

CITY OF ADEL

INDEPENDENT AUDITORS' REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2007

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City of Adel

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
James F. Peters	Mayor	Jan 2008
Jon McAvoy	Council Member	Jan 2010
Jeff Harsh	Council Member	Jan 2008
Steve Nichols	Council Member	Jan 2008
Dale Swanson	Council Member	Jan 2010
Angie Overton	Council Member	Jan 2008
Chad Bird	Administrator	At will
Pat Gilliland	Clerk	At will
John Reich	Attorney	At will

City of Adel

Independent Auditors' Report

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying primary government financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Adel, Iowa, as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements listed in the table of contents. These primary government financial statements are the responsibility of the City of Adel's management. Our responsibility is to express opinions on these primary government 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 and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

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

A primary government is a legal entity or body politic and includes all funds, organizations, institutions, agencies, departments and offices that are not legally separate. Such legally separate entities are referred to as component units.

In our opinion, the primary government financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Adel as of June 30, 2007, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

However, the primary government financial statements, because they do not include the financial data of the component unit of the City of Adel do not purport to, and do not, present fairly the results of the cash transactions of the funds of the City of Adel as of and for the year ended June 30, 2007, and its indebtedness at June 30, 2007, on the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated September 20, 2007 on our consideration of the City of Adel'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 internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 15 and 34 through 35 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the primary government financial statements that collectively comprise the City of Adel's primary government financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the primary government financial statements for the three years ended June 30, 2006 (none of which are presented herein) and expressed unqualified opinions on those primary government financial statements which were prepared in conformity with an other comprehensive basis of accounting. Other supplementary information included in Schedules 1 through 5, is presented for purposes of additional analysis and is not a required part of the primary government financial statements. Such information has been subjected to the auditing procedures applied in our audit of the primary government financial statements and, in our opinion, is fairly stated in all material respects in relation to the primary government financial statements taken as a whole.

September 20, 2007
Ames, Iowa

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Adel provides this Management Discussion and Analysis of its financial statements. This narrative overview and analysis of financial activities focuses on current year activities and should be read in conjunction with the City's financial statements, which follow.

Because the City, as required by the State of Iowa, implemented new reporting standards four fiscal years ago there are significant changes in content and structure from five years ago. This information should be kept in mind when comparing older data.

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 overview of the City's financial activities.

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

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

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

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

Other Supplementary Information provides detailed information about the non-major governmental funds.

Basis of Accounting

The City of Adel, along with many Iowa cities, maintains its financial records on the basis of cash receipts and disbursements. The financial statements of the City are prepared on that basis. The cash basis of accounting does not take into consideration accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles (GAAP). Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting. However, because the City of Adel has used the cash basis of accounting for many years, this report does show activities for a full 12 month period and can be easily compared to other 12 month reporting periods.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information which helps answer this question. The Statement of Activities and Net Assets presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

It should be noted that when major projects take place, financing and expenditures may occur in different fiscal years. For example: The Adel Public Library Construction project was financed in FY04, dramatically increasing the cash balance. The majority of those funds were spent in FY05 reducing the cash balance "back to normal". Similarly, the 2006 Street & Utility Project was financed with short-term temporary bonds in FY07 and the majority of those funds were also spent in FY07, thereby inflating some of the cash balances beyond their normal levels. These types of conditions will be addressed when reporting the financial highlights.

The City has two kinds of funds:

Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, which includes the Special Street Reserve Fund 2) the Special Revenue Funds, such as Road Use Tax and Urban Renewal Tax Increment, 3) the Debt Service Fund, and 4) the Capital Projects Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

Proprietary funds account for the City's Enterprise Funds. These proprietary funds are used to report business type activities. The City maintains separate funds for water, sewer and garbage/recycling, considered to be major proprietary funds of the City.

GOVERNMENT FINANCIAL STATEMENTS

All receipts and disbursements for the City of Adel are categorized as either governmental activities or business-type activities. As a tool in understanding the Statement of Activities, an explanation of government accounting follows:

Governmental Funds – Most of the city's basic services are reported in governmental funds. These are categorized during the budgeting process and subsequently the annual report as general, special revenue, debt service and capital projects. The following funds further detail revenue and expenditures.

Public Safety: includes police operations, fire protection, building inspections and animal control.

Public Works: includes roads, bridges, sidewalks, street cleaning, equipment, street lighting, snow removal, some tree care and traffic control.

Culture and Recreation: includes library services, museum, parks, pool and cemetery.

Community and Economic Development: includes activities in the urban renewal area including the industrial park funded by tax increment financing.

General Government: includes mayor, council, elections, general legal services, city hall, and general liability insurance.

Debt Service: includes bond payments for general obligation and street and storm sewer construction.

Capital Projects: This fund is utilized in two different ways:

1. Expenditures for construction/reconstruction projects that are reimbursed with bond proceeds, tax increment financing or other funds. Some projects are financed as internal debts.
2. Capital Improvements set aside funds for vehicle/equipment replacement, building maintenance, office equipment, playground equipment, as well as water and sewer improvement funds which can also be classified as internal service funds. These accounts are funded annually through the budgeting process. By setting aside money for future purchases, the taxpayer realizes savings by eliminating bond and interest costs and the city is able to upgrade its equipment and facilities.

Business-type activities: The City charges customers for these services. They are self-sufficient proprietary funds. Expenditures from these funds include operations, transfers and debt payments. Fees for all the enterprise services are combined on monthly billing statements to individual customers.

Water-Revenues to support the operation and maintenance of the City's water plant and distribution system are derived from billings to customers based on individual usage as well as interest on investments and connection fees. Rates charged for services reflect cost of operations and maintenance, debt payments and funding for future improvements.

Sewer-Revenues to support the operation and maintenance of the City's sewer system are derived from billings to customers based on water usage as well as interest and connection fees. Rates charged for services reflect the cost of operations and maintenance, debt payments as well as funding for future improvements.

Garbage/Recycling-The City contracts for collection of residential garbage and recycling service. Recycling contracts for residential customers include curbside recycling for cardboard, paper, plastic, glass, and metal in containers provided by the City. Yard waste collection is also provided by contract. Residential customers are billed based on that contract with the addition of the per capita landfill fee. The City also contracts for commercial collection of cardboard and paper in the business district and bills those customers accordingly. Revenues are used to pay contracts, purchase recycle containers and pay for services provided by city staff.

2007 FINANCIAL HIGHLIGHTS

- Revenues of the City's governmental activities decreased by 3%, from fiscal 2006 to fiscal 2007. TIF, Debt Service and general property tax receipts were slightly lower than in FY06.

Property tax revenue increased 5.8% or approximately \$90,000 and the City's valuation increased 7.6%. The City's property tax levy decreased from \$15.70 to \$15.40 per thousand (1.9%).

- General fund disbursements increased from fiscal year 2006 to 2007 by \$39,797 or 3.7%, and total disbursements increased \$4,485,579 or 132%. The majority of the increase in disbursements in the general fund can be attributed to the 2006 Street and Utility Project disbursements, especially the interim financing bond and new equipment purchases in parks, streets, and sewer departments.
- The City's total cash basis net assets decreased by \$3,238,563 over 2006. Governmental activities decreased approximately \$3,370,433 due to bond proceeds and interim financing being disbursed on the 2006 Street Project. The assets of the business type activities increased by approximately \$131,870.

