

CITY OF OSCEOLA

**INDEPENDENT AUDITORS' REPORTS
BASIC FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION**

SCHEDULE OF FINDINGS

June 30, 2007

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CITY OF OSCEOLA

OFFICIALS

ELECTED OFFICIALS

Fred Diehl	Mayor	December 2007
Glenn Schaff	Council Member & Mayor Pro Tem	December 2009
Peggy Mateer	Council Member	December 2009
Bill Ogbourne	Council Member	December 2007
George Fotiadis	Council Member	December 2007
Dr. James Kimball	Council Member	December 2007

APPOINTED OFFICIALS

Ralph Lesko	City Administrator	Indefinite
Nancy Carmichael	Treasurer/Clerk	Indefinite
Richard Murphy	Attorney	Indefinite
Judy Coe	Librarian	Indefinite

Officials - Osceola Municipal Waterworks

Robert Horton	Chairperson/Trustee	December 2010
Bill Freeman	Trustee	December 2009
Fred Wood	Trustee	December 2009
Brian Crawford	Trustee	December 2011
Larry Kjellsen	Trustee	December 2011

INDEPENDENT AUDITORS' 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 Osceola, Iowa, as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Osceola's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards of the United States of America 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 that our audit provides a reasonable basis for our opinion.

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 generally accepted accounting principles of the United States of America.

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, each major fund and the aggregate remaining fund information of the City of Osceola as of June 30, 2007, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated February 20, 2008, on our consideration of the City of Osceola'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 5 through 11 and 35 through 37 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. We did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the City of Osceola'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 two years ended June 30, 2006 (which are not presented herein) and expresses unqualified opinions on those financial statements which were prepared in conformity with an other comprehensive basis of accounting. Other auditors previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the year ended June 30, 2004 (which are not presented herein) and expressed an unqualified opinion on those financial statements. Other supplementary information included in Schedules 1 through 4, 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.

February 20, 2008

CITY OF OSCEOLA

MANAGEMENT'S DISCUSSION AND ANALYSIS

City of Osceola, Iowa 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, 2007. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2007 FINANCIAL HIGHLIGHTS

Revenues of the City's governmental activities decreased 48%, or approximately \$5,727,000 from fiscal 2006 to fiscal 2007. Investments earnings, property tax, and local option sales tax increased approximately \$119,000, 165,000, 191,000, respectively. Capital grants and bond proceeds decreased approximately \$502,000 and 5,800,000, respectively.

Disbursements decreased 34%, or approximately \$3,429,000, in fiscal 2007 from fiscal 2006. Public works, debt service, and capital projects disbursements decreased approximately \$201,000, 1,156,000 and 2,523,000, respectively. Culture and recreation, community and economic development, and general government disbursements increased approximately \$103,000, 146,000 and 174,000, respectively.

The City's total cash basis net assets decreased 5%, or approximately \$244,000, from June 30, 2006 to June 30, 2007. Of this amount, the assets of the governmental activities increased approximately \$110,000 and the business type activities decreased by approximately \$354,000. The assets of the Water municipal utility component unit decreased approximately \$389,000.

USING THIS ANNUAL REPORT

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

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

The Government-wide Financial Statement consists of a 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.

CITY OF OSCEOLA

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

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 have 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 waterworks, the sanitary sewer system, solid waste disposal and the storm water drainage system. These activities are financed primarily by user charges.

CITY OF OSCEOLA

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

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, 3) the Debt Service Fund, 4) the Capital Projects Fund and 5) 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 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 one Enterprise Fund to provide separate information for the sewer fund.

The required financial statements for proprietary funds include 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, decreasing from \$6,287,811 to \$5,823,060. The analysis that follows focuses on the changes in cash balances for governmental activities.

CITY OF OSCEOLA

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Changes in Cash Basis Net Assets of Governmental Activities		
	Year ended June 30,	
	2007	2006
Receipts and transfers		
Program receipts		
Charges for service	\$ 541,876	463,227
Operating grants, contributions and restricted interest	727,329	523,746
Capital grants, contributions and restricted interest	395,099	1,193,427
General receipts		
Property tax	2,361,279	2,196,588
Local option sales tax	470,217	278,868
Hotel/motel tax	239,604	234,934
Utility tax replacement excise tax	43,352	38,818
Bank franchise tax	-	-
Unrestricted interest on investments	340,181	221,228
Bond proceeds	-	5,775,970
Gaming receipts	1,042,138	976,354
Other general receipts	52,939	38,681
Transfers, net	46,905	46,385
Total receipts and transfers	<u>6,260,919</u>	<u>11,988,226</u>
Disbursements		
Public safety	778,792	748,843
Public works	1,327,025	1,528,242
Culture and recreation	829,558	726,759
Community and economic development	310,974	165,339
General government	919,082	745,378
Debt service	931,079	2,087,209
Capital projects	1,629,160	4,152,489
Total disbursements	<u>6,725,670</u>	<u>10,154,259</u>
Increase in cash basis net assets	(464,751)	1,833,967
Cash basis net assets beginning of year	<u>6,287,811</u>	<u>4,453,844</u>
Cash basis net assets end of year	<u>\$ 5,823,060</u>	<u>6,287,811</u>

The City's total receipts for governmental activities decreased by 48%, or \$5,727,307. The total cost of all programs and services decreased by \$3,428,589, or 34%, with no new programs added this year. The significant decrease in receipts was primarily the result of the \$5,775,970 of bond proceeds received in fiscal year 2006.

CITY OF OSCEOLA

MANAGEMENT’S DISCUSSION AND ANALYSIS (Continued)

The cost of all governmental activities this year was \$6,725,670 compared to \$10,154,259 last year. However, as shown in the Statement of Activities and Net Assets on pages 13-16, the amount taxpayers ultimately financed for these activities was only \$5,061,366 because some of the cost was paid by those directly benefited from the programs (\$541,876), or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest (\$1,122,428). The City paid for the remaining “public benefit” portion of governmental activities with approximately \$7,061,000 in tax (some of which could only be used for certain programs) and with other receipts, such as interest and general entitlements.

Changes in Cash Basis Net Assets of Business Type Activities

	Year ended June 30,	
	2007	2006
Receipts and transfers		
Program receipts		
Charges for service		
Sewer	\$ 1,011,168	1,045,136
Operating grants, contributions and restricted interest	-	-
Capital grants, contributions and restricted interest	11,769	154,454
General receipts		
Unrestricted interest on investment	3,254	-
Bond proceeds	-	1,491
Other general receipts	18,869	-
Total receipts	<u>1,045,060</u>	<u>1,201,081</u>
Disbursements		
Sewer	934,532	1,155,324
Transfers	<u>-</u>	<u>-</u>
Total disbursements and transfers	<u>934,532</u>	<u>1,155,324</u>
Increase in cash balance	110,528	45,757
Cash basis net assets beginning of year	<u>862,997</u>	<u>817,240</u>
Cash basis net assets end of year	<u>\$ 973,525</u>	<u>862,997</u>

CITY OF OSCEOLA

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Total business type activities receipts for the fiscal year were \$1,045,060 compared to \$1,201,081 last year. This decrease was due primarily to the receipt of \$154,454 in grants in the prior year. The cash balance increased by \$110,528 from the prior year because of the approved water and sewer construction projects that were completed in the prior year.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Osceola, Iowa completed the year, its governmental funds reported a combined fund balance of \$5,823,060, an decrease of more than \$464,000 above last year's total of \$6,287,811. 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 \$522,958 from the prior year to \$3,913,316.

