

CITY OF JEFFERSON

INDEPENDENT AUDITORS' REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS
JUNE 30, 2007



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City of Jefferson

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Todd Madson	Mayor	Jan 2008
Larry Teeple	Council Member	Jan 2010
Nancy Teusch	Council Member	Jan 2010
Bill Figenshaw	Council Member	Jan 2010
Craig Hertel	Council Member	Jan 2008
Randy Bunkers	Council Member	Jan 2008
Diane Kennedy	Clerk	Jan 2008
Robert A. Schwarzkopf	Attorney	Jan 2008

City of Jefferson

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Independent Auditors' Report

To the Honorable Mayor and
Members of the City Council:

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

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund, the discretely presented component unit and the aggregate remaining fund information of the City of Jefferson 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 August 27, 2007 on our consideration of the City of Jefferson'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.

The City has not presented management's discussion and analysis which introduces the basic financial statements by presenting certain financial information as well as management's analytical insights on that information that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

Budgetary comparison information on pages 24-26 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Jefferson's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2006 (none of which are presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 4 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

August 27, 2007
Ames, Iowa

City of Jefferson

Basic Financial Statements

City of Jefferson

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	\$ 497,633	27,733	29,662	-
Public works	371,245	-	391,966	-
Culture and recreation	871,208	341,791	74,370	-
Community and economic development	297,139	13,354	28,399	-
Health and social services	7,988	-	-	-
General government	435,667	2,094	10,320	-
Debt service	588,602	-	-	-
Capital projects	155,407	-	12,690	236,663
Total governmental activities	3,224,889	384,972	547,407	236,663
Business type activities:				
Water	754,544	980,646	2,270	-
Sewer	655,106	538,701	14,638	-
Sanitation	472,173	479,939	1,124	-
Recycling	207,691	114,796	3,930	-
Total business type activities	2,089,514	2,114,082	21,962	-
Component Unit:				
Airport	39,090	-	526	-
Total	\$ 5,353,493	2,499,054	569,895	236,663
General Receipts:				
Property tax levied for:				
General purposes				
Tax increment financing				
Debt service				
Local option tax				
Hotel/motel tax				
Unrestricted interest on investments				
Bond/Note proceeds, net				
Sale of assets				
Franchise taxes				
Rent				
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				
Unrestricted				
Total cash basis net assets				

See notes to financial statements.

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets			
Governmental Activities	Business Type Activities	Total Primary Government	Major Discretely Presented Component Unit
(440,238)	-	(440,238)	-
20,721	-	20,721	-
(455,047)	-	(455,047)	-
(255,386)	-	(255,386)	-
(7,988)	-	(7,988)	-
(423,253)	-	(423,253)	-
(588,602)	-	(588,602)	-
93,946	-	93,946	-
(2,055,847)	-	(2,055,847)	-
-	228,372	228,372	-
-	(101,767)	(101,767)	-
-	8,890	8,890	-
(88,965)	-	(88,965)	-
(88,965)	135,495	46,530	-
-	-	-	(38,564)
(2,144,812)	135,495	(2,009,317)	(38,564)
1,190,864	-	1,190,864	-
307,079	-	307,079	-
395,841	-	395,841	-
96,027	-	96,027	-
21,440	-	21,440	-
31,057	66,436	97,493	41,053
2,000	-	2,000	-
6,050	-	6,050	-
27,527	-	27,527	-
4,806	-	4,806	-
299,049	(299,049)	-	-
2,381,740	(232,613)	2,149,127	41,053
236,928	(97,118)	139,810	2,489
2,378,655	1,237,864	3,616,519	11,199
\$ 2,615,583	1,140,746	3,756,329	13,688
\$ 207,146	-	207,146	-
208,827	-	208,827	-
244,950	318,162	563,112	-
1,954,660	822,584	2,777,244	13,688
\$ 2,615,583	1,140,746	3,756,329	13,688

