

CITY OF MALVERN
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS
JUNE 30, 2006

Table of Contents

		<u>Page</u>
Officials		3
Independent Auditors' Report		5-6
Management's Discussion and Analysis		7-12
Basic Financial Statements:	<u>Exhibit</u>	
Government-wide Financial Statement:		
Statement of Activities and Net Assets – Cash Basis	A	14-15
Governmental Fund Financial Statements:		
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	B	16-17
Reconciliation of the Statement of Cash Receipts, Disbursements and Changes in Cash Balances to the Statement of Activities and Net Assets	C	18
Proprietary Fund Financial Statements:		
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	D	19
Reconciliation of the Statement of Cash Receipts, Disbursements and Changes in Cash Balances to the Statement of Activities and Net Assets	E	20
Notes to Financial Statements		21-29
Required Supplementary Information:		
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances - Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Funds		31-32
Notes to Required Supplementary Information – Budgetary Reporting		33
Other Supplementary Information:	<u>Schedule</u>	
Combining Statement of Cash Receipts, Disbursements and Changes in Cash Balances - General Fund	1	35-36
Combining Statement of Cash Receipts, Disbursements and Changes in Cash Balances – Capital Projects Fund	2	37
Schedule of Indebtedness	3	38-39
Bond and Note Maturities	4	40
Schedule of Receipts by Source and Disbursements by Function – All Governmental Funds	5	41
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 <i>Government Auditing Standards</i>		43-44
Schedule of Findings		45-48

City of Malvern

Officials

<u>Name</u>	<u>Title</u> (Before January 2006)	<u>Term Expires</u>
Dwain Pelzer	Mayor	January 2006
Danny Means	Council Member	January 2006
Gary Perkins	Council Member	January 2006
Ervin Crouch	Council Member	January 2008
Tom Mulholland	Council Member	January 2008
Renaë Pearce	Council Member	January 2008
Julie Powles	City Clerk	Indefinite
T. J. Pattermann	Attorney	Indefinite

<u>Name</u>	<u>Title</u> (After January 2006)	<u>Term Expires</u>
Dwain Pelzer	Mayor	January 2008
Ervin Crouch	Council Member	January 2008
Tom Mulholland	Council Member	January 2008
Renaë Pearce	Council Member	January 2008
Gary Perkins	Council Member	January 2010
Doug Shere	Council Member	January 2010
Julie Powles	City Clerk	Indefinite
T. J. Pattermann	Attorney	Indefinite

City of Malvern

September 19, 2006

Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities and each major fund of the City of Malvern, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Malvern's management. 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 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 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, and each major fund of the City of Malvern as of June 30, 2006, 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.

Continued...

September 19, 2006
Independent Auditor's Report
City of Malvern

In accordance with *Government Auditing Standards*, we have also issued our report dated September 19, 2006 on our consideration of the City of Malvern'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* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 12 and 30 through 32 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 supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Malvern's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2005 (none of which are presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 5, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Malvern 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, 2006. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2006 FINANCIAL HIGHLIGHTS

Receipts of the City's governmental activities decreased 22%, or approximately \$213,000, from fiscal 2005 to fiscal 2006. Intergovernmental receipts decreased approximately \$163,000.

Disbursements decreased 16%, or approximately \$272,000, in fiscal 2006 from fiscal 2005. Public safety increased by \$1335, and public works increased by \$22,460. Culture and recreation increased by \$521,716, community and economic development increased by \$50,736, general government decreased \$9852, and capital projects decreased by \$886,631. Debt service increased by \$28,188.

The City's total cash basis net assets decreased by 97%, or \$723,536, from June 30, 2005 to June 30, 2006. Of this amount, the assets of the governmental activities decreased approximately \$583,965, and business type activities decreased by \$139,571.

USING THIS ANNUAL REPORT

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

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

The Government-wide Financial Statement consists of a 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.

Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-Wide Financial Statement

One of the most important questions asked about the City's finances is, "is the City as a whole better off or worse off as a result of the year's activities?" The 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.

The Statement of Activities and Net Assets is divided into two kinds of activities:

- ❖ Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- ❖ Business Type Activities include the sanitary sewer system. This activity is financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General fund, 2) the Special Revenue Funds, such as Road Use Tax and Urban Renewal Tax Increment, and 3) the Debt-Service Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operation 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 statement of cash receipts, disbursements and changes in cash balances.

2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains two Enterprise Funds to provide separate information for the water and sewer funds considered to be major funds of the City.

The required financial statements for proprietary funds include a statement of cash receipts, disbursements and changes in cash balances.

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased from \$384 thousand to \$(200) thousand. The analysis that follows focuses on the changes in cash balances for governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities (Expressed in Thousands)		
	Year Ended June 30,	
	2006	2005
Receipts and other financing sources:		
Property tax	\$ 291	\$ 297
Other city tax	74	71
Licenses and permits	1	1
Use of money and property	27	22
Intergovernmental	205	368
Charges for service	99	84
Special assessments	13	11
Miscellaneous	30	99
	<u>740</u>	<u>953</u>
Disbursements and other financing uses:		
Public safety	72	71
Public works	293	240
Culture and recreation	679	158
Community and economic development	54	3
General government	121	130
Debt service	90	62
Capital projects	95	982
	<u>1404</u>	<u>1676</u>
Deficiency of receipts under disbursements	(664)	(723)
Other financing sources, net	80	783
Net change in cash basis net assets	(584)	60
Cash basis net assets beginning of year	384	324
Cash basis net assets end of year	\$ <u>(200)</u>	\$ <u>384</u>

The City's total receipts for governmental activities decreased by 22%, or \$213,000. The total cost of all programs and services decreased by approximately 16%, or \$272,000, with no new programs added this year. The decrease in receipts was primarily the result of revenues not coming in for projects and intergovernmental receipts.

