



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE February 28, 2008

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Auditor of State David A. Vaudt today released an audit report on the City of Denison, Iowa.

The City's receipts totaled \$7,832,694 for the year ended June 30, 2007, a 27 percent decrease from 2006. The receipts included \$2,191,439 in property tax, \$494,404 from tax increment financing, \$690,124 from charges for service, \$1,095,314 from operating grants, contributions and restricted interest, \$1,576,685 from capital grants, contributions and restricted interest, \$518,156 from local option sales tax, \$84,835 from hotel/motel tax, \$267,111 from grants and contributions not restricted to specific purpose, \$113,060 from unrestricted interest on investments, \$637,125 from bond proceeds and \$164,441 from other general receipts.

Disbursements for the year totaled \$8,656,791, a 22 percent decrease from the prior year, and included \$2,291,216 for capital projects, \$1,681,161 for debt service and \$1,384,149 for public safety. Also, disbursements for business type activities totaled \$330,102.

The significant decrease in receipts and disbursements is due primarily to more general obligation and revenue bonds issued in the prior year than in the current year and more disbursements for capital projects in the prior year than in the current year.

A copy of the 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 DENISON

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

JUNE 30, 2007

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City of Denison

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Nathan Mahrt	Mayor	Jan 2008
Earl McCollough	Mayor Pro tem	Jan 2008
Raymond Reynolds	Council Member	(Resigned)
Gordon Hough (Appointed)	Council Member	Nov 2007
Garry Chapman	Council Member	Jan 2010
Eric Skoog	Council Member	Jan 2010
Cecil Blum, Jr.	Council Member	Jan 2010
Greg Seefeldt	City Manager	Indefinite
Marcia L. Bretey	Clerk	Indefinite
Rick Franck	Attorney	Indefinite

City of Denison



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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, the aggregate discretely presented component units and the aggregate remaining fund information of the City of Denison, 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 Denison's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Denison Municipal Utilities, a discretely presented component unit. Those financial statements were audited by another auditor whose report has been furnished to us, and our opinion, insofar as it relates to the condensed financial information included in Note 8 for the discretely presented component unit, is based on the report of the other auditor.

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 and the report of the other auditor 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.

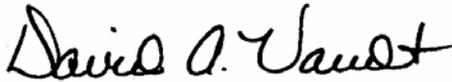
As described in Note 8, the City has chosen to present condensed financial information for the Denison Municipal Utilities, a discretely presented component unit since complete financial statements of the component unit have been audited by another auditor and are available from the component unit. The report of the other auditor, dated August 29, 2007, expressed an unqualified opinion on the financial statements.

In our opinion, based on our audit and the report of the other auditor, 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, the aggregate discretely presented component units and the aggregate remaining fund information of the City of Denison 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 January 28, 2008 on our consideration of the City of Denison'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 8 through 14 and 32 through 34 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 Denison'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 four years ended June 30, 2006 (which are not presented herein) and expressed unqualified opinions on those financial statements which were prepared in conformity with an other comprehensive basis of accounting. Other supplementary information included in Schedules 1 through 5, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audit of States, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. 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.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

January 28, 2008

City of Denison

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Denison 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

- Receipts of the City's governmental activities decreased 28.0%, or approximately \$2,897,000, from fiscal 2006 to fiscal 2007. Capital grants, contributions and restricted interest increased approximately \$791,000 and bond and loan proceeds used for street projects decreased approximately \$4,008,000.
- Disbursements decreased 23.2%, or approximately \$2,515,000, in fiscal 2007 from fiscal 2006. Culture and recreation and debt service disbursements increased approximately \$270,000 and \$439,000, respectively. Capital projects disbursements decreased approximately \$3,392,000.
- The City's total cash basis net assets decreased 28.9%, or approximately \$824,000, from June 30, 2006 to June 30, 2007. Of this amount, the assets of the governmental activities decreased approximately \$834,000 and the assets of the business type activities increased approximately \$10,000.

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.

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. In addition, the Schedule of Expenditures of Federal Awards provides details of various federal programs benefiting the City.

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 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, health and social services, 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 solid waste system. This activity is financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

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

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 one Enterprise Fund to provide information for the solid waste fund, which is considered to be a major fund of the City.

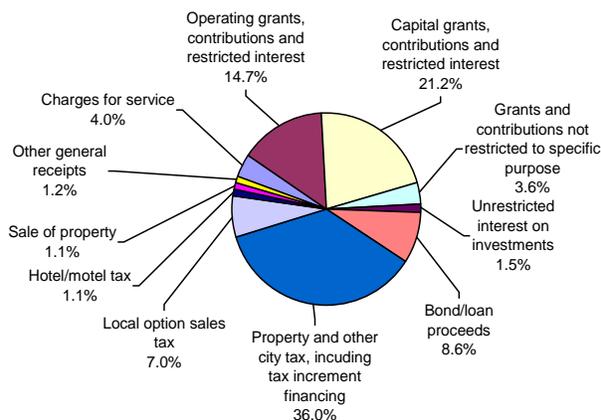
The required financial statement for proprietary funds is a statement of cash receipts, disbursements and changes in cash balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

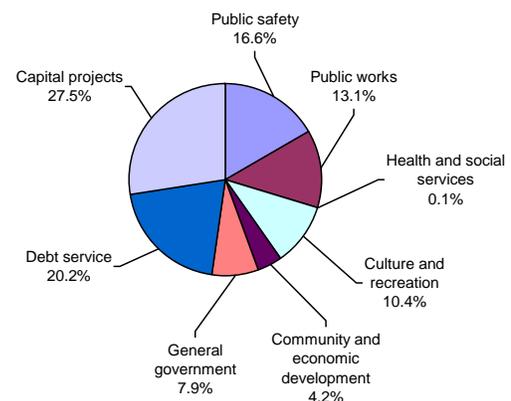
Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased from a year ago, decreasing from \$2.8 million to \$2.0 million. The analysis that follows focuses on the changes in cash basis net assets of governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities (Expressed in Thousands)		
	Year ended June 30,	
	2007	2006
Receipts:		
Program receipts:		
Charges for service	\$ 300	272
Operating grants, contributions and restricted interest	1,095	876
Capital grants, contributions and restricted interest	1,577	786
General receipts:		
Property and other city tax, including tax increment financing	2,686	2,503
Local option sales tax	518	535
Hotel/motel tax	85	116
Grants and contributions not restricted to specific purpose	267	260
Unrestricted interest on investments	113	66
Bond/loan proceeds	637	4,645
Sale of property	79	-
Other general receipts	86	281
Total receipts	<u>7,443</u>	<u>10,340</u>
Disbursements:		
Public safety	1,384	1,269
Public works	1,093	917
Health and social services	8	11
Culture and recreation	863	593
Community and economic development	346	227
General government	661	900
Debt service	1,681	1,242
Capital projects	2,291	5,683
Total disbursements	<u>8,327</u>	<u>10,842</u>
Change in cash basis net assets before transfers	(884)	(502)
Transfers, net	50	40
Change in cash basis net assets	(834)	(462)
Cash basis net assets beginning of year	2,796	3,258
Cash basis net assets end of year	<u>\$ 1,962</u>	<u>2,796</u>

Receipts by Source



Disbursements by Function



The City's total receipts for governmental activities decreased 28.0%, or approximately \$2,897,000. The total cost of all programs and services decreased approximately \$2,515,000, or 23.2%, with no new programs added this year. The significant decrease in receipts and disbursements was primarily the result of bond/loan proceeds received and the related capital projects disbursements made in the prior year.