PROPERTY TAX DISTRIBUTION - Another important question asked of City finances is, "What services are provided by property tax dollars?" Property taxes accounted for 62.6% of the funding for governmental activities in FY07. The following table shows how property taxes are distributed to each fund, the % of your total tax that is allocated to each fund as well as other revenues used to support each fund.

FUND	PROPERTY	% of TOTAL	OTHER	TOTAL
Public Safety	245,242	14.9%	45,576	613,718
Public Works	346,757	21.1%	-0-	346,757
Culture & Recreation	308,559	18.8%	99,864	408,423
Economic Development	19,086	1.1%	77,562	96,648
General Government	157,995	9.6%	29,678	187,673
Debt Service	-0-	0%	-0-	-0-
Capital Projects	-0-	0%	48,971	48,971
Unallocated funds*	564,440	34.3%	677,445	1,241,885
Total (including TIF)	1,642,079	100.0%	979,096	2,621,175

GOVERNMENT - WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The analysis that follows focuses on the changes in cash balances for governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities	
	Year ended June 30, 2007
Receipts and transfers:	
Program receipts:	
Charges for service	\$ 226,649
Intergovernmental (Operating grants, contributions, and restricted interest.)	397,902
Capital grants, contributions, and restricted interest	-0-
General receipts:	
Property tax	1,513,384
Tax increment financing	335,343
Other taxes	6,355
Unrestricted grants and contributions	-0-
Note proceeds	1,773,300
Unrestricted investment earnings and rent	81,627
Other general receipts	65,426
Other financing sources	100,500
Total receipts and transfers	<u>4,500,486</u>
Disbursements:	
Public safety	613,718
Public works	346,757
Health and social services	-0-
Culture and recreation	408,423
Community and economic development	58,476
General government	187,673
Debt service	3,844,998
Capital projects	2,410,874
Non-Program	-0-
Total disbursements	<u>7,870,919</u>
Increase in cash basis net assets	(3,370,433)
Cash basis net assets beginning of year	<u>3,837,334</u>
Cash basis net assets end of year	<u>\$ 466,901</u>

Changes in Cash Basis Net Assets of Business Type Activities

	Year ended June 30,
	2007
Receipts:	
Program receipts:	
Charges for service:	
Water	520,177
Sewer	435,464
Garbage/Recycling	192,219
Capital grants, contributions & restricted interest	-
General receipts:	
Unrestricted interest on investments	15,143
Bond proceeds	-
Other general receipts	9,550
Total receipts	1,172,553
Disbursements and transfers:	
Water	397,769
Sewer	360,772
Garbage/Recycling	181,642
Transfers	100,500
Total disbursements and transfers	1,040,683
Increase (decrease) in cash balance	131,870
Cash basis net assets beginning of year	492,544
Cash basis net assets end of year	\$ 624,414

Total business type activities receipts for the fiscal year FY07 were \$1,172,553 compared to \$1,106,147 last year. Total disbursements and transfers for the fiscal year increased by \$21,964 to total of \$1,040,683 mainly due to purchase of radio read meter heads, staff, and equipment.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As The City of Adel completed the year, its governmental funds reported a combined fund balance of \$466,901. This balance then reflects a decrease of \$3,370,433 from last year's total of \$3,837,334. The major drop in the overall fund balances is due to the bonds related to the 2006 Street and Utility Improvement Project. The following are other major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance decreased \$69,359 from the prior year to \$238,814. This decrease in fund balance is due to an increased amount of transfer out of the general fund,

which is typically for the general fund's share of equipment and vehicle purchases. The decrease in balance may also be attributed to increased operating costs.

- The Road Use Tax Fund cash balance increased by \$21,313 during the fiscal year. The City used this money to undertake various major street projects such as crack sealing on some concrete streets such as South 10th Street and to repair and maintain street signs and city sidewalks.
- The Urban Renewal Tax Increment Fund cash balance of \$38,572 decreased from the previous year as this account did not have much special or new activity. This change of \$7,633 is attributed to the normal fluctuations in revenues based on local valuations in the Urban Renewal Area.
- The Capital Projects Fund:

This fund saw significant draw downs this year as the Library Project fell off the books and the 2006 Street and Utility Project was completed resulting in complete disbursement of the bond proceeds. The street construction project fund is currently in a deficit as we now wait for the special assessments to roll in from residents who pay the assessment through property taxes.

Internal Debt projects (Brickyard Road (\$20,000) and Public Safety Building (\$20,000) were reduced drastically due to two major funds (industrial park and city hall) being retired. These debts will continue to be reduced by transfers from The TIF fund.

Capital Improvements fund balances had a net decrease of \$41,220 due to major purchases of vehicles and equipment. Some notable FY07 purchases included a street sweeper and a new police car. Funds continue to be transferred from Water and Sewer funds for future utility improvements.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance increased by \$70,449 to \$341,921, due to a scheduled CPI rate increase and no major projects or improvements scheduled for the year. Substantial transfers were made to the Water Department for future system improvements and debt service.
- The Sewer Fund cash balance increased by \$55,844 to \$210,921 due to a scheduled CPI rate increase and few minor projects such as some relining of main lines and other repairs. Substantial transfers were made to the Sewer Department for future system improvements and debt service.
- Garbage/Recycling Fund increased by \$5,577 to \$71,572. The city will continue to improve services throughout the community.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget once. The amendment was approved on May 24th, 2007 and provided for changes in the revenue and disbursements in various city funds.

DEBT ADMINISTRATION

At June 30, 2007, the City had approximately \$7,567,470 in bonds and other long-term debt, compared to approximately \$9,319,470 last year, as shown below.

Outstanding Debt at Year-End		
	June 30,	
	2007	2006
General obligation capital loan notes	\$ 6,733,000	8,364,000
Tax Increment Financing bonds	15,000	30,000
Revenue bonds and notes	744,470	850,470
Special assessment bonds	75,000	75,000
Bank Notes	-	-
Lease purchase agreement	-	-
Total	<u>\$ 7,567,470</u>	<u>9,319,470</u>

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. This also includes Tax Increment Revenue Bonds. FY07 debt is \$6,733,000. This debt, however, remains below the constitutional debt limit of \$8,203,018. The City of Adel is currently utilizing 82.08% of its debt limit.

TIF REBATES

The City has a 10-year decreasing tax rebate agreement with United Brick and Tile Company for its expansion at the brick plant, which increased their property values by \$1.75 million. The third rebate was paid in FY07 in the amount of \$42,826.37 which represented 70% of the increased taxes paid by the company as a result of the expansion. Next year's rebate will be in the amount of \$41,941.44 or 60% of the increased taxes. The rebate for FY08 is slightly offset because of a reassessment by the Dallas County Assessor's Office. Rebates will continue to be paid, reducing by 10% each year until 2013.

In 2006 the City of Adel also entered into a second 10-year decreasing tax rebate agreement with United Brick & Tile for continued expansion at the brick plant, which further increased their property values by almost \$800,000. The first rebate under this new agreement will be \$25,282.57 and is due in FY09.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City of Adel considered many factors when setting the fiscal year 2007 budget, tax rates, and fees that will be charged for various City activities. Park user fees were continued to fund the playground equipment capital projects.