The Casino Special Projects special revenue fund cash balance increased by \$136,187 from \$3,290,715 during the fiscal year. The City intends to use this money for the mutual benefit of the citizens of Clarke County.

The Debt Service Fund cash balance was \$0, an increase of \$193,025 from the previous year.

The Capital Paving Project capital projects fund decreased \$1,419,919.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

The Sewer Fund cash balance increased by \$110,528 to \$973,525, from the prior year.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget one time. The amendment was approved on May 15, 2007 and resulted in a net decrease of \$445,743 in revenues.

Even with the budget amendments, total disbursement were \$1,407,061 more than the amended budget. During the year ended June 30, 2007, disbursements exceeded the amounts budgeted in the public works, culture and recreation, community and economic development, general government, capital projects and business type activities functions.

CITY OF OSCEOLA

MANAGEMENT’S DISCUSSION AND ANALYSIS (Continued)

DEBT ADMINISTRATION

At June 30, 2007, the City had \$9,606,111 in bonds and other long-term debt, compared to \$10,505,731 last year, as show below.

	Outstanding Debt at Year-End	
	June 30,	
	2007	2006
General obligation bonds	\$ 5,760,000	6,295,000
General obligation notes	529,708	632,966
Urban Renewal Tax Increment Financing Revenue bonds	-	16,264
Revenue bonds	3,306,000	3,541,000
Other Long-term Debt	10,403	20,501
Total	<u>\$ 9,606,111</u>	<u>10,505,731</u>

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City’s corporate limits. The City’s outstanding general obligation debt of \$6,289,000 is significantly below its constitutional debt limit of \$10 million.

More detailed information about the City’s long-term debt is presented in Note 3 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR’S BUDGETS AND RATES

City of Osceola, Iowa’s elected and appointed officials and citizens considered many factors when setting the fiscal year 2008 budget, tax rates, and fees that will be charged for various City activities. One of those factors is the economy. The City’s total assessed valuations have increased slightly. However, funding from the State has decreased due to budget constraints.

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 Ralph Lesko, City Administrator, 115 North Fillmore Street, Osceola, Iowa.

BASIC FINANCIAL STATEMENTS

CITY OF OSCEOLA

Statement of Activities and Net Assets – Cash Basis
As of and for the year ended June 30, 2007

	<u>Disbursements</u>	<u>Program</u> Charges for Service
Functions / Programs		
Governmental activities		
Public safety	\$ 778,792	-
Public works	1,327,025	281,361
Culture and recreation	829,558	248,718
Community and economic development	310,974	-
General government	919,082	11,797
Debt service	931,079	-
Capital projects	1,629,160	-
Total governmental activities	<u>6,725,670</u>	<u>541,876</u>
Business type activities		
Sewer	<u>934,532</u>	<u>1,011,168</u>
Component Unit		
Water	<u>3,459,311</u>	<u>1,348,793</u>
Total	<u>\$ 11,119,513</u>	<u>2,901,837</u>
General Receipts		
Property tax levied for		
General purposes		
Tax increment financing		
Employee benefits		
Debt service		
Local option sales tax		
Hotel/motel tax		
Utility tax replacement excise tax		
Bank franchise tax		
Unrestricted interest on investments		
Bond proceeds		
Gaming receipts		
Miscellaneous		
Sale of assets		
Transfers		

Receipts		Net (Disbursements) Receipts and Changes in Cash Basis Net Assets			
Operating Grants, Contributions, and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	Total	Major Discretely Presented Component Unit
42,320	-	(736,472)	-	(736,472)	-
388,304	47,586	(609,774)	-	(609,774)	-
296,705	-	(284,135)	-	(284,135)	-
-	153,000	(157,974)	-	(157,974)	-
-	-	(907,285)	-	(907,285)	-
-	-	(931,079)	-	(931,079)	-
-	194,513	(1,434,647)	-	(1,434,647)	-
<u>727,329</u>	<u>395,099</u>	<u>(5,061,366)</u>	<u>-</u>	<u>(5,061,366)</u>	<u>-</u>
-	11,769	-	88,405	88,405	-
<u>161,088</u>	<u>231,084</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,718,346)</u>
<u>888,417</u>	<u>626,183</u>	<u>(5,061,366)</u>	<u>88,405</u>	<u>(4,972,961)</u>	<u>(1,718,346)</u>
		1,016,146	-	1,016,146	-
		678,536	-	678,536	-
		396,973	-	396,973	-
		269,624	-	269,624	-
		470,217	-	470,217	-
		239,604	-	239,604	-
		43,352	-	43,352	-
		-	-	-	-
		340,181	3,254	343,435	44,856
		-	-	-	1,296,399
		1,042,138	-	1,042,138	-
		43,994	18,869	62,863	24,716
		8,945	-	8,945	10,000
		46,905	-	46,905	(46,905)
		<u>4,596,615</u>	<u>22,123</u>	<u>4,618,738</u>	<u>1,329,066</u>

CITY OF OSCEOLA

Statement of Activities and Net Assets – Cash Basis
As of and for the year ended June 30, 2007

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

Reservoir construction

For use by the Osceola Public Library

Other purposes

Unrestricted

Total cash basis net assets

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets			
Governmental Activities	Business Type Activities	Total	Major Discretely Presented Component Unit
(464,751)	110,528	(354,223)	(389,280)
<u>6,287,811</u>	<u>862,997</u>	<u>7,150,808</u>	<u>1,090,632</u>
<u>\$ 5,823,060</u>	<u>973,525</u>	<u>6,796,585</u>	<u>701,352</u>
14,457	-	14,457	-
413,530	-	413,530	-
-	251,818	251,818	105,498
3,426,902		3,426,902	
1,182,533		1,182,533	
264,645	-	264,645	-
<u>520,993</u>	<u>721,707</u>	<u>1,242,700</u>	<u>595,854</u>
<u>\$ 5,823,060</u>	<u>973,525</u>	<u>6,796,585</u>	<u>701,352</u>

