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 U.S. generally accepted accounting principles. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of Sample GAAP City as of June 30, 2014, and the respective changes in its financial position and, where applicable, its cash flows thereof for the year then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require Management's Discussion and Analysis, the Budgetary Comparison Information and the Schedule of Funding Progress for the Retiree Health Plan on pages 9 through 15 and 62 through 66 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Sample GAAP City's basic financial statements. We previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the nine years ended June 30, 2013 (which are not presented herein) and expressed unmodified opinions on those financial statements. The supplementary information included in Schedules 1 through 4, 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.

Other Reporting Required by Government Auditing Standards

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

MARY MOSIMAN, CPA
Auditor of State

September 24, 2014

Sample GAAP City

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

2014 FINANCIAL HIGHLIGHTS

- Revenues of the City's governmental activities increased 5%, or approximately \$206,000, from fiscal year 2013 to fiscal year 2014. Property tax increased approximately \$22,000.
- Program expenses of the City's governmental activities increased 9%, or approximately \$294,000, from fiscal year 2013 to fiscal year 2014. Public safety expenses and interest on long-term debt increased approximately \$131,000 and \$104,000, respectively.
- The City's net position increased 5.5%, or approximately \$855,000, from June 30, 2013 to June 30, 2014. Of this amount, the net position of the governmental activities increased approximately \$799,000 and the net position of the business type activities increased approximately \$56,000.

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.

Government-wide Financial Statements consist of a Statement of Net Position and a Statement of Activities. These provide information about the activities of Sample GAAP City as a whole and present 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 Sample GAAP City's operations in more detail than the government-wide financial statements 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.

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year, as well as presenting the Schedule of Funding Progress for the Retiree Health Plan.

Supplementary Information provides detailed information about the nonmajor governmental funds. In addition, the Schedule of Expenditures of Federal Awards provides details of various federal programs benefiting the City.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

One of the most important questions asked about the City's finances is, "Is the City as a whole better or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Activities report information which helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting and the economic resources measurement focus, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account, regardless of when cash is received or paid.

The Statement of Net Position presents financial information on all of the City's assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the difference reported as 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 Statement of Activities presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal years.

The Statement of Net Position and the Statement of Activities report three kinds of activities:

- Governmental activities include public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business type activities include the waterworks, the sanitary sewer system and the City's sanitation department. These activities are financed primarily by user charges.
- The Component Unit includes the activities of the City's Municipal Airport Authority. The City is financially accountable for the Authority although it is legally separate from the City.

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. Governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Tax Increment Financing, Local Option Sales Tax and Payroll Tax Levy, 3) the Debt Service Fund and 4) the Capital Projects Fund. These funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund financial statements provide a detailed, short-term view of the City's general governmental operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statements for governmental funds include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances.

2) Proprietary funds account for the City's Enterprise Funds. These funds report services for which the City charges customers for the service it provides. Proprietary funds are reported in the same way all activities are reported in the Statement of Net Position and the Statement of Activities. The major difference between the proprietary funds and the business type activities included in the government-wide statements is the detail and additional information, such as cash flows, provided in the proprietary fund statements. The Enterprise Funds include the Water, Wastewater and Sanitation Funds, each considered to be a major fund of the City. The City is responsible for ensuring the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong.

The financial statements required for proprietary funds include a Statement of Net Position, a Statement of Revenues, Expenses and Changes in Fund Net Position and a Statement of Cash Flows.

Reconciliations between the government-wide financial statements and the governmental fund financial statements follow the governmental fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of financial position. The analysis that follows focuses on the changes in the net position for governmental and business type activities.

	Net Position at Year-end					
	Governmental Activities		Business Type Activities		Total	
	2014	2013	2014	2013	2014	2013
Current and other assets	\$ 4,364,899	3,542,881	2,232,791	2,007,568	6,597,690	5,550,449
Capital assets	11,769,563	9,901,747	7,543,323	7,827,504	19,312,886	17,729,251
Total assets	16,134,462	13,444,628	9,776,114	9,835,072	25,910,576	23,279,700
Long-term liabilities	3,613,316	3,081,233	2,593,749	2,737,247	6,207,065	5,818,480
Other liabilities	866,561	333,209	252,085	223,661	1,118,646	556,870
Total liabilities	4,479,877	3,414,442	2,845,834	2,960,908	7,325,711	6,375,350
Deferred inflows of resources	2,275,000	1,450,000	-	-	2,275,000	1,450,000
Net position:						
Net investment in capital assets	7,865,127	6,426,747	4,859,323	4,990,504	12,724,450	11,417,251
Restricted	1,940,802	1,748,162	298,234	272,570	2,239,036	2,020,732
Unrestricted	(426,344)	405,277	1,772,723	1,611,090	1,346,379	2,016,367
Total net position	\$ 9,379,585	8,580,186	6,930,280	6,874,164	16,309,865	15,454,350

Net position of governmental activities increased approximately \$799,000, or 9.3%, over fiscal year 2013. Net position of business type activities increased approximately \$56,000, or .8%, over fiscal year 2013. The largest portion of the City's net position is invested in capital assets (e.g., land, infrastructure, intangibles, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with resources other than capital assets. Restricted net position represents resources subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. Unrestricted net position, the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, legislation or other legal requirements, is approximately \$(426,000) at the end of this year. The deficit is due to capital projects undertaken to be financed from future revenues and interfund borrowing.

	Changes in Net Position for the Year ended June 30,					
	Governmental Activities		Business Type Activities		Total	
	2014	2013	2014	2013	2014	2013
Program revenues:						
Charges for service	\$ 234,653	222,046	1,741,205	1,738,215	1,975,858	1,960,261
Operating grants, contributions and restricted interest	724,676	715,976	16,032	15,047	740,708	731,023
Capital grants, contributions and restricted interest	418,467	291,620	-	-	418,467	291,620
General revenues:						
Property tax levied for:						
General purposes	1,285,719	1,265,042	-	-	1,285,719	1,265,042
Debt service	284,153	283,277	-	-	284,153	283,277
Tax increment financing	818,589	815,242	-	-	818,589	815,242
Local option sales tax	427,700	425,600	-	-	427,700	425,600
Grants and contributions not restricted to specific purposes	100,929	82,556	-	-	100,929	82,556
Unrestricted investment earnings	24,062	13,976	27,420	25,240	51,482	39,216
Miscellaneous	47,277	45,243	1,074	992	48,351	46,235
Total revenues	4,366,225	4,160,578	1,785,731	1,779,494	6,151,956	5,940,072
Program expenses:						
Public safety	1,221,354	1,090,217	-	-	1,221,354	1,090,217
Public works	831,264	803,541	-	-	831,264	803,541
Culture and recreation	892,983	873,215	-	-	892,983	873,215
Community and economic development	65,718	60,077	-	-	65,718	60,077
General government	353,458	348,472	-	-	353,458	348,472
Interest on long-term debt	202,049	97,750	-	-	202,049	97,750
Water	-	-	456,825	454,237	456,825	454,237
Wastewater	-	-	679,234	645,202	679,234	645,202
Sanitation	-	-	593,556	575,913	593,556	575,913
Total expenses	3,566,826	3,273,272	1,729,615	1,675,352	5,296,441	4,948,624
Change in net position	799,399	887,306	56,116	104,142	855,515	991,448
Net position beginning of year	8,580,186	7,692,880	6,874,164	6,770,022	15,454,350	14,462,902
Net position end of year	\$ 9,379,585	8,580,186	6,930,280	6,874,164	16,309,865	15,454,350

Sample GAAP City's net position of governmental activities increased approximately \$799,000 during the year. Revenues for governmental activities increased approximately \$206,000 over the prior year, with capital grants, contributions and restricted interest increasing approximately \$127,000 due to a grant received for street construction. The City increased property tax rates for fiscal year 2014 approximately 1.6%. This increase raised the City's property tax revenue approximately \$22,000 in fiscal year 2014.

The cost of all governmental activities this year was approximately \$3.6 million compared to approximately \$3.3 million last year. However, as shown in the Statement of Activities on pages 22 and 23, the amount taxpayers ultimately financed for these activities was only \$2.2 million because some of the cost was paid by those directly benefited from the programs (approximately \$235,000) or by other governments and organizations which subsidized certain programs with grants and contributions (approximately \$1,143,000). The City paid the remaining "public benefit" portion of governmental activities with property tax (some of which could only be used for certain programs) and with other receipts, such as interest, local option sales tax and miscellaneous receipts.

Sample GAAP City's net position of business type activities increased approximately \$56,000 during the year. Revenues for business type activities increased only slightly over the prior year while total expenses were approximately \$54,000 higher than the prior fiscal year.

INDIVIDUAL MAJOR FUND ANALYSIS

Governmental Fund Highlights

As Sample GAAP City completed the year, its governmental funds reported a combined fund balance of \$1,820,916, which is less than the \$2,382,860 total fund balance at June 30, 2013. The following are the major reasons for the changes in fund balances of the major governmental funds from the prior year.

The General Fund showed a modest decline in fund balance of \$3,208 from the prior year to \$715,937. Revenues increased 5% over the prior year to \$1,499,322 and expenditures increased 4% to \$2,511,117.

The Special Revenue, Tax Increment Financing Fund accounts for revenue from the tax authorized by ordinance in the urban renewal district which is used to pay the principal and interest on indebtedness incurred for urban renewal redevelopment projects. This fund ended fiscal year 2014 with a \$(480,408) balance compared to the prior year ending balance of \$(350,717). The deficit fund balance is a result of transfers to other funds to pay urban renewal project debt prior to the collection of tax increment financing revenue.

The Special Revenue, Local Option Sales Tax Fund accounts for revenue from the tax authorized by referendum and used for capital improvements, equipment and community programs and services. This fund ended fiscal year 2014 with a \$1,139,911 balance compared to the prior year ending fund balance of \$1,026,139. Local option sales tax revenue increased \$58,885 in fiscal year 2014.

The Special Revenue, Payroll Tax Levy Fund is used to account for the property tax levied to finance the payment of employee benefits. This fund ended fiscal year 2014 with a \$5,079 balance compared to the prior year ending balance of \$73,724. Transfers out to operating funds increased \$45,878 in fiscal year 2014.

The Debt Service Fund ended fiscal year 2014 with a \$71,773 balance compared to the prior year ending balance of \$65,975. Property tax revenue increased \$91,301 while bond principal and interest payments increased \$85,090 in fiscal year 2014.