The cost of all governmental activities this year was \$1404 thousand compared to \$1676 thousand last year. There were no major projects being done and the city council tried to keep costs at a minimum.

Changes in Cash Basis Net Assets of Business Type Activities (Expressed in Thousands)		
	Year Ended June 30,	
	2006	2005
Operating receipts		
Charges for service	\$ 227	\$ 208
Operating disbursements		
Water	212	101
Sewer	40	40
	<u>252</u>	<u>141</u>
Excess deficiency of operating receipts under disbursements	(25)	67
Non-operating receipts and transfers		
Interest on investments	1	1
Miscellaneous	2	4
Debt service	(43)	(57)
	<u>(40)</u>	<u>(52)</u>
Excess deficiency of receipts over (under) disbursements	(65)	15
Other financing uses	(75)	0
Net change in cash basis net assets	(140)	15
Cash basis net assets beginning of year	<u>363</u>	<u>348</u>
Cash basis net assets end of year	\$ <u>223</u>	\$ <u>363</u>

Total business type activities receipts for the fiscal year were \$227 thousand compared to \$208 thousand last year. The cash balance decreased by \$140 thousand.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Malvern completed the year, its governmental funds reported a combined fund balance of \$(199,673), a decrease of \$583,965 from last year's total of \$384,202. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- ❖ The General Fund cash balance decreased \$196,486 from the prior year of \$(52,450) to (\$248,936) due to the over spending of the library when building the new library addition.
- ❖ The Road Use Tax Fund had an increase of \$16,676, Employee Benefits Fund decreased \$38,074, and Local Option Sales Tax Fund decreased \$112,388. The Urban Renewal Tax Increment fund decreased \$52,768.
- ❖ The Debt Service Fund cash balance decreased by \$57,671 to \$21,897 during the fiscal year. This decrease was due to more payments being levied and made through the Debt Service Fund.
- ❖ The Capital Projects Fund cash balance decreased from \$143,274 to \$(143,132) during the fiscal year.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- ❖ The Sewer Fund cash balance increased by \$32,350 to \$153,027, due to passing of an ordinance that charges water/sewer customers more to help pay for the wastewater lagoon payment and build a reserve.
- ❖ The Water Fund cash balance decreased by \$171,921 to \$70,584 during the fiscal year due to several water main breaks and leak repairs.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City budget was exceeded in community and economic development due to having to replace a pump in the lift station in residential district..

DEBT ADMINISTRATION

At June 30, 2006, the City had approximately \$1,327,103 in bonds and other long-term debt, compared to approximately \$1,441,776 last year as shown below:

	Outstanding Debt at Year End (Expressed in Thousands)	
	Year Ended June 30,	
	2006	2005
General obligation notes	\$ 609	\$ 686
Revenue notes	718	756
	<u>\$ 1327</u>	<u>\$ 1442</u>

Debt decreased as a result of \$120,000 in payments of notes and bonds over the course of the fiscal year.

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 was \$609,000 at fiscal year end, which is significantly below the City’s constitutional debt limit of \$1.8 million.

At June 30, 2006, the City also had no anticipatory warrants compared to approximately \$110,000 last year.

ECONOMIC FACTORS AND NEXT YEAR’S BUDGETS AND RATES

The City of Malvern’s elected and appointed officials and citizens considered many factors when setting the fiscal year 2006 budget, tax rates and fees that will be charged for various City activities. The City decreased the tax rates approximately .93503 from the previous year.

These indicators were taken into account when adopting the budget for fiscal year 2006. Due to increasing the water and sewer rates to help finance a new \$1,199,000 wastewater lagoon project, the City decreased the debt service levy by approximately .78%, but increased the employee benefits levy by approximately 5.6%. The tax rate for the employee benefits levy increased from \$1.56 per thousand to \$2.44 per thousand of taxable valuation in 2005 since the general levy tax rate of \$8.10 per thousand of taxable valuation was no longer sufficient to fund all existing debt and operations. Due to the residential property tax rollback, the residential properties were taxable at 48.46% of assessed valuation in 2005 compared to 51.39% in 2004.

Budget disbursements are expected to increase by \$70,094 from 2004 due to a wastewater lagoon project under construction, a new HVAC system that was installed in the Liberty Memorial Community Building and a new library addition in the fundraising stages.

If these estimates are realized, the city's budgeted cash balance is expected to decrease by approximately \$248,819 by the close of 2005.

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 any questions about this report or need additional financial information, contact Julie Greenwood, City Clerk, 501 Main Street, Malvern, Iowa.

City of Malvern
Basic Financial Statements

City of Malvern
Statement of Activities and Net Assets – Cash Basis
As of and for the year ended June 30, 2006

	Disbursements	Charges for Service	Program Receipts Operating Grants Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions/Programs:				
Governmental activities:				
Public safety	\$ 72,107	1,753	-	-
Public works	292,794	79,215	125,090	-
Culture and recreation	679,211	18,230	45,991	28,407
Community and economic development	53,382	-	-	-
General government	120,676	472	-	-
Debt service	90,268	-	12,731	-
Capital projects	95,475	-	-	55,904
Total governmental activities	1,403,913	99,670	183,812	84,311
Business type activities:				
Water	212,072	112,460	-	-
Sewer	82,899	114,673	-	-
Total business type activities	294,971	227,133	-	-
Total	\$ 1,698,884	326,803	183,812	84,311
General Receipts:				
Property tax levied for:				
General purposes				
Employee benefits				
Debt service				
Local option sales tax				
Grants and contributions not restricted to specific purpose				
Unrestricted interest on investments				
Loan proceeds				
Transfers				
Total general receipts				
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				
Employee benefits				
Urban renewal purposes				
Debt service				
Property tax relief				
Unrestricted				
Total cash basis net assets				