The City increased property tax rates slightly for 2007 by an average of less than one percent. This increase, in conjunction with an increase in assessed valuation, increased the City's property tax receipts approximately \$114,000 in 2007. Despite an increase in the total assessed valuation for 2008, property tax receipts are budgeted to decrease approximately \$10,000 next year.

The cost of all governmental activities this year was \$8.33 million compared to \$10.84 million last year. However, as shown in the Statement of Activities and Net Assets on pages 16-17, the amount taxpayers ultimately financed for these activities was only \$5.4 million because some of the cost was paid by those directly benefited from the programs (\$300,000) or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest (\$2,672,000). The City paid for the remaining "public benefit" portion of governmental activities with approximately \$4,500,000 in tax (some of which could only be used for certain programs) and with other receipts, such as interest, general entitlements and bond proceeds.

Changes in Cash Basis Net Assets of Business Type Activities		
(Expressed in Thousands)		
	Year ended June 30,	
	2007	2006
Receipts:		
Program receipts:		
Charges for service:		
Solid waste	\$ 389	358
Disbursements:		
Solid waste	330	306
Change in cash basis net assets before transfers	59	52
Transfers, net	(50)	(40)
Change in cash basis net assets	9	12
Cash basis net assets beginning of year	56	44
Cash basis net assets end of year	\$ 65	56

Total business type activities receipts for the fiscal year were \$389,000 compared to \$358,000 last year. The cash balance increased by approximately \$9,000 from the prior year. Total disbursements for the fiscal year increased 7.8% to a total of \$330,102.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Denison completed the year, its governmental funds reported a combined fund balance of \$1,961,853, a decrease of nearly \$834,000 below last year's total of \$2,795,792. 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 \$61,070 over the prior year to \$698,613. Total receipts increased 11.6% and total disbursements increased 17.6%. Net transfers from other funds decreased approximately \$38,000 due to a decrease in transfers from the Local Option Sales Tax Fund. Other factors include an increase in CDBG and FEMA grant receipts of \$26,000, the amount of interest on investments received and the new conference center income increased \$123,000. Disbursements increased due to an increase of \$99,000 for street lighting and disbursements for the new departments for code enforcement and conference center added \$228,000.
- The Special Revenue, Road Use Tax Fund cash balance decreased \$196,398 to \$541,524 during the fiscal year. This decrease was attributable to an increase in disbursements, primarily due to street equipment purchases totaling \$95,000. The City intends to use the money in this fund to continue street department operations, street maintenance programs and equipment replacement.
- The Special Revenue, Employee Benefits Fund cash balance decreased \$42,525 to \$542,772 during the fiscal year. The decrease was due to additional benefits paid for employees of two new city departments, the code enforcement and conference center.
- The Special Revenue, Local Option Sales Tax Fund was established to account for special sales taxes collected. At the end of the fiscal year, the cash balance was \$480,212, a decrease of \$25,207 from the previous year. The decrease in disbursements was due primarily to decreased contributions to the new conference center for marketing and decreases in city hall repairs. Net transfers from the Local Option Sales Tax Fund decreased \$375,078, mainly due to a reduction in transfers for debt payments and capital projects. Local option sales tax collections decreased during the current year by \$16,641, or 3.1%.
- The Special Revenue, Urban Renewal Tax Increment Fund cash balance decreased \$602,844 to \$251,435 during the fiscal year. The decrease in the fund balance was due to an increase in transfers out of the fund. The net transfers out increased \$652,502 over the previous year, mainly due to increases in transfers to the Capital Projects Fund and transfers to the Debt Service Fund to call one bond issue.
- The Debt Service Fund cash balance increased \$3,971 to \$11,545 during the fiscal year.
- The Capital Projects Fund cash balance decreased \$50,384 to (\$774,896) during the fiscal year. The decrease was due to projects started during the fiscal year for which funding has not yet been received from various sources.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

The Enterprise, Solid Waste Fund cash balance increased \$9,842 to \$65,422, due primarily to an increase in charges in service.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget two times. The amendments were approved on July 17, 2006 and May 7, 2007 and resulted in an increase in operating disbursements related primarily to public safety, public works, general government and debt service of approximately \$868,000 to cover additional disbursements, including the code enforcement and conference center and debt payments for calling the 2000 general obligation bonds. The City had sufficient cash balances to absorb these additional costs.

The City's receipts were \$2,363,088 less than budgeted. This was primarily due to the City receiving \$1,025,607 less in tax increment financing due to an error in budgeting and actual intergovernmental receipts were \$1,439,531 less than budgeted due to grants anticipated for projects not receiving funding approval.

With the amendments, total disbursements were \$4,430,954 less than the amended budget. The actual disbursements for the culture and recreation and capital projects functions were \$250,179 and \$3,837,784, respectively, less than the amended budget. This was primarily due to conference center operating costs being less than anticipated and budgeting for capital projects which were not completed during the fiscal year.

The City also exceeded the amounts budgeted in the community and economic development and debt service functions by \$6,308 and \$20,101, respectively, during the year ended June 30, 2007.

DEBT ADMINISTRATION

At June 30, 2007, the City had \$9,813,000 in bonds and other long-term debt outstanding, compared to \$10,404,000 last year, as shown below.

	Outstanding Debt at Year-End	
	(Expressed in Thousands)	
	June 30,	
	2007	2006
General obligation bonds/notes	\$ 7,850	8,190
Revenue bonds/notes	1,790	1,895
Special pledge obligation loan agreement	173	319
Total	\$ 9,813	10,404

Debt decreased as a result of issuing \$650,000 in bonds while redeeming \$1,241,584 during the year.

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all property within the City's corporate limits. The City's outstanding general obligation and TIF debt of \$9,015,000 is below its constitutional debt limit of \$11,343,000.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City of Denison's elected and appointed officials and citizens considered many factors when setting the fiscal year 2008 budget, tax rates and fees charged for various City activities. One of these factors is the increase in property valuations used to calculate tax askings and levy rates. Property valuations for fiscal year 2008 increased \$2,931,754, but resulted in a tax asking decrease of \$10,441 overall due to a reduction in the debt service tax asking amount.

These factors were taken into account when adopting the budget for fiscal year 2008. The City will use these receipts to finance programs we currently offer. Budgeted disbursements are expected to decrease approximately \$4,589,000. The decrease is due to a decrease in budgeted capital projects. The City has added no major new programs or initiatives to the 2008 budget.

If these estimates are realized, the City's budgeted cash balance is expected to increase by approximately \$270,000 by the close of 2008.

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 Marcia Bretey, City Clerk, 111 North Main Street, City of Denison, Iowa 51442-0668.

Basic Financial Statements

City of Denison

Statement of Activities and Net Assets – Cash Basis

As of and for the year ended June 30, 2007

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions/Programs:				
Governmental activities:				
Public safety	\$ 1,384,149	52,992	49,220	32,179
Public works	1,092,494	-	632,154	-
Health and social services	7,665	-	-	-
Culture and recreation	862,449	169,908	162,951	-
Community and economic development	346,308	-	163,393	139,984
General government	661,247	77,280	56,059	-
Debt service	1,681,161	-	31,462	-
Capital projects	2,291,216	-	75	1,404,522
Total governmental activities	8,326,689	300,180	1,095,314	1,576,685
Business type activities:				
Solid waste	330,102	389,944	-	-
Total	\$ 8,656,791	690,124	1,095,314	1,576,685
Component Unit:				
Denison Library Friends	\$ 4,495	-	7,987	-

General Receipts:

Property and other city tax levied for:
 General purposes
 Tax increment financing
 Debt service
Local option sales tax
Hotel/motel tax
Grants and contributions not restricted to specific purpose
Unrestricted interest on investments
Bond proceeds, net of \$12,875 discount and fees
Sale of property
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
 Other purposes

Unrestricted

Total cash basis net assets

See notes to financial statements.