The Capital Projects Fund ended fiscal year 2014 with a \$(317,506) balance compared to the prior year ending balance of \$175,032. The fiscal year 2014 deficit is a result of project costs exceeding available funds. The deficit will be eliminated through future transfers from other funds.

Proprietary Fund Highlights

The Enterprise, Water Fund, which accounts for the operation and maintenance of the City's water system, ended fiscal year 2014 with a \$2,709,878 net position balance compared to the prior year ending net position balance of \$2,670,926.

The Enterprise, Wastewater Fund, which accounts for the operation and maintenance of the City's wastewater treatment and sanitary sewer system, ended fiscal year 2014 with a \$3,901,759 net position balance compared to the prior year ending net position balance of \$3,895,111.

The Enterprise, Sanitation Fund, which accounts for the operation and maintenance of the City's solid waste collection system, ended fiscal year 2014 with a \$318,643 net position balance compared to the prior year ending net position balance of \$308,127.

BUDGETARY HIGHLIGHTS

Over the course of the year, Sample GAAP City amended its budget two times. The first amendment was done in January 2014 and the second amendment was made in May 2014. These amendments were needed to cover unplanned disbursements, including disbursements associated with projects carried over from the prior fiscal year.

The City's receipts were \$1,332,462 less than budgeted receipts, a variance of 18%. The most significant variance resulted from the City receiving less in CDBG funding than originally anticipated. The City also received less in miscellaneous receipts than budgeted.

Total disbursements were \$2,967,210 less than budgeted. Actual disbursements for the community and economic development, capital projects and business type activities functions were \$1,077,900, \$1,070,112 and \$669,010, respectively, less than budgeted. This was primarily due to a delay in receiving a CDBG pass through grant and delays in the Memorial Library renovation, street construction and sewer expansion projects.

Even with these amendments, the City exceeded the budgeted amount in the debt service function for the year ended June 30, 2014.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The City's capital assets include land, buildings and improvements, intangibles, equipment, streets, sewer systems, lighting systems, traffic signals and other infrastructure. Capital assets for governmental activities totaled \$11,769,563 (net of accumulated depreciation/amortization) at June 30, 2014. Capital assets for business type activities totaled \$7,543,323 (net of accumulated depreciation/amortization) at June 30, 2014. See Note 3 to the financial statements for more information about the City's capital assets.

The major capital outlays for governmental activities during the year included construction of the Fire and Training Center and renovation of the Memorial Library building.

For business type activities, major additions included an iron filter for the water plant.

Construction in progress at June 30, 2014 for governmental activities consists primarily of street projects and renovation of the Memorial Library building.

Long-Term Debt

At June 30, 2014, the City had \$3,937,545 of outstanding general obligation bonds and notes for governmental activities. Total outstanding revenue notes for business type activities was \$2,684,000 at June 30, 2014. During the year ended June 30, 2014, the City issued a total of \$965,000 of general obligation bonds to finance the City's 2014 street program and a portion of the costs of the Fire and Training Center.

The City continues to carry a general obligation bond rating of Aa3 assigned by national rating agencies to the City's debt since 1997. The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt is significantly below its constitutional debt limit of approximately \$9 million. Additional information about the City's long-term debt is presented in Note 4 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

Several economic factors affected decisions made by the City in setting its fiscal year 2015 budget. Unemployment in the County now stands at 4.6% versus 6% a year ago. This compares with the State's unemployment rate of 5.5% and the national rate of 8.0%. In addition, Sample GAAP City will experience a significant drop in General Fund receipts and disbursements from fiscal year 2014 to fiscal year 2015. The major factors which will play a role in this change are a reduction in intergovernmental receipts and a decrease in property valuation for fiscal year 2015.

The General Fund is projected to end fiscal year 2015 with a fund balance of approximately \$680,000, a 5% decrease from fiscal year 2014.

The tax levy rates per \$1,000 of taxable valuation for fiscal year 2015 are provided below:

General levy	\$ 8.10000
Aviation levy	0.27000
Debt service levy	2.47075
FICA and IPERS levy	2.05595
Employee benefits levy	3.35206
Tort liability levy	<u>0.94434</u>
Total	<u>\$ 17.19310</u>

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to present our citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and operating activities. If you have any questions or require additional information, please contact the Finance Director, 101 Main Street, Sample GAAP City, Iowa.

Sample GAAP City

Basic Financial Statements

Sample GAAP City
Statement of Net Position
June 30, 2014

	Primary Government	
	Governmental Activities	Business Type Activities
Assets		
Cash, cash equivalents and pooled investments	\$ 2,083,969	1,209,693
Receivables:		
Property tax:		
Delinquent	26,280	-
Succeeding year	1,528,000	-
Tax increment financing:		
Delinquent	33,200	-
Succeeding year	747,000	-
Customer accounts and unbilled usage	-	160,499
Accounts	9,917	5,145
Accrued interest	2,988	2,386
Due from other governments	139,589	-
Internal balances	(296,167)	296,167
Inventories	-	25,470
Prepaid expenses	90,123	46,223
Restricted assets:		
Cash and pooled investments	-	487,208
Capital assets, net of accumulated depreciation/amortization	11,769,563	7,543,323
Total assets	16,134,462	9,776,114
Liabilities		
Accounts payable	79,746	19,681
Accrued interest payable	13,591	-
Salaries and benefits payable	40,533	11,350
Contracts payable	111,860	1,047
Due to other governments	5,067	12,510
Payable from restricted assets	-	188,974
Long-term liabilities:		
Portion due or payable within one year:		
General obligation bonds/notes	570,000	-
Compensated absences	45,764	18,523
Portion due or payable after one year:	-	-
General obligation bonds/notes (net of \$7,455 unamortized discount)	3,367,545	-
Revenue notes	-	2,524,000
Compensated absences	116,731	40,889
Net OPEB liability	129,040	28,860
Total liabilities	4,479,877	2,845,834
Deferred Inflows of Resources		
Unavailable revenues:		
Succeeding year property tax	1,528,000	-
Tax increment financing	747,000	-
Total deferred inflows of resources	2,275,000	-

Total	Component Unit Airport Authority
3,293,662	-
26,280	435
1,528,000	23,000
33,200	-
747,000	-
160,499	-
15,062	167
5,374	-
139,589	-
-	-
25,470	-
136,346	-
487,208	-
19,312,886	977,297
25,910,576	1,000,899
99,427	5,117
13,591	-
51,883	-
112,907	-
17,577	-
188,974	-
570,000	-
64,287	-
-	-
3,367,545	-
2,524,000	-
157,620	-
157,900	-
7,325,711	5,117
1,528,000	23,000
747,000	-
2,275,000	23,000

Sample GAAP City
Statement of Net Position
June 30, 2014

	Primary Government	
	Governmental Activities	Business Type Activities
Net Position		
Net investment in capital assets	7,865,127	4,859,323
Restricted for:		
Debt service	59,444	-
Library gifts and memorials	639,495	-
Capital improvements and equipment	683,947	-
Community programs and services	455,964	-
Revenue note retirement	-	142,499
Wastewater improvement	-	100,000
Wastewater replacement	-	55,735
Other purposes	101,952	-
Unrestricted	(426,344)	1,772,723
Total net position	\$ 9,379,585	6,930,280

See notes to financial statements.

	<u>Component Unit</u>
<u>Total</u>	<u>Airport Authority</u>
12,724,450	977,297
59,444	-
639,495	-
683,947	-
455,964	-
142,499	-
100,000	-
55,735	-
101,952	-
1,346,379	(4,515)
<u>16,309,865</u>	<u>972,782</u>

Sample GAAP City
Statement of Activities
Year ended June 30, 2014

Functions/Programs:	Expenses	Program Revenues		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Primary Government:				
Governmental activities:				
Public safety	\$ 1,221,354	66,129	46,842	134,974
Public works	831,264	11,838	424,466	145,449
Culture and recreation	892,983	141,217	98,946	-
Community and economic development	65,718	1,498	150,000	15,129
General government	353,458	13,971	-	122,915
Interest on long-term debt	202,049	-	4,422	-
Total governmental activities	<u>3,566,826</u>	<u>234,653</u>	<u>724,676</u>	<u>418,467</u>
Business type activities:				
Water	456,825	472,865	15,377	-
Wastewater	679,234	666,232	68	-
Sanitation	593,556	602,108	587	-
Total business type activities	<u>1,729,615</u>	<u>1,741,205</u>	<u>16,032</u>	<u>-</u>
Total Primary Government	<u><u>\$ 5,296,441</u></u>	<u><u>1,975,858</u></u>	<u><u>740,708</u></u>	<u><u>418,467</u></u>
Component Unit:				
Airport Authority	\$ 133,593	3,163	-	-

General Revenues:

Property and other city tax levied for:
 General purposes
 Debt service
Tax increment financing
Local option sales tax
Grants and contributions not restricted to specific purposes
Unrestricted investment earnings
Miscellaneous
Total general revenues
Change in net position
Net position beginning of year
Net position end of year
See notes to financial statements.

Net (Expense) Revenue and Changes in Net Position			
Primary Government			Component Unit
Governmental Activities	Business Type Activities	Total	Airport Authority
(973,409)	-	(973,409)	
(249,511)	-	(249,511)	
(652,820)	-	(652,820)	
100,909	-	100,909	
(216,572)	-	(216,572)	
(197,627)	-	(197,627)	
<u>(2,189,030)</u>	<u>-</u>	<u>(2,189,030)</u>	
-	31,417	31,417	
-	(12,934)	(12,934)	
-	9,139	9,139	
<u>-</u>	<u>27,622</u>	<u>27,622</u>	
(2,189,030)	27,622	(2,161,408)	
			<u>(130,430)</u>
\$ 1,285,719	-	1,285,719	26,213
284,153	-	284,153	-
818,589	-	818,589	-
427,700	-	427,700	-
100,929	-	100,929	-
24,062	27,420	51,482	-
47,277	1,074	48,351	28,894
<u>2,988,429</u>	<u>28,494</u>	<u>3,016,923</u>	<u>55,107</u>
799,399	56,116	855,515	(75,323)
<u>8,580,186</u>	<u>6,874,164</u>	<u>15,454,350</u>	<u>1,048,105</u>
<u>\$ 9,379,585</u>	<u>6,930,280</u>	<u>16,309,865</u>	<u>972,782</u>