CITY OF OSCEOLA

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

	General	<u>Special Revenue</u> Casino Special Projects	Debt Service
Receipts			
Property tax	\$ 1,016,146	-	269,624
Tax increment financing collections	-	-	-
Other city tax	266,304	-	6,191
Licenses and permits	11,677	-	-
Use of money and property	1,246,132	136,187	-
Intergovernmental	89,906	-	-
Charges for service	530,078	-	-
Miscellaneous	338,805	-	-
Total receipts	<u>3,499,048</u>	<u>136,187</u>	<u>275,815</u>
Disbursements			
Operating			
Public safety	653,174	-	-
Public works	544,323	-	-
Culture and recreation	756,251	-	-
Community and economic development	-	-	-
General government	360,726	-	-
Debt service	-	-	894,445
Capital projects	-	-	-
Total disbursements	<u>2,314,474</u>	<u>-</u>	<u>894,445</u>
Excess of receipts over disbursements	<u>1,184,574</u>	<u>136,187</u>	<u>(618,630)</u>
Other financing sources (uses)			
Sale of assets	-	-	-
Operating transfers in (out)	(661,616)	-	811,655
Total other financing sources (uses)	<u>(661,616)</u>	<u>-</u>	<u>811,655</u>

<u>Capital Project</u> Capital Paving Project	<u>Other Nonmajor Governmental Funds</u>	<u>Total</u>
-	396,973	1,682,743
-	678,536	678,536
-	480,679	753,174
-	-	11,677
-	-	1,382,319
-	735,817	825,723
-	-	530,078
-	2,014	340,819
<u>-</u>	<u>2,294,019</u>	<u>6,205,069</u>
-	125,618	778,792
-	782,702	1,327,025
-	73,307	829,558
-	310,974	310,974
-	558,356	919,082
-	36,634	931,079
<u>1,419,919</u>	<u>209,241</u>	<u>1,629,160</u>
<u>1,419,919</u>	<u>2,096,832</u>	<u>6,725,670</u>
<u>(1,419,919)</u>	<u>197,187</u>	<u>(520,601)</u>
-	8,945	8,945
-	(103,134)	46,905
<u>-</u>	<u>(94,189)</u>	<u>55,850</u>

CITY OF OSCEOLA

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

	<u>General</u>	<u>Special Revenue Casino Special Projects</u>	<u>Debt Service</u>
Net change in cash balances	522,958	136,187	193,025
Cash balances beginning of year	<u>3,390,358</u>	<u>3,290,715</u>	<u>(193,025)</u>
Cash balances end of year	<u>\$ 3,913,316</u>	<u>3,426,902</u>	<u>-</u>
 Cash Basis Fund Balances			
Unreserved			
General fund	\$ 3,913,316	-	-
Special revenue funds	-	3,426,902	-
Capital project funds	-	-	-
Permanent fund	<u>-</u>	<u>-</u>	<u>-</u>
 Total cash basis fund balances	 <u>\$ 3,913,316</u>	 <u>3,426,902</u>	 <u>-</u>

See notes to financial statements.

<u>Capital Project</u> Capital Paving Project	<u>Other Nonmajor Governmental Funds</u>	<u>Total</u>
(1,419,919)	102,998	(464,751)
<u>(375,608)</u>	<u>175,371</u>	<u>6,287,811</u>
<u><u>(1,795,527)</u></u>	<u><u>278,369</u></u>	<u><u>5,823,060</u></u>
-	-	3,913,316
-	614,972	4,041,874
(1,795,527)	(414,263)	(2,209,790)
<u>-</u>	<u>77,660</u>	<u>77,660</u>
<u><u>(1,795,527)</u></u>	<u><u>278,369</u></u>	<u><u>5,823,060</u></u>

CITY OF OSCEOLA

Exhibit C

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

	<u>Enterprise</u> <u>Sewer</u>
Operating receipts	
Use of money and property	\$ 3,254
Intergovernmental	11,769
Charges for service	1,011,168
Special assessments	9,147
Miscellaneous	<u>9,722</u>
Total operating receipts	<u>1,045,060</u>
 Operating disbursements	
Business type activities	<u>586,803</u>
 Excess of operating receipts over operating disbursements	<u>458,257</u>
 Non-operating receipts (disbursements)	
Debt service	<u>(347,729)</u>
 Net change in cash balances	110,528
 Cash balances beginning of year	<u>862,997</u>
 Cash balances end of year	<u><u>\$ 973,525</u></u>
 Cash Basis Fund Balances	
Reserved for debt service	\$ 251,818
Unreserved	<u>721,707</u>
Total cash basis fund balances	<u><u>\$ 973,525</u></u>

See notes to financial statements.

CITY OF OSCEOLA

Notes to Financial Statements June 30, 2007

1. Summary of Significant Accounting Policies

The City of Osceola is a political subdivision of the State of Iowa located in Clarke County. It was first incorporated in 1866 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 administrative services. The City also provides water and sewer utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, City of Osceola 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 Osceola (the primary government) and its component unit. The component unit discussed below is included in the City's reporting entity because of the significance of its operational or financial relationship with the City.

Discretely Presented Component Unit

The Osceola Municipal Waterworks is presented in a separate column to emphasize that it is legally separate from the City, but is financially accountable to the City, or whose relationship with the City is such that exclusion would cause the City's financial statements to be misleading or incomplete. The Waterworks is governed by a five member board appointed by the Osceola City Council and the Waterworks' operating budget is subject to the approval of the City Council.

CITY OF OSCEOLA

Notes to Financial Statements - Continued
June 30, 2007

1. Summary of Significant Accounting Policies (Continued)

A. Reporting Entity (Continued)

Jointly Governed Organizations

The City also 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: Emergency Management Commission, Clarke County Development Corporation, the Main Street Board and the Southwest Iowa Coalition Board.

City officials are also members of the Clarke County Sanitary Landfill Commission (see Note 9) and the Clarke County Reservoir Commission (see Note 15).

B. Basis of Presentation

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

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

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

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

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

CITY OF OSCEOLA

Notes to Financial Statements - Continued
June 30, 2007

1. Summary of Significant Accounting Policies (Continued)

B. Basis of Presentation (Continued)

Fund Financial Statements – Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise fund 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.

The Casino Special Projects Special Revenue Fund is used to account for contributions and development activities for a new reservoir and regional recreational facility.

The Debt Service Fund is utilized to account for the payment of interest and principal on the City's general long-term debt.

Capital Projects:

The Capital Paving Project Fund was established to account for the costs of major paving projects.

The City reports the following major proprietary fund:

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

CITY OF OSCEOLA

Notes to Financial Statements - Continued June 30, 2007

1. Summary of Significant Accounting Policies (Continued)

C. Measurement Focus and Basis of Accounting

The City of Osceola 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.

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

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2007, disbursements exceeded the amounts budgeted in the public works, culture and recreation, community and economic development, general government, capital projects and business type activities functions.