When adopting the budget for fiscal year 2007, it was recommended that departments submit budget requests essentially the same as the previous year. In doing so, the City of Adel tax levy rate decreased slightly, to \$15.40 from \$15.70 per thousand of taxable value. Taxable valuations throughout the city increased by \$5.89 million due to new construction and partial reassessments by the Dallas County Assessor.

Property valuation serves as the basis for calculating property taxes. Since 1978, residential, commercial, industrial and agricultural classifications have been subject to an assessment limitation order, or rollback, that limits annual growth in property values to 4%. A further restriction is that the growth of residential property cannot exceed that of agricultural property. Residential property for FY07 was taxed at 45.99% of its value, a decrease of 4% from FY06. This puts an additional tax burden on commercial properties, raising economic development issues.

Revenues from road use tax will increase due to the DOT formula of payment for the per capita of the city. Road Use Tax Fund revenues for FY07 were \$82.20 per capita.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Chad Bird, City Administrator or Pat Gilliland, City Clerk/Treasurer, 301 S. 10th Street, P.O. Box 248, Adel, Iowa.

City of Adel

Basic Financial Statements

City of Adel

Statement of Activities and Net Assets – Cash Basis

As of and for the year ended June 30, 2007

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions, and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions / Programs:				
Governmental activities:				
Public safety	\$ 613,718	46,576	321,900	-
Public works	346,757	-	-	-
Health and social services	-	-	-	-
Culture and recreation	408,423	90,594	9,270	-
Community and economic development	58,476	77,562	-	-
General government	187,673	-	29,678	-
Debt service	3,844,998	-	-	-
Capital projects	2,410,874	11,917	37,054	-
Total governmental activities	7,870,919	226,649	397,902	-
Business type activities:				
Water	397,769	520,177	-	-
Sewer	360,772	435,464	-	-
Garbage/Recycling	181,642	192,219	-	-
Total business type activities	940,183	1,147,860	-	-
Total	\$ 8,811,102	1,374,509	397,902	-
General Receipts:				
Property tax levied for:				
General purposes				
Tax increment financing				
Debt service				
Mobile home tax				
Franchise taxes				
Grants and contributions not restricted to specific purpose				
Unrestricted interest on investments				
Rent				
Capital loan notes, net of discount				
Miscellaneous				
Sale of assets				
Transfers				
Total general receipts and transfers				
Change in cash basis net assets				
Cash basis net assets beginning of year				
Cash basis net assets end of year				
Cash Basis Net Assets				
Restricted:				
Streets				
Urban renewal purposes				
Debt service				
Other purposes				
Unrestricted				
Total cash basis net assets				

See notes to financial statements.

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
Governmental Activities	Business Type Activities	Total
(245,242)	-	(245,242)
(346,757)	-	(346,757)
-	-	-
(308,559)	-	(308,559)
19,086	-	19,086
(157,995)	-	(157,995)
(3,844,998)	-	(3,844,998)
(2,361,903)	-	(2,361,903)
(7,246,368)	-	(7,246,368)
-	122,408	122,408
-	74,692	74,692
-	10,577	10,577
-	207,677	207,677
(7,246,368)	207,677	(7,038,691)
1,160,367	-	1,160,367
335,343	-	335,343
353,017	-	353,017
2,521	-	2,521
3,834	-	3,834
-	-	-
81,627	15,143	96,770
45,541	-	45,541
1,773,300	-	1,773,300
14,374	9,550	23,924
5,511	-	5,511
100,500	(100,500)	-
3,875,935	(75,807)	3,800,128
(3,370,433)	131,870	(3,238,563)
3,837,334	492,544	4,329,878
\$ 466,901	624,414	1,091,315
\$ 40,445	-	40,445
38,572	-	38,572
60,136	438,620	498,756
-	-	-
327,748	185,794	513,542
\$ 466,901	624,414	1,091,315

City of Adel

Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Governmental Funds
As of and for the year ended June 30, 2007

	Special Revenue				General Obligation Bonds
	General	Urban Renewal Tax Increment	Road Use Tax	Employee Benefits	
Receipts:					
Property tax	\$ 726,862	-	-	240,616	318,886
Tax increment financing collections	-	335,343	-	-	-
Other city tax	6,355	-	-	-	-
Licenses and permits	57,008	-	-	-	-
Use of money and property	58,780	-	-	-	-
Intergovernmental	30,572	-	296,350	-	-
Charges for service	117,116	-	-	-	-
Special assessments	-	-	-	-	-
Miscellaneous	36,698	-	-	-	-
Total receipts	1,033,391	335,343	296,350	240,616	318,886
Disbursements:					
Operating:					
Public safety	467,276	-	-	138,570	-
Public works	96,831	-	243,737	5,934	-
Culture and recreation	351,254	-	-	45,281	-
Community and economic development	-	58,476	-	-	-
General government	159,751	-	-	20,492	-
Debt service	-	17,235	-	-	592,148
Capital projects	-	-	-	-	-
Total disbursements	1,075,112	75,711	243,737	210,277	592,148
Excess (deficiency) of receipts over (under) disbursements	(41,721)	259,632	52,613	30,339	(273,262)
Other financing sources (uses):					
Note proceeds	-	-	-	-	-
Sale of fixed assets	5,511	-	-	-	-
Operating transfers in	25,470	-	-	-	208,471
Operating transfers out	(58,619)	(267,265)	(31,300)	-	-
Total other financing sources (uses)	(27,638)	(267,265)	(31,300)	-	208,471
Net change in cash balances	(69,359)	(7,633)	21,313	30,339	(64,791)
Cash balances beginning of year	308,173	46,205	19,132	96,411	(30,516)
Cash balances end of year	\$ 238,814	38,572	40,445	126,750	(95,307)
Cash Basis Fund Balances					
Reserved:					
Debt service	\$ -	-	-	-	(95,307)
Unreserved:					
General fund	238,814	-	-	-	-
Special revenue funds	-	38,572	40,445	126,750	-
Debt service funds	-	-	-	-	-
Capital projects funds	-	-	-	-	-
Total cash basis fund balances	\$ 238,814	38,572	40,445	126,750	(95,307)

See notes to financial statements.

Debt Service			Capital Projects				Other		Total
1998 Paving	2002 Street Utility	Refunded Bond Trust Fund	Industrial Park	2006 Street Improvements	Capital Improvement Sewer	Water Upgrade	Nonmajor Governmental Funds		
-	-	-	-	-	-	-	20,372	1,306,736	
-	-	-	-	-	-	-	-	335,343	
-	-	-	-	-	-	-	-	6,355	
-	-	59,641	4,731	4,016	-	-	-	57,008	
-	-	-	-	-	-	-	-	127,168	
-	-	-	-	-	-	-	-	326,922	
-	-	-	-	-	-	-	11,917	129,033	
18,055	16,076	-	-	172,517	-	-	-	206,648	
-	-	199	-	-	-	-	89,065	125,962	
18,055	16,076	59,840	4,731	176,533	-	-	121,354	2,621,175	
-	-	-	-	-	-	-	7,872	613,718	
-	-	-	-	-	-	-	255	346,757	
-	-	-	-	-	-	-	11,888	408,423	
-	-	-	-	-	-	-	-	58,476	
-	-	-	-	-	-	-	7,430	187,673	
4,425	-	1,626,284	-	1,604,906	-	-	-	3,844,998	
-	-	-	3,592	2,200,665	11,793	11,793	183,031	2,410,874	
4,425	-	1,626,284	3,592	3,805,571	11,793	11,793	210,476	7,870,919	
13,630	16,076	(1,566,444)	1,139	(3,629,038)	(11,793)	(11,793)	(89,122)	(5,249,744)	
-	-	-	-	1,773,300	-	-	-	1,773,300	
-	-	-	-	-	-	-	-	5,511	
-	-	-	-	-	20,000	30,000	206,684	490,625	
-	(12,471)	-	-	-	-	-	(20,470)	(390,125)	
-	(12,471)	-	-	1,773,300	20,000	30,000	186,214	1,879,311	
13,630	3,605	(1,566,444)	1,139	(1,855,738)	8,207	18,207	97,092	(3,370,433)	
79,506	58,702	1,566,444	167,963	1,622,392	95,968	40,462	(233,508)	3,837,334	
93,136	62,307	-	169,102	(233,346)	104,175	58,669	(136,416)	466,901	
93,136	62,307	-	-	-	-	-	-	60,136	
-	-	-	-	-	-	-	-	238,814	
-	-	-	-	-	-	-	96,857	302,624	
-	-	-	-	-	-	-	-	-	
-	-	-	169,102	(233,346)	104,175	58,669	(233,273)	(134,673)	
93,136	62,307	-	169,102	(233,346)	104,175	58,669	(136,416)	466,901	