Sample GAAP City
Balance Sheet
Governmental Funds

June 30, 2014

	General	Special Revenue	
		Tax Increment Financing	Local Option Sales Tax
Assets			
Cash, cash equivalents and pooled investments	\$ 679,236	-	785,341
Receivables:			
Property tax:			
Delinquent	14,410	-	-
Succeeding year	785,000	-	-
Tax increment financing:			
Delinquent	-	33,200	-
Succeeding year	-	747,000	-
Accounts	8,111	-	-
Accrued interest	967	-	1,117
Due from other governments	49,801	-	42,895
Due from other funds	464	-	310,558
Prepaid expenditures	90,123	-	-
Total assets	\$ 1,628,112	780,200	1,139,911
Liabilities, Deferred Inflows of Resources and Fund Balances			
Liabilities:			
Accounts payable	\$ 69,013	-	-
Salaries and benefits payable	40,533	-	-
Contracts payable	6,335	-	-
Due to other governments	5,067	-	-
Due to other funds	-	492,964	-
Total liabilities	120,948	492,964	-
Deferred inflows of resources:			
Unavailable revenues:			
Succeeding year property tax	785,000	-	-
Tax increment financing	-	747,000	-
Other	6,227	20,644	-
Total deferred inflows of resources	791,227	767,644	-

Payroll	Debt	Capital		
Tax	Service	Projects	Nonmajor	Total
Levy				
-	67,991	388,737	162,664	2,083,969
6,922	4,948	-	-	26,280
468,000	275,000	-	-	1,528,000
-	-	-	-	33,200
-	-	-	-	747,000
-	-	1,800	6	9,917
-	97	596	211	2,988
-	-	15,097	31,796	139,589
-	-	-	492,964	803,986
-	-	-	-	90,123
474,922	348,036	406,230	687,641	5,465,052
-	-	9,222	1,511	79,746
-	-	-	-	40,533
-	-	105,525	-	111,860
-	-	-	-	5,067
-	-	607,189	-	1,100,153
-	-	721,936	1,511	1,337,359
468,000	275,000	-	-	1,528,000
-	-	-	-	747,000
1,843	1,263	1,800	-	31,777
469,843	276,263	1,800	-	2,306,777

Sample GAAP City
Balance Sheet
Governmental Funds

June 30, 2014

	Special Revenue		
	General	Tax Increment Financing	Local Option Sales Tax
Liabilities, Deferred Inflows of Resources and Fund Balances (continued)			
Fund balances:			
Nonspendable:			
Prepaid expenditures	90,123	-	-
Restricted for:			
Debt service	-	-	-
Fire gifts and memorials	48,395	-	-
Library gifts and memorials	-	-	-
Capital improvements and equipment	-	-	683,947
Community programs and services	-	-	455,964
Other purposes	-	-	-
Committed for future equipment purchases/ capital improvements	100,024	-	-
Unassigned	477,395	(480,408)	-
Total fund balances	715,937	(480,408)	1,139,911
Total liabilities, deferred inflows of resources and fund balances	\$ 1,628,112	780,200	1,139,911

See notes to financial statements.

Payroll					
Tax	Debt	Capital			
Levy	Service	Projects	Nonmajor		Total
-	-	-	-		90,123
-	71,773	-	-		71,773
-	-	-	-		48,395
-	-	-	639,495		639,495
-	-	-	-		683,947
-	-	-	-		455,964
5,079	-	-	46,635		51,714
-	-	-	-		100,024
-	-	(317,506)	-		(320,519)
5,079	71,773	(317,506)	686,130		1,820,916
474,922	348,036	406,230	687,641		5,465,052

Sample GAAP City

Sample GAAP City

Reconciliation of the Balance Sheet –
Governmental Funds to the Statement of Net Position

June 30, 2014

Total governmental fund balances (page 27) \$ 1,820,916

Amounts reported for governmental activities in the Statement of Net Position are different because:

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds. The cost of assets is \$16,905,143 and the accumulated depreciation/amortization is \$5,135,580. 11,769,563

Other long-term assets are not available to pay current year expenditures and, therefore, are recognized as deferred inflows of resources in the governmental funds. 31,777

Long-term liabilities, including bonds/notes payable, compensated absences payable, other postemployment benefits payable and accrued interest payable, are not due and payable in the current year and, therefore, are not reported as liabilities in the governmental funds. (4,242,671)

Net position of governmental activities (page 20) \$ 9,379,585

See notes to financial statements.

Sample GAAP City

Statement of Revenues, Expenditures
and Changes in Fund Balances (Deficit)
Governmental Funds
Year ended June 30, 2014

	Special Revenue			
	General	Tax Increment Financing	Local Option Sales Tax	Payroll Tax Levy
Revenues:				
Property tax	\$ 787,958	-	-	377,704
Tax increment financing	-	799,121	-	-
Other city tax	97,043	-	427,700	37,406
Licenses and permits	41,528	-	-	-
Use of money and property	12,631	-	13,881	-
Intergovernmental	308,849	-	-	-
Charges for service	146,660	-	-	-
Miscellaneous	104,653	-	-	-
Total revenues	1,499,322	799,121	441,581	415,110
Expenditures:				
Operating:				
Public safety	1,076,362	-	-	-
Public works	434,386	-	-	-
Culture and recreation	660,272	-	-	-
Community and economic development	5,041	50,000	-	-
General government	335,056	-	-	-
Debt service	-	30,400	-	-
Capital projects	-	-	-	-
Total expenditures	2,511,117	80,400	-	-
Excess (deficiency) of revenues over (under) expenditures	(1,011,795)	718,721	441,581	415,110
Other financing sources (uses):				
Operating transfers in	1,008,938	-	-	-
Operating transfers out	(351)	(848,412)	(327,809)	(483,755)
General obligation bonds issued	-	-	-	-
Discount on general obligation bonds issued	-	-	-	-
Total other financing sources (uses)	1,008,587	(848,412)	(327,809)	(483,755)
Change in fund balances	(3,208)	(129,691)	113,772	(68,645)
Fund balances (deficit) beginning of year	719,145	(350,717)	1,026,139	73,724
Fund balances (deficit) end of year	\$ 715,937	(480,408)	1,139,911	5,079

See notes to financial statements.

Debt Service	Capital Projects	Nonmajor	Total
262,736	-	-	1,428,398
-	-	-	799,121
20,313	-	-	582,462
-	-	-	41,528
4,422	7,868	23,143	61,945
-	282,902	419,279	1,011,030
-	-	-	146,660
185	156,936	8,217	269,991
<u>287,656</u>	<u>447,706</u>	<u>450,639</u>	<u>4,341,135</u>
-	-	11,119	1,087,481
-	-	-	434,386
-	-	4,173	664,445
-	-	-	55,041
-	-	-	335,056
667,191	-	-	697,591
-	2,586,624	-	2,586,624
<u>667,191</u>	<u>2,586,624</u>	<u>15,292</u>	<u>5,860,624</u>
<u>(379,535)</u>	<u>(2,138,918)</u>	<u>435,347</u>	<u>(1,519,489)</u>
385,333	1,513,019	-	2,907,290
-	(824,184)	(422,779)	(2,907,290)
-	965,000	-	965,000
-	(7,455)	-	(7,455)
<u>385,333</u>	<u>1,646,380</u>	<u>(422,779)</u>	<u>957,545</u>
5,798	(492,538)	12,568	(561,944)
65,975	175,032	673,562	2,382,860
<u>71,773</u>	<u>(317,506)</u>	<u>686,130</u>	<u>1,820,916</u>

Sample GAAP City

Sample GAAP City

Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances -
Governmental Funds to the Statement of Activities

Year ended June 30, 2014

Change in fund balances - Total governmental funds (page 31) \$ (561,944)

**Amounts reported for governmental activities in the Statement of
Activities are different because:**

Governmental funds report capital outlays as expenditures while governmental activities report depreciation/amortization expense to allocate those expenditures over the life of the assets. Capital outlay expenditures exceeded depreciation/amortization expense in the current year, as follows:

Expenditures for capital assets	\$ 2,553,986	
Depreciation/amortization expense	<u>(686,170)</u>	1,867,816

Because some revenues will not be collected for several months after the City's year end, they are not considered available revenues and are recognized as deferred inflows of resources in the governmental funds, as follows:

Property tax	25,448	
Other	<u>(380)</u>	25,068

Proceeds from issuing long-term liabilities provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Position. Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position. Current year issuances exceeded repayments, as follows:

Issued	(965,000)	
Discount on general obligation bonds issued	7,455	
Repaid	<u>495,000</u>	(462,545)

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds, as follows:

Compensated absences	(7,756)	
Other postemployment benefits	(61,782)	
Interest on long-term debt	<u>542</u>	(68,996)

Change in net position of governmental activities (page 23) \$ 799,399

See notes to financial statements.

Sample GAAP City
Statement of Net Position
Proprietary Funds

June 30, 2014

	Enterprise	
	Water	Wastewater
Assets		
Current assets:		
Cash and cash equivalents	\$ 502,320	589,333
Receivables (net of allowance for uncollectibles):		
Customer accounts and unbilled usage	47,331	67,734
Accounts	483	262
Accrued interest	714	1,504
Due from other funds	99,495	196,672
Inventories	25,470	-
Prepaid expenses	14,206	16,103
Total current assets	<u>690,019</u>	<u>871,608</u>
Non current assets:		
Restricted cash and cash equivalents	19,602	467,606
Capital assets, net of accumulated depreciation/amortization	2,067,077	5,298,720
Total noncurrent assets	<u>2,086,679</u>	<u>5,766,326</u>
Total assets	<u>2,776,698</u>	<u>6,637,934</u>
Liabilities		
Current liabilities:		
Accounts payable	12,488	6,065
Salaries and benefits payable	3,358	3,276
Contracts payable	141	906
Due to other governments	1,766	823
Payable from restricted assets:		
Customer deposits	19,602	-
Revenue notes	-	160,000
Accrued interest	-	9,372
Compensated absences	6,394	6,394
Noncurrent liabilities:		
Revenue notes	-	2,524,000
Compensated absences	14,207	14,207
Net OPEB liability	8,864	11,132
Total noncurrent liabilities	<u>23,071</u>	<u>2,549,339</u>
Total liabilities	<u>66,820</u>	<u>2,736,175</u>
Net Position		
Net investment in capital assets	2,067,077	2,614,720
Restricted for:		
Revenue note retirement	-	142,499
Wastewater improvement	-	100,000
Wastewater replacement	-	55,735
Unrestricted	642,801	988,805
Total net position	<u>\$ 2,709,878</u>	<u>3,901,759</u>

See notes to financial statements.