See notes to financial statements

Net (Disbursement) Receipts and Changes in
Cash Basis Net Assets

	Governmental Activities	Business Type Activities	Total
	(70,354)	-	(70,354)
	(88,489)	-	(88,489)
	(586,583)	-	(586,583)
	(53,382)	-	(53,382)
	(120,204)	-	(120,204)
	(77,537)	-	(77,537)
	(39,571)	-	(39,571)
	<u>(1,036,120)</u>	<u>-</u>	<u>(1,036,120)</u>
	-	(99,612)	(99,612)
	-	31,774	31,774
	<u>-</u>	<u>(67,838)</u>	<u>(67,838)</u>
	(1,036,120)	(67,838)	(1,103,958)
\$	218,846	-	218,846
	53,606	-	53,606
	33,991	-	33,991
	58,612	-	58,612
	5,866	2,115	7,981
	754	1,152	1,906
	5,480	-	5,480
	75,000	(75,000)	-
	<u>452,155</u>	<u>(71,733)</u>	<u>380,422</u>
	(583,965)	(139,571)	(723,536)
	<u>384,202</u>	<u>363,182</u>	<u>747,384</u>
\$	<u>(199,763)</u>	<u>223,611</u>	<u>23,848</u>
\$	119,423	-	119,423
	18,133	-	18,133
	16,039	-	16,039
	21,897	1,882	23,779
	16,813	-	16,813
	<u>(392,068)</u>	<u>221,729</u>	<u>(170,339)</u>
\$	<u>(199,763)</u>	<u>223,611</u>	<u>23,848</u>

City of Malvern
Statement of Cash Receipts, Disbursements
and Changes in Cash Balances - Governmental Funds
As of and for the year ended June 30, 2006

	General	Road Use Tax	Employee Benefits	Special Local Option Sales Tax
Receipts				
Property tax	\$ 207,556	-	51,098	-
Other city tax	11,290	-	2,508	58,612
Licenses and permits	472	-	-	-
Use of money and property	21,957	-	-	-
Intergovernmental	15,063	121,076	-	12,000
Charges for service	99,198	-	-	-
Special assessments	-	-	-	-
Miscellaneous	7,537	68	-	-
Total receipts	<u>363,073</u>	<u>121,144</u>	<u>53,606</u>	<u>70,612</u>
Disbursements				
Operating:				
Public safety	70,050	-	2,057	-
Public works	175,395	104,448	12,951	-
Culture and recreation	182,169	-	6,592	6,000
Community and economic development	614	-	-	-
General government	110,596	-	10,080	-
Debt service	-	-	-	-
Capital projects	-	-	-	-
Total disbursements	<u>538,824</u>	<u>104,448</u>	<u>31,680</u>	<u>6,000</u>
Excess (deficiency) of receipts over (under) disbursements	(175,751)	16,696	21,926	64,612
Other financing sources (uses):				
Loan proceeds	-	-	-	-
Operating transfers in	270,000	-	-	-
Operating transfers out	(290,735)	-	(60,000)	(177,000)
Total other financing sources (uses)	<u>(20,735)</u>	<u>-</u>	<u>(60,000)</u>	<u>(177,000)</u>
Net change in cash balances	(196,486)	16,696	(38,074)	(112,388)
Cash balances beginning of year	<u>(52,450)</u>	<u>102,727</u>	<u>56,207</u>	<u>129,201</u>
Cash balances end of year	<u>\$ (248,936)</u>	<u>119,423</u>	<u>18,133</u>	<u>16,813</u>
Cash Basis Fund Balances				
Reserved:				
Debt service	\$ -	-	-	-
Unreserved:				
General fund	(248,936)	-	-	-
Special revenue funds	-	119,423	18,133	16,813
Debt service	-	-	-	-
Total cash basis fund balances	<u>\$ (248,936)</u>	<u>119,423</u>	<u>18,133</u>	<u>16,813</u>

See notes to financial statements

<u>Revenue</u>			
<u>Urban Renewal Tax Increment</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total</u>
-	32,437	-	291,091
-	1,554	-	73,964
-	-	-	472
-	-	5,417	27,374
-	-	56,916	205,055
-	-	-	99,198
-	12,731	-	12,731
-	-	21,978	29,583
-	46,722	84,311	739,468
-	-	-	72,107
-	-	-	292,794
-	-	484,450	679,211
52,768	-	-	53,382
-	-	-	120,676
-	90,268	-	90,268
-	-	95,475	95,475
<u>52,768</u>	<u>90,268</u>	<u>579,925</u>	<u>1,403,913</u>
(52,768)	(43,546)	(495,614)	(664,445)
-	-	5,480	5,480
-	-	346,860	616,860
-	(14,125)	-	(541,860)
-	(14,125)	352,340	80,480
(52,768)	(57,671)	(143,274)	(583,965)
<u>68,807</u>	<u>79,568</u>	<u>142</u>	<u>384,202</u>
<u>16,039</u>	<u>21,897</u>	<u>(143,132)</u>	<u>(199,763)</u>
-	21,897	-	21,897
-	-	-	(248,936)
16,039	-	-	170,408
-	-	(143,132)	(143,132)
<u>16,039</u>	<u>21,897</u>	<u>(143,132)</u>	<u>(199,763)</u>

City of Malvern
 Reconciliation of the Statement of Cash
 Receipts, Disbursements and Changes in Cash Balances
 to the Statement of Activities and Net Assets -
 Governmental Funds
 As of and for the year ended June 30, 2006

Total governmental funds cash balances	\$	(199,763)
<i>Adjustments</i>		
None		-
Cash basis net assets of governmental activities	\$	(199,763)
Net change in cash balances	\$	(583,965)
<i>Adjustments</i>		
None		-
Change in cash balance of governmental activities	\$	(583,965)

See notes to financial statements

City of Malvern
Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Proprietary Funds
As of and for the year ended June 30, 2006

