



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE

November 17, 2006

Contact: Andy Nielsen
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Auditor of State David A. Vaudt today released an audit report on the City of Bedford, Iowa.

The City's receipts totaled \$2,441,191 for the year ended June 30, 2006. The receipts included \$336,138 in property tax, \$38,148 from tax increment financing, \$1,676,474 from charges for service, \$199,208 from operating grants, contributions and restricted interest, \$112,500 from capital grants, contributions and restricted interest, \$56,377 from local option sales tax, \$7,562 from unrestricted interest on investments and \$14,784 from other general receipts.

Disbursements for the year totaled \$2,482,650, and included \$369,954 for public safety, \$300,547 for public works and \$113,712 for debt service. Also, disbursements for business type activities totaled \$1,498,740.

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

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CITY OF BEDFORD

**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 Auditor’s 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 Statement:		
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	B	16
Proprietary Fund Financial Statement:		
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	C	17
Notes to Financial Statements		18-24
Required Supplementary Information:		
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances - Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Funds		26-27
Notes to Required Supplementary Information – Budgetary Reporting		28
Other Supplementary Information:	<u>Schedule</u>	
Schedule of Cash Receipts, Disbursements and Changes in Cash Balances - Nonmajor Governmental Funds	1	30-31
Schedule of Indebtedness	2	32-33
Note Maturities	3	34-35
Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <u>Government Auditing Standards</u>		37-38
Schedule of Findings		39-41
Staff		42

City of Bedford

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January 2006)		
Belinda Ogle	Mayor	Jan 2006
Randal Simmons	Mayor Pro tem	Jan 2006
Garnita Ewart	Council Member	Jan 2006
Adrian Klepinger	Council Member	Jan 2006
Lon Luttrell	Council Member	Jan 2006
Robert Walston	Council Member	Jan 2006
Tammy Thompson	City Clerk	Indefinite
Kay Dukes	Treasurer	Indefinite
Michael Travis	Attorney	Indefinite
(After January 2006)		
Lary Wyckoff	Mayor	Jan 2008
Randal Simmons	Mayor Pro tem	Jan 2008
Don Cox, Jr.	Council Member	Jan 2008
Diana Fisher	Council Member	Jan 2008
Jane Saville	Council Member	Jan 2008
Robert Walston	Council Member	Jan 2008
Tammy Thompson	City Clerk	Indefinite
Kay Dukes	Treasurer	Indefinite
Michael Travis	Attorney	Indefinite

City of Bedford



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Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Bedford, 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 Bedford's management. Our responsibility is to express opinions on these financial statements based on our audit.

Except as discussed in the following paragraph, 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. Also, as permitted by the Code of Iowa, the accounting records of the City have not been audited for all prior years. Accordingly, we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2005.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2005, as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Bedford 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.

As described in Note 8, during the year ended June 30, 2006, the City adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences.

In accordance with Government Auditing Standards, we have also issued our report dated September 18, 2006 on our consideration of the City of Bedford'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 12 and 26 through 28 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain 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 financial statements that collectively comprise the City of Bedford's basic financial statements. Other supplementary information included in Schedules 1 through 3 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, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2005, as discussed in the third paragraph, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

September 18, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Bedford 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.

Because the City is implementing new reporting standards for this fiscal year with significant changes in content and structure, and since the City is not required to be audited annually, much of the information is not easily comparable to prior years. Comparative data has been provided if available.

2006 FINANCIAL HIGHLIGHTS

- The cash basis net assets of the City's governmental activities increased approximately \$14,000, due primarily to transfers from other funds into the Debt Service Fund for future debt service payments.
- The cash basis net assets of the City's business type activities decreased approximately \$56,000 due to sewer plant repair and gas utility equipment purchases.

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.

Other Supplementary Information provides detailed information about the nonmajor governmental funds.

Basis of Accounting

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

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information that 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, health and social services, culture and recreation, community and economic development, general government and debt service. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the water, sewer and gas systems. These activities are financed primarily by user fees and related 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 Local Option Sales Tax, 3) the Debt Service Fund and 4) the Permanent Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statement for governmental funds is a statement of cash receipts, disbursements and changes in cash balances.