Sanitation	Total
118,040	1,209,693
45,434	160,499
4,400	5,145
168	2,386
-	296,167
-	25,470
15,914	46,223
183,956	1,745,583
-	487,208
177,526	7,543,323
177,526	8,030,531
361,482	9,776,114
1,128	19,681
4,716	11,350
-	1,047
9,921	12,510
-	19,602
-	160,000
-	9,372
5,735	18,523
-	2,524,000
12,475	40,889
8,864	28,860
21,339	2,593,749
42,839	2,845,834
177,526	4,859,323
-	142,499
-	100,000
-	55,735
141,117	1,772,723
318,643	6,930,280

Sample GAAP City

Statement of Revenues, Expenses
and Changes in Fund Net Position
Proprietary Funds

Year ended June 30, 2014

	<u>Enterprise</u>	
	<u>Water</u>	<u>Wastewater</u>
Operating revenues:		
Charges for service	\$ 472,865	666,232
Miscellaneous	15,377	68
Total operating revenues	<u>488,242</u>	<u>666,300</u>
Operating expenses:		
Business type activities:		
Cost of sales and services	364,304	360,130
Depreciation/amortization	92,521	199,349
Total operating expenses	<u>456,825</u>	<u>559,479</u>
Operating income	<u>31,417</u>	<u>106,821</u>
Non-operating revenues (expenses):		
Interest income	7,535	18,508
Interest expense	-	(119,755)
Miscellaneous	-	1,074
Net non-operating revenues (expenses)	<u>7,535</u>	<u>(100,173)</u>
Change in net position	38,952	6,648
Net position beginning of year	<u>2,670,926</u>	<u>3,895,111</u>
Net position end of year	<u>\$ 2,709,878</u>	<u>3,901,759</u>

See notes to financial statements.

Sanitation	Total
602,108	1,741,205
587	16,032
602,695	1,757,237
560,832	1,285,266
32,724	324,594
593,556	1,609,860
9,139	147,377
1,377	27,420
-	(119,755)
-	1,074
1,377	(91,261)
10,516	56,116
308,127	6,874,164
318,643	6,930,280

Sample GAAP City
Statement of Cash Flows
Proprietary Funds
Year ended June 30, 2014

	Enterprise	
	Water	Wastewater
Cash flows from operating activities:		
Cash received from customers and users	\$ 489,076	689,081
Cash received from other revenues	15,377	68
Cash paid for personal services	(189,253)	(189,309)
Cash paid to suppliers	(196,133)	(190,262)
Net cash provided by operating activities	<u>119,067</u>	<u>309,578</u>
Cash flows from noncapital financing activities:		
Advances to other funds, net of advance repayments	<u>13,025</u>	<u>17,792</u>
Cash flows from capital and related financing activities:		
Acquisition of capital assets	(31,980)	(29,464)
Principal paid on revenue notes	-	(153,000)
Interest paid on revenue notes	-	(120,289)
Net cash used for capital and related financing activities	<u>(31,980)</u>	<u>(302,753)</u>
Cash flows from investing activities:		
Interest on investments	<u>7,808</u>	<u>19,536</u>
Net increase in cash and cash equivalents	107,920	44,153
Cash and cash equivalents beginning of year	<u>414,002</u>	<u>1,012,786</u>
Cash and cash equivalents end of year	<u>\$ 521,922</u>	<u>1,056,939</u>

See notes to financial statements.

Sanitation	Total
603,072	1,781,229
371	15,816
(233,637)	(612,199)
(325,452)	(711,847)
44,354	472,999
-	30,817
-	(61,444)
-	(153,000)
-	(120,289)
-	(334,733)
1,392	28,736
45,746	197,819
72,294	1,499,082
118,040	1,696,901

Sample GAAP City

Statement of Cash Flows
Proprietary Funds

Year ended June 30, 2014

	Enterprise	
	Water	Wastewater
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 31,417	106,821
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation/amortization expense	92,521	199,349
Decrease in customer accounts receivable and unbilled usage and other accounts receivable	16,213	22,849
Increase in inventories, at cost	(1,723)	-
Increase in prepaid expenses	(2,315)	(2,275)
Increase (decrease) in accounts payable	22,350	(2,021)
Increase in salaries payable	87	34
Decrease in contracts payable	(42,298)	(19,094)
Decrease in compensated absences	(1,600)	(1,600)
Increase in due to other governments	171	185
Increase in other postemployment benefits	4,244	5,330
Net cash provided by operating activities	<u>\$ 119,067</u>	<u>309,578</u>
Reconciliation of cash and cash equivalents at year end to specific assets included in the Statement of Net Position:		
Current assets:		
Cash and cash equivalents	\$ 502,320	589,333
Restricted assets:		
Cash and cash equivalents:		
Customer deposits	19,602	-
Revenue note retirement	-	311,871
Wastewater improvement	-	100,000
Wastewater replacement	-	55,735
Cash and cash equivalents end of year	<u>\$ 521,922</u>	<u>1,056,939</u>

See notes to financial statements.

Sanitation	Total
9,139	147,377
32,724	324,594
748	39,810
-	(1,723)
(2,173)	(6,763)
(189)	20,140
222	343
-	(61,392)
(1,116)	(4,316)
755	1,111
4,244	13,818
<u>44,354</u>	<u>472,999</u>

118,040	1,209,693
-	19,602
-	311,871
-	100,000
-	55,735
<u>118,040</u>	<u>1,696,901</u>

Sample GAAP City

Notes to Financial Statements

June 30, 2014

(1) Summary of Significant Accounting Policies

Sample GAAP City is a political subdivision of the State of Iowa located in Sample County. It was first incorporated in 1875 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council-Manager form of government with the Mayor and Council Members elected on a non-partisan basis. Sample GAAP 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. It also operates the airport and provides water, sewer and sanitation utilities.

The financial statements of Sample GAAP City have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

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

These financial statements present Sample GAAP City (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.

Discretely Presented Component Unit

Sample GAAP City Municipal Airport Authority (Authority) was established pursuant to Chapter 330A of the Code of Iowa to operate the City's airport facility. The Authority is governed by a five member board appointed by the Sample GAAP City Council who serve at the pleasure of the City Council. The City annually provides significant operating subsidies to the Authority. In accordance with criteria set forth by the Governmental Accounting Standards Board, the Authority meets the definition of a component unit which should be discretely presented.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Sample County Assessor's Conference Board, Sample County Planning Commission, Sample County Sanitary Solid Waste Disposal Commission, Sample County Emergency Management Commission and Sample County E911 Service Board.

B. Basis of Presentation

Government-wide Financial Statements – The Statement of Net Position and the Statement of Activities report information on all of the nonfiduciary activities of the primary government and its component unit. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which are supported by property tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Statement of Net Position presents the City's nonfiduciary assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the difference reported as net position. Net position is reported in the following categories.

Net investment in capital assets consists of capital assets, net of accumulated depreciation/amortization and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.

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

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

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues 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 restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

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

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax revenues from general and emergency levies and other revenues 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 expenditures, the fixed charges and the capital improvement costs not paid from other funds.

Special Revenue:

The Tax Increment Financing Fund is used to account for revenues from the tax authorized by ordinance in the urban renewal district and used to pay the principal and interest on the general obligation capital loan notes and other indebtedness incurred for urban renewal projects.

The Local Option Sales Tax Fund is used to account for the revenues from the tax authorized by referendum and used for capital improvements, equipment and community programs and services.

The Payroll Tax Levy Fund is used to account for property tax levied to finance the payment of employee benefits.

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

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

The City reports the following major proprietary funds:

Enterprise:

The Water Fund is used to account for the operation and maintenance of the City's water system.

The Wastewater Fund is used to account for the operation and maintenance of the City's wastewater treatment and sanitary sewer system.

The Sanitation Fund is used to account for the operation and maintenance of the City's solid waste collection system.

C. Measurement Focus and Basis of Accounting

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days after year end.

Property tax, local option sales tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest are considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the City.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt are reported as other financing sources.

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

Under terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted 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 revenues.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's Enterprise Funds is charges to customers for sales and services. Operating expenses for Enterprise Funds include the cost of sales and services, administrative expenses and depreciation/amortization on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The City maintains its financial records on the cash basis. The financial statements of the City are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities, Deferred Inflows of Resources and Fund Equity

The following accounting policies are followed in preparing the financial statements:

Cash, Cash Equivalents and Pooled Investments – The cash balances of most City funds are pooled and invested. Interest earned on investments is recorded in the General Fund unless otherwise provided by law. Investments consist of non-negotiable certificates of deposit which are stated at cost.

For purposes of the Statement of Cash Flows, all short-term cash investments that are highly liquid (including restricted assets) are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, have a maturity date no longer than three months.

Property Tax Receivable, Including Tax Increment Financing – Property tax, including tax increment financing, in governmental funds is accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date the tax asking is certified by the City to the County Board of Supervisors. Current year property tax receivable represent taxes collected by the County but not remitted to the City at June 30, 2014 and unpaid taxes. The succeeding year property tax receivable represent taxes certified by the City to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the City is required to certify its budget to the County Auditor by March 15 of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable have been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenues recognized in these funds become due and collectible in September and March of the current fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2012 assessed property valuations; is for the tax accrual period July 1, 2013 through June 30, 2014 and reflects tax asking contained in the budget certified to the County Board of Supervisors in March 2013.

Customer Accounts and Unbilled Usage – Accounts receivable are recorded in the Enterprise Funds at the time the service is billed. Unbilled usage for service consumed between periodic scheduled billing dates is estimated and is recognized as revenue in the period in which the service is provided.

Due from and Due to Other Funds – During the course of its operations, the City has numerous transactions between funds. To the extent certain transactions between funds had not been paid or received as of June 30, 2014, balances of interfund amounts receivable or payable have been recorded in the fund financial statements.

Due From Other Governments – Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories – Inventories are valued at cost using the first-in/first-out method. Inventories in the Enterprise Funds consist of materials and supplies. Inventories are recorded as expenses when consumed rather than when purchased.

Restricted Assets – Funds set aside for payment of Enterprise Fund revenue notes are classified as restricted assets since their use is restricted by applicable note indentures. Other restricted assets include customer deposits restricted for application to unpaid customer accounts or for refund to customers.