City of Adel

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

As of and for the year ended June 30, 2007

	Enterprise Funds			
	Water	Sewer	Garbage/ Recycling	Total
Operating receipts:				
Charges for service	\$ 520,177	435,464	192,219	1,147,860
Miscellaneous	9,550	-	-	9,550
Total operating receipts	<u>529,727</u>	<u>435,464</u>	<u>192,219</u>	<u>1,157,410</u>
Operating disbursements:				
Business type activities	357,839	262,669	181,642	802,150
Excess (deficiency) of operating receipts over (under) operating disbursements	<u>171,888</u>	<u>172,795</u>	<u>10,577</u>	<u>355,260</u>
Non-operating receipts (disbursements):				
Interest on investments	8,491	6,652	-	15,143
Debt service	(39,930)	(98,103)	-	(138,033)
Total non-operating receipts (disbursements)	<u>(31,439)</u>	<u>(91,451)</u>	<u>-</u>	<u>(122,890)</u>
Excess (deficiency) of receipts over (under) disbursements	<u>140,449</u>	<u>81,344</u>	<u>10,577</u>	<u>232,370</u>
Other financing sources (uses):				
Operating transfers in	-	-	-	-
Operating transfers out	(70,000)	(25,500)	(5,000)	(100,500)
Total other financing sources (uses)	<u>(70,000)</u>	<u>(25,500)</u>	<u>(5,000)</u>	<u>(100,500)</u>
Net change in cash balances	70,449	55,844	5,577	131,870
Cash balances beginning of year	<u>271,472</u>	<u>155,077</u>	<u>65,995</u>	<u>492,544</u>
Cash balances end of year	<u>\$ 341,921</u>	<u>210,921</u>	<u>71,572</u>	<u>624,414</u>
Cash Basis Fund Balances				
Reserved for debt service	\$ 227,035	211,585	-	438,620
Unreserved	114,886	(664)	71,572	185,794
Total cash basis fund balances	<u>\$ 341,921</u>	<u>210,921</u>	<u>71,572</u>	<u>624,414</u>

See notes to financial statements.

City of Adel

City of Adel

Notes to Financial Statements

June 30, 2007

(1) Summary of Significant Accounting Policies

The City of Adel is a political subdivision of the State of Iowa located in Dallas County. It was first incorporated in 1848 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, health and social services, culture and recreation, community and economic development, and general government services. The City also provides water, sewer and garbage/recycling service for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Adel has included all funds, organizations, agencies, boards, commissions and authorities, except for its component unit, the South Dallas County Landfill Agency. 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 primary government 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 primary government financial statements present the City of Adel (the primary government) and exclude the 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. It has not been included in these primary government financial statements which present the primary government only. Complete financial statements of the individual component unit, which issued separate financial statements as noted below, can be obtained from its administrative office.

Component Unit

The South Dallas County Landfill Agency is a component unit of the City of Adel and is not presented in these primary government financial statements. It is legally separate from the City, but is financially accountable to the City. The Landfill is governed by a one member Board appointed by the City Council and the Landfill's operating budget is subject to the approval of the City Council.

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: Central Iowa Regional Transportation and Planning Alliance (CIRTPA) Board, Adel Enterprises, Adel Partners, Metropolitan Advisory Council and the Greater Dallas County Development Alliance.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in two categories:

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

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

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

The City reports the following major governmental funds:

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

Special Revenue:

The Urban Renewal Tax Increment Fund is used to account for urban renewal projects financed by tax increment financing.

The Road Use Tax Fund is used to account for road construction and maintenance.

The Employee Benefits Fund is used to receipt property taxes in and pay the benefits of employees of the General and Road Use Tax Funds.

Debt Service:

The General Obligation Bond Fund is used to account for the payment of interest and principal on the City's general obligation long-term debt.

The Refunding Bond Trust Fund is used to account for the 2005 general obligation capital loan notes.

The 1998 Paving Fund is used to account for special assessments collected in connection with this project.

The 2002 Street Utility Fund is used to account for special assessments collected in connection with this project.

Capital Projects:

The Industrial Park Project is used to account for improvements done for expansion and development of the City's Industrial Park.

The 2006 Street Improvements Fund is used to account for street improvement projects.

The Capital Improvement Fund is used to account for future capital improvements within the City.

The Water Upgrade Fund is used to account for upgrades and improvements to the water utility.

The City reports the following major proprietary funds:

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

The Sewer Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

The Garbage/Recycling Fund accounts for the contract hauling of the City's garbage and recyclable items.

C. Measurement Focus and Basis of Accounting

The City of Adel maintains its financial records on the basis of cash receipts and disbursements and the primary government financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the primary government financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

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

resources to such programs, followed by categorical block grants and then by general receipts.

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

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2007, disbursements exceeded the amounts budgeted in the public works and debt service functions.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2007 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.

At June 30, 2007, the City had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$862,689 pursuant to Rule 2a-7 under the Investment Company Act of 1940.

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

Credit risk – The City's investment in the Iowa Public Agency Investment Trust is unrated.

(3) Bonds and Notes Payable

Year Ending June 30,	General Obligation Notes		Revenue Bonds and Notes		Special Assessment Notes		Tax Increment Financing Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2008	274,000	239,825	121,000	27,795	50,000	4,425	15,000	1,125	460,000	273,170
2009	301,000	211,457	127,000	23,788	25,000	1,500	-	-	453,000	236,745
2010	323,000	199,908	127,000	19,393	-	-	-	-	450,000	219,301
2011	295,000	187,127	138,000	14,827	-	-	-	-	433,000	201,954
2012	305,000	175,586	58,000	9,650	-	-	-	-	363,000	185,236
2013-2017	1,690,000	678,721	173,470	15,447	-	-	-	-	1,863,470	694,168
2018-2022	1,585,000	297,752	-	-	-	-	-	-	1,585,000	297,752
2023-2024	350,000	27,737	-	-	-	-	-	-	350,000	27,737
Total	\$ 5,123,000	2,018,113	744,470	110,900	75,000	5,925	15,000	1,125	5,957,470	2,136,063

Annual debt service requirements to maturity for general obligation notes, urban renewal tax increment financing bonds, revenue bonds and notes, special assessment notes, and state revolving loans are as follows:

The urban renewal tax increment financing revenue bonds were issued for the purpose of defraying a portion of the costs of carrying out an urban renewal project of the City. The bonds are payable solely from the income and proceeds of the Urban Renewal Tax Increment Fund and the taxes to be paid into the fund in accordance with Chapter 403.19 of the Code of Iowa. The proceeds of the urban renewal tax increment financing revenue bonds shall be expended only for purposes which are consistent with the plans of the City's urban renewal area. The bonds are not a general obligation of the City, however the debt is subject to the constitutional debt limitation of the City.