	Enterprise Funds		
	Water	Sewer	Total
Operating receipts:			
Charges for service	\$ 112,460	114,673	227,133
Operating disbursements:			
Business type activities	<u>212,072</u>	<u>39,781</u>	<u>251,853</u>
Excess (deficiency) of operating receipts over (under) operating disbursements	(99,612)	74,892	(24,720)
Non-operating receipts (disbursements):			
Interest on investments	576	576	1,152
Miscellaneous	2,115	-	2,115
Debt service	-	(43,118)	(43,118)
Total non-operating receipts (disbursements)	<u>2,691</u>	<u>(42,542)</u>	<u>(39,851)</u>
Excess (deficiency) of receipts over (under) disbursements	(96,921)	32,350	(64,571)
Operating transfers out	<u>(75,000)</u>	<u>-</u>	<u>(75,000)</u>
Net change in cash balances	(171,921)	32,350	(139,571)
Cash balances beginning of year	<u>242,505</u>	<u>120,677</u>	<u>363,182</u>
Cash balances end of year	<u>\$ 70,584</u>	<u>153,027</u>	<u>223,611</u>
 Cash Basis Fund Balances			
Reserved for debt service	-	1,882	1,882
Unreserved	<u>70,584</u>	<u>151,145</u>	<u>221,729</u>
	<u>\$ 70,584</u>	<u>153,027</u>	<u>223,611</u>

See notes to financial statements

City of Malvern
 Reconciliation of the Statement of Cash Receipts, Disbursements
 and Changes in Cash Balances
 to the Statement of Activities and Net Assets –
 Proprietary Funds
 As of and for the year ended June 30, 2006

Total enterprise funds cash balances	\$	223,611
<i>Adjustments</i>		
None		-
Cash basis net assets of business type activities	\$	223,611
Net change in cash balances	\$	(139,571)
<i>Adjustments</i>		
None		-
Change in cash balance of business type activities	\$	(139,571)

See notes to financial statements

City of Malvern
Notes to Financial Statements
June 30, 2006

NOTE (1) Summary of Significant Accounting Policies

The City of Malvern is a political subdivision of the State of Iowa located in Mills County. It was first incorporated in 1869 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, culture and recreation, community and economic development, and general government services. The City also provides water and sewer utilities for its citizens.

A. Reporting Entity

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

Jointly Governed Organizations

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

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.

City of Malvern
Notes to Financial Statements
June 30, 2006

NOTE (1) Summary of Significant Accounting Policies - Continued

B. Basis of Presentation - Continued

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 funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

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

Special Revenue:

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

The Employee Benefit Fund is used to account for property taxes levied to pay employee benefits.

The Local Option Sales Tax Fund is used to account for receipts required from the tax authorized by referendum and used for property tax relief.

City of Malvern
Notes to Financial Statements
June 30, 2006

NOTE (1) Summary of Significant Accounting Policies - Continued

B. Basis of Presentation - Continued

Special Revenue (continued):

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

The Debt Service Fund is utilized to account 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 construction of capital facilities with the exception of those financed through enterprise funds.

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 sanitary sewer system.

C. Measurement Focus and Basis of Accounting

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

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net 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.

City of Malvern
Notes to Financial Statements
June 30, 2006

NOTE (1) Summary of Significant Accounting Policies - Continued

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2006, disbursements exceeded the amounts budgeted in the community and economic development and business type activities functions.

E. Property Tax Calendar

The City's property tax rates were extended against the assessed valuation of the City as of January 1, 2004, to compute the amounts which became liens on property on July 1, 2005. These taxes were due and payable in two installments on September 30, 2005 and March 31, 2006, at the Mills County Treasurer's Office. These taxes are recognized as income to the City when they are received from the county.

NOTE (2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2006 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

The City's cash, which consists of cash in bank and certificates of deposit, totaled \$23,848.

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.

City of Malvern
Notes to Financial Statements
June 30, 2006

NOTE (3) Notes Payable

Annual debt service requirements to maturity of general obligation notes are as follows:

Year Ended June 30,	General Obligation Notes		Revenue Note		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2007	\$ 78,571	27,179	32,000	21,540	110,571	48,719
2008	68,524	24,776	32,000	20,580	100,524	45,356
2009	52,575	22,275	33,000	19,620	85,575	41,895
2010	54,730	19,669	34,000	18,630	88,730	38,299
2011	56,995	16,955	35,000	17,610	91,995	34,565
2012-2016	297,708	40,285	195,000	71,400	492,708	111,685
2017-2021	-	-	225,000	40,470	225,000	40,470
2022-2024	-	-	132,000	7,410	132,000	7,410
Total	\$ 609,103	151,139	718,000	217,260	1,327,103	368,399

The Code of Iowa requires that principal and interest on general obligation bonds be paid from the Debt Service Fund.

The City has a general obligation debt limit of approximately \$1,800,000 which was not exceeded during the year ended June 30, 2006.

The resolution providing for the issuance of the water revenue note includes the provision that the debt is secured by the equipment purchased and debt service payments are due on an annual basis. The City has complied with the provision.

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

- a) Proceeds of the note shall be credited to the project fund and expended therefrom for the purpose of the issuance.
- b) The notes will only be redeemed from the future earnings of the sewer enterprise activity, and the note holders hold a lien on the future earnings of the fund.
- c) Sufficient monthly transfers shall be made to the sewer revenue note sinking account for the purpose of making the note principal and interest payments when due.

The City has complied with the provisions of the resolution.

City of Malvern
Notes to Financial Statements
June 30, 2006

NOTE (4) Interest Costs

The City of Malvern paid the following interest costs during the year.

Interest reflected in capital projects costs	\$ 1,377
Interest reflected in debt service costs	<u>52,553</u>
	<u>\$ 53,930</u>

NOTE (5) Pension and Retirement Benefits

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

Plan members are required to contribute 3.70 % of their annual covered salary and the City is required to contribute 5.75 % of annual 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, 2006, 2005, and 2004, were \$7,815, \$7,455, and \$8,045, respectively, equal to the required contributions for each year.