City of Jefferson

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	Employee Benefits	Road Use Tax	Urban Renewal Tax Increment
Receipts:				
Property tax	\$ 810,751	381,898	-	-
Tax increment financing collections	-	-	-	307,079
Other city tax	48,967	-	-	-
Licenses and permits	33,796	-	-	-
Use of money and property	31,532	-	-	-
Intergovernmental	85,851	-	385,553	-
Charges for service	299,026	-	-	-
Miscellaneous	50,611	-	763	-
Total receipts	1,360,534	381,898	386,316	307,079
Disbursements:				
Operating:				
Public safety	490,239	-	-	-
Public works	29,594	-	336,044	-
Culture and recreation	833,375	-	-	-
Community and economic development	101,304	-	-	-
Health and social services	-	-	-	-
General government	435,667	-	-	-
Debt service	-	-	-	181,394
Capital projects	-	-	-	-
Business type activities	-	-	-	-
Total disbursements	1,890,179	-	336,044	181,394
Excess (deficiency) of receipts over (under) disbursements	(529,645)	381,898	50,272	125,685
Other financing sources (uses):				
SRF loan proceeds (net of interest, discount)	-	-	-	-
General obligation bond proceeds, net	-	-	-	-
Sale of cemetery lots	6,050	-	-	-
Sale of capital assets	-	-	-	-
Operating transfers in	622,751	-	-	-
Operating transfers out	(53,693)	(381,898)	(82,000)	(35,853)
Total other financing sources (uses)	575,108	(381,898)	(82,000)	(35,853)
Net change in cash balances	45,463	-	(31,728)	89,832
Cash balances beginning of year	1,046,526	-	238,874	118,995
Cash balances end of year	\$ 1,091,989	-	207,146	208,827
Cash Basis Fund Balances				
Reserved:				
Debt service	\$ -	-	-	-
Unreserved:				
General fund	1,091,989	-	-	-
Special revenue funds	-	-	207,146	208,827
Capital projects funds	-	-	-	-
Permanent fund	-	-	-	-
Total cash basis fund balances	\$ 1,091,989	-	207,146	208,827

See notes to financial statements.

<u>Debt Service</u>	<u>Capital Projects</u>	<u>Other</u>	
General Obligation Bonds	Capital Improvements	Nonmajor Governmental Funds	Total
380,253	-	13,803	1,586,705
-	-	-	307,079
-	-	96,027	144,994
-	-	-	33,796
-	-	4,331	35,863
-	-	270,851	742,255
-	-	114,796	413,822
-	-	46,521	97,895
<u>380,253</u>	<u>-</u>	<u>546,329</u>	<u>3,362,409</u>
-	-	7,394	497,633
-	-	5,607	371,245
-	-	37,833	871,208
-	-	195,835	297,139
-	-	7,988	7,988
-	-	-	435,667
407,208	-	-	588,602
-	12,273	143,134	155,407
-	-	207,691	207,691
<u>407,208</u>	<u>12,273</u>	<u>605,482</u>	<u>3,432,580</u>
<u>(26,955)</u>	<u>(12,273)</u>	<u>(59,153)</u>	<u>(70,171)</u>
-	-	2,000	2,000
-	-	-	-
-	-	-	6,050
-	-	-	-
-	-	323,095	945,846
-	-	(93,353)	(646,797)
-	-	231,742	307,099
(26,955)	(12,273)	172,589	236,928
<u>118,815</u>	<u>303,101</u>	<u>552,344</u>	<u>2,378,655</u>
<u>91,860</u>	<u>290,828</u>	<u>724,933</u>	<u>2,615,583</u>
91,860	-	153,090	244,950
-	-	-	1,091,989
-	-	438,689	854,662
-	290,828	(37,009)	253,819
-	-	170,163	170,163
<u>91,860</u>	<u>290,828</u>	<u>724,933</u>	<u>2,615,583</u>