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets			Component Unit
Governmental Activities	Business Type Activities	Total	Denison Library Friends
(1,249,758)	-	(1,249,758)	-
(460,340)	-	(460,340)	-
(7,665)	-	(7,665)	-
(529,590)	-	(529,590)	-
(42,931)	-	(42,931)	-
(527,908)	-	(527,908)	-
(1,649,699)	-	(1,649,699)	-
(886,619)	-	(886,619)	-
(5,354,510)	-	(5,354,510)	-
-	59,842	59,842	-
(5,354,510)	59,842	(5,294,668)	-
-	-	-	3,492
\$ 1,889,007	-	1,889,007	-
494,404	-	494,404	-
302,432	-	302,432	-
518,156	-	518,156	-
84,835	-	84,835	-
267,111	-	267,111	-
113,060	-	113,060	-
637,125	-	637,125	-
78,425	-	78,425	-
86,016	-	86,016	52,905
50,000	(50,000)	-	-
4,520,571	(50,000)	4,470,571	52,905
(833,939)	9,842	(824,097)	56,397
2,795,792	55,580	2,851,372	-
\$ 1,961,853	65,422	2,027,275	56,397
\$ 227,056	-	227,056	-
131,755	-	131,755	-
445,693	-	445,693	-
1,233,632	-	1,233,632	-
(76,283)	65,422	(10,861)	56,397
\$ 1,961,853	65,422	2,027,275	56,397

City of Denison

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

As of and for the year ended June 30, 2007

	Special Revenue				
	General	Road Use Tax	Employee Benefits	Local Option Sales Tax	Urban Renewal Tax Increment
Receipts:					
Property tax	\$ 1,268,799	-	581,229	-	-
Tax increment financing	-	-	-	-	494,404
Other city tax	87,182	-	1,078	518,156	-
Licenses and permits	65,521	-	-	-	-
Use of money and property	200,999	-	-	35,593	-
Intergovernmental	408,729	611,668	-	-	-
Charges for service	273,638	-	-	-	-
Special assessments	-	-	-	-	-
Miscellaneous	41,924	-	5,606	10,000	4,092
Total receipts	2,346,792	611,668	587,913	563,749	498,496
Disbursements:					
Operating:					
Public safety	1,082,560	-	301,589	-	-
Public works	213,062	752,201	127,231	-	-
Health and social services	7,127	-	538	-	-
Culture and recreation	651,562	-	112,212	67,576	-
Community and economic development	63,672	-	-	95,000	-
General government	585,014	-	50,657	22,367	-
Debt service	-	27,950	-	-	94,046
Capital projects	-	-	-	-	-
Total disbursements	2,602,997	780,151	592,227	184,943	94,046
Excess (deficiency) of receipts over (under) disbursements	(256,205)	(168,483)	(4,314)	378,806	404,450
Other financing sources (uses):					
Bond proceeds, net of \$12,875 discount and fees	-	-	-	-	-
Sale of property	40,007	-	-	-	-
Operating transfers in	310,271	-	-	12,428	38,134
Operating transfers out	(33,003)	(27,915)	(38,211)	(416,441)	(1,045,428)
Total other financing sources (uses)	317,275	(27,915)	(38,211)	(404,013)	(1,007,294)
Net change in cash balances	61,070	(196,398)	(42,525)	(25,207)	(602,844)
Cash balances beginning of year	637,543	737,922	585,297	505,419	854,279
Cash balances end of year	\$ 698,613	541,524	542,772	480,212	251,435
Cash Basis Fund Balances					
Reserved for debt service	\$ -	314,468	-	-	119,680
Unreserved:					
General fund	698,613	-	-	-	-
Special revenue funds	-	227,056	542,772	480,212	131,755
Capital projects fund	-	-	-	-	-
Total cash basis fund balances	\$ 698,613	541,524	542,772	480,212	251,435

See notes to financial statements.

Debt Service	Capital Projects	Nonmajor	Total
301,870	-	35,488	2,187,386
-	-	-	494,404
562	-	66	607,044
-	-	-	65,521
-	-	12,015	248,607
-	1,334,658	25,914	2,380,969
-	-	-	273,638
-	63,745	-	63,745
31,461	6,194	306,609	405,886
333,893	1,404,597	380,092	6,727,200
-	-	-	1,384,149
-	-	-	1,092,494
-	-	-	7,665
-	-	31,099	862,449
-	-	187,636	346,308
-	-	3,209	661,247
1,412,581	-	146,584	1,681,161
-	2,291,216	-	2,291,216
1,412,581	2,291,216	368,528	8,326,689
(1,078,688)	(886,619)	11,564	(1,599,489)
-	637,125	-	637,125
-	38,418	-	78,425
1,082,659	199,858	93,224	1,736,574
-	(39,166)	(86,410)	(1,686,574)
1,082,659	836,235	6,814	765,550
3,971	(50,384)	18,378	(833,939)
7,574	(724,512)	192,270	2,795,792
11,545	(774,896)	210,648	1,961,853
11,545	-	-	445,693
-	-	-	698,613
-	-	210,648	1,592,443
-	(774,896)	-	(774,896)
11,545	(774,896)	210,648	1,961,853

City of Denison

City of Denison

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

As of and for the year ended June 30, 2007

	<u>Enterprise</u> <u>Solid Waste</u>
Operating receipts:	
Charges for service	\$ 389,944
Operating disbursements:	
Business type activities	<u>330,102</u>
Excess of operating receipts over operating disbursements	59,842
Operating transfers out	<u>(50,000)</u>
Net change in cash balances	9,842
Cash balances beginning of year	<u>55,580</u>
Cash balances end of year	<u>\$ 65,422</u>
Cash Basis Fund Balances	
Unreserved	<u>\$ 65,422</u>

See notes to financial statements.

City of Denison

Notes to Financial Statements

June 30, 2007

(1) Summary of Significant Accounting Policies

The City of Denison is a political subdivision of the State of Iowa located in Crawford County. It was first incorporated in 1875 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council 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.

A. Reporting Entity

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

Blended Component Unit

The Denison Foundation has been incorporated under the provisions of the Iowa Nonprofit Corporation Act to operate for charitable purposes and economic development in the City of Denison. The Foundation is governed by a seven-member board appointed by the Mayor and approved by the City Council. In accordance with criteria set by the Governmental Accounting Standards Board, the Foundation 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.

Discretely Presented Component Units

The Denison Library Friends, Inc. (Friends) has been incorporated under the provisions of the Iowa Nonprofit Corporation Act to operate exclusively for charitable purposes for the enhancement and improvement of the Denison Public Library. In accordance with criteria set by the Governmental Accounting Standards Board, the Friends meets the definition of a component unit which should be discretely presented. Based on these criteria, the economic resources received or held by the Friends are substantially for the direct benefit of the City of Denison Library.