The resolutions providing for the issuance of the water and sewer revenue bonds and notes include the following provisions:

- a) The bonds and notes will only be redeemed from the future earnings of the enterprise activity and the bond and note holders hold a lien on the future earnings of the funds.
- b) Sufficient monthly cash transfers shall first be made to an operation and maintenance fund in an amount equal to current expenses of the month plus an amount equal to one-twelfth of the expenses payable on an annual basis.
- c) Sufficient monthly cash transfers shall be made to separate water and sewer revenue bond sinking accounts for the purpose of making the bond and note principal and interest payments when due.
- d) Additional monthly cash transfers shall be made to separate water and sewer reserve accounts until specific monthly balances have been accumulated.
- e) Additional monthly cash transfers of \$750 shall be made to a water revenue bond improvement account until a minimum of \$45,000 is accumulated. This account is restricted for the purpose of paying the cost of capital improvements and extensions to the municipal waterworks plant and system provided that no deficiency exists in the amounts required to be paid into the water revenue bond sinking account, and to call and redeem such bonds issued hereunder or as may be thereafter issued when subject to redemption prior to maturity.

The resolution providing for the issuance of the \$190,000 Urban Renewal Tax Increment Revenue Bonds, Taxable Series 1993 includes the following provisions:

- a) The net revenues of the project shall be deposited as collected in the Urban Renewal Tax Increment Revenue Fund.
- b) A special fund from which interest and principal on the bonds shall be paid shall be established. The fund shall be known as the Urban Renewal Project Revenue Sinking Account. The amount to be deposited in the account is an amount equal to the interest and principal coming due on such bonds during

the fiscal year. Moines shall be transferred from the Urban Renewal Tax Increment Revenue Fund.

As noted in the Schedule of Findings, the City is not in compliance with the provisions of the sewer revenue bonds.

General Obligation Refunding Capital Loan Notes

On April 15, 2005, the City issued \$1,610,000 of general obligation refunding capital loan notes, with interest rates ranging from 3.10% to 4.15%, for a crossover refunding of \$95,000 in principal on the GO Capital Loan Notes dated March 1, 2000, and \$1,470,000 in principal for the GO Capital Loan Notes dated November 1, 2000. The City entered into an escrow agreement whereby the proceeds from general obligation refunding notes were converted into U.S. Securities. These securities were placed in an escrow account for the purpose of paying \$95,000 in principal and \$1,470,000 in principal on the refunded general obligation capital loan notes on the crossover date of June 1, 2007 and the interest from April 15, 2005 to and including June 1, 2007 on the refunding capital loan notes. After the principal and interest on all of the outstanding notes have been paid, any remaining funds in the escrow account, together with any interest thereon, shall be returned to the City. The transactions, balances and liabilities of the escrow account are recorded by the City since the refunded debt is not considered extinguished.

Annual debt service requirements to maturity of the general obligation refunding capital loan notes are as follows:

Year Ending June 30,	General Obligation Capital Refunding Notes	
	Principal	Interest
2008	\$ 95,000	\$ 60,385
2009	100,000	57,440
2010	100,000	54,190
2011	145,000	50,790
2012	150,000	45,715
2013-2017	830,000	140,725
2018-2022	190,000	7,885
2023-2024	-	
Total	<u>\$ 1,610,000</u>	<u>417,130</u>

During the year ended June 30, 2007, none of the general obligation refunding capital loan notes were retired.

(4) Pension and Retirement Benefits

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

Most regular plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% 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, 2007, 2006 and 2005 were \$51,727, \$50,863 and \$48,151, respectively, equal to the required contributions for each year.

(5) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation termination payments payable to employees at June 30, 2007, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Vacation	\$ 32,898

This liability has been computed based on rates of pay in effect at June 30, 2007.

(6) Settlement Agreement

On September 29, 1998, the Adel City Council approved a settlement agreement regarding the City of Adel's closure/post-closure costs which have been incurred in the past and those that are expected to be incurred in the future, based upon population and use of certain areas of the South Dallas County Landfill. Under the agreement, the City agreed to pay to the landfill the sum of \$39,592 per year for thirty years for future closure/post-closure costs, and \$27,553 per year for five years to reimburse the landfill agency for closure/post-closure costs already incurred. Also included in the settlement agreement is an indemnification provision. The other cities which execute the settlement agreement will have their annual contributions fixed at a "not to exceed" level.

(7) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2007 is as follows:

Transfer to	Transfer from	Amount
General	Special Revenue:	
	Emergency Levy	\$ 20,470
	Enterprise:	
	Garbage	5,000
		<u>25,470</u>
Special Revenue:	General	2,986
Police Academy		<u>2,986</u>
Debt Service:	Special Revenue:	
General Obligation Bonds	Urban Renewal Tax Increment	196,000
General Obligation Bonds	Debt Service:	
	2002 Street Utility	12,471
		<u>208,471</u>
Capital Projects:	Special Revenue:	
Brickyard Road Project	Urban Renewal Tax Increment	50,000
Public Safety Building	Urban Renewal Tax Increment	21,265
Building Maintenance	Road Use Tax	1,300
Vehicle Replacement	Road Use Tax	30,000
	Enterprise:	
Vehicle Replacement	Water	40,000
Vehicle Replacement	Sewer	5,000
Vehicle Replacement	General	45,083
	Enterprise:	
Water Upgrade	Water	30,000
Capital Improvement Sewer	Sewer	20,000
Building Maintenance	Sewer	500
Fire Equipment Upgrade	General	3,000
Building Maintenance	General	6,550
Office Replacement	General	1,000
		<u>253,698</u>
Total		<u>\$ 487,639</u>

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

(8) Notes Receivable/Economic Development

The City of Adel is a member of the Dallas County Developers Organization. The Organization was developed to promote economic development within the community. Each year, the City contributes \$1 per capita.

In April of 2000, the Iowa Department of Economic Development approved the City's application for funding from the Community Economic Betterment Account. The funding consists of a zero percent seven year loan in an amount not to exceed \$500,000. The City received the \$500,000 in the fiscal year ended June 30, 2001 and disbursed the money to United Brick and Tile, Inc. and the City's liability is limited to its good faith enforcement of the loan.

(9) Related Party Transactions

The City had business transactions between the City and City employees of \$272. The transaction was for a repair.

(10) South Dallas County Landfill Agency

The City of Adel is currently the sole participant in the South Dallas County Landfill Agency. The Agency was established for the primary purpose of providing for the collection and disposal of solid waste produced or generated by each participant. The Agency is governed by a board composed of an elected representative of the governed body of the participating governmental jurisdiction.

The Agency may not be accumulating sufficient financial resources and the municipalities may be obligated for a proportionate share of the debt, therefore, the City may have an ongoing financial obligation.