City of Jefferson

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

As of and for the year ended June 30, 2007

	Enterprise Funds			Total	Component	Total
	Water	Sewer	Sanitation		Unit - Airport	
Operating receipts:						
Use of money and property	\$ 29,456	36,980	-	66,436	41,053	107,489
Charges for service	966,996	538,701	479,939	1,985,636	-	1,985,636
Intergovernmental	-	7,018	-	7,018	-	7,018
Miscellaneous	15,920	7,620	1,124	24,664	526	25,190
Total operating receipts	1,012,372	590,319	481,063	2,083,754	41,579	2,125,333
Operating disbursements:						
Public works	-	-	-	-	-	-
Business type activities	754,544	655,106	472,173	1,881,823	39,090	1,920,913
Total operating disbursements	754,544	655,106	472,173	1,881,823	39,090	1,920,913
Excess (deficiency) of operating receipts over (under) operating disbursements	257,828	(64,787)	8,890	201,931	2,489	204,420
Other financing sources (uses):						
Operating transfers in	-	-	-	-	-	-
Operating transfers out	(50,000)	(199,049)	(50,000)	(299,049)	-	(299,049)
Total other financing sources (uses)	(50,000)	(199,049)	(50,000)	(299,049)	-	(299,049)
Net change in cash balances	207,828	(263,836)	(41,110)	(97,118)	2,489	(94,629)
Cash balances beginning of year	494,702	311,942	431,220	1,237,864	11,199	1,249,063
Cash balances end of year	\$ 702,530	48,106	390,110	1,140,746	13,688	1,154,434
Cash Basis Fund Balances						
Reserved for debt service	\$ 280,162	38,000	-	318,162	-	318,162
Unreserved	422,368	10,106	390,110	822,584	13,688	836,272
Total cash basis fund balances	\$ 702,530	48,106	390,110	1,140,746	13,688	1,154,434

See notes to financial statements.

City of Jefferson

Notes to Financial Statements

June 30, 2007

(1) Summary of Significant Accounting Policies

The City of Jefferson is a political subdivision of the State of Iowa located in Greene County. It was first incorporated in 1854 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, health and social services, culture and recreation, community and economic development, and general government services. The City also provides water and sewer utilities for its citizens.

A. Reporting Entity

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

Discretely Presented Component Unit

The Jefferson Municipal Airport Commission is presented in a separate column to emphasize that it is legally separate from the City, but is financially accountable to the City, or whose relationship with the City is such that exclusion would cause the City's financial statements to be misleading or incomplete. The Commission was established pursuant to Chapter 330 of the Code of Iowa to operate the City's airport facility. The Commission is composed of five members appointed by the Jefferson City Council.

The Commission's operating budget is subject to the approval of the Jefferson City Council. The Jefferson Municipal Airport is presented as a Business Type Fund.

Jointly Governed Organizations

The City participates in a few 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: Greene County Recycling Agency, the Midwest Partnership and the Greene County Law Enforcement Entity Board.

City officials are also members of the Greene County Development Corporation (GCDC) Board. The City paid a total of \$47,500 to GCDC during the fiscal year ended June 30, 2007.

City officials are also members of the North Dallas County Landfill Commission. See Note 9 for disclosures.

B. Basis of Presentation

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

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

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

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

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

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

The City reports the following major governmental funds:

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

Special Revenue:

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

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

The Employee Benefits Fund is used to account for employee benefits financed by the levy for employee benefits.

Debt Service:

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

Capital Projects:

The Capital Improvements Fund is used to accumulate resources for future projects within the City.

The City reports the following major proprietary funds:

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

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

The Sanitation Fund accounts for the operation of the City's sanitation services.

The City also reports the following component unit:

The Airport Fund accounts for the operation of the Jefferson Municipal Airport.

C. Measurement Focus and Basis of Accounting

The City of Jefferson 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 public works and debt service functions.

(2) Cash and Pooled Investments

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

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

The City and its component unit own approximately \$2,325 of par value cooperative stock, which was acquired by patronage dividend. The stock is not readily marketable, and can only be redeemed by the Coop. Therefore market value of the stock is not determinable. The stock is recorded on the books at \$2,325. Although this type of investment is not permitted by the Code of Iowa, it was acquired by patronage dividend, therefore the City is not in violation of Chapter 12 of the Code of Iowa.

In addition, the City had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$355 pursuant to Rule 2a-7 under the Investment Company Act of 1940.

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

Credit risk – The City's investment in the Iowa Public Agency Investment Trust and the Coop stock are unrated.