The Denison Municipal Utilities was established under Chapter 388 of the Code of Iowa to operate the City's municipal utilities. The Municipal Utilities is governed by a five-member board appointed by the Mayor and approved by the City Council. In accordance with criteria set by the Governmental Accounting Standards Board, the Municipal Utilities meets the definition of a component unit which should be discretely presented. Condensed financial information presented in Note 8 was prepared on the accrual basis of accounting in conformity with U.S. generally accepted accounting principles. Complete financial statements can be obtained from the Denison Municipal Utilities, W. Broadway & 7th St., P.O. Box 518, Denison, Iowa 51442.

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: Crawford County Assessor's Conference Board, Crawford County Emergency Management Commission, Crawford County Joint E911 Service Board and Crawford County Area Solid Waste Commission.

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.

Special Revenue:

The Road Use Tax Fund is used to account for road construction and maintenance and the payment of principal and interest on Road Use Tax Fund debt.

The Employee Benefits Fund is used to account for the collection and use of tax for pension, retirement and insurance benefits.

The Local Option Sales Tax Fund is utilized to account for the collection and use of the local option sales tax.

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

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

The Capital Projects fund is utilized to account for all resources used in the acquisition and construction of capital facilities.

The City also reports the following major proprietary fund:

The Solid Waste Fund accounts for the operation and maintenance of the City's garbage operations.

C. Measurement Focus and Basis of Accounting

The City of Denison 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, 2007, disbursements exceeded the amounts budgeted in the community and economic development and debt service functions.

(2) Cash and Pooled Investments

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

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

The City had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$1,684,402 pursuant to Rule 2a-7 under the Investment Company Act of 1940. The investment in the Iowa Public Agency Investment Trust is unrated for credit risk purposes.

(3) Bonds/Notes Payable

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

Year Ending June 30,	General Obligation Bonds/Notes		Revenue Bonds/Notes		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2008	\$ 700,000	299,120	105,000	76,457	805,000	375,577
2009	635,000	275,540	115,000	72,714	750,000	348,254
2010	640,000	254,892	115,000	68,499	755,000	323,391
2011	715,000	233,273	120,000	64,142	835,000	297,415
2012	740,000	208,130	125,000	59,400	865,000	267,530
2013 - 2017	3,370,000	620,732	720,000	212,455	4,090,000	833,187
2018 - 2021	1,050,000	96,915	490,000	45,843	1,540,000	142,758
Total	\$ 7,850,000	1,988,602	1,790,000	599,510	9,640,000	2,588,112

During the year ended June 30, 2007, \$650,000 of general obligation bonds were issued and \$990,000 of general obligation bonds/notes and \$105,000 of revenue bonds/notes were retired.

Childhood Center Revenue Notes

On July 1, 2001, the City entered into a revenue note agreement with United Bank of Iowa in Ida Grove to borrow \$350,000 to construct a building to be leased to the Crawford County Early Childhood Center. The resolution providing for the issuance of the revenue notes includes the following provisions:

- (a) The notes will only be redeemed from the revenues received by the City from the Crawford County Early Childhood Center (Childhood Center) and the note holder holds a lien on the future earnings of the Childhood Center.
- (b) Sufficient amounts shall be set aside in a separate revenue note sinking account for the purpose of making the note principal and interest payments when due.

During the year ended June 30, 2007, the City was in compliance with the note provisions.

Road Use Tax Revenue Notes

On May 1, 2004, the City entered into a revenue note agreement with Ruan Securities Corporation to borrow \$395,000 to purchase equipment for the street department and street improvement projects. The resolution providing for the issuance of the revenue notes includes the following provisions:

- (1) The notes will only be redeemed from the road use tax funds received from the State of Iowa.
- (2) At the time of the delivery of the notes, a separate reserve account of \$39,275 shall be established.
- (3) Sufficient monthly transfers shall be made to a separate road use tax revenue sinking account for the purpose of making note principal and interest payments when due.
- (4) All funds remaining in the road use tax fund after payment of road related improvements and services authorized by state law and required transfers shall be placed in a surplus revenue account. This account is restricted to payments to the sinking and reserve accounts if these accounts are in default. If the sinking and reserve accounts are fully funded, the surplus may be used for road related improvements and services authorized by state law.

During the year ended June 30, 2007, the City was not in compliance with the note provisions since an interest payment was made from the Debt Service Fund rather than the Road Use Tax Fund sinking account.

Urban Renewal Tax Increment Revenue Bonds

Urban renewal tax increment revenue bonds were issued for the purpose of paying costs of an urban renewal project, consisting of constructing a new community conference center. The bonds are payable solely from the income and proceeds of the urban renewal project in accordance with Chapter 403.19 of the Code of Iowa. The proceeds of the bonds shall be expended only for purposes consistent with the plans of the City's urban renewal area. The bonds are not a general obligation of the City, but the debt is subject to the constitutional debt limitation of the City. The resolution providing for the issuance of the bonds includes the following provisions:

- (1) The bonds will only be redeemed from the urban renewal tax increment revenue funds received from the county. The City accounts for this activity within the Special Revenue, Urban Renewal Tax Increment Fund.

- (2) A separate reserve fund shall be established to maintain a required debt service reserve. The City is to deposit bond proceeds of \$119,680 into this reserve fund. This fund is restricted for the purpose of paying principal and interest when funds in the urban renewal tax increment fund are inadequate.

During the year ended June 30, 2007, the City was not in compliance with the bond provisions since the City had not established the debt service reserve fund and an interest payment was made from the Debt Service Fund rather than the Urban Renewal Tax Increment Fund. However, the City has established the debt service reserve fund in the fiscal year ending June 30, 2008.

Special Pledge Obligation Loan Agreement

The Denison Community Golf Course/Denison Country Club, Inc. entered into bank loans to fund the construction of the community conference center project. As a condition of the bank loan, the City of Denison agreed to accept contributions from private persons on behalf of the project and remit all amounts received to the banks to be applied against the outstanding balance of the bank loans.

The City entered into a loan agreement for \$386,000 in evidence of the City's commitment to remit such amounts to the banks. The loan agreement is not a general obligation of the City nor payable in any manner by taxation. The City's obligation under the loan agreement is payable solely from pledges of private funds to be donated to the City, deposited into a special fund and used solely to pay the City's obligation under the loan agreement. During the year ended June 30, 2007, the City remitted \$146,584 of pledges received to the bank. The balance remaining on the loan agreement at June 30, 2007 is \$172,795.

Crawford County Fair Association Loan Guarantee

On May 6, 2002, the City entered into an agreement with Wells Fargo Bank Iowa, N.A. (the lender) to guarantee a \$150,900 loan from the lender to the Crawford County Fair Association. Originally, the loan was to be paid by the Association to the lender under the conditions of a promissory note with an interest rate of 7.75% per annum and a final maturity of December 31, 2007. A modification to the promissory was made on March 2, 2006. The modification lowered the interest rate to 6.50% per annum and extends the maturity date on the note to January 31, 2009. In the event the Association is unable to pay the lender, the City guarantees payment from incremental property taxes generated from the Denison Urban Renewal Area.

During the year ended June 30, 2007, the City paid \$15,000 to be applied to interest and principal on the loan. The remaining balance on the loan at June 30, 2007 was \$75,000.

(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 annual covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2007, 2006 and 2005 were \$102,052, \$95,401 and \$86,332, respectively, equal to the required contributions for each year.

(5) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation, compensatory and sick leave hours for subsequent use or for payment upon termination, retirement or death. Employees who have accumulated at least 90 days sick leave may elect to convert earned sick leave above 90 days to cash at one-half of their rate of pay or may elect to convert sick leave to additional vacation time at a rate of one-half day of vacation time for each day of sick leave converted.