Complete financial statements for the Agency can be obtained from the Agency.

(11) Risk Management

The City is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(12) Garbage Contract

On July 1, 1998, the City entered into a contract with Waste Management of Iowa to provide collection services for City residents. The contract runs thru June 30, 2009. The City pays the contractor \$12.60 per residential household unit from which solid waste is collected.

(13) Deficit Fund Balances

The City had the following deficit balances at June 30, 2007:

Debt Service Fund	General Obligation Bonds	\$ (95,307)
Special Revenue Funds	Emergency Levy	(1,277)
	Short Term Projects	(1,211)
	Police Academy	(864)
Capital Projects Funds	Brickyard Road Project	(30,000)
	Public Safety Building	(262,142)
	Playground Equipment	(18,969)
	2006 Street Improvements	(233,346)

Required Supplementary Information

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

Required Supplementary Information

Year ended June 30, 2007

	Governmental	Proprietary	Net	Budgeted Amounts		Final to
	Funds	Funds		Original	Final	Net
	Actual	Actual				Variance
Receipts:						
Property tax	\$ 1,306,736	-	1,306,736	1,269,711	1,269,711	37,025
Tax increment financing collections	335,343	-	335,343	330,000	330,000	5,343
Other city tax	6,355	-	6,355	48,464	48,464	(42,109)
Licenses and permits	57,008	-	57,008	66,115	89,731	(32,723)
Use of money and property	127,168	15,143	142,311	53,940	69,545	72,766
Intergovernmental	326,922	-	326,922	381,923	381,923	(55,001)
Charges for service	129,033	1,147,860	1,276,893	1,225,314	1,228,397	48,496
Special assessments	206,648	-	206,648	55,000	214,622	(7,974)
Miscellaneous	125,962	9,550	135,512	134,070	188,827	(53,315)
Total receipts	2,621,175	1,172,553	3,793,728	3,564,537	3,821,220	(27,492)
Disbursements:						
Public safety	613,718	-	613,718	642,732	647,732	34,014
Public works	346,757	-	346,757	312,661	325,661	(21,096)
Culture and recreation	408,423	-	408,423	375,932	427,332	18,909
Community and economic development	58,476	-	58,476	62,735	62,735	4,259
General government	187,673	-	187,673	196,064	226,064	38,391
Debt service	3,844,998	-	3,844,998	675,326	675,326	(3,169,672)
Capital projects	2,410,874	-	2,410,874	-	3,750,761	1,339,887
Business type activities	-	940,183	940,183	943,853	963,853	23,670
Total disbursements	7,870,919	940,183	8,811,102	3,209,303	7,079,464	(1,731,638)
Excess (deficiency) of receipts over (under) disbursements	(5,249,744)	232,370	(5,017,374)	355,234	(3,258,244)	(1,759,130)
Other financing sources, net	1,879,311	(100,500)	1,778,811	-	1,773,300	5,511
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(3,370,433)	131,870	(3,238,563)	355,234	(1,484,944)	(1,753,619)
Balances beginning of year	3,837,334	492,544	4,329,878	1,917,320	1,917,320	2,412,558
Balances end of year	\$ 466,901	624,414	1,091,315	2,272,554	432,376	658,939

See accompanying independent auditors' report.

City of Adel

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2007

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.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Funds, Capital Projects Funds and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted receipts and disbursements by \$256,683 and \$3,870,161, respectively. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2007, disbursements exceeded the amounts budgeted in the public works and debt service functions.

Other Supplementary Information

City of Adel

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

As of and for the year ended June 30, 2007

	Special Revenue							
	Flex Plan	Library Memorial	Central Park Memorial	Fire	Police	Police DARE	Police Academy	Police Equipment
Receipts:								
Property tax	\$ -	-	-	-	-	-	-	-
Use of money and property	-	-	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-	-	-
Other city tax	-	-	-	-	-	-	-	-
Special assessments	-	-	-	-	-	-	-	-
Charges for service	-	-	-	-	-	-	-	-
Miscellaneous	8,751	7,430	1,483	28,680	-	103	-	1,349
Total receipts	8,751	7,430	1,483	28,680	-	103	-	1,349
Disbursements:								
Operating:								
Public safety	573	-	-	441	-	-	3,640	3,218
Public works	255	-	-	-	-	-	-	-
Culture and recreation	801	10,003	-	-	-	-	-	-
General government	6,058	-	-	-	-	-	-	-
Debt service	-	-	-	-	-	-	-	-
Capital projects	-	-	-	-	-	-	-	-
Business type	-	-	-	-	-	-	-	-
Total disbursements	7,687	10,003	-	441	-	-	3,640	3,218
Excess (deficiency) of receipts over (under) disbursements	1,064	(2,573)	1,483	28,239	-	103	(3,640)	(1,869)
Other financing sources (uses):								
Sale of fixed assets	-	-	-	-	-	-	-	-
Operating transfers in	-	-	-	-	-	-	2,986	-
Operating transfers out	-	-	-	-	-	-	-	-
Total other financing sources (uses):	-	-	-	-	-	-	2,986	-
Net change in cash balances	1,064	(2,573)	1,483	28,239	-	103	(654)	(1,869)
Cash balances beginning of year	11,748	13,230	1,837	(1,911)	16,510	105	(210)	4,739
Cash balances end of year	\$ 12,812	10,657	3,320	26,328	16,510	208	(864)	2,870
Cash Basis Fund Balances								
Reserved:								
Debt service funds	\$ -	-	-	-	-	-	-	-
Unreserved:								
Special revenue funds	12,812	10,657	3,320	26,328	16,510	208	(864)	2,870
Capital projects funds	-	-	-	-	-	-	-	-
Total cash basis fund balances	\$ 12,812	10,657	3,320	26,328	16,510	208	(864)	2,870

See accompanying independent auditors' report.

Special Revenue					Capital Projects			
Short Term Projects	Park Impact Fees	Emergency Levy	Historical Musuem	Refunds	Pool Improvement	Disc Golf	Brickyard Road	Library Building
-	-	20,372	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	2,189	-	-	-
-	1,600	-	1,840	775	-	-	-	37,054
-	1,600	20,372	1,840	775	2,189	-	-	37,054
-	-	-	-	-	-	-	-	-
486	-	-	598	-	-	-	-	-
-	-	1,332	-	40	-	-	-	-
-	-	-	-	-	1,050	-	-	-
-	-	-	-	-	-	-	-	-
486	-	1,332	598	40	1,050	-	-	-
(486)	1,600	19,040	1,242	735	1,139	-	-	37,054
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	50,000	-
-	-	(20,470)	-	-	-	-	-	-
-	-	(20,470)	-	-	-	-	50,000	-
(486)	1,600	(1,430)	1,242	735	1,139	-	50,000	37,054
(725)	13,129	153	680	10,118	7,508	324	(80,000)	(37,054)
(1,211)	14,729	(1,277)	1,922	10,853	8,647	324	(30,000)	-
-	-	-	-	-	-	-	-	-
(1,211)	14,729	(1,277)	1,922	10,853	-	-	-	-
-	-	-	-	-	8,647	324	(30,000)	-
(1,211)	14,729	(1,277)	1,922	10,853	8,647	324	(30,000)	-