(3) Bonds and Notes Payable

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

Year Ending June 30,	General Obligation Bonds		Urban Renewal Tax Increment Financing (TIF) Revenue Bonds		Revenue Bonds and Notes		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2008	\$ 260,000	80,384	117,733	2,401	386,000	158,088	763,733	240,873
2009	265,000	71,806	-	-	397,000	146,308	662,000	218,114
2010	270,000	63,411	-	-	412,000	133,782	682,000	197,193
2011	290,000	54,681	-	-	428,000	120,778	718,000	175,459
2012-2016	1,290,000	117,914	-	-	1,343,000	434,630	2,633,000	552,544
2017-2021	-	-	-	-	1,289,000	248,910	1,289,000	248,910
2022-2025	-	-	-	-	871,000	52,770	871,000	52,770
Total	\$ 2,375,000	388,196	117,733	2,401	5,126,000 *	1,295,266 *	7,618,733	1,685,863

* Amount is based upon entire State Revolving loan being borrowed at fiscal year end. Only \$5,112,000 was actually outstanding as of June 30, 2007.

The revenue bonds and notes totals also include the water revenue notes.

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

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

- (a) The bonds and notes will only be redeemed from the future earnings of the enterprise activity and the bond and note holders hold a lien on the future earnings of the funds.
- (b) Sufficient monthly transfers shall be made to separate water and sewer revenue sinking accounts within the Enterprise Funds for the sole purpose of making the bond and note principal and interest payments when due.
- (c) There shall be set apart and paid into the City's Water Revenue Debt Service Reserve Fund (the Reserve Fund) at the time of delivery the sum of \$182,000. Whenever the sum on deposit in the Reserve Fund has

been reduced to less than the required balance, there shall be deposited into the Reserve Fund from the Net Revenues remaining, after first making the required deposits into the Operation and Maintenance Fund and the Sinking Fund, a sum equal to 25% of that month's total deposits into the Sinking Fund, until the sum on deposit in the Reserve Fund has been restored to the Required Reserve Fund Balance. All money credited to the Reserve Fund shall be used and is hereby pledged for the payment of principal and interest on the Series 2003 Bonds and any Parity Obligations whenever the Sinking Fund balance is insufficient.

The City is not in compliance with the provisions of the 2003 Sewer Revenue Bond Resolution.

(4) Pension and Retirement Benefits

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

Most regular plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of 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 \$84,506, \$81,834 and \$85,207, respectively, equal to the required contributions for each year.

(5) Compensated Absences

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

Type of Benefit	Amount
Vacation	\$ 54,062

This liability has been computed based on rates of pay in effect at June 30, 2007. Sick leave is payable when used. It is not paid upon termination, retirement, or death.

(6) Interfund Transfers

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

Transfer to	Transfer from	Amount
Capital Projects:	Enterprise:	
Sewer Plant Construction	Sewer	\$ 4,542
Sewer Force Main	Sewer	144,507
Airport Improvements	General	32,412
		<u>181,461</u>
Special Revenue:		
Downpayment Assistance	General	12,000
Health Insurance Sinking	General	4,000
Police Federal Forfeiture	General	1,281
Cemetery Land Reserve	General	4,000
	Special Revenue:	
Fareway Urban Renewal	Urban Renewal Tax Increment	35,853
Equipment Replacement	Road Use Tax	32,000
Recycling	Equipment Replacement	52,500
		<u>141,634</u>
General	Special Revenue:	
	Fareway Urban Renewal Tax Increment	35,853
General	Road Use Tax	50,000
General	Employee Benefits	381,898
General	Recycling	5,000
	Enterprise:	
General	Water	50,000
General	Sewer	50,000
General	Sanitation	50,000
		<u>622,751</u>
Total		<u>945,846</u>

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

(7) Bell Tower Community Foundation

The City entered into an agreement with the Bell Tower Community Foundation on April 15, 1994 to loan them up to \$35,000. During the fiscal years ended June 30, 1993 and 1994, the City loaned the Bell Tower Community Foundation \$32,028 based on this agreement. The loan is interest free and was originally scheduled to be paid back in full on May 1, 1998. However, during the fiscal year ended June 30, 1998, the City extended the loan until May 1, 2008. The balance of the loan on June 30, 2007 totaled \$32,028.

(8) 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.

(9) North Dallas County Landfill

An agency, the North Dallas County Landfill, has been established for the collection and disposal of solid waste. The Agency may not be accumulating sufficient financial resources, therefore, the City has an ongoing financial responsibility. Complete financial statements for the Agency can be obtained from the North Dallas County Landfill Agency.