These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation, compensatory leave and sick leave payable to employees at June 30, 2007, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Vacation	\$ 8,000
Compensatory leave	24,000
Sick leave	<u>27,500</u>
Total	<u>\$ 59,500</u>

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

(6) Interfund Transfers

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

Transfer to	Transfer from	Amount
General	Special Revenue:	
	Employee Benefits	\$ 38,211
	Local Option Sales Tax	135,650
	Emergency	35,612
	Tourism - Hotel/Motel	45,336
	Dental Plan Trust	5,462
	Enterprise:	
	Solid Waste	50,000
		<u>310,271</u>
Special Revenue:		
Local Option Sales Tax	General	12,428
Urban Renewal Tax Increment	Capital Projects	38,134
Payroll Section 125	General	3,224
Economic Development	Special Revenue:	
	Urban Renewal Tax Increment	90,000
		<u>143,786</u>
Debt Service	General	17,351
	Special Revenue:	
	Road Use Tax	27,915
	Local Option Sales Tax	264,944
	Urban Renewal Tax Increment	771,417
	Capital Projects	1,032
		<u>1,082,659</u>
Capital Projects	Special Revenue:	
	Local Option Sales Tax	15,847
	Urban Renewal Tax Increment	184,011
		<u>199,858</u>
Total		<u>\$ 1,736,574</u>

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

(7) Construction Commitments

The City entered into construction contracts for building and street projects during the year ended June 30, 2007. The unpaid contract balances at June 30, 2007 totaled \$538,775.

(8) Denison Municipal Utilities

The Denison Municipal Utilities provides electric, sewer, water and joint treatment for industrial waste services to the City of Denison. As permitted by GASB Statement No. 34, the City has opted to present condensed financial information for this discretely presented component unit. Following is the condensed financial information for the Municipal Utilities for the year ended June 30, 2007.

Condensed Statement of Net Assets	
Assets:	
Current and other assets	\$ 11,872,322
Capital assets	25,418,681
Total assets	<u>37,291,003</u>
Liabilities:	
Long-term debt	5,343,000
Other liabilities	1,887,701
Total liabilities	<u>7,230,701</u>
Net assets:	
Invested in capital assets, net of related debt	19,571,500
Restricted for debt service and customer deposits	1,208,058
Unrestricted	<u>9,280,744</u>
Total municipal equity	<u>\$ 30,060,302</u>

Condensed Statement of Revenues, Expenses and Changes in Net Assets	
Operating revenues:	
Sales to customers	\$ 11,039,422
Other	30,400
Total operating revenues	<u>11,069,822</u>
Operating expenses:	
Electric	\$ 5,916,842
Water	1,217,778
Sewer	748,935
Joint treatment	666,420
Depreciation	<u>1,295,260</u>
	<u>9,845,235</u>
Operating income	1,224,587
Non-operating revenues (expenses):	
Miscellaneous	124,464
Interest income	429,153
Interest expense	(256,020)
Economic development	<u>(111,412)</u>
Total non-operating revenues (expenses)	<u>186,185</u>
Net income	1,410,772
Net assets beginning of year	<u>28,649,530</u>
Net assets end of year	<u>\$ 30,060,302</u>

(9) Risk Management

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

The City self funds dental coverage for its employees. The plan is funded by the City and is administered by Employee Benefit Systems. The agreement is subject to automatic renewal. The City provides annual coverage up to \$2,000 per individual. Monthly payments of administrative services fees and claims are paid from the City's General Fund. During the year ended June 30, 2007, the City transferred \$38,133 from the Special Revenue, Employee Benefit Fund to the General Fund to fund the fees and claims paid by the City.

(10) Deficit Balance

The Capital Projects Fund had a deficit balance of \$774,896 at June 30, 2007. The deficit will be eliminated through transfers from the Special Revenue, Local Option Sales Tax and the Special Revenue, Urban Renewal Tax Increment Funds, future grant proceeds and note proceeds.

(11) Economic Development Grant Agreements

During the year ended June 30, 2004, the City entered into an agreement with Premium Protein Products LLC d/b/a Crawford County Foods, LLC. Premium Protein Products LLC agreed to utilize the unused space in its facility, make building improvements and invest in certain equipment, create at least 25 jobs paying at least \$8 per hour and maintain those jobs for at least five years. The City agreed to pay an economic development grant totaling \$75,000 over a period of five years after the jobs are created. The City paid \$20,000 under the agreement in prior years. During the year ended June 30, 2007, the City paid \$40,000 under the agreement and the remaining balance of the grant is \$15,000 payable over the next two years, if the terms in the agreement are met.

During the year ended June 30, 2005, the City entered into an agreement with Adams Motor Company. Adams Motor Company agreed to construct a new automobile dealership with a minimum \$1,500,000 assessment, create at least 20 jobs paying at least \$10 per hour and maintain those jobs for at least five years. The City agreed to pay an economic development grant totaling \$200,000 over a period of four years after the completion of the facility and the jobs are created. The City paid \$50,000 under the agreement in prior years. During the year ended June 30, 2007, the City paid \$50,000 under the agreement and the remaining balance of the grant is \$100,000 payable over the next two years, if the terms in the agreement are met.

(12) Denison Library Friends

During the year ended June 30, 2007, the City included the Denison Library Friends, a discretely presented component unit, in the City's financial activity. The beginning net assets balance of \$52,905 was included in miscellaneous general revenue since the amount is deemed immaterial to the aggregate discretely presented component units.

Required Supplementary Information

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

Required Supplementary Information

Year ended June 30, 2007

	Governmental Funds Actual	Proprietary Fund Actual
Receipts:		
Property tax	\$ 2,187,386	-
Tax increment financing	494,404	-
Other city tax	607,044	-
Licenses and permits	65,521	-
Use of money and property	248,607	-
Intergovernmental	2,380,969	-
Charges for service	273,638	389,944
Special assessments	63,745	-
Miscellaneous	405,886	-
Total receipts	6,727,200	389,944
Disbursements:		
Public safety	1,384,149	-
Public works	1,092,494	-
Health and social services	7,665	-
Culture and recreation	862,449	-
Community and economic development	346,308	-
General government	661,247	-
Debt service	1,681,161	-
Capital projects	2,291,216	-
Business type activities	-	330,102
Total disbursements	8,326,689	330,102
Excess (deficiency) of receipts over (under) disbursements	(1,599,489)	59,842
Other financing sources (uses), net	765,550	(50,000)
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(833,939)	9,842
Balances beginning of year	2,795,792	55,580
Balances end of year	\$ 1,961,853	65,422

See accompanying independent auditor's report.