Capital Assets – Capital assets, which include property, equipment and vehicles, intangibles and infrastructure assets acquired after July 1, 1980 (e.g. roads, bridges, curbs, gutters, sidewalks and similar items which are immovable and of value only to the City) are reported in the applicable governmental or business type activities columns in the government-wide Statement of Net Position and in the Proprietary Funds Statement of Net Position. Capital assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair not adding to the value of the asset or materially extending asset lives are not capitalized. Reportable capital assets are defined by the City as assets with initial, individual costs in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Land, buildings and improvements	\$ 25,000
Equipment and vehicles	5,000
Infrastructure	50,000
Intangibles	50,000

Capital assets of the City are depreciated/amortized using the straight line method over the following estimated useful lives:

Asset Class	Estimated Useful Lives (In Years)
Buildings	40-50
Improvements other than buildings	20-50
Vehicles	10-15
Equipment	5-30
Infrastructure	15-20
Intangibles	5-20

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, death or retirement. A liability is recorded when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental fund financial statements only for employees who have resigned or retired. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2014. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund.

Long-Term Liabilities – In the government-wide and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental or business type activities column in the Statement of Net Position and the proprietary fund Statement of Net Position.

In the governmental fund financial statements, the face amount of debt issued is reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Deferred Inflows of Resources - Although certain revenues are measurable, they are not available. Available means collected within the current year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Deferred inflows of resources in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Deferred inflows of resources consist of property tax receivable and other receivables not collected within sixty days after year end.

Deferred inflows of resources in the Statement of Net Position consist of succeeding year property tax and tax increment financing receivable that will not be recognized as revenue until the year for which they are levied.

Fund Equity – In the governmental fund financial statements, fund balances are classified as follows:

Nonspendable – Amounts which cannot be spent either because they are in a nonspendable form or because they are legally or contractually required to be maintained intact.

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

Committed – Amounts which can be used only for specific purposes pursuant to constraints formally imposed by the City Council through ordinance or resolution approved prior to year end. Those committed amounts cannot be used for any other purpose unless the City Council removes or changes the specified use by taking the same action it employed to commit those amounts.

Unassigned – All amounts not included in the preceding classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2014, disbursements exceeded the amount budgeted in the debt service function.

(2) Cash, Cash Equivalents and Pooled Investments

The City's deposits in banks at June 30, 2014 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3, as amended by Statement No. 40.

(3) Capital Assets

Capital assets activity for the year ended June 30, 2014 was as follows:

	Balance			Balance
	Beginning			End
	of year	Increases	Decreases	of Year
Primary Government				
Governmental activities:				
Capital assets not being depreciated/amortized:				
Land	\$ 835,920	-	-	835,920
Construction in progress - infrastructure	543,425	523,738	(890,983)	176,180
Construction in progress - other	418,419	1,622,362	(1,103,791)	936,990
Total capital assets not being depreciated	1,797,764	2,146,100	(1,994,774)	1,949,090
Capital assets being depreciated/amortized:				
Buildings	2,596,193	1,346,005	-	3,942,198
Improvements other than buildings	2,844,161	47,108	-	2,891,269
Equipment and vehicles	2,082,578	118,564	(10,345)	2,190,797
Infrastructure, road network	4,940,806	890,983	-	5,831,789
Intangibles	100,000	-	-	100,000
Total capital assets being depreciated/amortized	12,563,738	2,402,660	(10,345)	14,956,053
Less accumulated depreciation/amortization for:				
Buildings	321,991	77,145	-	399,136
Improvements other than buildings	417,013	137,768	-	554,781
Equipment and vehicles	1,124,676	179,716	(10,345)	1,294,047
Infrastructure, road network	2,546,075	286,541	-	2,832,616
Intangibles	50,000	5,000	-	55,000
Total accumulated depreciation/amortization	4,459,755	686,170	(10,345)	5,135,580
Total capital assets being depreciated/amortized, net	8,103,983	1,716,490	-	9,820,473
Governmental activities capital assets, net	\$ 9,901,747	3,862,590	(1,994,774)	11,769,563
Business type activities:				
Capital assets not being depreciated/amortized:				
Land	\$ 3,500	-	-	3,500
Construction in progress	456,429	35,173	(456,429)	35,173
Total capital assets not being depreciated	459,929	35,173	(456,429)	38,673
Capital assets being depreciated/amortized:				
Buildings	771,655	-	(4,818)	766,837
Improvements other than buildings	201,054	1,937	-	202,991
Equipment and vehicles	712,147	459,794	(7,966)	1,163,975
Infrastructure, water and sewer network	9,541,852	-	-	9,541,852
Intangibles	50,000	-	-	50,000
Total capital assets being depreciated/amortized	11,276,708	461,731	(12,784)	11,725,655
Less accumulated depreciation/amortization for:				
Buildings	428,167	14,573	(4,810)	437,930
Improvements other than buildings	113,225	6,931	-	120,156
Equipment and vehicles	348,279	89,616	(7,912)	429,983
Infrastructure, water and sewer network	2,994,462	210,974	-	3,205,436
Intangibles	25,000	2,500	-	27,500
Total accumulated depreciation/amortization	3,909,133	324,594	(12,722)	4,221,005
Total capital assets being depreciated/amortized, net	7,367,575	137,137	(62)	7,504,650
Business type activities capital assets, net	\$ 7,827,504	172,310	(456,491)	7,543,323

Depreciation/amortization expense was charged to functions of the primary government as follows:

Governmental activities:	
Public safety	\$ 112,658
Public works	333,982
Culture and recreation	229,594
General government	9,936
Total depreciation/amortization expense - governmental activities	<u>\$ 686,170</u>
Business type activities:	
Water	\$ 92,521
Wastewater	199,349
Sanitation	32,724
Total depreciation/amortization expense - business type activities	<u>\$ 324,594</u>

Discretely Presented Component Unit	Balance			Balance
	Beginning of Year	Increases	Decreases	End of Year
Capital assets not being depreciated:				
Land	\$ 55,875	-	-	55,875
Capital assets being depreciated:				
Buildings	148,524	-	-	148,524
Improvements other than buildings	25,388	-	-	25,388
Equipment and vehicles	133,746	-	-	133,746
Infrastructure, runway network	1,387,290	-	-	1,387,290
Total capital assets being depreciated	<u>1,694,948</u>	-	-	<u>1,694,948</u>
Less accumulated depreciation for:				
Buildings	126,702	2,181	-	128,883
Improvements other than buildings	18,769	1,406	-	20,175
Equipment and vehicles	47,317	8,135	-	55,452
Infrastructure, runway network	508,999	60,017	-	569,016
Total accumulated depreciation	<u>701,787</u>	<u>71,739</u>	-	<u>773,526</u>
Total capital assets being depreciated, net	993,161	(71,739)	-	921,422
Component unit capital assets, net	<u>\$ 1,049,036</u>	<u>(71,739)</u>	-	<u>977,297</u>
Total depreciation expense - discretely presented component unit				<u>\$ 71,739</u>

(4) Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2014 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year	Due Within One Year
Governmental activities:					
General obligation bonds/notes	\$ 3,475,000	957,545	495,000	3,937,545 (1)	570,000
Compensated absences	154,739	43,055	35,299	162,495	45,764
Net OPEB liability	67,258	83,062	21,280	129,040	-
Total	<u>\$ 3,696,997</u>	<u>1,083,662</u>	<u>551,579</u>	<u>4,229,080</u>	<u>615,764</u>

(1) Bonds were sold at a discount; unamortized discount at June 30, 2014 totaled \$7,455.

	Balance Beginning of Year	Increases	Decreases	Balance End of Year	Due Within One Year
Business type activities:					
Revenue notes	\$ 2,837,000	-	153,000	2,684,000	160,000
Compensated absences	63,728	11,183	15,499	59,412	18,523
Net OPEB liability	15,042	19,138	5,320	28,860	-
Total	<u>\$ 2,915,770</u>	<u>30,321</u>	<u>173,819</u>	<u>2,772,272</u>	<u>178,523</u>

General obligation bonds/notes

Eight issues of unmatured general obligation bonds/notes, totaling \$3,945,000, are outstanding at June 30, 2014. General obligation bonds/notes bear interest at rates ranging from 1.65% to 5.40% per annum and mature in varying annual amounts, ranging from \$35,000 to \$215,000, with the final maturities due in the year ending June 30, 2025.

Details of general obligation bonds/notes payable at June 30, 2014 are as follows:

Governmental activities	Date of Issue	Interest Rates	Final Due Date	Annual Payments	Amount	
					Originally Issued	Outstanding June 30, 2014
General and essential corporate purpose	Aug 1, 2004	4.40-4.75%	Jun 1, 2015	\$ 35,000-50,000	430,000	50,000
Capital loan notes	Jul 1, 2009	4.05-4.125	Jun 1, 2015	55,000-65,000	300,000	65,000
Capital loan notes	Jul 1, 2010	4.25-4.65	Jun 1, 2016	50,000-60,000	270,000	115,000
Essential corporate purpose	Jul 1, 2010	4.80-5.00	Jun 1, 2023	120,000-215,000	2,400,000	1,905,000
Capital loan notes	Jul 1, 2011	5.15-5.40	Jun 1, 2017	40,000-50,000	230,000	145,000
Capital loan notes	Oct 15, 2012	2.45-4.00	Jun 1, 2020	100,000-130,000	800,000	700,000
Essential corporate purpose	Oct 15, 2013	1.65-2.85	Jun 1, 2019	50,000-55,000	265,000	265,000
Essential corporate purpose	Dec 15, 2013	2.40-4.00	Jun 1, 2025	60,000-80,000	700,000	700,000
Total governmental activities						<u>\$ 3,945,000</u>

A summary of the annual general obligation bond/note principal and interest requirements to maturity by year is as follows:

Year Ending June 30,	Principal	Interest	Total
2015	\$ 570,000	163,100	733,100
2016	475,000	141,254	616,254
2017	435,000	123,059	558,059
2018	395,000	106,511	501,511
2019	410,000	91,654	501,654
2020-2024	1,445,000	245,198	1,690,198
2025	215,000	10,750	225,750
Total	<u>\$ 3,945,000</u>	<u>881,526</u>	<u>4,826,526</u>

Revenue notes

One issue of unmatured revenue notes, totaling \$2,684,000, is outstanding at June 30, 2014. These notes bear interest at a rate of 4.19% per annum and mature in varying annual amounts ranging from \$160,000 to \$261,000, with the final maturity due in the year ending June 30, 2027.

The City has pledged future wastewater customer revenues, net of specified operating expenses, to repay \$4,745,000 of sewer revenue notes issued in February 2007. Proceeds from the notes provided financing for the construction of improvements to the wastewater treatment plant. The notes are payable solely from wastewater customer net revenues and are payable through 2027. Annual principal and interest payments on the notes are expected to require less than 90% of net revenues. The total principal and interest remaining to be paid on the notes is \$3,535,534. For the current year, principal and interest paid and total customer net revenues (operating revenues plus depreciation/amortization expense) were \$272,755 and \$306,170, respectively.