2. Cash and Pooled Investments

The City's deposits in banks at June 30, 2007 were entirely covered by federal depository insurance, or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

CITY OF OSCEOLA

Notes to Financial Statements - Continued
June 30, 2007

2. Cash and Pooled Investments (Continued)

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

Credit risk – The City had no investments at June 30, 2007.

3. Bonds Payable

Annual debt service requirements to maturity for general obligation bonds, urban renewal tax increment financing revenue bonds, general obligation notes, revenue bonds and other long-term debt are as follows:

Year Ending June 30,	General Obligation Bonds		General Obligation Notes		Revenue Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest
2008	\$ 560,000	217,767	\$ 88,865	20,663	244,000	99,240
2009	485,000	195,535	90,843	17,418	253,000	91,920
2010	355,000	177,160	55,000	13,963	263,000	84,330
2011	370,000	164,291	55,000	12,037	272,000	76,440
2012	380,000	150,879	55,000	9,975	282,000	68,280
2013	395,000	137,103	60,000	7,775	293,000	59,820
2014	410,000	122,785	60,000	5,315	304,000	51,030
2015	425,000	107,923	65,000	2,795	138,000	41,910
2016	435,000	91,985	-	-	142,000	37,770
2017	460,000	75,673	-	-	146,000	33,510
2018	475,000	58,192	-	-	150,000	29,130
2019	495,000	39,905	-	-	155,000	24,630
2020	515,000	20,600	-	-	159,000	19,980
2021	-	-	-	-	164,000	15,210
2022	-	-	-	-	169,000	10,290
2023	-	-	-	-	172,000	5,220
Total	<u>\$ 5,760,000</u>	<u>1,559,798</u>	<u>529,708</u>	<u>89,941</u>	<u>3,306,000</u>	<u>748,710</u>

CITY OF OSCEOLA

Notes to Financial Statements - Continued
June 30, 2007

3. Bonds Payable (Continued)

Year Ending June 30,	Other Long-term Debt		Primary Government Total	
	Principal	Interest	Principal	Interest
2008	10,403	311	903,268	337,981
2009	-	-	828,843	304,873
2010	-	-	673,000	275,453
2011	-	-	697,000	252,768
2012	-	-	717,000	229,134
2013	-	-	748,000	204,698
2014	-	-	774,000	179,130
2015	-	-	628,000	152,628
2016	-	-	577,000	129,755
2017	-	-	606,000	109,183
2018	-	-	625,000	87,322
2019	-	-	650,000	64,535
2020	-	-	674,000	40,580
2021	-	-	164,000	15,210
2022	-	-	169,000	10,290
2023	-	-	172,000	5,220
Total	<u>10,403</u>	<u>311</u>	<u>9,606,111</u>	<u>2,398,760</u>

CITY OF OSCEOLA

Notes to Financial Statements - Continued
June 30, 2007

3. Bonds Payable (Continued)

Component Unit – Annual debt service requirements to maturity for the water revenue bond and note are as follows:

Year Ending June 30,	Component Unit Revenue Bond and Note	
	Principal	Interest
2008	200,000	110,190
2009	205,000	103,650
2010	211,000	96,960
2011	216,000	90,090
2012	222,000	83,070
2013	197,000	75,870
2014	203,000	69,960
2015	210,000	63,870
2016	216,000	57,570
2017	222,000	51,090
2018	229,000	44,430
2019	236,000	37,560
2020	243,000	30,480
2021	250,000	23,190
2022	258,000	15,690
2023	<u>265,000</u>	<u>7,950</u>
Total	<u>3,583,000</u>	<u>961,620</u>

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

- (a) The bonds will only be redeemed from the future earnings of the enterprise activity and the bond holders hold a lien on the future earnings of the funds.
- (b) Sufficient monthly transfers shall be made to separate water sinking accounts for the purpose of making the bond principal and interest payments when due.
- (c) Additional monthly transfers shall be made to a water revenue bond reserve account, after first making the required payments to the sewer sinking account, until a specific minimum balance has been accumulated. The reserve account shall be used solely for the purpose of paying the principal and interest on the water revenue bonds outstanding, whenever the funds in the sinking account are insufficient to pay such principal and interest when due.

CITY OF OSCEOLA

Notes to Financial Statements - Continued June 30, 2007

3. Bonds Payable (Continued)

The resolution providing for the issuance of sewer revenue bonds do not require a separate sewer sinking or reserve fund, but the City elected to continue them.

The City was awarded a Revitalize Iowa's Sound Economy (R.I.S.E.) Grant/Loan on November 1, 1996 in the amount of \$309,000. The money was used for paving and traffic signals at a new intersection. The loan was approximately 24% of the total or \$75,205. It is payable in annual installments of \$10,713, including interest at 3% per annum, from January 2001 through 2008.

In May 2002 the Osceola Municipal Waterworks entered into a loan and disbursement agreement to borrow \$4,066,000 under the Iowa Drinking Water Facilities Financing Program. At June 30, 2007, \$3,433,000 is the outstanding balance under the agreement. Amounts borrowed are converted to a water revenue bond when the loan is closed and are payable solely from the future net revenues of the Waterworks.

In October 2003 the City entered into a loan and disbursement agreement to borrow \$2,670,000 under the Clean Water State Revolving Fund for wastewater treatment improvements. Amounts are advanced on the loan as construction costs incurred are submitted for reimbursement. As of June 30, 2007, \$2,253,000 is the outstanding balance under the loan agreement. Amounts borrowed are converted to a sewer revenue bond when the loan is closed and are payable solely from the future net revenues of the sewer utility.

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

In August 2005 the City issued general obligation corporate purpose and refunding bonds in the amount of \$5,800,000. The proceeds of the bonds were used for constructing street, water, sanitary sewer and storm water improvements, and refunding 2001 general obligation notes.

CITY OF OSCEOLA

Notes to Financial Statements - Continued
June 30, 2007

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 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 years ended June 30, 2007, 2006 and 2005 were \$95,818, \$92,858, and \$83,307 respectively, equal to the required contributions for each year.

5. Compensated Absences

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

Vacation	\$	50,641
Compensatory and personal time		275,595
Sick leave		22,184
	\$	<u>348,420</u>

6. Risk Management

The City of Osceola 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.

CITY OF OSCEOLA

Notes to Financial Statements - Continued
June 30, 2007

7. Interfund Transfers

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

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Debt Service	General	661,616
	Special Revenue:	
	Urban Renewal Tax Increment	34,542
	Midwest Home Construction	68,592
	Component Unit:	
	Water	46,905
		<u>\$ 811,655</u>

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

8. Budget Overexpenditure

Per the Code of Iowa, disbursements may not legally exceed budgeted appropriations at the functional level. During the year ended June 30, 2007, disbursements in the public works, culture and recreation, community and economic development, general government, capital projects and business type activities functions exceeded the amount budgeted.