City of Adel

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

As of and for the year ended June 30, 2007

	Capital			
	Public Safety Building	Sewer Refund Project	Fire Equipment Upgrade	Playground Equipment
Receipts:				
Property tax	\$ -	-	-	-
Use of money and property	-	-	-	-
Intergovernmental	-	-	-	-
Other city tax	-	-	-	-
Special assessments	-	-	-	-
Charges for service	-	-	-	9,728
Miscellaneous	-	-	-	-
Total receipts	-	-	-	9,728
Disbursements:				
Operating:				
Public safety	-	-	-	-
Public works	-	-	-	-
Culture and recreation	-	-	-	-
General government	-	-	-	-
Debt service	-	-	-	-
Capital projects	-	-	2,212	29,719
Business type	-	-	-	-
Total disbursements	-	-	2,212	29,719
Excess (deficiency) of receipts over (under) disbursements	-	-	(2,212)	(19,991)
Other financing sources (uses):				
Sale of fixed assets	-	-	-	-
Operating transfers in	21,265	-	3,000	-
Operating transfers out	-	-	-	-
Total other financing sources (uses):	21,265	-	3,000	-
Net change in cash balances	21,265	-	788	(19,991)
Cash balances beginning of year	(283,407)	678	3,917	1,022
Cash balances end of year	\$ (262,142)	678	4,705	(18,969)
Cash Basis Fund Balances				
Reserved:				
Debt service funds	\$ -	-	-	-
Unreserved:				
Special revenue funds	-	-	-	-
Capital projects funds	(262,142)	678	4,705	(18,969)
Total cash basis fund balances	\$ (262,142)	678	4,705	(18,969)

See accompanying independent auditors' report.

Projects				
Ball Diamond	Office Replacement	Vehicle Replacement	Building Maintenance	Total
-	-	-	-	20,372
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	11,917
-	-	-	-	89,065
-	-	-	-	121,354
-	-	-	-	7,872
-	-	-	-	255
-	-	-	-	11,888
-	-	-	-	7,430
-	-	-	-	-
1,000	-	149,050	-	183,031
-	-	-	-	-
1,000	-	149,050	-	210,476
(1,000)	-	(149,050)	-	(89,122)
-	-	-	-	-
-	1,000	120,083	8,350	206,684
-	-	-	-	(20,470)
-	1,000	120,083	8,350	186,214
(1,000)	1,000	(28,967)	8,350	97,092
1,322	681	69,495	12,603	(233,508)
322	1,681	40,528	20,953	(136,416)
-	-	-	-	-
-	-	-	-	96,857
322	1,681	40,528	20,953	(233,273)
322	1,681	40,528	20,953	(136,416)

City of Adel
 Schedule of Indebtedness
 Year ended June 30, 2007

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation notes:			
Capital loan notes	Mar 1, 2000	4.90-5.50%	\$ 270,000
Capital loan notes	Jan 14, 2000	4.75-5.35%	300,000
Capital loan notes	Nov 1, 2000	4.80-5.80%	1,655,000
Capital loan notes	Oct 1, 2002	3.00-5.00%	1,000,000
Capital loan notes	Jun 1, 2004	2.25-5.30%	2,600,000
Capital loan notes	Apr 15, 2005	3.10-4.15%	1,610,000
Capital loan anticipation notes	Jun 29, 2006	3.75%	1,590,000
Capital loan notes	Feb 28, 2007	3.65-4.15%	1,800,000
Total			
Revenue notes:			
Water	May 1, 1989	10.00-10.10%	\$ 275,000
Sewer revenue capital loan notes	May 1, 2003	1.50-3.50%	575,000
1997 State revolving sewer revenue loan	Jun 26, 1997	3.92%	309,000
Water	Jun 15, 2006	3.95-4.40%	310,000
Total			
Special assessment notes:			
Street improvement capital loan notes	Mar 1, 2000	5.20-6.00%	\$ 215,000
Urban renewal tax increment financing (TIF) revenue bonds:			
1993 Series	Aug 1, 1993	4.50-7.50%	\$ 190,000

See accompanying independent auditors' report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
125,000	-	125,000	-	6,803	-
139,000	-	31,000	108,000	7,437	-
1,520,000	-	1,520,000	-	84,892	-
880,000	-	65,000	815,000	39,292	-
2,500,000	-	100,000	2,400,000	110,965	-
1,610,000	-	-	1,610,000	60,385	-
1,590,000	-	1,590,000	-	40,081	-
-	1,800,000	-	1,800,000	-	-
<u>\$ 8,364,000</u>	<u>1,800,000</u>	<u>3,431,000</u>	<u>6,733,000</u>	<u>349,855</u>	<u>-</u>
\$ 25,000	-	25,000	-	2,525	-
370,000	-	70,000	300,000	11,380	-
145,470	-	11,000	134,470	5,723	-
310,000	-	-	310,000	12,406	-
<u>\$ 850,470</u>	<u>-</u>	<u>106,000</u>	<u>744,470</u>	<u>32,034</u>	<u>-</u>
\$ 75,000	-	-	75,000	4,425	-
\$ 30,000	-	15,000	15,000	2,235	-

City of Adel
Bond and Note Maturities

June 30, 2007

Year Ending June 30,	General Obligation Notes			
	Capital Loan Notes		Capital Loan Notes	
	Issued Jan 14, 2000		Issued Oct 1, 2002	
	Interest Rates	Amount	Interest Rates	Amount
2008	5.35%	\$ 34,000	3.85%	\$ 65,000
2009	5.35	36,000	4.05	70,000
2010	5.35	38,000	4.20	75,000
2011		-	4.35	80,000
2012		-	4.50	80,000
2013		-	4.60	85,000
2014		-	4.70	85,000
2015		-	4.80	90,000
2016		-	4.90	90,000
2017		-	5.00	95,000
2018		-		-
2019		-		-
2020		-		-
2021		-		-
2022		-		-
2023		-		-
2024		-		-
Total		<u>\$ 108,000</u>		<u>\$ 815,000</u>

Year Ending June 30,	Revenue Bonds and Notes						Total
	Sewer Revenue						
	Water		Capital Loan Notes		State Revolving Loan		
	Issued Jun 15, 2006		Issued May 1, 2003		Issued Jun 26, 1997		
Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount		
2008	3.95%	\$ 40,000	2.85%	\$ 70,000	3.92%	\$ 11,000	121,000
2009	4.00	40,000	3.10	75,000	3.92	12,000	127,000
2010	4.05	40,000	3.30	75,000	3.92	12,000	127,000
2011	4.15	45,000	3.50	80,000	3.92	13,000	138,000
2012	4.20	45,000		-	3.92	13,000	58,000
2013	4.30	50,000		-	3.92	14,000	64,000
2014	4.40	50,000		-	3.92	14,000	64,000
2015		-		-	3.92	15,000	15,000
2016		-		-	3.92	15,000	15,000
2017		-		-	3.92	15,470	15,470
Total		<u>\$ 310,000</u>		<u>\$ 300,000</u>		<u>\$ 134,470</u>	<u>\$ 744,470</u>

See accompanying independent auditors' report.