The resolution providing for the issuance of the revenue 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 revenue note retirement account for the purpose of making the note principal and interest payments when due.
- (c) Additional monthly transfers of \$2,000 to separate wastewater improvement and replacement accounts shall be made until specific minimum balances have been accumulated. These accounts are restricted for the purpose of paying for any additional improvements, extensions or repairs to the system.
- (d) User rates shall be established at a level which produces and maintains net revenues at a level not less than 110% of the amount of principal and interest on the notes falling due in the same year.

During the year ended June 30, 2014, the City was in compliance with the revenue note provisions.

Details of revenue notes payable at June 30, 2014 are as follows:

Business type activities	Date of Issue	Interest Rates	Final Due Date	Annual Payments	Amount	
					Originally Issued	Outstanding June 30, 2014
Wastewater revenue notes, series 2007	Feb 16, 2007	4.19%	Jun 1, 2027	\$ 156,000-261,000	4,745,000	2,684,000

A summary of the annual revenue note principal and interest requirements to maturity is as follows:

Year Ending June 30,	Principal	Interest	Total
2015	\$ 160,000	112,460	272,460
2016	166,000	105,756	271,756
2017	173,000	98,800	271,800
2018	180,000	91,551	271,551
2019	188,000	84,009	272,009
2020-2024	1,065,000	295,060	1,360,060
2025-2027	752,000	63,898	815,898
Total	\$ 2,684,000	851,534	3,535,534

(5) Interfund Transfers

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

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Special Revenue:	
	Local Option Sales Tax	\$ 98,655
	Payroll Tax Levy	483,755
	Road Use Tax	422,779
	Capital Projects	3,749
		<u>1,008,938</u>
Debt Service	Special Revenue:	
	Tax Increment Financing	156,179
	Local Option Sales Tax	229,154
		<u>385,333</u>
Capital Projects	General	351
	Special Revenue:	
	Tax Increment Financing	692,233
	Capital Projects	820,435
		<u>1,513,019</u>
Total		<u>\$ 2,907,290</u>

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

(6) Due From and Due to Other Funds

The detail of interfund receivables and payables at June 30, 2014 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Capital Projects	\$ 464
Special Revenue:		
Local Option Sales Tax	Capital Projects	310,558
Library Donations	Special Revenue:	
	Tax Increment Financing	492,964
Enterprise:		
Water	Capital Projects	99,495
Wastewater	Capital Projects	<u>196,672</u>
Total		<u>\$ 1,100,153</u>

These balances result from interfund loans to finance projects. Repayments will be made from future revenues.

(7) Pension and Retirement Benefits

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

Most regular plan members are required to contribute 5.95% of their annual covered salary and the City is required to contribute 8.93% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2014, 2013 and 2012 were \$411,927, \$410,298 and \$391,314, respectively, equal to the required contributions for each year.

(8) Other Postemployment Benefits (OPEB)

Plan Description - The City operates a single-employer health benefit plan which provides medical/prescription drug benefits for employees, retirees and their spouses. There are 175 active and 3 retired members in the plan. Retired participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees, which results in an implicit rate subsidy and an OPEB liability.

Funding Policy - The contribution requirements of plan members are established and may be amended by the City. The City currently finances the retiree benefit plan on a pay-as-you-go basis.

Annual OPEB Cost and Net OPEB Obligation - The City's annual OPEB cost is calculated based on the annual required contribution (ARC) of the City, an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of funding which, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

The following table shows the components of the City's annual OPEB cost for the year ended June 30, 2014, the amount actually contributed to the plan and changes in the City's net OPEB obligation:

Annual required contribution	\$ 101,500
Interest on net OPEB obligation	4,000
Adjustment to annual required contribution	<u>(3,300)</u>
Annual OPEB cost	102,200
Contributions made	<u>26,600</u>
Increase in net OPEB obligation	75,600
Net OPEB obligation beginning of year	<u>82,300</u>
Net OPEB obligation end of year	<u>\$ 157,900</u>

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2008. The end of year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2014.

For the year ended June 30, 2014, the City contributed \$26,600 to the medical plan. Plan members eligible for benefits contributed \$24,900, or 48% of the premium costs.

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation are summarized as follows:

Year Ended June 30,	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2012	\$ 101,500	36.9%	\$ 64,000
2013	101,900	19.2	82,300
2014	102,200	26.0	157,900

Funded Status and Funding Progress - As of July 1, 2011, the most recent actuarial valuation date for the period July 1, 2013 through June 30, 2014, the actuarial accrued liability was \$655,000, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$655,000. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$1,897,000 and the ratio of the UAAL to covered payroll was 34.5%. As of June 30, 2014, there were no trust fund assets.

Actuarial Methods and Assumptions - Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumption about future employment, mortality and the health care cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress for the Retiree Health Plan, presented as Required Supplementary Information in the section following the Notes to Financial Statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the plan as understood by the employer and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

As of the July 1, 2011 actuarial valuation date, the unit credit actuarial cost method was used. The actuarial assumptions include a 5% discount rate based on the City's funding policy. The projected annual medical trend rate is 11%. The ultimate medical trend rate is 6%. The medical trend rate is reduced 0.5% each year until reaching the 6% ultimate trend rate. An inflation rate of 0% is assumed for purpose of this computation.

Mortality rates are from the RP2000 Group Annuity Mortality Table, applied on a gender-specific basis. Annual retirement and termination probabilities were developed from the retirement probabilities from the IPERS Actuarial Report as of June 30, 2010 and applying the termination factors used in the IPERS Actuarial Report as of June 30, 2010.

Projected claim costs of the medical plan are \$823 per month for retirees less than age 65 and \$283 per month for retirees who have attained age 65. The salary increase rate was assumed to be 4% per year. The UAAL is being amortized as a level percentage of projected payroll expense on an open basis over 30 years.

(9) Industrial Development Revenue Bonds

The City has issued a total of \$16,325,000 of industrial development revenue bonds under the provisions of Chapter 419 of the Code of Iowa, of which \$8,247,020 is outstanding at June 30, 2014. The bonds and related interest are payable solely from the rents payable by tenants of the properties constructed, and the bond principal and interest do not constitute liabilities of the City.

(10) Deficit Balances

At June 30, 2014, funds with deficit balances were as follows:

Special Revenue, Tax Increment Financing Fund	\$ 480,408
Capital Projects Fund	\$ 317,506

These deficit balances are the result of debt payments and project costs in excess of available funds. These deficits will be eliminated upon collection of tax increment financing revenues and the subsequent transfer of these revenues to the Capital Projects Fund.

(11) Related Party Transactions

The City had business transactions between the City and City officials totaling \$106,783 during the year ended June 30, 2014.

(12) Risk Management

The City is a member of the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 700 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual casualty operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses estimated for the fiscal year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained at a level determined by the Board not to exceed 300% of basis rate or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect such coverage make annual property operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses, reinsurance premiums, losses and loss expenses for property risks estimated for the fiscal year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital.

Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The City's property and casualty contributions to the risk pool are recorded as expenditures from its operating funds at the time of payment to the risk pool. The City's contributions to the Pool for the year ended June 30, 2014 were \$133,775.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured through reinsurance and excess risk-sharing agreements up to the amount of risk-sharing protection provided by the County's risk-sharing certificate. Property and automobile physical damage risks are retained by the Pool up to \$150,000 each occurrence, each location. Property risks exceeding \$150,000 are reinsured through reinsurance and excess risk-sharing agreements up to the amount of risk-sharing protection provided by the City's risk-sharing certificate.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim, property loss or series of claims or losses exceeds the amount of risk-sharing protection provided by the City's risk-sharing certificate, or in the event a casualty claim, property loss or series of claims or losses exhausts the Pool's funds and any reinsurance and any excess risk-sharing recoveries, then payment of such claims or losses shall be the obligation of the respective individual member against whom the claim was made or the loss was incurred. The City does not report a liability for losses in excess of reinsurance or excess risk-sharing recoveries unless it is deemed probable such losses have occurred and the amount of such loss can be reasonably estimated. Accordingly, at June 30, 2014, no liability has been recorded in the City's financial statements. As of June 30, 2014, settled claims have not exceeded the risk pool or reinsurance coverage since the Pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all casualty claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Upon withdrawal, a formula set forth in the Pool's intergovernmental contract with its members is applied to determine the amount (if any) to be refunded to the withdrawing member.

The City also carries commercial insurance purchased from other insurers for coverage associated with workers compensation and employee blanket bond in the amount of \$1,000,000 and \$100,000, respectively. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(13) Commitments

The City has entered into construction contracts totaling \$1,190,824 for renovation of the Memorial Library and a street construction project. As of June 30, 2014, costs of \$866,476 have been incurred on the projects. The remaining \$324,348 will be paid as work on the projects progresses.

(14) Subsequent Events

In July 2014, the City entered into a contract for \$570,000 for construction of a garage for the street department. The project will be funded with general obligation bonds issued in September 2014.

In September 2014, the City issued \$960,000 of general obligation bonds to pay the costs of certain street improvements and a street garage. The bonds are payable from a continuing annual levy of property tax against all taxable property of the City.

(15) Prospective Accounting Change

The Governmental Accounting Standards Board has issued Statement No. 68, Accounting and Financial Reporting for Pensions – an Amendment of GASB No. 27. This statement will be implemented for the fiscal year ending June 30, 2015. The revised requirements establish new financial reporting requirements for state and local governments which provide their employees with pension benefits, including additional note disclosures and required supplementary information. In addition, the Statement of Net Position is expected to include a significant liability for the government's proportionate share of the employee pension plan.

Sample GAAP City

Required Supplementary Information

Sample GAAP City

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

Required Supplementary Information

Year ended June 30, 2014

	Governmental Funds Actual	Proprietary Funds Actual	Total Actual
Receipts:			
Property tax	\$ 1,427,407	-	1,427,407
Tax increment financing	778,629	-	778,629
Other city tax	575,563	-	575,563
Licenses and permits	38,913	-	38,913
Use of money and property	48,253	28,736	76,989
Intergovernmental	916,507	-	916,507
Charges for service	142,577	1,781,243	1,923,820
Special assessments	-	-	-
Miscellaneous	328,738	16,033	344,771
Total receipts	4,256,587	1,826,012	6,082,599
Disbursements:			
Public safety	1,086,960	-	1,086,960
Public works	438,668	-	438,668
Culture and recreation	651,293	-	651,293
Community and economic development	-	-	-
General government	337,703	-	337,703
Debt service	667,190	-	667,190
Capital projects	2,708,508	-	2,708,508
Business type activities	-	1,659,010	1,659,010
Total disbursements	5,890,322	1,659,010	7,549,332
Excess (deficiency) of receipts over (under) disbursements	(1,633,735)	167,002	(1,466,733)
Other financing sources, net	926,914	30,817	957,731
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(706,821)	197,819	(509,002)
Balances beginning of year	2,790,790	1,499,082	4,289,872
Balances end of year	\$ 2,083,969	1,696,901	3,780,870

See accompanying independent auditor's report.