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

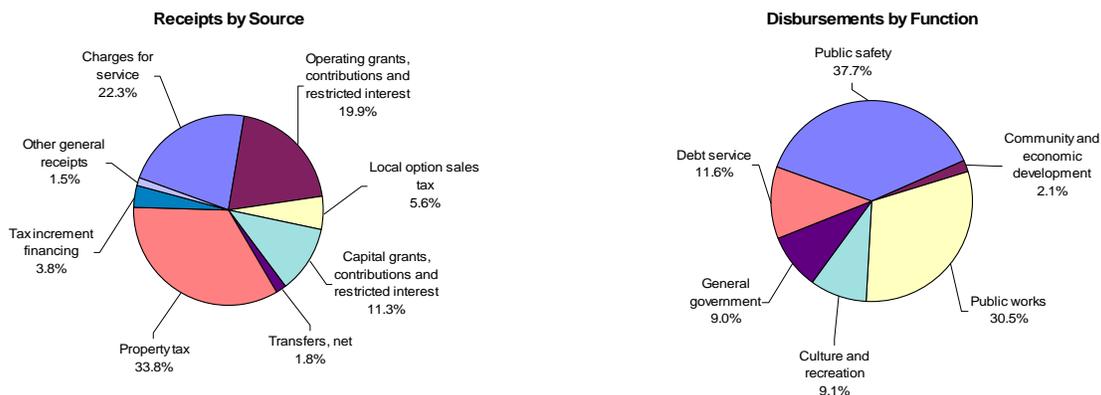
The required financial statement for proprietary funds is a statement of cash receipts, disbursements, and changes in cash balances.

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 increased from a year ago, increasing from \$309,321 to \$323,614. The analysis that follows focuses on the changes in cash basis net assets of governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities (Expressed in Thousands)	
	Year ended June 30, 2006
Receipts and transfers:	
Program receipts:	
Charges for service	\$ 223
Operating grants, contributions and restricted interest	199
Capital grants, contributions and restricted interest	113
General receipts:	
Property tax	336
Tax increment financing	38
Local option sales tax	56
Other general receipts	15
Transfers, net	18
Total receipts and transfers	998
Disbursements:	
Public safety	370
Public works	300
Culture and recreation	90
Community and economic development	21
General government	89
Debt service	114
Total disbursements	984
Increase in cash basis net assets	14
Cash basis net assets beginning of year	309
Cash basis net assets end of year	\$ 323

The cash basis net assets for the City's governmental funds increased primarily due to transfers from other funds for future debt service payments



Changes in Cash Basis Net Assets of Business Type Activities (Expressed in Thousands)	
	Year ended June 30, 2006
Receipts:	
Program receipts:	
Charges for service:	
Water	\$ 371
Sewer	287
Gas	795
General receipts:	
Unrestricted interest on investments	8
Total receipts	<u>1,461</u>
Disbursements and transfers:	
Water	352
Sewer	270
Gas	877
Transfers	18
Total disbursements and transfers	<u>1,517</u>
Decrease in cash basis net assets	(56)
Cash basis net assets beginning of year	<u>1,064</u>
Cash basis net assets end of year	<u><u>\$ 1,008</u></u>

The total business type activities basis net assets decreased from a year ago, decreasing from \$1,064,041 to \$1,008,289. The cash basis net assets of the City's business type activities decreased primarily due to sewer plant repair and gas utility equipment purchased.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Bedford completed the year, its governmental funds reported a combined fund balance of \$323,614, an increase of more than \$14,000 above last year's total of \$309,321. 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 increased \$19,186 from the prior year to a year-end balance of \$199,895. This increase is due to cut-backs in operating disbursements by the Council and an increase in transfers from other funds.
- The Road Use Tax Fund cash balance decreased by \$20,640 to \$31,178 during the fiscal year. This decrease was attributable to an increase in the cost of asphalt for street repairs and an additional employee partially paid from the Road Use Tax Fund.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance increased by \$23,830 to a year-end balance of \$157,654. This increase was due primarily to an increase in water rates in February 2005.

- The Sewer Fund cash balance increased by \$19,488 to a year-end balance of \$182,573. The increase was due to an increase in sewer rental rates in February 2005.
- The Gas Fund cash balance decreased by \$99,070 to a year-end balance of \$668,062. The decrease was due to the purchase of a motor grader and a flatbed truck for approximately \$92,000.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget one time. The amendment was approved on May 9, 2006 and resulted in an increase in operating disbursements related to four functions of approximately \$14,000 for public safety, airport repair, a swimming pool study and an increase in debt service fees. The City received grants and used other intergovernmental receipts to absorb these additional costs.