9. Clarke County Sanitary Landfill Commission

The City, in conjunction with three other municipalities, has created the Clarke County Sanitary Landfill Commission. The Commission was established for the primary purpose of providing for the collection and disposal of solid waste produced or generated by each participant. The Commission is governed by a board composed of an appointed representative of the governing body of each participating governmental jurisdiction.

The Commission may not be accumulating sufficient financial resources and the municipalities may be obligated for a proportionate share of the debt, closure and post closure costs, therefore, the City has an ongoing financial obligation.

CITY OF OSCEOLA

Notes to Financial Statements - Continued June 30, 2007

10. Lease

The City and the Municipal Waterworks have entered into a renewable lease agreement with Southern Iowa Gaming Co. for the lease of certain real estate surrounding West Lake and the use of the lake in the operation of an excursion gambling boat. In September of 2004 the City and the Municipal Waterworks agreed to assign the lease agreement to Herbst Gaming Inc., as new operator of the casino.

In consideration for the assignment mentioned above Herbst Gaming Inc. paid an initial payment of \$3,200,000 and has agreed to pay 1% of the annual adjusted gross receipts of from the casino, commencing as of the eighth anniversary of the initial payment, to an escrow fund. The intended use of the escrow fund is primarily the establishment of a municipal and recreational reservoir in Clarke County, Iowa.

The Gaming Co. must pay to the Municipal Waterworks \$150,000 per year in equal monthly installments, which will increase each year by 1% until termination of the lease. The 1% increase each year can be offset by credits up to .5% based on the cost of improvements to the site, exclusive of items related to gaming improvements. In addition, 1.25% of the adjusted gross gambling receipts will be remitted to the City on a monthly basis. The amounts received under this agreement during the year ended June 30, 2007 were \$1,042,138 for the 1.25% of adjusted gross gambling receipts and \$161,088 for the real estate rent.

The City also leases hangers at the airport for a fee ranging from \$45 - \$100 per month per leased hangar. During the year ended June 30, 2007, the City received \$10,624 in hangar rent.

11. Workers' Compensation

The City is a member of the Iowa Municipalities Workers' Compensation Association (IMWCA) which provides workers' compensation coverage to its members. The Association is governed by a board of directors elected by representatives of the governing bodies of each participating governmental jurisdiction. The City has executed a Worker's Compensation coverage Agreement with the Association which extends through June 30, 2007 and has authorized the Association to issue general obligation bonds to provide funds with which to pay claims. During the year ended June 30, 2007, the City paid workers' compensation insurance premiums of \$55,891 to the Association.

CITY OF OSCEOLA

Notes to Financial Statements – Continued

June 30, 2007

12. Clarke County Reservoir Commission

The City and the Osceola Waterworks Board, along with four other entities, have created the Clarke County Reservoir Commission. The Commission was established for the primary purpose of designing, locating, and planning for a new reservoir and regional recreational facility in Clarke County. The governing body of the Commission shall consist of a representative of the governing body of each participating sponsor, or designated substitute, which substitute shall be approved by the body represented, and one person jointly selected by the representatives of the governing bodies.

13. Deficit Fund Balances

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

Special Revenue:	
Local Option Sales Tax	\$ 1,855
Capital Projects Funds:	
2004 Housing Rehabilitation	53,303
Blacktop and Paving	200,028
Capital Paving Project	1,795,527
Recreation Complex	234,403
College Avenue Improvements	1,213

The deficits will be eliminated upon receipt of funds or transfers in the next fiscal year.

14. Construction and Other Commitments

The City has entered into engineering and construction contracts totaling \$878,103 for street improvements and other projects. At June 30, 2007, \$274,467 of the contracts were completed. The remaining amount of the contracts will be paid as work on the projects progress.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF OSCEOLA

Budgetary Comparison Schedule of Receipts, Disbursements
and Changes in Balances – Budget and Actual (Cash Basis) -
All Governmental Funds and Proprietary Funds
Required Supplementary Information
Year ended June 30, 2007

	Governmental Funds Actual	Proprietary Funds Actual
	<u>Actual</u>	<u>Actual</u>
Receipts		
Property tax	\$ 1,682,743	-
Tax increment financing collections	678,536	-
Other city tax	753,174	-
Licenses and permits	11,677	-
Use of money and property	1,382,319	3,254
Intergovernmental	825,723	11,769
Charges for service	530,078	1,011,168
Special assessments	-	9,147
Miscellaneous	340,819	9,722
Total receipts	<u>6,205,069</u>	<u>1,045,060</u>
Disbursements		
Public safety	778,792	-
Public works	1,327,025	-
Health and Social Services	-	-
Culture and recreation	829,558	-
Community and economic development	310,974	-
General government	919,082	-
Debt service	931,079	-
Capital projects	1,629,160	-
Business type activities	-	934,532
Total disbursements	<u>6,725,670</u>	<u>934,532</u>
Excess of receipts over disbursements	(520,601)	110,528
Other financing sources, net	<u>55,850</u>	<u>-</u>
Excess of receipts and other financing sources over disbursements and other financing uses	(464,751)	110,528
Balances beginning of year	<u>6,287,811</u>	<u>862,997</u>
Balances end of year	<u>\$ 5,823,060</u>	<u>973,525</u>

Major Component Unit Included in the Budget	Net	Budgeted Amounts		Final to Net Variance
		Original	Final	
-	1,682,743	1,674,560	1,674,560	8,183
-	678,536	616,140	616,140	62,396
-	753,174	635,445	635,445	117,729
-	11,677	11,825	11,825	(148)
205,944	1,591,517	256,600	188,200	1,403,317
231,084	1,068,576	963,000	471,000	597,576
1,348,793	2,890,039	2,525,900	2,352,900	537,139
-	9,147	-	192,000	(182,853)
24,716	375,257	1,054,493	1,131,650	(756,393)
<u>1,810,537</u>	<u>9,060,666</u>	<u>7,737,963</u>	<u>7,273,720</u>	<u>1,786,946</u>
-	778,792	818,767	843,920	65,128
-	1,327,025	999,436	1,033,720	(293,305)
-	-	-	-	-
-	829,558	694,203	814,395	(15,163)
-	310,974	500	153,500	(157,474)
-	919,082	825,430	886,511	(32,571)
-	931,079	1,321,775	1,321,775	390,696
-	1,629,160	468,500	468,500	(1,160,660)
3,459,311	4,393,843	2,557,696	4,190,131	(203,712)
<u>3,459,311</u>	<u>11,119,513</u>	<u>7,686,307</u>	<u>9,712,452</u>	<u>(1,407,061)</u>
(1,648,774)	(2,058,847)	51,656	(2,438,732)	379,885
<u>1,259,494</u>	<u>1,315,344</u>	<u>-</u>	<u>-</u>	<u>1,315,344</u>
(389,280)	(743,503)	51,656	(2,438,732)	1,695,229
<u>1,090,632</u>	<u>8,241,440</u>	<u>8,809,680</u>	<u>7,461,088</u>	<u>780,352</u>
<u>701,352</u>	<u>7,497,937</u>	<u>8,861,336</u>	<u>5,022,356</u>	<u>2,475,581</u>

CITY OF OSCEOLA

Notes to Required Supplementary Information – Budgetary Reporting June 30, 2007

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

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds 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 ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. 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 \$2,026,145. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2007, disbursements exceeded the amount budgeted in the public works, culture and recreation, community and economic development, general government, capital projects and business type activities functions.