(10) Lease

The City has entered into a lease agreement with Van Horn Partnership for approximately 133 acres of farmland at the City's airport. The lease expires February 29, 2007, and automatically renews upon expiration from year-to-year unless either party gives notice not to renew the lease. The City receives two payments with one-half of the payment due by March 1, and the other half due by November 1 of each year. During the fiscal year ended June 30, 2007, the City received a total of \$21,248 under the lease agreement. The City also leases hangars at the airport. The amounts received under the leases vary depending on the size of the space rented out.

The City also entered into a new lease with the Greene County Early Learning Center. The Center is going to use it to provide an after school program and in-service day program and summer day camp programs. The Center pays monthly installments beginning June 15, 2007 of \$167 which continue until May 31, 2008.

(11) Health Insurance

The City's health insurance plan includes a deductible of \$500 for single coverage and \$1,000 for family coverage. The City pays the first \$200 for individuals with single coverage and the first \$400 for individuals with family coverage. The City also pays up to a maximum of \$500 per employee per year for in-patient hospitalization.

(12) Note Receivable

During the year ended June 30, 1999, the City loaned \$100,677 to Tri-County Cash Lumber Mart, Inc. to assist them with the financing of water and sewer line improvements in connection with their development project. The note term began on

October 28, 1998 and matures on November 1, 2008. Interest accrues at the rate of five percent per annum and is paid annually on or before November 1 of each year beginning on November 1, 1999. The entire principal balance and remaining accrued interest shall be paid in full on November 1, 2008. The remaining balance on the note was \$6,292 at June 30, 2007.

(13) Economic Development

On February 18, 1999, the City entered into a Community Economic Betterment Agreement (CEBA) with Iowa Department of Economic Development (IDED) and Parker Industries, Inc. The IDED provided a \$100,000 loan at zero percent interest payable in sixty monthly installments and a \$200,000 forgivable loan payable only if certain employment criteria are not met. The City of Jefferson's liability for the repayment of the note is limited to amounts collected through its good faith enforcement of the security interest obtained by the City.

During the fiscal year ended June 30, 2004, the City entered into a development agreement with West Central Coop in which the City agreed to pay \$660,000 in tax increment payments.

(14) Deficit Fund Balance

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

Special Revenue Fund:

Community Development Block Grant	\$ 9,700
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Capital Projects Funds:

Railroad Grade Separation	16,576
Airport Improvements	18,551
Harrison Street Sewer Main	33,574

The deficit in the Community Development Block Grant Fund will be eliminated upon receipt of grant funds in the next fiscal year. The deficits in the projects will be eliminated by transfers.

(15) Construction Commitments

The City has entered into various construction contracts totaling approximately \$404,625. The unpaid contract balances as of June 30, 2007 totaled approximately \$145,527 which will be paid as work on the projects progresses.

(16) Related Party Transactions

The City had business transactions between the City and City officials totaling \$29,613 during the year ended June 30, 2007.

(17) Lawsuit

A lawsuit has been filed against the City for physical damages caused to an individual who fell on the City's sidewalk. The lawsuit is being defended by the City's insurance company. The City's coverage limit is \$2,000,000 but the damages being sought by the plaintiff are in excess of this amount.

Required Supplementary Information

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

Required Supplementary Information

Year ended June 30, 2007

	Governmental Funds Actual	Proprietary Funds Actual	Discretely Presented Component Unit Included in the Budget
Receipts:			
Property tax	\$ 1,586,705	-	-
Tax increment financing collections	307,079	-	-
Other city tax	144,994	-	-
Licenses and permits	33,796	-	-
Use of money and property	35,863	66,436	41,053
Intergovernmental	742,255	7,018	-
Charges for service	413,822	1,985,636	-
Miscellaneous	97,895	24,664	526
Total receipts	<u>3,362,409</u>	<u>2,083,754</u>	<u>41,579</u>
Disbursements:			
Public safety	497,633	-	-
Public works	371,245	-	-
Health and Social Services	7,988	-	-
Culture and recreation	871,208	-	-
Community and economic development	297,139	-	-
General government	435,667	-	-
Debt service	588,602	-	-
Capital projects	155,407	-	-
Business type activities	207,691	1,881,823	39,090
Total disbursements	<u>3,432,580</u>	<u>1,881,823</u>	<u>39,090</u>
Excess (deficiency) of receipts over (under) disbursements	(70,171)	201,931	2,489
Other financing sources, net	307,099	(299,049)	-
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	236,928	(97,118)	2,489
Balances beginning of year	<u>2,378,655</u>	<u>1,237,864</u>	<u>11,199</u>
Balances end of year	<u>\$ 2,615,583</u>	<u>1,140,746</u>	<u>13,688</u>

See accompanying independent auditors' report.