The City’s receipts were \$152,487 more than budgeted receipts. Charges for service receipts were approximately \$100,000 more than budgeted receipts due to gas rate increases during the year.

Total disbursements were \$323,995 less than budgeted due primarily to the City’s budget for the business type activities function. The City anticipated purchased gas costs to be more than actual.

DEBT ADMINISTRATION

At June 30, 2006, the City had approximately \$1,067,000 in long-term notes and other long-term debt, as follows:

Outstanding Debt at Year-End	
	June 30, 2006
General obligation notes	\$ 383,514
Revenue notes	580,000
Loan	103,913
Total	<u>\$ 1,067,427</u>

City debt payments in FY2006 reduced outstanding debt by \$144,679 without the issuance of any new debt.

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 of \$487,427 is significantly below its constitutional debt limit of approximately \$1,896,000.

ECONOMIC FACTORS AND NEXT YEAR’S BUDGETS AND RATES

The City of Bedford’s elected and appointed officials and citizens considered many factors when setting the fiscal year 2007 budget, tax rates and fees charged for various City activities. The City’s FY2007 assessed value has decreased \$1,091,483 from the FY2006 level.

The FY2007 budget contains total revenues of \$2,416,785 and expenditures of \$2,927,559. This budget is considerably higher than the original FY2006 budget which contained total revenues of \$2,270,082 and expenditures of \$2,780,610. The FY2007 budget includes approximately \$240,000 for a CDBG housing rehabilitation grant that is not included in the FY 2006 budget.

The proposed FY2007 levy is \$15.62874 per \$1,000 of assessed valuation, an increase from \$15.52136 per \$1,000 of assessed valuation in 2006. The employee benefit levy increased from \$1.56613 per \$1,000 of assessed valuation in FY2006 to \$2.05139 per \$1,000 of assessed valuation in FY2007 due to the addition of a police officer and the debt service levy decreased from \$2.66981 per \$1,000 of assessed valuation in FY2006 to \$2.09282 per \$1,000 of assessed valuation in FY2007.

These parameters were taken into account when adopting the budget for FY2007.

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 Tammy Thompson, City Clerk, 625 Court Avenue, Bedford, IA 50833.

Basic Financial Statements

City of Bedford

Statement of Activities and Net Assets – Cash Basis

As of and for the year ended June 30, 2006

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions/Programs:				
Governmental activities:				
Public safety	\$ 369,954	92,416	15,800	112,500
Public works	300,547	91,194	135,635	-
Culture and recreation	89,953	16,699	44,423	-
Community and economic development	20,579	-	3,100	-
General government	89,165	23,164	-	-
Debt service	113,712	-	-	-
Total governmental activities	983,910	223,473	198,958	112,500
Business type activities:				
Water	352,299	371,286	-	-
Sewer	270,086	287,055	-	-
Gas	876,355	794,660	250	-
Total business type activities	1,498,740	1,453,001	250	-
Total	\$ 2,482,650	1,676,474	199,208	112,500

General Receipts:

Property and other city tax levied for:
 General purposes
 Tax increment financing
 Debt service
 Local option sales tax
 Unrestricted interest on investments
 Miscellaneous
 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
 Cemetery perpetual care
 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
(149,238)	-	(149,238)
(73,718)	-	(73,718)
(28,831)	-	(28,831)
(17,479)	-	(17,479)
(66,001)	-	(66,001)
(113,712)	-	(113,712)
(448,979)	-	(448,979)
-	18,987	18,987
-	16,969	16,969
-	(81,445)	(81,445)
-	(45,489)	(45,489)
(448,979)	(45,489)	(494,468)
275,758	-	275,758
38,148	-	38,148
60,380	-	60,380
56,377	-	56,377
-	7,562	7,562
14,784	-	14,784
17,825	(17,825)	-
463,272	(10,263)	453,009
14,293	(55,752)	(41,459)
309,321	1,064,041	1,373,362
\$ 323,614	1,008,289	1,331,903
\$ 31,178	-	31,178
3,250	-	3,250
21,325	126,249	147,574
7,239	-	7,239
60,727	-	60,727
199,895	882,040	1,081,935
\$ 323,614	1,008,289	1,331,903