OTHER SUPPLEMENTARY INFORMATION

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

	Local Option Sales Tax	Road Use Tax	Employee Benefits	Special Urban Renewal Consolidated TIF
Receipts				
Property tax	\$ -	-	396,973	-
Tax increment financing collections	-	-	-	541,936
Other city tax	470,217	-	10,462	-
Use of money and property	-	-	-	-
Intergovernmental	-	388,304	-	-
Miscellaneous	-	816	1,198	-
Total receipts	<u>470,217</u>	<u>389,120</u>	<u>408,633</u>	<u>541,936</u>
Disbursements				
Operating				
Public safety	-	-	125,618	-
Public works	-	356,182	-	338,130
Culture and recreation	-	-	73,307	-
Community and economic development	-	-	-	-
General government	502,961	-	55,395	-
Debt service	-	-	-	36,634
Capital projects	-	-	-	-
Total disbursements	<u>502,961</u>	<u>356,182</u>	<u>254,320</u>	<u>374,764</u>
Excess (deficiency) of receipts over (under) disbursements	<u>(32,744)</u>	<u>32,938</u>	<u>154,313</u>	<u>167,172</u>
Other financing sources (uses)				
Sale of assets	-	8,945	-	-
Operating transfers in (out)	-	-	-	(34,542)
Total other financing sources (uses)	<u>-</u>	<u>8,945</u>	<u>-</u>	<u>(34,542)</u>
Net change in cash balances	(32,744)	41,883	154,313	132,630
Cash balances beginning of year	<u>30,889</u>	<u>(27,426)</u>	<u>34,527</u>	<u>240,722</u>
Cash balances end of year	<u>\$ (1,855)</u>	<u>14,457</u>	<u>188,840</u>	<u>373,352</u>
Cash Basis Fund Balances				
Unreserved				
Special revenue funds	\$ (1,855)	14,457	188,840	373,352
Capital project fund	-	-	-	-
Permanent fund	-	-	-	-
Total cash basis fund balances	<u>\$ (1,855)</u>	<u>14,457</u>	<u>188,840</u>	<u>373,352</u>

See accompanying independent auditors' report.

Revenue			Capital			
Residential TIF	Other TIF	CEBA Grants	2004 Housing Rehabilitation	Blacktop and Paving	Burlington Northern Building	Recreation Complex
-	-	-	-	-	-	-
42,665	93,935	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	153,000	134,580	-	-	59,933
-	-	-	-	-	-	-
<u>42,665</u>	<u>93,935</u>	<u>153,000</u>	<u>134,580</u>	<u>-</u>	<u>-</u>	<u>59,933</u>
-	-	-	-	-	-	-
-	88,390	-	-	-	-	-
-	-	-	-	-	-	-
-	-	153,000	157,974	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	200,028	8,000	-
-	<u>88,390</u>	<u>153,000</u>	<u>157,974</u>	<u>200,028</u>	<u>8,000</u>	<u>-</u>
<u>42,665</u>	<u>5,545</u>	<u>-</u>	<u>(23,394)</u>	<u>(200,028)</u>	<u>(8,000)</u>	<u>59,933</u>
-	-	-	-	-	-	-
<u>(68,592)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>(68,592)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
(25,927)	5,545	-	(23,394)	(200,028)	(8,000)	59,933
<u>47,502</u>	<u>13,058</u>	<u>-</u>	<u>(29,909)</u>	<u>-</u>	<u>82,684</u>	<u>(294,336)</u>
<u>21,575</u>	<u>18,603</u>	<u>-</u>	<u>(53,303)</u>	<u>(200,028)</u>	<u>74,684</u>	<u>(234,403)</u>
21,575	18,603	-	-	-	-	-
-	-	-	(53,303)	(200,028)	74,684	(234,403)
-	-	-	-	-	-	-
<u>21,575</u>	<u>18,603</u>	<u>-</u>	<u>(53,303)</u>	<u>(200,028)</u>	<u>74,684</u>	<u>(234,403)</u>

Schedule 1

<u>Projects</u>	<u>Permanent</u>	
<u>College</u>	<u>Cemetery</u>	
<u>Avenue</u>	<u>Perpetual</u>	
<u>Improvements</u>	<u>Care</u>	<u>Total</u>
-	-	396,973
-	-	678,536
-	-	480,679
-	-	-
-	-	735,817
-	-	2,014
<u>-</u>	<u>-</u>	<u>2,294,019</u>
-	-	-
-	-	125,618
-	-	782,702
-	-	73,307
-	-	310,974
-	-	558,356
-	-	36,634
<u>1,213</u>	<u>-</u>	<u>209,241</u>
<u>1,213</u>	<u>-</u>	<u>2,096,832</u>
-	-	-
<u>(1,213)</u>	<u>-</u>	<u>197,187</u>
-	-	8,945
<u>-</u>	<u>-</u>	<u>(103,134)</u>
<u>-</u>	<u>-</u>	<u>(94,189)</u>
-	-	-
(1,213)	-	102,998
<u>-</u>	<u>77,660</u>	<u>175,371</u>
<u>(1,213)</u>	<u>77,660</u>	<u>278,369</u>
-	-	614,972
(1,213)	-	(414,263)
<u>-</u>	<u>77,660</u>	<u>77,660</u>
<u>(1,213)</u>	<u>77,660</u>	<u>278,369</u>

CITY OF OSCEOLA

Schedule of Indebtedness
Year ended June 30, 2007

OBLIGATION	DATE OF ISSUE	INTEREST RATES	AMOUNT ORIGINALLY ISSUED
<u>Primary Government</u>			
General Obligation Bonds:			
General Corporate Purpose	June 1, 1993	4.875-5.50%	\$ 925,000
General Corporate Purpose	Aug 1, 1998	4.00-4.50%	1,235,000
General Corporate Purpose and Refunding	Sept 1, 2005	3.50-4.00%	5,800,000
General Obligation Notes:			
Economic Development Note	Sept 3, 1997	8.00%	100,000
Fire Truck	Dec 10, 1999	4.49%	280,000
General Corporate Purpose	Sept 12, 2003	2.50-4.30%	500,000
Urban Renewal Tax Increment			
Financing (TIF) Revenue Bonds	July 18, 1995	8.75%	114,000
Revenue Bonds:			
State Revolving Fund (SRF) Loan	May 2, 1994	4.37%	1,880,000
State Revolving Fund (SRF) Loan	Oct 27, 2003	3.00%	2,670,000
Other Long-term Debt:			
RISE Loan	Nov 1, 1996	3.00%	75,205
Total City of Osceola			
<u>Component Unit</u>			
Revenue Bonds and Notes:			
Water Revenue Bond	Nov 1, 1996	4.25-5.10%	485,000
Water Revenue Bond	May 14, 2002	3.00%	4,066,000
Water Revenue Note	Feb 13, 2007	4.80%	150,000

See accompanying independent auditors' report.