NOTE (6) Compensated Absences

City employees accumulate vacation days for subsequent use or for payment at the end of the calendar year during which it was required to be taken. These accumulations are not recognized as disbursements by the City until used or paid. An employee who resigns or voluntarily terminates employment with the City forfeits all vacation leave accrued during the year of termination. Employees are entitled to payment of accrued vacation upon retirement, death, or disability. The City's approximate liability for earned vacation benefits payable to employees at June 30, 2006, primarily relating to the General Fund is \$3,343. This liability is computed on rates of pay effective as of June 30, 2006.

City of Malvern
Notes to Financial Statements
June 30, 2006

NOTE (7) Anticipatory Warrants

Anticipatory warrants are warrants which are legally drawn on City funds but are not paid for lack of funds, in accordance with Chapter 74 of the Code of Iowa. The warrants bear interest at rates in effect at the time the warrants are first presented for redemption.

Changes in anticipatory warrants for the year ended June 30, 2006 were as follows:

	Interest Rate Per Annum	Balance June 30, 2005	Issued During the Year	Redeemed During the Year	Balance June 30, 2006
Sewer Project	4.50 %	\$ <u>110,098</u>	<u>-</u>	<u>110,098</u>	<u>-</u>

In June 2006, the City authorized the issuance of \$285,000 in anticipatory warrants to finance the construction of the library.

NOTE (8) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2005 is as follows:

Transfer to	Transfer from	Amount
General	Special Revenue:	
	Employee Benefits	\$ 60,000
	Local Option Sales Tax	160,000
	Enterprise:	
	Water	<u>50,000</u>
		<u>270,000</u>
Capital Projects	General	290,735
	Special Revenue:	
	Local Option Sales Tax	17,000
	Debt Service	14,125
	Enterprise:	
	Water	<u>25,000</u>
		<u>346,860</u>
		<u>\$ 616,860</u>

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

City of Malvern
Notes to Financial Statements
June 30, 2006

NOTE (9) Commitments

Law Enforcement Contract

The City extended a contract, beginning July 1, 2006, with Mills County, Iowa whereby the County provides law enforcement services within the City of Malvern through the office of the Sheriff of Mills County, Iowa. The annual contract amount is \$15,581.

Administrative Services Contract

The City renewed its agreement with PeopleService, whereby the City engages PeopleService to manage, operate, and maintain the City's water and wastewater utility system. The Company in turn refunds to the City all cost savings on non-payroll operating expenses. The monthly contracted fee is \$7,279 effective July 1, 2006 through June 30, 2007.

As required in this agreement, PeopleService computes, bills, collects and transmits to the City the revenues from water, sewer and landfill usage.

Rescue Services Contract

Malvern Volunteer Rescue, Inc. is a separate entity established to provide rescue services. In July 1989, the City signed an ambulance service contract with the Organization, which has been extended for successive one year terms. The Organization is required to provide 24 hour phone service, all insurance, maintenance, repairs and supplies for City owned rescue unit vehicles and trained personnel to respond to rescue calls. The City is required to pay the Organization \$1,000 a month for these services.

Construction Commitments

The City has the following construction commitments incomplete as of June 30, 2006:

	Contract Amount	Paid to Date	Remaining Commitment	Retainage Payable
Library Construction	\$ 769,834	\$ 415,148	\$ 354,686	\$ 21,849
Library Carpet and Tiling	32,272	-	32,272	-

The City has been awarded a Vision Iowa CAT grant of \$251,470 and an Iowa West Foundation grant of \$35,000 to assist in financing of the project. No grant monies were received as of June 30, 2006.

City of Malvern
Notes to Financial Statements
June 30, 2006

NOTE (10) Lease Agreement

The City leases a copier under an operating lease agreement. Rental expense paid during the fiscal year ended June 30, 2006 totaled \$1,229.

Future minimum required lease payments on the copier are as follows:

Year Ending June 30,		
2007	\$	1,440
2008		1,440
2009		1,440
2010		1,440
2011		<u>1,080</u>
	\$	<u>6,840</u>

NOTE (11) Risk Management

The City of Malvern 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.

NOTE (12) Deficit Fund Balances

The General Fund had a deficit balance of \$248,936 at June 30, 2006. The deficit will be eliminated with general obligation debt financing, property tax collections and transfers from other funds.

The Capital Projects Fund had a deficit balance of \$143,132 at June 30, 2006. The deficit will be eliminated with grant monies and general obligation debt financing.

NOTE (13) Subsequent Events

In July 2006, the City authorized issuance of \$235,000 in anticipatory warrants for paying costs incurred during the past fiscal year for improvements to streets, municipal parks, the water system, and equipment acquired for street and fire departments.

Required Supplementary Information

City of Malvern
 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, 2006

	Governmental Funds Actual	Proprietary Funds Actual	Net
Receipts			
Property tax	\$ 291,091	-	291,091
Other city tax	73,964	-	73,964
Licenses and permits	472	-	472
Use of money and property	27,374	1,152	28,526
Intergovernmental	205,055	-	205,055
Charges for service	99,198	227,133	326,331
Special assessments	12,731	-	12,731
Miscellaneous	29,583	2,115	31,698
Total receipts	<u>739,468</u>	<u>230,400</u>	<u>969,868</u>
Disbursements			
Public safety	72,107	-	72,107
Public works	292,794	-	292,794
Culture and recreation	679,211	-	679,211
Community and economic development	53,382	-	53,382
General government	120,676	-	120,676
Debt service	90,268	-	90,268
Capital projects	95,475	-	95,475
Business type activities	-	294,971	294,971
Total disbursements	<u>1,403,913</u>	<u>294,971</u>	<u>1,698,884</u>
Deficiency of receipts under disbursements	(664,445)	(64,571)	(729,016)
Other financing sources, net	<u>80,480</u>	<u>(75,000)</u>	<u>5,480</u>
Deficiency of receipts and other financing sources under disbursements and other financing uses	(583,965)	(139,571)	(723,536)
Balances beginning of year	<u>384,202</u>	<u>363,182</u>	<u>747,384</u>
Balances end of year	<u>\$ (199,763)</u>	<u>223,611</u>	<u>23,848</u>