Exhibit B

City of Bedford

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

As of and for the year ended June 30, 2006

	Special Revenue			Total
	General	Road Use Tax	Nonmajor	
Receipts:				
Property tax	\$ 229,660	-	96,723	326,383
Tax increment financing	-	-	38,148	38,148
Other city tax	12,324	-	59,209	71,533
Licenses and permits	3,093	-	-	3,093
Use of money and property	28,202	-	3,929	32,131
Intergovernmental	112,500	135,635	533	248,668
Charges for service	193,709	-	-	193,709
Miscellaneous	54,439	-	12,274	66,713
Total receipts	633,927	135,635	210,816	980,378
Disbursements:				
Operating:				
Public safety	358,278	-	11,676	369,954
Public works	119,024	156,275	25,248	300,547
Culture and recreation	87,143	-	2,810	89,953
Community and economic development	-	-	20,579	20,579
General government	89,165	-	-	89,165
Debt service	-	-	113,712	113,712
Total disbursements	653,610	156,275	174,025	983,910
Excess (deficiency) of receipts over (under) disbursements	(19,683)	(20,640)	36,791	(3,532)
Other financing sources (uses):				
Operating transfers in	38,869	-	55,383	94,252
Operating transfers out	-	-	(76,427)	(76,427)
Total other financing sources (uses)	38,869	-	(21,044)	17,825
Net change in cash balances	19,186	(20,640)	15,747	14,293
Cash balances beginning of year	180,709	51,818	76,794	309,321
Cash balances end of year	\$ 199,895	31,178	92,541	323,614
Cash Basis Fund Balances				
Reserved for debt service	\$ -	-	21,325	21,325
Unreserved:				
General fund	199,895	-	-	199,895
Special revenue funds	-	31,178	63,977	95,155
Permanent fund	-	-	7,239	7,239
Total cash basis fund balances	\$ 199,895	31,178	92,541	323,614

See notes to financial statements.

City of Bedford

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	Gas	Total
Operating receipts:				
Charges for service	\$ 369,521	285,599	794,660	1,449,780
Miscellaneous	1,765	1,456	250	3,471
Total operating receipts	371,286	287,055	794,910	1,453,251
Operating disbursements:				
Business type activities	335,667	191,188	876,355	1,403,210
Excess (deficiency) of operating receipts over (under) operating disbursements	35,619	95,867	(81,445)	50,041
Non-operating receipts (disbursements):				
Interest on investments	4,843	2,519	200	7,562
Debt service	(16,632)	(78,898)	-	(95,530)
Total non-operating receipts (disbursements)	(11,789)	(76,379)	200	(87,968)
Excess (deficiency) of receipts over (under) disbursements	23,830	19,488	(81,245)	(37,927)
Other financing sources (uses):				
Operating transfers in	-	-	16,339	16,339
Operating transfers out	-	-	(34,164)	(34,164)
Total other financing sources (uses)	-	-	(17,825)	(17,825)
Net change in cash balances	23,830	19,488	(99,070)	(55,752)
Cash balances beginning of year	133,824	163,085	767,132	1,064,041
Cash balances end of year	\$ 157,654	182,573	668,062	1,008,289
Cash Basis Fund Balances				
Reserved for debt service	\$ -	126,249	-	126,249
Unreserved	157,654	56,324	668,062	882,040
Total cash basis fund balances	\$ 157,654	182,573	668,062	1,008,289

See notes to financial statements.

City of Bedford

Notes to Financial Statements

June 30, 2006

(1) Summary of Significant Accounting Policies

The City of Bedford is a political subdivision of the State of Iowa located in Taylor County. It was first incorporated in 1895 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 gas utilities for its citizens.

A. Reporting Entity

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

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

Blended Component Unit

The Bedford Fire Fighter's Association has been incorporated under the provisions of the Iowa Nonprofit Corporation Act, Chapter 504A of the Code of Iowa, to operate to study and advance the science of fire prevention, protection, and suppression. The Association is governed by an eight-member board elected each year. The candidates are selected by a nominating committee. In accordance with the criteria set forth by the Governmental Accounting Standards Board, the Association meets the definition of a component unit which should be blended. The financial activity of the component unit has been blended as a Special Revenue Fund of the City.

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: Taylor County Assessor's Conference Board, Bedford Area Economic Development Corporation and the Adams/Taylor Regional Service Agency.

B. Basis of Presentation

Government-wide Financial Statement - 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 service.

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 not meeting 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 not paid from other funds.

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

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 Gas Fund accounts for the operation and maintenance of the City's gas system.