Net	Budgeted Amounts		Final to Net Variance
	Original	Final	
1,586,705	1,528,298	1,528,298	58,407
307,079	217,853	217,853	89,226
144,994	90,653	203,497	(58,503)
33,796	20,325	20,325	13,471
143,352	30,120	69,820	73,532
749,273	721,875	853,523	(104,250)
2,399,458	2,388,193	2,428,193	(28,735)
123,085	43,700	51,900	71,185
<u>5,487,742</u>	<u>5,041,017</u>	<u>5,373,409</u>	<u>114,333</u>
497,633	493,684	501,084	3,451
371,245	351,820	368,320	(2,925)
7,988	14,500	14,500	6,512
871,208	832,565	887,565	16,357
297,139	265,194	325,194	28,055
435,667	460,830	460,830	25,163
588,602	406,808	572,808	(15,794)
155,407	630,980	285,980	130,573
<u>2,128,604</u>	<u>2,125,262</u>	<u>2,155,262</u>	<u>26,658</u>
<u>5,353,493</u>	<u>5,581,643</u>	<u>5,571,543</u>	<u>218,050</u>
134,249	(540,626)	(198,134)	332,383
<u>8,050</u>	<u>-</u>	<u>2,000</u>	<u>6,050</u>
142,299	(540,626)	(196,134)	338,433
<u>3,627,718</u>	<u>3,584,445</u>	<u>3,584,445</u>	<u>43,273</u>
<u><u>3,770,017</u></u>	<u><u>3,043,819</u></u>	<u><u>3,388,311</u></u>	<u><u>381,706</u></u>

City of Jefferson

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2007

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

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds, Proprietary Funds, the Permanent Fund and the Component Unit. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted receipts and disbursements by \$332,392 and \$10,100 respectively. The budget amendment is reflected in the final budgeted amounts.

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

Other Supplementary Information

City of Jefferson

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

As of and for the year ended June 30, 2007

	Recycling	Police Federal Forfeiture	Local Option Sales Tax	Enrich Iowa	Unemployment Compensation	LEC Capital Improvement	Special Skate Park
Receipts:							
Property taxes	\$ -	-	-	-	-	-	-
Other city tax	-	-	96,027	-	-	-	-
Use of money and property	-	-	-	-	858	-	-
Intergovernmental	-	-	-	2,368	-	1,256	-
Charges for service	114,796	-	-	-	-	-	-
Miscellaneous	3,930	-	-	-	-	200	-
Total receipts	118,726	-	96,027	2,368	858	1,456	-
Disbursements:							
Operating:							
Public safety	-	5,144	-	-	-	2,250	-
Public works	-	-	-	-	-	-	-
Culture and recreation	-	-	-	2,368	-	-	-
Community and economic development	-	-	-	-	-	-	-
Health and social services	-	-	-	-	-	-	-
General government	-	-	-	-	-	-	-
Capital projects	-	-	-	-	-	-	-
Business type activities	207,691	-	-	-	-	-	-
Total disbursements	207,691	5,144	-	2,368	-	2,250	-
Excess (deficiency) of receipts over (under) disbursements	(88,965)	(5,144)	96,027	-	858	(794)	-
SRF Loan proceeds	-	-	-	-	-	-	-
Operating transfers in(out)	47,500	1,281	-	-	-	-	-
Total other financing sources	47,500	1,281	-	-	-	-	-
Net change in cash balances	(41,465)	(3,863)	96,027	-	858	(794)	-
Cash balances beginning of year	98,411	3,863	-	1,387	24,580	8,065	1,525
Cash balances end of year	\$ 56,946	-	96,027	1,387	25,438	7,271	1,525
Cash Basis Fund Balances							
Unreserved:							
Special revenue funds	\$ 56,946	-	96,027	1,387	25,438	7,271	1,525
Debt service funds	-	-	-	-	-	-	-
Capital projects funds	-	-	-	-	-	-	-
Permanent fund	-	-	-	-	-	-	-
Total cash basis fund balances	\$ 56,946	-	96,027	1,387	25,438	7,271	1,525

See accompanying independent auditors' report.