See accompanying independent auditors' report

Budgeted Amounts		Budget to
Original	Final	Net
		Variance
287,415	287,415	3,676
80,344	80,344	(6,380)
154,155	154,155	(153,683)
11,200	11,200	17,326
191,544	821,544	(616,489)
419,500	419,500	(93,169)
-	-	12,731
-	-	31,698
<u>1,144,158</u>	<u>1,774,158</u>	<u>(804,290)</u>
74,800	74,800	2,693
309,400	309,400	16,606
236,785	1,074,785	395,574
4,700	4,700	(48,682)
133,000	133,000	12,324
150,287	150,287	60,019
125,000	125,000	29,525
222,550	222,550	(72,421)
<u>1,256,522</u>	<u>2,094,522</u>	<u>395,638</u>
(112,364)	(320,364)	(408,652)
-	180,000	(174,520)
(112,364)	(140,364)	(583,172)
603,788	603,788	143,596
<u>491,424</u>	<u>463,424</u>	<u>(439,576)</u>

City of Malvern
Notes to Required Supplementary Information – Budgetary Reporting
June 30, 2006

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board (GASB) 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 except Internal Service Funds and Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon major classes of disbursements known as functions, not by fund or fund type. These functions are: public safety, public works, 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 Fund, 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 disbursements by \$838,000. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2006, disbursements exceeded the amounts budgeted in the community and economic development and business type activities functions.

Other Supplementary Information

City of Malvern
Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Combining General Fund
As of and for the year ended June 30, 2006

	General	Liberty Memorial Sinking	Park Sinking
Receipts:			
Property tax	\$ 207,556	-	-
Other city tax	11,290	-	-
Licenses and fees	472	-	-
Use of money and property	20,014	478	171
Intergovernmental	15,063	-	-
Charges for services	99,198	-	-
Miscellaneous	6,782	-	-
Total receipts	360,375	478	171
Disbursements:			
Operating:			
Public safety	70,050	-	-
Public works	175,395	-	-
Culture and recreation	181,847	-	-
Community and economic development	614	-	-
General government	110,596	-	-
Total disbursements	538,502	-	-
Excess (deficiency) of receipts over (under) disbursements	(178,127)	478	171
Other financing sources (uses):			
Operating transfers in	270,000	-	-
Operating transfers out	(2,500)	-	-
Total other financing sources (uses)	267,500	-	-
Net change in cash balances	89,373	478	171
Cash balances beginning of year	(369,473)	17,642	6,930
Cash balances end of year	\$ (280,100)	18,120	7,101

See accompanying independent auditors' report

Schedule 1

Liberty Memorial Trust	Library Building Fund	Library Sinking Fund	Total
-	-	-	207,556
-	-	-	11,290
-	-	-	472
322	-	972	21,957
-	-	-	15,063
-	-	-	99,198
755	-	-	7,537
<u>1,077</u>	<u>-</u>	<u>972</u>	<u>363,073</u>
-	-	-	70,050
-	-	-	175,395
322	-	-	182,169
-	-	-	614
-	-	-	110,596
<u>322</u>	<u>-</u>	<u>-</u>	<u>538,824</u>
755	-	972	(175,751)
-	-	-	270,000
(10,998)	(219,408)	(57,829)	(290,735)
<u>(10,998)</u>	<u>(219,408)</u>	<u>(57,829)</u>	<u>(20,735)</u>
(10,243)	(219,408)	(56,857)	(196,486)
<u>16,186</u>	<u>219,408</u>	<u>56,857</u>	<u>(52,450)</u>
<u>5,943</u>	<u>-</u>	<u>-</u>	<u>(248,936)</u>

City of Malvern
Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Combining Capital Projects Fund
As of and for the year ended June 30, 2006

	Liberty Memorial Project	Library Building Project	Sewer Project	Total
Receipts:				
Use of money and property	\$ -	5,417	-	5,417
Intergovernmental	-	1,012	55,904	56,916
Miscellaneous	-	21,978	-	21,978
Total receipts	<u>-</u>	<u>28,407</u>	<u>55,904</u>	<u>84,311</u>
Disbursements:				
Culture and recreation	-	484,450	-	484,450
Capital projects	-	-	95,475	95,475
Total disbursements	<u>-</u>	<u>484,450</u>	<u>95,475</u>	<u>579,925</u>
Deficiency of receipts under disbursements	-	(456,043)	(39,571)	(495,614)
Other financing sources (uses):				
Loan proceeds	-	-	5,480	5,480
Operating transfers in	14,125	332,735	-	346,860
	<u>14,125</u>	<u>332,735</u>	<u>5,480</u>	<u>352,340</u>
Net change in cash balances	14,125	(123,308)	(34,091)	(143,274)
Cash balances beginning of year	<u>(57,076)</u>	<u>-</u>	<u>57,218</u>	<u>142</u>
Cash balances end of year	<u>\$ (42,951)</u>	<u>(123,308)</u>	<u>23,127</u>	<u>(143,132)</u>

See accompanying independent auditors' report

City of Malvern
Schedule of Indebtedness
Year ended June 30, 2006

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation notes:			
Downtown sidewalk improvement	Feb 1, 2001	5.00 %	\$ 640,000
Liberty memorial improvement	Jul 1, 2004	4.50 %	100,000
Building	Jul 26, 2004	0.00 %	108,000
Revenue note:			
Equipment	Apr 17, 2002	5.00 %	\$ 63,957
Sewer	Jun 14, 2004	3.00 %	799,000
Anticipatory warrants:			
Sewer project	Oct 1, 2002	4.50 %	799,000