C. Measurement Focus and Basis of Accounting

The City of Bedford 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.

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 amount budgeted in the debt service function.

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

(3) Notes and Loans Payable

Annual debt service requirements to maturity for general obligation and revenue notes are as follows:

Year Ending June 30,	General Obligation Notes		Revenue Notes		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2007	\$ 95,300	19,245	45,000	31,225	140,300	50,470
2008	101,315	14,545	50,000	28,930	151,315	43,475
2009	81,487	9,595	50,000	26,355	131,487	35,950
2010	31,811	5,583	55,000	23,755	86,811	29,338
2011	32,153	3,842	55,000	20,868	87,153	24,710
2012 - 2016	41,448	6,415	325,000	55,820	366,448	62,235
Total	\$ 383,514	59,225	580,000	186,953	963,514	246,178

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

- (a) Note proceeds of \$77,500 shall be deposited to a Sewer Reserve Fund which shall be pledged to pay principal and interest payments coming due when insufficient money is available in the Sewer Sinking Fund. The City purchased a certificate of deposit in this amount to reserve the funds.
- (b) The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the funds.
- (c) Sufficient monthly transfers shall be made to a Sewer Sinking Fund for the purpose of making the note principal and interest payments when due.
- (d) Additional monthly transfers of \$1,000 shall be made to a Sewer Improvement Fund until deposits to the Improvement Fund equal \$60,000. This fund is restricted for the purpose of making the note principal and interest payments when the Sinking and Reserve Fund balances are insufficient and to pay the costs of extraordinary maintenance expenses or repairs, renewals and replacements, etc. The City has established this fund and is making the required transfers.

Loan Payable

On May 1, 1992, the City entered into loan agreements with the Southern Iowa Rural Water Association (SIRWA) for \$186,322 and \$38,790. On December 31, 2001, the City combined the loans into one loan bearing interest at 5.75% per year, with principal and interest payments of \$1,386 per month from January 31, 2002 through March 31, 2014. During the year ended June 30, 2006, the City paid \$10,332 of principal and \$6,300 of interest. Future annual maturities of the loan are as follows:

Year Ending June 30,	Principal	Interest	Total
2007	\$ 10,942	5,690	16,632
2008	11,589	5,044	16,633
2009	12,273	4,359	16,632
2010	12,997	3,635	16,632
2011	13,765	2,867	16,632
2012-2014	42,347	3,616	45,963
Total	\$ 103,913	25,211	129,124

(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 contribution to IPERS for the year ended June 30, 2006 was \$23,126, equal to the required contribution for the year.

(5) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation and compensatory time hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation and compensatory time payable to employees at June 30, 2006, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Vacation	\$11,000
Compensatory time	<u>10,000</u>
Total	<u>\$21,000</u>

This liability has been computed based on rates of pay in effect at June 30, 2006.

(6) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2006 is as follows:

Transfer to	Transfer from	Amount
General	Special Revenue:	
	Employee Benefits	\$ 33,086
	Emergency	5,783
		<u>38,869</u>
Special Revenue:	Enterprise:	
Economic Development	Gas	15,000
Debt Service	Special Revenue:	
	TIF Bond	21,219
	Enterprise:	
	Gas	19,164
		<u>40,383</u>
Enterprise:	Special Revenue:	
Gas	TIF Bond	16,339
		<u>16,339</u>
Total		<u>\$ 110,591</u>

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

(7) Risk Management

The City is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 531 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 300 percent of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The City's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The City's contributions to the Pool for the year ended June 30, 2006 were \$51,491.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000 per claim and \$5,000,000 in aggregate per year. For members requiring specific coverage from \$2,000,000 to \$10,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$100,000 each occurrence, each location, with excess coverage reinsured on an individual-member basis.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. As of June 30, 2006, settled claims have not exceeded the risk pool or reinsurance coverage since the Pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their capital contributions. If a member withdraws after the sixth year, the member is refunded 100 percent of its capital contributions. However, the refund is reduced by an amount equal to the annual operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

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

(8) Accounting Change

Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences were implemented for the year ended June 30, 2006. The statements create new basic financial statements for reporting the City's financial activities. The financial statements now include a government-wide financial statement and fund financial statements which present information for individual major funds rather than by fund type.

Implementation of these standards had no effect on the beginning balances of the City.