BALANCE BEGINNING OF YEAR	ISSUED DURING YEAR	REDEEMED DURING YEAR	BALANCE END OF YEAR	INTEREST PAID
\$ 175,000	-	85,000	90,000	8,750
405,000	-	130,000	275,000	18,027
5,715,000	-	320,000	5,395,000	212,160
<u>6,295,000</u>	<u>-</u>	<u>535,000</u>	<u>5,760,000</u>	<u>238,937</u>
16,152	-	16,152	-	1,052
116,814	-	37,106	79,708	5,327
500,000	-	50,000	450,000	18,592
<u>632,966</u>	<u>-</u>	<u>103,258</u>	<u>529,708</u>	<u>24,971</u>
16,264	-	16,264	-	1,074
1,179,000	-	126,000	1,053,000	35,370
2,362,000	-	109,000	2,253,000	70,860
<u>3,541,000</u>	<u>-</u>	<u>235,000</u>	<u>3,306,000</u>	<u>106,230</u>
20,501	-	10,098	10,403	615
<u>\$ 10,505,731</u>	<u>-</u>	<u>899,620</u>	<u>9,606,111</u>	<u>371,827</u>
40,000	-	40,000	-	2,040
2,799,914	798,086	165,000	3,433,000	107,940
-	150,000	-	150,000	2,160
<u>\$ 2,839,914</u>	<u>948,086</u>	<u>205,000</u>	<u>3,583,000</u>	<u>112,140</u>

CITY OF OSCEOLA

Bond and Note Maturities
June 30, 2007

GENERAL OBLIGATION NOTES

Year Ending June 30,	Fire Equipment		General Corporate Purpose		Total
	Issued Dec 10, 1999		Issued Sept 12, 2003		
	Interest Rate	Amount	Interest Rate	Amount	
2008	4.49	\$ 38,865	3.00	50,000	88,865
2009	4.49	40,843	3.25	50,000	90,843
2010		-	3.50	55,000	55,000
2011		-	3.75	55,000	55,000
2012		-	4.00	55,000	55,000
2013		-	4.10	60,000	60,000
2014		-	4.20	60,000	60,000
2015		-	4.30	65,000	65,000
2016		-		-	-
2017		-		-	-
2018		-		-	-
2019		-		-	-
2020		-		-	-
		<u>\$ 79,708</u>		<u>450,000</u>	<u>529,708</u>

GENERAL OBLIGATION BONDS

Year Ending June 30,	General Corporate Purpose				General Corporate Purpose and Refunding	
	Issued June 1, 1993		Issued August 1, 1998		Issued Sept 1, 2005	
	Interest Rate	Amount	Interest Rate	Amount	Interest Rate	Amount
2008	5.00	\$ 90,000	4.45	135,000	3.50	335,000
2009		-	4.50	140,000	3.50	345,000
2010		-		-	3.63	355,000
2011		-		-	3.63	370,000
2012		-		-	3.63	380,000
2013		-		-	3.63	395,000
2014		-		-	3.63	410,000
2015		-		-	3.75	425,000
2016		-		-	3.75	435,000
2017		-		-	3.80	460,000
2018		-		-	3.85	475,000
2019		-		-	3.90	495,000
2020		-		-	4.00	515,000
		<u>\$ 90,000</u>		<u>275,000</u>		<u>5,395,000</u>

<u>Total</u>
560,000
485,000
355,000
370,000
380,000
395,000
410,000
425,000
435,000
460,000
475,000
495,000
<u>515,000</u>
<u><u>5,760,000</u></u>

CITY OF OSCEOLA

Bond and Note Maturities
June 30, 2007

Year Ending June 30,	REVENUE BONDS				
	Sewer Revenue Bond		Sewer Revenue Bond		Total
	Issued May 2, 1994		Issued October 27, 2003		
	Interest Rate	Amount	Interest Rate	Amount	
2008	4.37	\$ 132,000	3.000	112,000	
2009	4.37	138,000	3.000	115,000	253,000
2010	4.37	144,000	3.000	119,000	263,000
2011	4.37	150,000	3.000	122,000	272,000
2012	4.37	156,000	3.000	126,000	282,000
2013	4.37	163,000	3.000	130,000	293,000
2014	4.37	170,000	3.000	134,000	304,000
2015		-	3.000	138,000	138,000
2016		-	3.000	142,000	142,000
2017		-	3.000	146,000	146,000
2018		-	3.000	150,000	150,000
2019		-	3.000	155,000	155,000
2020		-	3.000	159,000	159,000
2021		-	3.000	164,000	164,000
2022		-	3.000	169,000	169,000
2023		-	3.000	172,000	172,000
		<u>\$ 1,053,000</u>		<u>2,253,000</u>	<u>3,306,000</u>

Year Ending June 30,	REVENUE BOND AND NOTE - COMPONENT UNIT				
	Water Revenue Bond		Water Revenue Note		Total
	Issued May 14, 2002		Issued Feb 13, 2007		
	Interest Rate	Amount	Interest Rate	Amount	
2008	3.00	\$ 170,000	4.80	30,000	
2009	3.00	175,000	4.80	30,000	205,000
2010	3.00	181,000	4.80	30,000	211,000
2011	3.00	186,000	4.80	30,000	216,000
2012	3.00	192,000	4.80	30,000	222,000
2013	3.00	197,000		-	197,000
2014	3.00	203,000		-	203,000
2015	3.00	210,000		-	210,000
2016	3.00	216,000		-	216,000
2017	3.00	222,000		-	222,000
2018	3.00	229,000		-	229,000
2019	3.00	236,000		-	236,000
2020	3.00	243,000		-	243,000
2021	3.00	250,000		-	250,000
2022	3.00	258,000		-	258,000
2023	3.00	265,000		-	265,000
		<u>\$ 3,433,000</u>		<u>150,000</u>	<u>3,583,000</u>

See accompanying independent auditor's report.