See accompanying independent auditors' report

Schedule 3

<u>Balance Beginning of Year</u>	<u>Issued During Year</u>	<u>Redeemed During Year</u>	<u>Balance End of Year</u>	<u>Interest Paid</u>	<u>Interest Due and Unpaid</u>
517,815	-	36,712	481,103	25,437	-
90,000	-	10,000	80,000	4,050	-
78,000	-	30,000	48,000	-	-
<u>685,815</u>	<u>-</u>	<u>76,712</u>	<u>609,103</u>	<u>29,487</u>	<u>-</u>
13,431	-	13,431	-	638	-
742,520	5,480	30,000	718,000	22,428	-
<u>755,951</u>	<u>5,480</u>	<u>43,431</u>	<u>718,000</u>	<u>23,066</u>	<u>-</u>
<u>110,098</u>	<u>-</u>	<u>110,098</u>	<u>-</u>	<u>1,377</u>	<u>-</u>

City of Malvern
 Note Maturities
 June 30, 2006

General Obligation Notes							
Year Ending June 30,	Downtown Sidewalk Improvement Issued Feb 1, 2001		Liberty Memorial Building Issued Jul 1, 2004		Building Issued Jul 26, 2005		Total
	Interest Rate	Amount	Interest Rate	Amount	Interest Rate	Amount	
	2007	5.00 %	\$ 38,571	4.50 %	\$ 10,000	0.00 %	
2008	5.00 %	40,524	4.50 %	10,000	0.00 %	18,000	68,524
2009	5.00 %	42,575	4.50 %	10,000	-	-	52,575
2010	5.00 %	44,730	4.50 %	10,000	-	-	54,730
2011	5.00 %	46,995	4.50 %	10,000	-	-	56,995
2012	5.00 %	49,374	4.50 %	10,000	-	-	59,374
2013	5.00 %	51,874	4.50 %	10,000	-	-	61,874
2014	5.00 %	54,500	4.50 %	10,000	-	-	64,500
2015	5.00 %	57,259	-	-	-	-	57,259
2016	5.00 %	54,701	-	-	-	-	54,701
Total		\$ 481,103		\$ 80,000		\$ 48,000	\$ 609,103

Revenue Note		
Sewer		
Issued Jun 14, 2004		
Year Ending June 30,	Interest Rate	Amount
2007	3.00 %	\$ 32,000
2008	3.00 %	32,000
2009	3.00 %	33,000
2010	3.00 %	34,000
2011	3.00 %	35,000
2012	3.00 %	37,000
2013	3.00 %	38,000
2014	3.00 %	39,000
2015	3.00 %	40,000
2016	3.00 %	41,000
2017	3.00 %	42,000
2018	3.00 %	44,000
2019	3.00 %	45,000
2020	3.00 %	46,000
2021	3.00 %	48,000
2022	3.00 %	49,000
2023	3.00 %	51,000
2024	3.00 %	32,000
Total		\$ 718,000

See accompanying independent auditors' report

City of Malvern
Schedule of Receipts By Source and Disbursements By Function -
All Governmental Funds
For the Last Four Years

	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Receipts				
Property tax	\$ 291,091	296,538	298,651	283,413
Tax increment financing collections	-	-	35	35,693
Other city tax	73,964	71,480	86,086	63,057
Licenses and permits	472	1,300	1,702	1,658
Use of money and property	27,374	21,749	21,773	21,598
Intergovernmental	205,055	368,599	149,818	132,857
Charges for service	99,198	83,860	81,461	80,277
Special assessments	12,731	10,666	18,719	14,866
Miscellaneous	29,583	99,245	73,302	59,711
	<u>\$ 739,468</u>	<u>953,437</u>	<u>731,547</u>	<u>693,130</u>
Disbursements				
Operating:				
Public safety	\$ 72,107	70,772	57,574	61,580
Public works	292,794	270,334	238,082	247,772
Culture and recreation	679,211	157,495	151,843	149,614
Community and economic development	53,382	2,646	12,421	3,859
General government	120,676	130,528	173,022	109,314
Debt service	90,268	62,150	62,150	62,150
Capital projects	95,475	982,106	122,955	81,964
	<u>\$ 1,403,913</u>	<u>1,676,031</u>	<u>818,047</u>	<u>716,253</u>

See accompanying independent auditors' report

City of Malvern

September 19, 2006

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

To the Honorable Mayor and
Members of the City Council:

We have audited the financial statements of the governmental activities, the business type activities, each major fund of the City of Malvern, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements listed in the table of contents and have issued our report thereon dated September 19, 2006. Our report expressed unqualified opinions on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards 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 Malvern'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 assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. 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 Malvern's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is 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 material weaknesses. However, we believe the reportable condition described above, is also a material weakness.

Continued...

City of Malvern
Independent Auditor's Report on
Internal Control and Compliance

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Malvern'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 that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of non-compliance that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2006 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 Malvern and other parties to whom the City of Malvern may report including federal awarding agencies and pass through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

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

City of Malvern
Schedule of Findings
Year Ended June 30, 2006

Part I: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

I-A-06 Segregation of Duties

Comment – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The cash receipts listing, bank deposits, posting of the cash receipts to the cash receipts journal, and reconciling are all done by the same person.

Recommendation – We realize that with a limited number of office employees, segregation of duties is difficult. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances. In addition, the Council should review monthly the Clerk's Report and actual to budget comparisons.

Response – We will implement additional controls.

Conclusion – Response accepted.

City of Malvern
Schedule of Findings
Year Ended June 30, 2006

Part II: Other Findings Related to Statutory Reporting:

II-A-06 Certified Budget

Comment - Disbursements during the year ended June 30, 2006 exceeded the amounts budgeted in the community and economic development and business type 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 – The budget should have been amended in sufficient amounts 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 sufficient amounts in the future, if applicable.

Conclusion – Response accepted.