Required Supplementary Information

City of Bedford
 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	Less Funds not Required to be Budgeted
Receipts:			
Property tax	\$ 326,383	-	-
Tax increment financing	38,148	-	-
Other city tax	71,533	-	-
Licenses and permits	3,093	-	-
Use of money and property	32,131	7,562	83
Intergovernmental	248,668	-	-
Charges for service	193,709	1,449,780	-
Miscellaneous	66,713	3,471	4,269
Total receipts	980,378	1,460,813	4,352
Disbursements:			
Public safety	369,954	-	11,676
Public works	300,547	-	-
Health and social services	-	-	-
Culture and recreation	89,953	-	-
Community and economic development	20,579	-	-
General government	89,165	-	-
Debt service	113,712	-	-
Business type activities	-	1,498,740	-
Total disbursements	983,910	1,498,740	11,676
Deficiency of receipts under disbursements	(3,532)	(37,927)	(7,324)
Other financing sources, net	17,825	(17,825)	-
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	14,293	(55,752)	(7,324)
Balances beginning of year	309,321	1,064,041	16,880
Balances end of year	\$ 323,614	1,008,289	9,556

See accompanying independent auditor's report.

Total	Budgeted Amounts		Final to Total Variance
	Original	Final	
326,383	322,210	322,210	4,173
38,148	37,558	37,558	590
71,533	48,371	48,371	23,162
3,093	2,500	2,500	593
39,610	8,500	8,500	31,110
248,668	255,608	269,878	(21,210)
1,643,489	1,543,178	1,543,178	100,311
65,915	52,157	52,157	13,758
2,436,839	2,270,082	2,284,352	152,487
358,278	354,601	361,664	3,386
300,547	301,324	303,420	2,873
-	2,000	2,000	2,000
89,953	97,565	102,565	12,612
20,579	25,294	25,294	4,715
89,165	99,450	99,450	10,285
113,712	103,938	104,138	(9,574)
1,498,740	1,796,438	1,796,438	297,698
2,470,974	2,780,610	2,794,969	323,995
(34,135)	(510,528)	(510,617)	476,482
-	-	-	-
(34,135)	(510,528)	(510,617)	476,482
1,356,482	1,139,731	1,139,731	216,751
1,322,347	629,203	629,114	693,233

City of Bedford

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 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 the blended component unit. 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. 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, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Permanent Fund and the 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 \$14,359. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2006, disbursements exceeded the amount budgeted in the debt service function.

Other Supplementary Information

City of Bedford

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

As of and for the year ended June 30, 2006

	Special				
	Employee		CDBG	Local	
	Benefits	Emergency	Housing	Option Sales	TIF
			Rehabilitation	Tax	Bond
Receipts:					
Property tax	\$ 32,102	5,919	-	-	-
Tax increment financing	-	-	-	-	38,148
Other city tax	984	170	-	24,188	-
Use of money and property	-	-	-	-	-
Intergovernmental	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Total receipts	33,086	6,089	-	24,188	38,148
Disbursements:					
Operating:					
Public safety	-	-	-	-	-
Public works	-	-	-	25,248	-
Culture and recreation	-	-	-	1,742	-
Community and economic development	-	-	-	-	-
Debt service	-	-	-	-	-
Total disbursements	-	-	-	26,990	-
Excess (deficiency) of receipts over (under) disbursements	33,086	6,089	-	(2,802)	38,148
Other financing sources (uses):					
Operating transfers in	-	-	-	-	-
Operating transfers out	(33,086)	(5,783)	-	-	(37,558)
Total other financing sources (uses)	(33,086)	(5,783)	-	-	(37,558)
Net change in cash balances	-	306	-	(2,802)	590
Cash balances beginning of year	-	-	4,989	9,163	2,660
Cash balances end of year	\$ -	306	4,989	6,361	3,250
Cash Basis Fund Balances					
Reserved for debt service	\$ -	-	-	-	-
Unreserved:					
Special revenue funds	-	306	4,989	6,361	3,250
Permanent fund	-	-	-	-	-
Total cash basis fund balances	\$ -	306	4,989	6,361	3,250

See accompanying independent auditor's report.