Budgeted Amounts		Final to
Original	Final	Actual Variance
1,424,342	1,424,342	3,065
750,000	750,000	28,629
540,739	540,739	34,824
43,740	43,740	(4,827)
114,463	114,463	(37,474)
1,900,580	2,030,580	(1,114,073)
1,924,368	1,900,549	23,271
13,000	13,000	(13,000)
581,648	597,648	(252,877)
7,292,880	7,415,061	(1,332,462)
1,070,264	1,090,264	3,304
492,350	509,010	70,342
631,833	668,133	16,840
1,074,400	1,077,900	1,077,900
383,334	412,034	74,331
652,561	652,561	(14,629)
3,142,600	3,778,620	1,070,112
2,308,020	2,328,020	669,010
9,755,362	10,516,542	2,967,210
(2,462,482)	(3,101,481)	1,634,748
1,400,000	1,704,130	(746,399)
(1,062,482)	(1,397,351)	888,349
2,327,528	3,491,060	798,812
1,265,046	2,093,709	1,687,161

Sample GAAP City

Budget to GAAP Reconciliation

Required Supplementary Information

Year ended June 30, 2014

	Governmental Funds			Proprietary Funds		
	Cash Basis	Accrual Adjustments	Modified Accrual Basis	Cash Basis	Accrual Adjustments	Accrual Basis
Revenues	\$ 4,256,587	84,548	4,341,135	1,826,012	(40,281)	1,785,731
Expenditures/expenses	5,890,322	(29,698)	5,860,624	1,659,010	70,605	1,729,615
Net	(1,633,735)	114,246	(1,519,489)	167,002	(110,886)	56,116
Other financing sources, net	926,914	30,631	957,545	30,817	(30,817)	-
Beginning fund balances/net position	2,790,790	(407,930)	2,382,860	1,499,082	5,375,082	6,874,164
Ending fund balances/net position	\$ 2,083,969	(263,053)	1,820,916	1,696,901	5,233,379	6,930,280

See accompanying independent auditor's report.

Sample GAAP City

Notes to Required Supplementary Information – Budgetary Reporting

Year ended June 30, 2014

The budgetary comparison is presented as Required Supplementary Information 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. Encumbrances are not recognized on the cash basis budget and appropriations lapse at year end.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Fund and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, two budget amendments increased budgeted disbursements by \$761,180. These budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2014, disbursements in the debt service function exceeded the amount budgeted.

Sample GAAP City

Schedule of Funding Progress for the
Retiree Health Plan
(In Thousands)

Required Supplementary Information

Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
2009	Jul 1, 2008	-	\$ 565	565	0.0%	\$ 1,693	33.4%
2010	Jul 1, 2008	-	565	565	0.0	1,709	33.1
2011	Jul 1, 2008	-	565	565	0.0	1,751	32.3
2012	Jul 1, 2011	-	655	655	0.0	1,800	36.4
2013	Jul 1, 2011	-	655	655	0.0	1,846	35.5
2014	Jul 1, 2011	-	655	655	0.0	1,897	34.5

See Note 8 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB cost, net OPEB obligation, funded status and funding progress.

See accompanying independent auditor's report.

Supplementary Information

Schedule 1

Sample GAAP City
Combining Balance Sheet
Nonmajor Governmental Funds

June 30, 2014

	Special Revenue			
	Road Use Tax	Library Donations	Volunteer Fire Department	Total
Assets				
Cash, cash equivalents and pooled investments	\$ -	147,825	14,839	162,664
Receivables:				
Accounts	-	6	-	6
Accrued interest	-	211	-	211
Due from other governments	31,796	-	-	31,796
Due from other funds	-	492,964	-	492,964
Total assets	\$ 31,796	641,006	14,839	687,641
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	\$ -	1,511	-	1,511
Fund balances:				
Restricted for:				
Library gifts and memorials	-	639,495	-	639,495
Other purposes	31,796	-	14,839	46,635
Total fund balances:	31,796	639,495	14,839	686,130
Total liabilities and fund balances	\$ 31,796	641,006	14,839	687,641

See accompanying independent auditor's report.

Sample GAAP City

Combining Schedule of Revenues, Expenditures
and Changes in Fund Balances
Nonmajor Governmental Funds

Year ended June 30, 2014

	Special Revenue			
	Road	Library	Volunteer	Total
	Use Tax	Donations	Fire Department	
Revenues:				
Use of money and property	\$ -	22,910	233	23,143
Intergovernmental	419,279	-	-	419,279
Miscellaneous	-	6	8,211	8,217
Total revenues	<u>419,279</u>	<u>22,916</u>	<u>8,444</u>	<u>450,639</u>
Expenditures:				
Operating:				
Public safety	-	-	11,119	11,119
Culture and recreation	-	4,173	-	4,173
Total expenditures	<u>-</u>	<u>4,173</u>	<u>11,119</u>	<u>15,292</u>
Excess (deficiency) of revenues over (under) expenditures	419,279	18,743	(2,675)	435,347
Other financing uses:				
Operating transfers out	<u>(422,779)</u>	-	-	<u>(422,779)</u>
Changes in fund balances	(3,500)	18,743	(2,675)	12,568
Fund balances beginning of year	<u>35,296</u>	<u>620,752</u>	<u>17,514</u>	<u>673,562</u>
Fund balances end of year	<u>\$ 31,796</u>	<u>639,495</u>	<u>14,839</u>	<u>686,130</u>

See accompanying independent auditor's report.

Sample GAAP City
 Schedule of Revenues by Source and Expenditures by Function-
 All Governmental Funds

For the Last Ten Years

	2014	2013	2012	2011
Revenues:				
Property tax	\$ 1,428,398	1,406,255	1,391,000	1,389,300
Tax increment financing	799,121	752,000	690,000	645,000
Other city tax	582,462	554,300	515,982	495,910
Licenses and permits	41,528	43,075	44,280	40,101
Use of money and property	61,945	105,575	112,310	139,812
Intergovernmental	1,011,030	810,417	797,300	707,300
Charges for service	146,660	132,792	133,411	134,250
Miscellaneous	269,991	331,296	320,517	338,595
Total	\$ 4,341,135	4,135,710	4,004,800	3,890,268
Expenditures:				
Operating:				
Public safety	\$ 1,087,481	986,720	950,300	912,444
Public works	434,386	411,987	400,616	402,640
Culture and recreation	664,445	653,739	637,311	618,128
Community and economic development	55,041	53,919	45,244	41,311
General government	335,056	325,803	311,829	311,914
Debt service	697,591	591,399	545,611	538,998
Capital projects	2,586,624	1,025,000	1,108,500	999,980
Total	\$ 5,860,624	4,048,567	3,999,411	3,825,415

See accompanying independent auditor's report.

Modified Accrual Basis					
2010	2009	2008	2007	2006	2005
1,375,407	1,347,899	1,341,159	1,327,748	1,314,470	1,301,326
638,550	625,779	622,650	616,424	610,259	604,157
490,951	481,132	478,726	473,939	469,200	464,508
39,700	38,906	38,711	38,324	37,941	37,562
138,414	135,646	134,967	133,618	132,282	130,959
700,227	686,222	682,791	675,963	669,204	662,512
132,908	130,249	129,598	128,302	127,019	125,749
335,209	328,505	326,862	323,594	320,358	317,154
<u>3,851,366</u>	<u>3,774,338</u>	<u>3,755,464</u>	<u>3,717,912</u>	<u>3,680,733</u>	<u>3,643,927</u>
903,320	885,253	880,827	872,019	863,298	854,665
398,614	390,641	388,688	384,801	380,953	377,144
611,947	599,708	596,709	590,742	584,835	578,986
40,898	40,080	39,880	39,481	39,086	38,695
308,795	302,619	301,106	298,095	295,114	292,163
533,608	522,936	520,321	515,118	509,967	504,867
989,980	970,181	965,330	955,676	946,120	936,658
<u>3,787,162</u>	<u>3,711,418</u>	<u>3,692,861</u>	<u>3,655,932</u>	<u>3,619,373</u>	<u>3,583,178</u>

Sample GAAP City
 Schedule of Expenditures of Federal Awards
 Year ended June 30, 2014

Grantor/Program	CFDA Number	Agency or Pass-through Number	Program Expenditures
Direct:			
U.S. Department of Justice:			
Bulletproof Vest Partnership Program	16.607		\$ 5,000
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	14.228	14-CD-000	399,000
U.S. Department of Transportation:			
Iowa Department of Transportation:			
Highway Planning and Construction	20.205	STP-65-6(39)-3C-00	20,000
Highway Planning and Construction	20.205	STP-E-3720(4)-9V-00	80,000
ARRA - Highway Planning and Construction	20.205	ESL-9999(999)--7S-82	6,000
			<u>106,000</u>
U.S. Department of Homeland Security:			
Iowa Department of Homeland Security and Emergency Management:			
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	FEMA-4126-DRIA	1,500
Total indirect			<u>506,500</u>
Total			<u>\$ 511,500</u>

Basis of Presentation – The Schedule of Expenditures of Federal Awards includes the federal grant activity of Sample GAAP City and is presented on the accrual or modified accrual 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.

**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**

Sample GAAP City



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 Government Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of Sample GAAP City, Iowa, as of and for the year ended June 30, 2014, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated September 24, 2014.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified a deficiency in internal control we consider to be a material weakness and other deficiencies we consider to be 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 Sample GAAP City's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency described in Part II of the accompanying Schedule of Findings and Questioned Costs as item II-A-14 to be a material weakness.

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-B-14 and II-C-14 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Sample GAAP City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters which are described in 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, 2014 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Sample GAAP City's Responses to the Findings

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the 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 Sample GAAP City during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

MARY MOSIMAN, CPA
Auditor of State

September 24, 2014

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

Sample GAAP City



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

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Mary Mosiman, CPA
Auditor of State

Independent Auditor's Report on Compliance
for Each Major Federal 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 Sample GAAP City, 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 Sample GAAP City's major federal program for the year ended June 30, 2014. Sample GAAP City'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 Sample GAAP City'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 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 Sample GAAP City'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 on Sample GAAP City's compliance.