Revenue						
Library	Cemetery Mahaney Mausoleum	Industrial Development Emergency Draw	Cemetery Land Reserve	Community Center	Payroll Clearing	Equipment Replacement
-	-	-	-	-	-	\$ -
-	-	-	-	-	-	-
-	183	771	2,256	18	-	245
2,405	-	-	-	-	-	-
-	-	-	-	-	-	-
7,414	-	240	27	-	-	-
9,819	183	1,011	2,283	18	-	245
-	-	-	-	-	-	-
-	-	-	-	-	-	-
10,034	-	-	25,431	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
10,034	-	-	25,431	-	-	-
(215)	183	1,011	(23,148)	18	-	245
-	-	-	-	-	-	-
-	-	-	4,000	-	-	(20,500)
-	-	-	4,000	-	-	(20,500)
(215)	183	1,011	(19,148)	18	-	(20,255)
32,914	10,245	32,313	54,208	5,711	7,311	103,051
32,699	10,428	33,324	35,060	5,729	7,311	\$ 82,796
32,699	10,428	33,324	35,060	5,729	7,311	\$ 82,796
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
32,699	10,428	33,324	35,060	5,729	7,311	\$ 82,796

City of Jefferson

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances

Nonmajor Governmental Funds

As of and for the year ended June 30, 2007

	Special Revenue					CDBG	Debt Service Tax Increment Financing
	Health Insurance Sinking Fund	Downtown Streetscape	Downpayment Assistance	Cafeteria Plan	Self Insurance and Employee Benefits		
Receipts:							
Property taxes	-	-	-	-	-	-	13,803
Other city tax	-	-	-	-	-	-	-
Use of money and property	-	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	28,159	-
Charges for service	-	-	-	-	-	-	-
Miscellaneous	-	5,650	-	10,320	-	-	-
Total receipts	-	5,650	-	10,320	-	28,159	13,803
Disbursements:							
Operating:							
Public safety	-	-	-	-	-	-	-
Public works	-	5,607	-	-	-	-	-
Culture and recreation	-	-	-	-	-	-	-
Community and economic development	-	-	12,000	-	-	35,159	148,676
Health and social services	1,800	-	-	6,188	-	-	-
General government	-	-	-	-	-	-	-
Capital projects	-	-	-	-	-	-	-
Business type activities	-	-	-	-	-	-	-
Total disbursements	1,800	5,607	12,000	6,188	-	35,159	148,676
Excess (deficiency) of receipts over (under) disbursements	(1,800)	43	(12,000)	4,132	-	(7,000)	(134,873)
SRF loan proceeds	-	-	-	-	-	-	-
Operating transfers in (out)	4,000	-	12,000	-	-	-	-
Total other financing sources (uses)	4,000	-	12,000	-	-	-	-
Net change in cash balances	2,200	43	-	4,132	-	(7,000)	(134,873)
Cash balances beginning of year	983	-	-	-	45,090	(2,700)	287,963
Cash balances end of year	3,183	43	-	4,132	45,090	(9,700)	153,090
Cash Basis Fund Balances							
Unreserved:							
Special revenue funds	3,183	43	-	4,132	45,090	(9,700)	-
Debt service funds	-	-	-	-	-	-	153,090
Capital projects funds	-	-	-	-	-	-	-
Permanent fund	-	-	-	-	-	-	-
Total cash basis fund balances	3,183	43	-	4,132	45,090	(9,700)	153,090

See accompanying independent auditors' report.