Revenue						Permanent		
Ahrens Building	Economic Development	Performance Bond	Bedford Firefighters Association	Library Memorial	Debt Service	Cemetery Perpetual Care		Total
-	-	-	-	-	58,702	-		96,723
-	-	-	-	-	-	-		38,148
-	-	-	-	-	33,867	-		59,209
-	3,100	-	83	746	-	-		3,929
-	-	-	-	533	-	-		533
-	-	5,000	4,269	3,005	-	-		12,274
-	3,100	5,000	4,352	4,284	92,569	-		210,816
-	-	-	11,676	-	-	-		11,676
-	-	-	-	-	-	-		25,248
-	-	-	-	1,068	-	-		2,810
-	20,579	-	-	-	-	-		20,579
-	-	-	-	-	113,712	-		113,712
-	20,579	-	11,676	1,068	113,712	-		174,025
-	(17,479)	5,000	(7,324)	3,216	(21,143)	-		36,791
-	15,000	-	-	-	40,383	-		55,383
-	-	-	-	-	-	-		(76,427)
-	15,000	-	-	-	40,383	-		(21,044)
-	(2,479)	5,000	(7,324)	3,216	19,240	-		15,747
1,290	6,479	-	16,880	26,009	2,085	7,239		76,794
1,290	4,000	5,000	9,556	29,225	21,325	7,239		92,541
-	-	-	-	-	21,325	-		21,325
1,290	4,000	5,000	9,556	29,225	-	-		63,977
-	-	-	-	-	-	7,239		7,239
1,290	4,000	5,000	9,556	29,225	21,325	7,239		92,541

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

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation notes:			
Places (TIF)	Feb 20, 1995	6.80%	\$ 95,000
Industrial site	Oct 2, 1995	5.00	119,395
MG machining (TIF)	Mar 3, 1997	5.50	90,000
Street improvement	Sep 1, 2000	5.10-5.65	215,000
Fire station/city hall/street	Jul 1, 2002	3.30-4.60	285,000
Total			
Revenue notes:			
Sewer	Feb 1, 2001	4.70-5.65%	\$ 775,000
Loan:			
Southern Iowa Rural Water Association	May 1, 1992	5.75%	\$ 225,112

See accompanying independent auditor's report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
31,296	-	9,743	21,553	1,965
79,565	-	5,604	73,961	3,978
27,000	-	9,000	18,000	1,477
140,000	-	20,000	120,000	7,745
195,000	-	45,000	150,000	8,400
\$ 472,861	-	89,347	383,514	23,565
625,000	-	45,000	580,000	33,498
114,245	-	10,332	103,913	6,300

City of Bedford

Note Maturities

June 30, 2006

Year Ending June 30,	General Obligation Notes					
	Places(TIF)		Industrial site		MG Matching (TIF)	
	Issued Feb 20, 1995		Issued Oct 2, 1995		Issued Mar 3, 1997	
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount
2007	6.80%	\$ 10,416	5.00%	\$ 5,884	5.50%	\$ 9,000
2008	6.80	11,137	5.00	6,178	5.50	9,000
2009		-	5.00	6,487		-
2010		-	5.00	6,811		-
2011		-	5.00	7,153		-
2012		-	5.00	7,510		-
2013		-	5.00	7,885		-
2014		-	5.00	8,279		-
2015		-	5.00	8,693		-
2016		-	5.00	9,081		-
Total		<u>\$ 21,553</u>		<u>\$ 73,961</u>		<u>\$ 18,000</u>

See accompanying independent auditor's report.

Street Improvement Issued Sep 1, 2000		Fire Station/ City Hall/Street Issued Jul 1, 2002		Total	Revenue Notes Sewer Issued Feb 1, 2001	
Interest		Interest			Interest	
Rates	Amount	Rates	Amount		Rates	Amount
5.45%	\$ 20,000	4.20%	\$ 50,000	95,300	5.10%	\$ 45,000
5.50	25,000	4.40	50,000	101,315	5.15	50,000
5.55	25,000	4.60	50,000	81,487	5.20	50,000
5.60	25,000		-	31,811	5.25	55,000
5.65	25,000		-	32,153	5.35	55,000
	-		-	7,510	5.40	60,000
	-		-	7,885	5.45	60,000
	-		-	8,279	5.50	65,000
	-		-	8,693	5.55	70,000
	-		-	9,081	5.65	70,000
	<u>\$ 120,000</u>		<u>\$ 150,000</u>	<u>383,514</u>		<u>\$ 580,000</u>

City of Bedford



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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

To the Honorable Mayor and
Members of the City Council:

We have audited 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 Bedford, 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 18, 2006. Our report on the financial statements, which were prepared in conformity with an other comprehensive basis of accounting, expressed qualified opinions since we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2005.