Total Actual	Budgeted Amounts		Final to Actual Variance
	Original	Final	
2,187,386	2,196,684	2,196,684	(9,298)
494,404	1,145,011	1,520,011	(1,025,607)
607,044	513,852	513,852	93,192
65,521	28,820	28,820	36,701
248,607	36,380	36,380	212,227
2,380,969	3,820,500	3,820,500	(1,439,531)
663,582	783,235	783,235	(119,653)
63,745	15,000	15,000	48,745
405,886	565,750	565,750	(159,864)
<u>7,117,144</u>	<u>9,105,232</u>	<u>9,480,232</u>	<u>(2,363,088)</u>
1,384,149	1,386,610	1,485,930	101,781
1,092,494	1,202,779	1,238,679	146,185
7,665	10,605	10,605	2,940
862,449	1,157,628	1,112,628	250,179
346,308	340,000	340,000	(6,308)
661,247	667,706	776,106	114,859
1,681,161	996,060	1,661,060	(20,101)
2,291,216	6,129,000	6,129,000	3,837,784
330,102	328,737	333,737	3,635
<u>8,656,791</u>	<u>12,219,125</u>	<u>13,087,745</u>	<u>4,430,954</u>
(1,539,647)	(3,113,893)	(3,607,513)	2,067,866
715,550	2,431,000	2,974,620	(2,259,070)
(824,097)	(682,893)	(632,893)	(191,204)
<u>2,851,372</u>	<u>1,931,209</u>	<u>1,931,209</u>	<u>920,163</u>
<u>2,027,275</u>	<u>1,248,316</u>	<u>1,298,316</u>	<u>728,959</u>

City of Denison

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 the discretely presented component unit. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine 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, and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Fund and the Proprietary Fund. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, two budget amendments increased budgeted disbursements by \$868,620. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2007, disbursements exceeded the amounts budgeted in the community and economic development and debt service functions.

Other Supplementary Information

City of Denison

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

As of and for the year ended June 30, 2007

	Payroll		Tourism	Denison	Special
	Section 125	Emergency	Hotel/ Motel	Foundation	Trees Forever
Receipts:					
Property tax	\$ -	35,488	-	-	-
Other city tax	-	66	-	-	-
Use of money and property	-	-	-	2,454	-
Intergovernmental	-	-	-	-	25,914
Miscellaneous	-	-	-	100,618	34,407
Total receipts	-	35,554	-	103,072	60,321
Disbursements:					
Operating:					
Culture and recreation	-	-	-	-	-
Community and economic development	-	-	-	87,500	10,136
General government	3,209	-	-	-	-
Debt service	-	-	-	-	-
Total disbursements	3,209	-	-	87,500	10,136
Excess (deficiency) of receipts over (under) disbursements	(3,209)	35,554	-	15,572	50,185
Other financing sources (uses):					
Operating transfers in	3,224	-	-	-	-
Operating transfers out	-	(35,612)	(45,336)	-	-
Total other financing sources (uses)	3,224	(35,612)	(45,336)	-	-
Net change in cash balances	15	(58)	(45,336)	15,572	50,185
Cash balances beginning of year	(15)	609	45,336	42,586	(14,939)
Cash balances end of year	-	551	-	58,158	35,246
Cash Basis Fund Balances					
Unreserved:					
Special revenue funds	-	551	-	58,158	35,246

See accompanying independent auditor's report.

Revenue								
Pledge Obligations	Dental Plan Trust	Library Trust	Aquatic Trust	Memorial Gardens	Boulders Center Trust	Economic Development	Total	
-	-	-	-	-	-	-	35,488	
-	-	-	-	-	-	-	66	
-	-	9,561	-	-	-	-	12,015	
-	-	-	-	-	-	-	25,914	
139,984	-	-	1,400	200	30,000	-	306,609	
139,984	-	9,561	1,400	200	30,000	-	380,092	
-	-	-	2,099	-	29,000	-	31,099	
-	-	-	-	-	-	90,000	187,636	
-	-	-	-	-	-	-	3,209	
146,584	-	-	-	-	-	-	146,584	
146,584	-	-	2,099	-	29,000	90,000	368,528	
(6,600)	-	9,561	(699)	200	1,000	(90,000)	11,564	
-	-	-	-	-	-	90,000	93,224	
-	(5,462)	-	-	-	-	-	(86,410)	
-	(5,462)	-	-	-	-	90,000	6,814	
(6,600)	(5,462)	9,561	(699)	200	1,000	-	18,378	
6,900	5,462	98,628	7,283	420	-	-	192,270	
300	-	108,189	6,584	620	1,000	-	210,648	
300	-	108,189	6,584	620	1,000	-	210,648	

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

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation bonds/notes:			
Corporate purpose	Dec 1, 1997	4.20-4.80%	\$ 830,000
Corporate purpose	May 1, 2000	5.00-5.60	1,020,000
Corporate purpose	Aug 1, 2003	1.70-4.30	3,740,000
Corporate purpose - refunding	Aug 1, 2003	1.90-3.00	820,000
Street improvement	May 1, 2004	1.65-4.15	650,000
Street improvement	Jan 15, 2006	3.65-4.30	1,320,000
Local option sales tax	May 15, 2006	3.80-4.55	1,700,000
Street improvement	Oct 1, 2006	3.75-4.15	650,000
Total			
Revenue bonds/notes:			
Childhood center	Jul 1, 2001	4.75-5.70%	\$ 350,000
Road use tax	May 1, 2004	2.05-5.20	395,000
Urban renewal tax increment	Aug 15, 2005	3.05-4.45	1,310,000
Total			
Special pledge obligation loan agreement:			
Conference center	Feb 13, 2006	None	\$ 386,000

See accompanying independent auditor's report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
195,000	-	95,000	100,000	9,265
485,000	-	485,000	-	26,812
3,470,000	-	130,000	3,340,000	121,353
415,000	-	205,000	210,000	11,835
605,000	-	40,000	565,000	22,377
1,320,000	-	-	1,320,000	72,065
1,700,000	-	35,000	1,665,000	74,738
-	650,000	-	650,000	17,178
\$ 8,190,000	650,000	990,000	7,850,000	355,623
305,000	-	15,000	290,000	16,461
355,000	-	20,000	335,000	15,500
1,235,000	-	70,000	1,165,000	48,092
\$ 1,895,000	-	105,000	1,790,000	80,053
319,379	-	146,584	172,795	-

City of Denison
Bond/Note Maturities
June 30, 2007

Year Ending June 30,	Corporate Purpose		Corporate Purpose		Corporate Purpose-Refunding	
	Issued Dec 1, 1997		Issued Aug 1, 2003		Issued Aug 1, 2003	
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount
2008	4.80%	\$ 100,000	2.60%	\$ 155,000	3.00%	\$ 210,000
2009		-	2.80	315,000		-
2010		-	3.00	325,000		-
2011		-	3.20	340,000		-
2012		-	3.40	355,000		-
2013		-	3.60	365,000		-
2014		-	3.75	375,000		-
2015		-	3.90	205,000		-
2016		-	4.00	210,000		-
2017		-	4.10	220,000		-
2018		-	4.20	230,000		-
2019		-	4.30	245,000		-
2020		-		-		-
2021		-		-		-
Total		<u>\$ 100,000</u>		<u>\$ 3,340,000</u>		<u>\$ 210,000</u>

General Obligation Bonds/Notes

Street Improvement Issued May 1, 2004		Street Improvement Issued Jan 15, 2006		Flood Levee Issued May 15, 2006		Street Improvement Issued Oct 1, 2006		Total
Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	
2.90%	\$ 35,000	3.65%	\$ 110,000	3.80%	\$ 90,000		\$ -	700,000
3.15	35,000	3.70	115,000	3.85	95,000	3.75%	75,000	635,000
3.40	35,000	3.75	120,000	3.90	100,000	3.80	60,000	640,000
3.60	85,000	3.80	125,000	3.95	100,000	3.85	65,000	715,000
3.80	85,000	3.90	130,000	4.00	105,000	3.90	65,000	740,000
3.95	90,000	3.95	130,000	4.10	110,000	3.95	70,000	765,000
4.05	95,000	4.05	140,000	4.15	115,000	4.00	55,000	780,000
4.15	105,000	4.10	145,000	4.20	120,000	4.05	70,000	645,000
	-	4.20	150,000	4.30	125,000	4.10	95,000	580,000
	-	4.30	155,000	4.35	130,000	4.15	95,000	600,000
	-		-	4.40	135,000		-	365,000
	-		-	4.45	140,000		-	385,000
	-		-	4.50	145,000		-	145,000
	-		-	4.55	155,000		-	155,000
	<u>\$ 565,000</u>		<u>\$ 1,320,000</u>		<u>\$ 1,665,000</u>		<u>\$ 650,000</u>	<u>7,850,000</u>