Opinion on Each Major Federal Program

In our opinion, Sample GAAP City 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, 2014.

Report on Internal Control Over Compliance

The management of Sample GAAP City 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 Sample GAAP City'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 Sample GAAP City'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 the 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

September 24, 2014

Sample GAAP City
Schedule of Findings and Questioned Costs
Year ended June 30, 2014

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

- (a) Unmodified opinions were issued on the financial statements.
- (b) Significant deficiencies and a material weakness in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (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 disclosed no 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 14.228 – Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii.
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Sample GAAP City did not qualify as a low-risk auditee.

Sample GAAP City

Schedule of Findings and Questioned Costs

Year ended June 30, 2014

Part II: Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

II-A-14 Financial Reporting – During the audit, we identified material amounts of receivables, payables and capital asset additions not recorded in the City’s financial statements. Adjustments were subsequently made by the City to properly include these amounts in the financial statements.

Recommendation – The City should implement procedures to ensure all receivables, payables and capital asset additions are identified and included in the City’s financial statements.

Response – We will revise our current procedures to ensure the proper amounts are recorded in the financial statements in the future.

Conclusion – Response accepted.

II-B-14 Credit Cards – The City has credit cards for use by various employees while on City business. The City has not adopted a formal policy to regulate the use of credit cards and to establish procedures for the proper accounting of credit card charges. Additionally, supporting documentation was not always available to support credit card charges.

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

Response – We presently have unwritten guidelines. However, we have not established a formal written policy detailing specifics on the use of City credit cards. We will review procedures and guidelines and establish a written policy.

Conclusion – Response accepted.

II-C-14 Computer Systems – The following weaknesses in the City’s computer systems were noted:

The City does not have written policies for:

- Requiring password changes because software does not require the user to change log-ins/passwords periodically.
- Requiring independent review of payroll and utility rates.
- Computer usage and internet usage.

Also, the computer systems do not lock out a user if the user enters the wrong password a specified number of times.

Sample GAAP City

Schedule of Findings and Questioned Costs

Year ended June 30, 2014

Recommendation – The City should develop written policies addressing the above items in order to improve the City’s control over computer systems. Passwords should be periodically changed, independent review should be performed on utility and payroll rates and the computer should lock out users who input their password incorrectly a specified number of times.

Response – The City will review current policies and procedures and adjust accordingly.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

Sample GAAP City
Schedule of Findings and Questioned Costs
Year ended June 30, 2014

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.

Sample GAAP City

Schedule of Findings and Questioned Costs

Year ended June 30, 2014

Part IV: Other Findings Related to Required Statutory Reporting:

IV-A-14 Certified Budget – Disbursements during the year ended June 30, 2014 exceeded the amount budgeted in the debt service function. 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 – The budget will be amended in the future, if applicable.

Conclusion – Response accepted.

IV-B-14 Questionable Expenditures – Certain expenditures we believe may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 since the public benefits to be derived have not been clearly documented were noted. These expenditures are detailed as follows:

<u>Paid to</u>	<u>Purpose</u>	<u>Amount</u>
Anywhere Flower Shop	Flower arrangements for gifts	\$ 332
Anywhere Quick Shop	Pop and food for City employees	239

According to the opinion, it is possible for such expenditures to meet the test of serving a public purpose under certain circumstances, although such items will certainly be subject to a deserved close scrutiny. The line to be drawn between a proper and an improper purpose is very thin.

Recommendation – The City Council should determine and document the public purpose served by these expenditures before authorizing any further payments. If this practice is continued, the City should establish written policies and procedures, including the requirement for proper documentation.

Response – We will comply with this recommendation.

Conclusion – Response accepted.

IV-C-14 Travel Expense – No expenditures of City money for travel expenses of spouses of City officials or employees were noted.

Sample GAAP City

Schedule of Findings and Questioned Costs

Year ended June 30, 2014

- IV-D-14 Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Rosemary Jones, Mayor, Owner of Jones Construction	Construction, per bid	\$ 105,052
Kevin Linden, City Council Member, Owner of Linden Welding	Repair and welding	1,295
J. J. Silver, Public Works Director, Part-owner of J. J.'s Hardware	Parts and supplies	436

In accordance with Chapter 362.5(3)(j) of the Code of Iowa, the transactions with the City Council Member and the Public Works Director do not appear to represent conflicts of interest since total transactions with each individual were less than \$1,500 during the fiscal year. The transaction with the Mayor does not appear to represent a conflict of interest since it was entered into through competitive bidding in accordance with Chapter 362.5(3)(d) of the Code of Iowa.

- IV-E-14 Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure the coverage is adequate for current operations.

- IV-F-14 City Council Minutes – No transactions were found that we believe should have been approved in the City Council minutes but were not.

The City Council went into closed session on May 19, 2014. However, the minutes record did not document the specific information regarding the closed session required by Chapter 21 of the Code of Iowa, commonly known as the open-meetings law.

Although minutes of City Council proceedings were published, they were not published within fifteen days as required by Chapter 372.13(6) of the Code of Iowa. Also, the City did not publish annual gross salaries in accordance with an Attorney General's opinion dated April 12, 1978.

Recommendation – The City should comply with Chapter 21 of the Code of Iowa and should publish minutes and annual individual salaries as required.

Response – We will comply with the Code requirements for closed sessions. We will publish minutes and salaries as required.

Conclusion – Response accepted.

- IV-G-14 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-14 Revenue Notes – No instances of non-compliance with the wastewater revenue note provisions were noted.

Sample GAAP City

Schedule of Findings and Questioned Costs

Year ended June 30, 2014

- IV-I-14 Annual Urban Renewal Report – The annual urban renewal report was properly approved and certified to the Iowa Department of Management on or before December 1. However, the following reporting exceptions were noted:

The City understated the amount reported as TIF debt outstanding on the Levy Authority Summary by \$58,350. The debt outstanding excluded one rebate agreement entered into during the year ended June 30, 2014 and did not include the total obligation for rebate agreements subject to annual appropriation.

Recommendation – The City should ensure the TIF debt outstanding reported includes all TIF debt issued during the fiscal year and the total balance of all annual appropriation obligations.

Response – These items will be corrected on next year’s report.

Conclusion – Response accepted.

- IV-J-14 Fire Department Activities – The City’s Volunteer Fire Department maintains a separate checking account for donations and fund raising activities. Certain expenditures, such as a dinner for volunteers and their family members, from this account may not meet the requirements of public purpose.

Recommendation – The City and the Volunteer Fire Department should determine and document the public purpose served by these expenditures before authorizing further payments and should consider initiating steps to legally segregate the donation and fund raising activities of the Association from the City.

Response – We will contact the City Attorney to set this up.

Conclusion – Response accepted.

- IV-K-14 Other Information Required by the Revenue Note Resolution

Insurance – The following insurance policies were in force at June 30, 2014:

Insurer	Description	Amount	Expiration Date
Iowa Communities Assurance Pool (ICAP)	Property coverage	\$ 20,000,000	Apr 1, 2015
ICAP	Liability coverage:		
	General aggregate	10,000,000	Apr 1, 2015
	Products aggregate	10,000,000	Apr 1, 2015
	Personal injury	3,000,000	Apr 1, 2015
	Each occurrence	3,000,000	Apr 1, 2015
	Fire damage	100,000	Apr 1, 2015
	Medical expense	5,000	Apr 1, 2015

Sample GAAP City

Schedule of Findings and Questioned Costs

Year ended June 30, 2014

Insurer	Description	Amount	Expiration Date
ICAP	Inland Marine:		
	Contractor's equipment	600,000	Apr 1, 2015
	Data processing	300,000	Apr 1, 2015
ICAP	Valuable papers:		
	Location 2	50,000	Apr 1, 2015
	Inland marine:		
ICAP	Location 3	100,000	Apr 1, 2015
	Location 4	500,000	Apr 1, 2015
	Miscellaneous property	50,000	Apr 1, 2015
ICAP	Automobile coverage:		
	Liability	10,000,000	Apr 1, 2015
	Auto medical	5,000	Apr 1, 2015
	Uninsured motorist	50,000	Apr 1, 2015
	Underinsured motorist	50,000	Apr 1, 2015
	Comprehensive/collision	Lesser of cash value or cost of repair	Apr 1, 2015
Iowa Municipalities Workers' Compensation Association (IMWCA)	Workers' compensation:		
		Bodily injury by accident	
	1,000,000	Apr 1, 2015	
		Bodily injury by disease	
	1,000,000	Apr 1, 2015	
		Policy limit	
	1,000,000	Apr 1, 2015	
ICAP	Umbrella:		
	Retained limit	10,000	Apr 1, 2015
	Occurrence limit	3,000,000	Apr 1, 2015
ICAP	Aggregate limit	10,000,000	Apr 1, 2015
	Linebacker:		
	Each loss	3,000,000	Apr 1, 2015
ICAP	Aggregate	10,000,000	Apr 1, 2015
	Airport liability:		
ICAP	Combined single:		
	Each occurrence	3,000,000	Jul 1, 2014
	Malpractice aggregate	10,000,000	Jul 1, 2014
	Fire damage	50,000	Jul 1, 2014
	Medical expense	1,000	Jul 1, 2014
	Hangarkeepers-per aircraft	200,000	Jul 1, 2014
	Hangarkeepers-per occurrence	200,000	Jul 1, 2014
	Personal injury and advertising injury aggregate limit	10,000,000	Jul 1, 2014
	ICAP	Airport public officials and employees' liability	10,000,000
Smith Insurance		Employees blanket bond	100,000

Sample GAAP City
Schedule of Findings and Questioned Costs
Year ended June 30, 2014

Statistical Information:

<u>Description</u>	<u>Amount</u>
Customers served at June 30, 2014 - water	2,300
Customers served at June 30, 2014 - sewer	2,250
Water rates in effect at June 30, 2014:	
Per month:	
First 1,000 gallons - \$2.85 minimum charge	
1,000 to 20,000 gallons - \$2.15 per 1,000 gallons	
Over 20,000 gallons - \$1.75 per 1,000 gallons	
Sewer rates in effect at June 30, 2014:	
Minimum charge per month of \$5.00 plus \$3.10 per 1,000 gallons of water used	

Sample GAAP City

Staff

This audit was performed by:

Jerome Warning, CPA, Manager
Janice Brinkley, CPA, Senior Auditor
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