II-B-06 Entertainment Expense

We noted no disbursements for parties, banquets or other entertainment for employees that we believe may constitute an unlawful expenditure from public funds as defined in an Attorney General's opinion dated April 25, 1979.

II-C-06 Travel Expense

No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

II-D-06 Business Transactions

No business transactions were noted between the City and City officials or employees.

II-E-06 Bond Coverage

Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

City of Malvern
Schedule of Findings
Year Ended June 30, 2006

Part II: Other Findings Related to Statutory Reporting Continued:

II-F-06 Council Minutes

Comment- No transactions were found that we believe should have been approved in the Council minutes and were not. Although minutes of Council proceedings were published, they did not include a summary of total receipts by fund, and they were not always published within 15 days of the meeting, as required by Chapter 372.13(6) of the Code of Iowa.

Recommendation – The City should publish the information as required by the Code of Iowa.

Response – We will make publications as required.

Conclusion – Response accepted.

II-G-06 Enterprise Debt

The City is in compliance with the provisions of the revenue note resolutions.

II-H-06 Deposits and Investments

Comment - We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy. However, the interest rate on one certificate of deposit did not meet the statutory rate established by the State Rate Setting Committee.

Recommendation – The City should update its investment policy to reflect the provisions of Chapter 12. The City should contact the financial institution to correct the rates and request they pay the interest as required.

Response – We will do this.

Conclusion – Response accepted.

II-I-06 Excess Balances

Comment – The balances in the Special Revenue Fund-Road Use Tax Account, and Enterprise Fund – Sewer Account at June 30, 2006, were in excess of the respective fund's disbursements during the year.

Recommendation – The City should consider the necessity of maintaining these substantial balances, and where financially feasible, consider reducing the balances in an orderly manner through revenue reductions. Certain funds can be transferred to the General Fund in order to eliminate the deficit.

Response – We will review this further.

Conclusion – Response accepted.

City of Malvern
Schedule of Findings
Year Ended June 30, 2006

Part II: Other Findings Related to Statutory Reporting Continued:

II-J-06 Financial Condition

Comment – As previously noted, the General Fund and Capital Projects Fund had deficit balances at June 30, 2006.

Recommendation – The City should monitor the activity in these funds in order to eliminate the deficits. The City needs to control spending within budget limits and corresponding revenue sources.

Response – We will review this further and return these funds to a sound financial condition.

Conclusion – Response accepted

NEWS RELEASE

Schroer & Associates, P.C. today released an audit report on the City of Malvern, Iowa.

The City's receipts totaled \$975,348 for the year ended June 30, 2006, a 61.5 percent decrease from 2005. The receipts included \$306,443 in property tax, \$326,803 from charges for service, \$183,812 from operating grants, contributions and restricted interest, \$58,612 from local option sales tax, \$1,906 from unrestricted investment earnings, \$84,311 in capital grants, contributions and restricted interest, \$5,480 in loan proceeds and \$7,981 from other general receipts.

Disbursements for the year totaled \$1,698,884, a 31 percent decrease from the prior year, and included \$120,676 for general government, \$292,794 for public works, and \$679,211 for culture and recreation. Also, disbursements for business type activities totaled \$294,971.

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

September 19, 2006

To the Honorable Mayor and
Members of the City Council
City of Malvern
PO Box 501
Malvern, IA 51551

We have compiled the annual financial report of the City of Malvern for the year ended June 30, 2006, included in the accompanying prescribed form in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants.

Our compilation was limited to presenting in the form prescribed by the State of Iowa information that is the representation of management. We have not audited or reviewed the financial statements referred to above, and accordingly, do not express an opinion or any other form of assurance on them. These financial statements were compiled by us from financial statements for that same period that we previously audited, as indicated in our report dated September 19, 2006.

These financial statements are presented in accordance with the requirements of the State of Iowa, which differ from generally accepted accounting principles. Accordingly, these financial statements are not designed for those who are not informed about such differences.

November 22, 2006

Julie Greenwood
City of Malvern
501 Main
Malvern, IA 51551

Dear Julie:

Enclosed are copies of the City of Malvern's Annual Report for publication.

Please sign and forward to the State Auditor in the envelope provided.

Sincerely,

SCHROER & ASSOCIATES, P.C.

Diane McGrain
Shareholder

DM/sh
Enc.

December 4, 2006

Julie Greenwood
City of Malvern
501 Main
Malvern, IA 51551

Dear Julie:

Enclosed are 2 Draft copies of the City of Malvern's audit for 2006.

Please review for any needed changes and let us know as to how many copies are needed.

We still need the MD & A to insert, before issuing.

Sincerely,

SCHROER & ASSOCIATES, P.C.

Diane McGrain
Shareholder

DM/sh
Enc.

January 25, 2007

David Vaudt
Office of State Auditor
State Capitol Building
Des Moines, IA 50319

Dear Sir:

We have enclosed for your records the following information regarding the audit of the City of Malvern, Iowa for the year ended June 30, 2006.

- 2 copies of the audit report
- 1 copy of the news release
- 1 copy of the number of hours worked
- 1 copy of the invoice

Sincerely,

SCHROER & ASSOCIATES, P.C.

Diane McGrain
Shareholder

DM/sh
Enc.

City of Malvern

Hours Worked: 46

January 25, 2007

Julie Greenwood
City of Malvern, Iowa
501 Main Street
Malvern, IA 51551

Dear Julie:

We have filed the required copies of your audit report with the Office of Auditor of State. A filing fee is required to be paid based on your final amended budget, according to the following schedule:

<u>Budgeted Expenditures (in millions of dollars)</u>	<u>Fee Amount</u>
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

You are required to send the appropriate filing fee. The check should be made payable to "Auditor of State" and mailed to Office of Auditor of State, Capitol Building, Des Moines, IA 50319-0004.

If you have any questions, please do not hesitate to call me at 712-322-8734.

Sincerely,

SCHROER & ASSOCIATES, P.C.

Diane McGrain
Shareholder

DM/sh