Schedule 3

City of Denison
Bond/Note Maturities
June 30, 2007

Revenue Bonds/Notes							
Year Ending June 30,	Childhood Center Issued Jul 1, 2001		Road Use Tax Issued May 1, 2004		Urban Renewal TIF Issued Aug 15, 2005		Total
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	
2008	5.15%	\$ 15,000	3.30%	\$ 20,000	3.30%	\$ 70,000	105,000
2009	5.15-5.20	15,000	3.55	25,000	3.40	75,000	115,000
2010	5.20	15,000	3.80	25,000	3.50	75,000	115,000
2011	5.25-5.30	15,000	4.00	25,000	3.60	80,000	120,000
2012	5.35	20,000	4.20	25,000	3.70	80,000	125,000
2013	5.40	20,000	4.35	25,000	3.80	85,000	130,000
2014	5.45	20,000	4.50	30,000	3.90	90,000	140,000
2015	5.50	25,000	4.65	30,000	4.00	90,000	145,000
2016	5.55	25,000	4.80	30,000	4.10	95,000	150,000
2017	5.55-5.60	25,000	4.95	30,000	4.15	100,000	155,000
2018	5.60	25,000	5.10	35,000	4.25	105,000	165,000
2019	5.65	25,000	5.20	35,000	4.35	110,000	170,000
2020	5.65-5.70	25,000		-	4.45	110,000	135,000
2021	5.70	20,000		-		-	20,000
Total		<u>\$ 290,000</u>		<u>\$ 335,000</u>		<u>\$ 1,165,000</u>	<u>1,790,000</u>

See accompanying independent auditor's report.

City of Denison

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

For the Last Five Years

	2007	2006	2005	2004	2003
Receipts:					
Property tax	\$ 2,187,386	2,073,291	2,087,521	2,135,128	1,854,448
Tax increment financing	494,404	425,836	417,671	319,292	519,558
Other city tax	607,044	646,521	604,991	532,164	523,997
Licenses and permits	65,521	37,570	46,149	31,199	32,810
Use of money and property	248,607	128,376	77,770	68,661	47,347
Intergovernmental	2,380,969	1,210,342	1,413,492	1,349,715	1,109,095
Charges for service	273,638	212,371	197,352	235,334	411,741
Special assessments	63,745	111,173	23,287	156,734	-
Miscellaneous	405,886	636,182	612,662	537,069	176,427
Total	\$ 6,727,200	5,481,662	5,480,895	5,365,296	4,675,423
Disbursements:					
Operating:					
Public safety	\$ 1,384,149	1,269,071	1,216,268	1,212,053	1,231,143
Public works	1,092,494	916,930	802,145	863,252	855,477
Health and social services	7,665	10,398	6,406	9,489	11,392
Culture and recreation	862,449	592,860	521,236	543,157	540,320
Community and economic development	346,308	227,392	246,706	209,126	76,026
General government	661,247	900,186	887,499	478,426	544,350
Debt service	1,681,161	1,242,378	850,961	638,433	495,734
Capital projects	2,291,216	5,682,712	3,133,687	3,690,442	859,204
Total	\$ 8,326,689	10,841,927	7,664,908	7,644,378	4,613,646

See accompanying independent auditor's report.

Schedule 5

City of Denison
 Schedule of Expenditures of Federal Awards
 June 30, 2007

Grantor/Program	CFDA Number	Agency Pass-through Number	Program Expenditures
Direct:			
U.S. Department of Commerce:			
Economic Adjustment Assistance	11.307	05-79-03415	\$ 115,000
Department of Homeland Security:			
State Domestic Preparedness Equipment Support Program	97.004	EMW-2005-FG-16632	32,179
Total direct			<u>147,179</u>
Indirect:			
U.S. Department of Housing and Urban Development:			
Iowa Department of Economic Development:			
Community Development Block Grants/State's Program	14.228	03-CRL-001	51,802
Community Development Block Grants/State's Program	14.228	05-HSG-045-04	153,869
			<u>205,671</u>
HOME Investment Partnerships Program	14.239	06-HM-115-69	34,999
U.S. Department of Transportation:			
Iowa Department of Transportation:			
Highway Planning and Construction	20.205	STP-U-1920 (615)--70-24	293,276
Federal Emergency Management Agency:			
Iowa Department of Public Defense:			
Iowa Homeland Security and Emergency Management Division:			
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	DR-IA-1705	4,896
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	DR-IA-3275	17,683
			<u>22,579</u>
Total indirect			<u>556,525</u>
Total			<u>\$ 703,704</u>

Basis of Presentation – The Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Denison and is presented in conformity with an other comprehensive basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

See accompanying independent auditor's report.



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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, the aggregate discretely presented component units and the aggregate remaining fund information of the City of Denison, 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 January 28, 2008. Our report expressed unqualified opinions on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Denison's internal control over financial reporting as a basis for designing 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 Denison's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Denison'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 a deficiency in internal control over financial reporting that we consider to be a significant deficiency and a material weakness.

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 Denison'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 Denison's financial statements that is more than inconsequential will not be prevented or detected by the City of Denison's internal control. We consider the deficiency in internal control described in Part II of the accompanying Schedule of Findings and Questioned Costs to be significant deficiency 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 Denison'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 also considered to be material weaknesses. However, we believe the significant deficiency described above reported as item II-A-07 is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Denison'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 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 Denison'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 Denison'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 Denison and other parties to whom the City of Denison may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

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

January 28, 2008



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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Independent Auditor's Report on Compliance with Requirements
Applicable to Each Major Program and on Internal Control over Compliance
in Accordance with OMB Circular A-133

To the Honorable Mayor and
Members of the City Council:

Compliance

We have audited the compliance of the City of Denison, Iowa, with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2007. The City of Denison's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to each of its major federal programs is the responsibility of the City of Denison's management. Our responsibility is to express an opinion on the City of Denison's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Denison's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Denison's compliance with those requirements.

In our opinion, the City of Denison complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007.

Internal Control Over Compliance

The management of the City of Denison is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered the City of Denison's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Denison's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the City's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified a deficiency in internal control over compliance that we consider to be a significant deficiency.

A control deficiency in the City's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect non-compliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to administer a federal program such that there is more than a remote likelihood non-compliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the City's internal control. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item III-A-07 to be a significant deficiency.

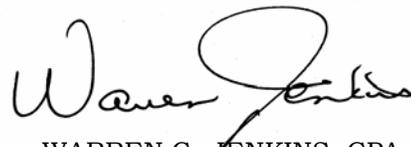
A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood material non-compliance with a type of compliance requirement of a federal program will not be prevented or detected by the City's internal control. We do not consider the significant deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item III-A-07 to be a material weakness.

The City of Denison's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusion on the City's response, we did not audit the City of Denison's response and, accordingly, we express no opinion on it.