Capital Loan Notes Issued Jun 1, 2004		Capital Loan Notes Issued Apr 15, 2005		Capital Loan Notes Issued Feb 28, 2007		Total
Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	
3.10%	\$ 105,000	3.10%	\$ 95,000	3.65%	\$ 70,000	369,000
3.35	110,000	3.25	100,000	3.65	85,000	401,000
3.55	115,000	3.40	100,000	3.70	95,000	423,000
3.75	120,000	3.50	145,000	3.75	95,000	440,000
3.95	120,000	3.60	150,000	3.75	105,000	455,000
4.10	125,000	3.70	155,000	3.80	105,000	470,000
4.25	130,000	3.80	160,000	3.85	110,000	485,000
4.40	135,000	3.90	165,000	3.85	110,000	500,000
4.55	140,000	4.00	170,000	3.90	120,000	520,000
4.65	150,000	4.10	180,000	3.95	120,000	545,000
4.75	160,000	4.15	190,000	4.00	155,000	505,000
4.85	165,000	-	-	4.05	200,000	365,000
4.95	150,000	-	-	4.10	210,000	360,000
5.05	160,000	-	-	4.15	220,000	380,000
5.15	165,000	-	-	-	-	165,000
5.25	175,000	-	-	-	-	175,000
5.30	175,000	-	-	-	-	175,000
	<u>\$ 2,400,000</u>		<u>\$ 1,610,000</u>		<u>\$ 1,800,000</u>	<u>\$6,733,000</u>

Year Ending June 30,	Special Assessment Notes Street Improvement Capital Loan Notes Issued Mar 1, 2000		Year Ending June 30,	Urban Renewal Tax Increment Financing (TIF) Revenue Bonds 1993 Series Issued Aug 1, 1993	
	Interest Rates	Amount		Interest Rates	Amount
2008	5.70%	\$ 25,000	2008	7.40%	\$ 15,000
2009	5.80	50,000			
Total		<u>\$ 75,000</u>	Total		<u>\$ 15,000</u>

City of Adel

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

For the Last Four Years

	2007	2006	2005	2004
Receipts:				
Property tax	\$ 1,306,736	\$ 1,214,167	\$ 1,231,889	\$ 1,209,994
Tax increment financing collections	335,343	338,005	334,406	308,734
Other city tax	6,355	51,698	9,622	6,174
Licenses and permits	57,008	84,249	99,610	29,476
Use of money and property	127,168	101,573	58,328	26,892
Intergovernmental	326,922	329,448	345,590	341,249
Charges for service	129,033	105,163	164,373	119,810
Special assessments	206,648	50,291	22,553	47,615
Miscellaneous	125,962	432,106	151,494	740,112
Total	\$ 2,621,175	\$ 2,706,700	\$ 2,417,865	\$ 2,830,056
Disbursements:				
Operating:				
Public safety	\$ 613,718	\$ 550,119	\$ 527,147	\$ 602,796
Public works	346,757	291,767	338,276	382,280
Culture and recreation	408,423	435,096	345,241	359,094
Community and economic development	58,476	94,236	56,238	81,218
General government	187,673	215,456	255,105	187,818
Debt service	3,844,998	821,609	515,837	667,377
Capital projects	2,410,874	977,057	2,393,528	1,002,337
Total	\$ 7,870,919	\$ 3,385,340	\$ 4,431,372	\$ 3,282,920

See accompanying independent auditors' report.

City of Adel

Independent Auditors' 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 the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Adel, Iowa, as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements listed in the table of contents and have issued our report thereon dated September 20, 2007. Our report expressed unqualified opinions on the primary government financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item II-A-07 is a material weakness.

Compliance and Other Matters

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

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2007 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.

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

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

September 20, 2007
Ames, Iowa

City of Adel

Schedule of Findings

Year Ended June 30, 2007

Part I: Summary of the Independent Auditors' Results:

- (a) Unqualified opinions were issued on the primary government financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
- (b) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, including one material weakness.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.

City of Adel

Schedule of Findings

Year Ended June 30, 2007

Part II: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

- II-A-07 Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that certain functions are not entirely segregated.

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

Response – We will consider this.

Conclusion – Response acknowledged. The City should segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

- II-B-07 Invoices – Not all invoices selected for review were stamped “paid” to prevent re-use.

Recommendation – All invoices should be clearly marked paid upon payment to prevent the same invoice from being paid twice.

Response – We will do so in the future.

Conclusion – Response accepted.

City of Adel

Schedule of Findings

Year Ended June 30, 2007

Part III: Other Findings Related to Statutory Reporting:

III-A-07 Certified Budget – Disbursements during the year ended June 30, 2007 exceeded the amounts budgeted in the public works and debt service functions. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

Recommendation – Although the budget was amended, it should have been amended in amounts sufficient to prevent the budget from being exceeded.

Response – We will do so.

Conclusion – Response accepted.

III-B-07 Questionable Disbursements – No disbursements were noted that 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.

III-C-07 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

III-D-07 Business Transactions – We noted business transactions between the City and a City employee totaling \$272. The transaction was for sidewalk repairs. It was paid to Cooks Construction, owned by Doug Cook who is employed by the City.

In accordance with Chapter 362.5(10) of the Code of Iowa, the transactions with the employee do not appear to represent a conflict of interest since total transactions were less than \$1,500 during the fiscal year.

III-E-07 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 that the coverage is adequate for current operations.

III-F-07 Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.

III-G-07 Financial Condition – The City had the following deficit balances at June 30, 2007:

Debt Service Fund	General Obligation Bonds	\$95,307
Capital Projects Funds	2006 Street Improvements	233,346
	Brickyard Road Project	30,000
	Public Safety Building	262,142
	Playground Equipment	18,969
Special Revenue Funds	Emergency Levy	1,277
	Short Term Projects	1,211
	Police Academy	864

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

Response - The deficits will be eliminated upon receipt of funds in the next fiscal year.

Conclusion – Response accepted.

III-H-07 Deposits and Investments – No instances of non-compliance with the City's investment policy were noted.

III-I-07 Revenue Bonds and Notes – The resolutions providing for the issuance of the Sewer Revenue Bonds require minimum balances to be maintained in the sinking and reserve funds. As of June 30, 2007, the City has not met the minimum required balance in the sewer sinking fund.

Recommendation – The City should make the necessary transfer to bring the fund to its required balance.

Response – We transferred \$7,991 to the sinking fund in July of 2007.

Conclusion – Response accepted.

III-J-07 Payroll Tax Calculations, IRS Filings –Deductions and employer contributions to IPERS are not being calculated correctly. Pre-tax items for social security wages have been subtracted out to calculate IPERS wages. Also, upon an employee's separation of service from the City, the IPERS deduction is not being properly assessed.

Quarterly 941 forms have not been filled out correctly. Employee contributions to medical flexible spending accounts have not been subtracted from gross wages to calculate social security wages.

Not all required Form 1099s were filed for the 2006 year.

Recommendation – The City should correct this in their payroll records immediately for future transactions and determine what should be done for prior periods where withholdings were incorrectly calculated and reports were filed incorrectly. Also, 1099s should be filed now and in the future.

Response – We will do so.

Conclusion – Response accepted.

III-K-07

Payment of General Obligation Notes – Principal and interest on the 2006 Street Utility Improvement general obligation notes were paid out of a Capital Project Fund rather than the Debt Service Fund as required by Chapter 384 of the Code of Iowa.

Recommendation – The City should transfer from the Capital Project Fund to the Debt Service Fund for future funding contributions. Payments of the notes should then be disbursed from the Debt Service Fund.

Response – We will transfer in the future, as recommended.

Conclusion – Response accepted.