Except as noted in the Independent Auditor's Report, 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 Bedford'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 Bedford'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 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 items (B) and (C) are material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Bedford's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in 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 Bedford and other parties to whom the City of Bedford 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 Bedford during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

September 18, 2006

City of Bedford

Schedule of Findings

Year ended June 30, 2006

Findings Related to the Financial Statements:

REPORTABLE CONDITIONS:

- (A) 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. One individual has control over receipt and deposit records for the ambulance account within the General Fund. In addition, prenumbered receipts were not issued for money collected.

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

Response – We will contact the Ambulance Board and review operating procedures.

Conclusion – Response accepted.

- (B) Ambulance Collections and Delinquencies – Ambulance collections recorded by the Ambulance Director are not reconciled to the amounts reported by the accountant. Billings are not reconciled to collections and old uncollectible accounts should be written off.

Recommendation – A listing of delinquent accounts should be prepared on a monthly basis. Procedures should be established to reconcile billings, collections and delinquencies for each billing period and to reconcile collections to deposits. The Council or a Council-designated independent person should review the reconciliations and monitor delinquencies and write-offs.

Response – We will contact the Ambulance Board and the accountant in order to reconcile collections and establish a more accurate reconciliation of billings to collections and delinquent accounts. The Ambulance Board will approve write-offs of old uncollectible accounts.

Conclusion – Response accepted.

- (C) Reconciliation of Utility Billings and Collections – Utility billings and collections were not reconciled throughout the year.

Recommendation – Procedures should be established to reconcile utility billings, collections and delinquencies for each billing period and to reconcile collections to deposits. The Council or a Council-designated independent person should review the reconciliations and monitor delinquencies.

Response – We will make sure that the reconciliation is done for each billing period and will designate an independent person to review the reconciliation each month.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

City of Bedford

Schedule of Findings

Year ended June 30, 2006

Findings Related to Required Statutory Reporting:

- (1) Certified Budget – Disbursements during the year ended June 30, 2006 exceeded the amount budgeted in the debt service function. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

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

Response – We will amend the budget in the future if needed.

Conclusion – Response accepted.

- (2) Questionable Disbursements – No disbursements we believe may not meet the requirements of public purpose as defined by an Attorney General’s opinion dated April 25, 1979 were noted.
- (3) Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- (4) Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Randy Simmons, Council Member, Simmons Insurance	Health/Life Insurance	\$ 13,272

In accordance with Chapter 362.5(10) of the Code of Iowa, the transactions with the Council Member do not appear to represent a conflict of interest since they were entered into through competitive bidding.

- (5) 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 the coverage is adequate for current operations.
- (6) Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.
- (7) Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City’s investment policy were noted.

City of Bedford

Schedule of Findings

Year ended June 30, 2006

- (8) Sewer Revenue Notes – During the year ended June 30, 2001, the City issued sewer revenue notes. The note resolution requires the City to establish separate Sinking, Reserve and Improvement Funds. The City has established a Sinking Fund which includes the Reserve Fund and an Improvement Fund named Sewer Reserve.

In addition, the sewer note resolution requires “the books and accounts to be audited annually and reported upon not later than 180 days after the end of each fiscal year.” The City has not obtained an annual audit since issuance of the notes.

Recommendation - The City should establish a separate Reserve Fund, totaling \$77,500, apart from the Sinking Fund and rename the existing Sewer Reserve as Sewer Improvement Fund. In addition, the City should comply with the annual audit requirement.

Response – We will establish a separate fund for the \$77,500 Reserve Fund and will change the name of the existing Reserve Fund to the Improvement Fund. The annual audit provisions were addressed after the last audit and it was determined that the annual audit requirements would not be waived.

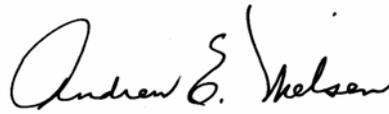
Conclusion – Response acknowledged. Since the annual audit requirement was not waived, the City should comply with this requirement.

City of Bedford

Staff

This audit was performed by:

Joe Marturello, CIA, Manager
Paul F. Kearney, CGFM, Senior Auditor
Melissa M. Wellhausen, CPA, Staff Auditor
Paula J. White, Assistant Auditor

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

Andrew E. Nielsen, CPA
Deputy Auditor of State