CITY OF OSCEOLA

Schedule 3
(Continued)

Bond and Note Maturities
June 30, 2007

Year Ending June 30,	OTHER LONG-TERM DEBT	
	Interest Rate	Amount
<u>2008</u>	3.00	<u>\$ 10,403</u>

CITY OF OSCEOLA

Schedule 4

Statement of Receipts By Source
and Disbursements By Function -
All Governmental Funds
For the Last Three Years

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Receipts			
Property tax	\$ 1,682,743	1,592,606	1,638,777
Tax increment financing collections	678,536	603,981	513,847
Other city tax	753,174	552,620	620,895
Licenses and permits	11,677	15,773	19,346
Use of money and property	1,382,319	1,197,582	1,041,928
Intergovernmental	825,723	851,667	1,003,840
Charges for service	530,078	435,661	393,136
Miscellaneous	<u>340,819</u>	<u>915,980</u>	<u>3,382,729</u>
 Total	 <u>\$ 6,205,069</u>	 <u>6,165,870</u>	 <u>8,614,498</u>
 Disbursements			
Operating			
Public safety	778,792	748,843	776,541
Public works	1,327,025	1,528,242	1,317,761
Culture and recreation	829,558	726,759	671,715
Community and economic development	310,974	165,339	322,661
General government	919,082	745,378	753,168
Debt service	931,079	2,087,209	502,784
Capital projects	<u>1,629,160</u>	<u>4,152,489</u>	<u>1,483,962</u>
 Total	 <u>\$ 6,725,670</u>	 <u>10,154,259</u>	 <u>5,828,592</u>

See accompanying independent auditor's report.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
AND 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 Osceola, Iowa, as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements listed in the table of contents and have issued our report thereon dated February 20, 2008. Our report expressed an unqualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with generally accepted auditing standards of the United States of America 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 Osceola's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the City of Osceola's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Osceola's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and other deficiencies we consider to be material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Osceola's ability to initiate, authorize, record, process, or report financial data reliably in accordance with an other comprehensive basis of accounting such that there is more than a remote likelihood a misstatement of the City of Osceola's financial statements that is more than inconsequential will not be prevented or detected by the City of Osceola's internal control. We consider the deficiencies in internal control described in Part II of the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by the City of Osceola's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are considered that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe items II-C-07 and II-D-07 are material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Osceola'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 that are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2007 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The City of Osceola's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the City's responses, we did not audit the City of Osceola's responses and, accordingly, we express no opinion on them.

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 Osceola and other parties to whom the City of Osceola 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 Osceola 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.

February 20, 2008

CITY OF OSCEOLA

Schedule of Findings and Questioned Costs
Year ended June 30, 2007

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

- (A) Unqualified opinions were issued on the financial statements, which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
- (B) Significant deficiencies in internal control over financial reporting were disclosed by the audit of the financial statements, including material weaknesses.
- (C) The audit did not disclose any noncompliance which is material to the financial statements.
- (D) There were no major federal programs.
- (E) The audit did not disclose any audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (F) The City of Osceola did not qualify as a low-risk auditee.

Part II: Findings Related to the Financial Statements:

Instances of Non-Compliance:

No matters are noted.

Reportable Conditions:

II-A-07 Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal 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.

Response – We will consider this.

Conclusion – Response acknowledged.

II-B-07 Signature of Checks – The City has a control procedure established that requires dual signatures on all checks issued. The City currently has three individuals authorized to sign their checks. Signatures are printed by the City's computer directly onto the check automatically. This defeats the purpose of requiring two signatures because it only takes one individual to access the computer to print both signatures.

CITY OF OSCEOLA

Schedule of Findings and Questioned Costs - Continued
Year ended June 30, 2007

Part II: Findings Related to the Financial Statements (Continued):

- II-B-07 Signature of Checks (continued)
Recommendation – If the computer software cannot be modified to prohibit one individual from accessing both signatures with their password, the City should go back to manual signatures on checks to ensure two separate individuals are approving the checks prior to issuance.
- Response – We will do so.
- Conclusion – Response acknowledged.
- II-C-07 Reconciliation of Utility Billings, Collections and Delinquencies – Utility billings, collections and delinquent accounts were not reconciled throughout the year and a delinquent accounts listing was not prepared. Also, utility collections were not reconciled to deposits.
- Recommendation – A listing of delinquent accounts should be prepared on a monthly basis. 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 consider this.
- Conclusion – Response acknowledged.
- II-D-07 Reconciliation of bank accounts – Reconciliations of the various bank accounts to the general ledger accounting system were not performed throughout the year. As a result a number of transactions were not recorded in a timely manner. Those transactions were subsequently recorded by the City.
- Recommendation – The City should implement procedures to ensure monthly reconciliations are performed and all transactions are properly recorded in the City's financial statements in a timely manner.
- Response – These procedures have been implemented as recommended.
- Conclusion – Response accepted.
- II-E-07 Financial Reporting – During the audit, we identified a number of transactions misposted in the financial records. Adjustments were subsequently made by the City to properly report the amounts in the City's financial statements.

CITY OF OSCEOLA

Schedule of Findings and Questioned Costs - Continued
Year ended June 30, 2007

Part II: Findings Related to the Financial Statements (Continued):

- II-E-07 Financial Reporting (continued)
Recommendation – The City should implement procedures to ensure transactions are properly recorded in the City’s financial statements.
- Response – These procedures have been implemented as recommended.
- Conclusion – Response accepted.

Part III: Findings and Questioned Costs for Federal Awards:

Not applicable

Part IV: Other Findings Related to Required Statutory Reporting:

- IV-A-07 Certified Budget - Disbursements during the year ended June 30, 2007 exceeded the amounts budgeted in the public works, culture and recreation, community and economic development, general government, capital projects and business type activities 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 the future, if applicable.
- Conclusion-Response accepted.
- IV-B-07 Questionable Disbursements - No disbursements that we believe may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 were noted.
- IV-C-07 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- IV-D-07 Business Transactions - No business transactions between the City and City officials or employees were noted.

CITY OF OSCEOLA

Schedule of Findings and Questioned Costs - Continued
Year ended June 30, 2007

Part IV: Other Findings Related to Required Statutory Reporting (Continued):

IV-E-07 Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that coverage is adequate for current operations.

IV-F-07 Council Minutes – The following instance of non-compliance was noted related to the City council minutes.

Although minutes of Council proceedings were published, they were not always published within fifteen days as required by Chapter 372.13(6) of the Code of Iowa.

Recommendation – The city should comply with all applicable Code of Iowa chapters relating to council minutes and proper documentation.

Response – We will do so.

Conclusion – Response accepted.

IV-G-07 Revenue Bonds - No violations of provisions of revenue bond resolution requirements were noted.

IV-H-07 Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.

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

Special Revenue:	
Local Option Sales Tax	\$ 1,855
Capital Projects Funds:	
2004 Housing Rehabilitation	53,303
Blacktop and Paving	200,028
Capital Paving Project	1,795,527
Recreation Complex	234,403
College Avenue Improvements	1,213

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

Response – We will do so.

Conclusion – Response accepted.