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 Denison and other parties to whom the City of Denison may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

January 28, 2008

City of Denison

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) A significant deficiency in internal control over financial reporting was disclosed by the audit of the financial statements. The significant deficiency is also considered a material weakness.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) A significant deficiency in internal control over the major programs was disclosed by the audit of the financial statements, but was not considered to be a material weakness.
- (e) An unqualified opinion was issued on compliance with requirements applicable to the major programs.
- (f) The audit disclosed an audit finding which is required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) The major programs were CFDA Number 14.228 – Community Development Block Grants/State's Program and CFDA Number 20.205 – Highway Planning and Construction.
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) The City did not qualify as a low-risk auditee.

City of Denison

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Part II: Findings Related to the Financial Statements:

SIGNIFICANT DEFICIENCY:

II-A-07 Financial Reporting – During the audit, we identified material errors in the amount transferred from the Special Revenue, Local Option Sales Tax and Urban Renewal Tax Increment Funds to the Debt Service Fund. Also, duplicate transfers were made from the Special Revenue, Local Option Sales Tax and Urban Renewal Tax Increment Funds to eliminate a deficit balance in an account within the Capital Projects Fund.

In addition, material amounts of receipts were not properly classified by source in accordance with the Uniform Chart of Accounts. Various grant receipts were recorded as miscellaneous income rather than intergovernmental.

Adjustments were subsequently made to the City's financial statements to properly record the transfers and receipts.

Recommendation – The City should implement procedures to ensure the accuracy of transfers. The procedures should include verifying the transfers to the Debt Service Fund agree with the amounts in the bond and note repayment schedules. In addition, the City should ensure receipts are properly classified in the financial statements.

Response – We have corrected our procedures to ensure the accuracy of transfers and to classify receipts correctly.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

City of Denison

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCE OF NON-COMPLIANCE:

No matters were reported.

SIGNIFICANT DEFICIENCY:

**CFDA Number 14.228: Community Development Block Grants/State's Program
Pass-through Agency Number: 5-HSG-045-04
Federal Award Year: 2007
Department of Housing and Urban Development
Passed through the Iowa Department of Economic Development**

III-A-07 Cash Management – The City received reimbursements from the Iowa Department of Economic Development for program expenditures as requested. The City received a total of \$104,279 in May and June 2007 but did not expend the funds until August 2007. This violates Article 11.1 of the grant agreement which requires grant funds be expended within 10 days of receipt.

Recommendation – The City should implement procedures to ensure grant proceeds are disbursed in a timely manner. In addition, the City should contact the grantor agency to determine the disposition of this matter.

Response and Corrective Action Planned – We will remit the grant amount to Region XII within the 10 day period as required. We will contact the grantor agency to determine the disposition of this matter.

Conclusion – Response accepted.

City of Denison

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

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 community and economic development and debt service functions. 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 in sufficient amounts in the future if necessary. We budgeted payments made on the road use tax revenue bonds as public works and not debt service. We will budget these under debt service in the future.

Conclusion – Response accepted.

IV-B-07 Questionable Disbursements – No disbursements 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 – 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>
Nancy McKinnon, wife of Fire Chief, owner of NRFM	Cleaning	\$ 1,080
Earl McCollough, Mayor Pro tem, part-time employee of Adams Motors	Economic development grant payment to Adams Motors	50,000
	Vehicles (per bid)	39,975
	Repair and service	3,886

In accordance with Chapter 362.5(10) of the Code of Iowa, the transaction with the Fire Chief’s wife does not appear to represent a conflict of interest since the total amount was less than \$1,500 during the fiscal year.

In accordance with Chapter 362.5(5) of the Code of Iowa, the vehicle purchases do not appear to represent a conflict of interest since bids were obtained for the vehicles.

In accordance with Chapter 362.5(5) of the Code of Iowa, the transactions for the repair and service do not appear to represent a conflict of interest since the official’s remuneration of employment is not directly affected as a result of the contract and does not directly involve procurement or preparation of any part of the contract.

City of Denison

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The economic development grant payment to Adams Motors does not appear to represent a conflict of interest in accordance with Chapter 15A.2 of the Code of Iowa and consistent with an Attorney General's Opinion, (AGO), dated May 27, 1998.

According to the AGO, "Section 15A.2 (of the Code of Iowa) indicates that City Council Members who work at one of their City's major industries, or whose spouses work there, may participate in Council discussions on a proposed 'economic development grant' involving the employer and vote on a resulting award of financial assistance to it."

The AGO also recommends "these Council Members should exercise great caution whenever an economic development measure involving the employer comes before the Council for discussion or vote; disclose on the record the facts and general circumstances of their employment or a spouse's employment before the Council discusses or otherwise considers any such measure; and consult with the City Attorney before participating in any matter involving a financial benefit unique to the employer."

In the future and consistent with the AGO, "Council Members who wish to exercise caution in resolving conflicts of interest should abstain from participating in the decision-making process or voting on any resulting award of financial assistance to the employer in order to avoid an appearance of impropriety."

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 the coverage is adequate for current operations.

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

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

IV-H-07 Revenue Bonds/Notes – The City has not complied with the urban renewal revenue bond resolution which requires the City to establish an Urban Renewal Reserve Fund and deposit \$119,680 of bond proceeds to this fund.

Also, the City is required to pay bonds/notes and interest on the urban renewal tax increment bonds and road use tax revenue notes from the Urban Renewal Tax Increment and Road Use Tax Funds, respectively. During the year ended June 30, 2007, the City paid \$24,046 of interest on urban renewal tax increment bonds and \$7,750 of interest on road use tax revenue notes from the Debt Service Fund. Adjustments were made to the City's financial statements to properly report the interest payments.

Recommendation – The City should establish a separate Urban Renewal Reserve Fund and transfer \$119,680 from the Urban Renewal Tax Increment Fund to establish the Urban Renewal Reserve Fund.

In addition, interest on the urban renewal tax increment bonds and road use tax revenue notes should be paid from the proper funds as required.

City of Denison

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Response – We have established the Urban Renewal Reserve Fund and transferred \$119,680 from the Urban Renewal Tax Increment Fund to the Urban Renewal Reserve Fund in September 2007. We will pay interest from the proper funds as required.

Conclusion – Response accepted.

IV-I-07 Financial Condition – The Capital Projects Fund had a deficit balance of \$774,896 at June 30, 2007.

Recommendation – The City should evaluate the reasons for the deficit and investigate alternatives to eliminate the deficit in order to return the fund to a sound financial position.

Response – The City is aware of the deficit balance and will eliminate the deficit when each project is completed through transfers from the Special Revenue, Local Option Sales Tax and the Special Revenue, Urban Renewal Tax Increment Funds, future grant proceeds and bond proceeds.

Conclusion – Response accepted.

IV-J-07 Annual Financial Report – Although the ending balances were reported correctly, material variances existed in the classification of certain receipt and disbursement line items reported in the City's annual financial report.

Recommendation – The City should amend the annual financial report to correctly report receipts and disbursements.

Response – We have amended the annual report and will publish a correction notice.

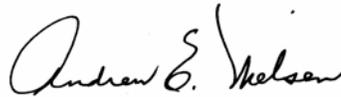
Conclusion – Response accepted.

City of Denison

Staff

This audit was performed by:

Donna F. Kruger, CPA, Manager
Paul F. Kearney, CGFM, Senior Auditor
Josh B. Ludwig, Assistant Auditor
Andrew E. Nielsen, CPA



Andrew E. Nielsen, CPA
Deputy Auditor of State