Capital Projects										Permanent	Total
Sewer Force	Drainage	Sewer	Airport	Drainage	Drainage	Railroad	Water	Harrison	Cemetery		
Main	District #89	Plant Construction	Improvements	District #97	District #57	Grade Separation	System Improvements	Street Sewer Main	Perpetual Care		
-	-	-	-	-	-	-	-	-	-	-	13,803
-	-	-	-	-	-	-	-	-	-	-	96,027
-	-	-	-	-	-	-	-	-	-	-	4,331
88,736	-	-	100,000	-	-	47,927	-	-	-	-	270,851
-	-	-	-	-	-	-	-	-	-	-	114,796
4,409	-	-	6,964	-	-	-	-	-	1,317	6,050	46,521
93,145	-	-	106,964	-	-	47,927	-	-	1,317	6,050	546,329
-	-	-	-	-	-	-	-	-	-	-	7,394
-	-	-	-	-	-	-	-	-	-	-	5,607
-	-	-	-	-	-	-	-	-	-	-	37,833
-	-	-	-	-	-	-	-	-	-	-	195,835
-	-	-	-	-	-	-	-	-	-	-	7,988
-	-	-	-	-	-	-	-	-	-	-	-
27,083	-	6,542	42,706	-	2,300	64,503	-	-	-	-	143,134
-	-	-	-	-	-	-	-	-	-	-	207,691
27,083	-	6,542	42,706	-	2,300	64,503	-	-	-	-	605,482
66,062	-	(6,542)	64,258	-	(2,300)	(16,576)	-	1,317	6,050	(59,153)	
-	-	2,000	-	-	-	-	-	-	-	-	2,000
144,507	-	4,542	32,412	-	-	-	-	-	-	-	229,742
144,507	-	6,542	32,412	-	-	-	-	-	-	-	231,742
210,569	-	-	96,670	-	(2,300)	(16,576)	-	1,317	6,050	172,589	
(210,569)	265	-	(115,221)	23,600	7,127	-	3,000	(34,891)	164,113	552,344	
-	265	-	(18,551)	23,600	4,827	(16,576)	3,000	(33,574)	170,163	724,933	
-	-	-	-	-	-	-	-	-	-	-	438,689
-	-	-	-	-	-	-	-	-	-	-	153,090
-	265	-	(18,551)	23,600	4,827	(16,576)	3,000	(33,574)	-	(37,009)	
-	-	-	-	-	-	-	-	-	170,163	170,163	
-	265	-	(18,551)	23,600	4,827	(16,576)	3,000	(33,574)	170,163	724,933	

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

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation bonds:			
Corporate purpose bonds	Sep 1, 2003	2.95-3.70%	\$ 1,875,000
Corporate purpose bonds	May 26, 2005	3.30-3.50%	1,120,000
Total			
Urban renewal tax increment financing (TIF) revenue bonds			
	Jun 1, 1999	3.25%	\$ 1,275,000
Revenue notes:			
Water	Mar 1, 2003	2.00-3.70%	\$ 1,820,000
State revolving loan:			
2003 Sewer revenue bonds	Jun 10, 2003	3.00%	\$ 4,951,000

See accompanying independent auditors' report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
1,875,000	-	-	1,875,000	63,383	-
815,000	-	315,000	500,000	28,025	-
2,690,000	-	315,000	2,375,000	91,408	-
291,049	-	173,316	117,733	8,077	-
1,270,000	-	195,000	1,075,000	41,823	-
4,215,000	2,000	180,000	4,037,000	126,468	-

City of Jefferson
 Bond and Note Maturities
 June 30, 2007

<u>General Obligation Notes</u>					
Year Ending June 30,	<u>Corporate Purpose Issued Sep 2003</u>		<u>Corporate Purpose Issued May 2005</u>		<u>Total</u>
	Interest Rates	Amount	Interest Rates	Amount	
2008	2.95%	\$ 95,000	3.50	\$ 165,000	\$ 260,000
2009	2.95	100,000	3.30	165,000	265,000
2010	2.95	100,000	3.40	170,000	270,000
2011	3.15	290,000		-	290,000
2012	3.35	305,000		-	305,000
2013	3.45	315,000		-	315,000
2014	3.60	330,000		-	330,000
2015	3.70	340,000		-	340,000
Total		<u>\$ 1,875,000</u>		<u>\$ 500,000</u>	<u>2,375,000</u>

See accompanying independent auditors' report.

Year Ending June 30,	Urban Renewal Tax Increment Financing (TIF) Revenue Bonds 1999 Series Issued Jun 1, 1999		State Revolving Loan 2003 Sewer Revenue Bonds Issued Jun 10, 2003		Revenue Notes Water Issued Mar 1, 2003	
	Interest		Interest		Interest	
	Rates	Amount	Rates	Amount	Rates	Amount
2008	3.25%	\$ 117,733	3.00%	\$ 186,000	3.10%	\$ 200,000
2009	-	-	3.00	192,000	3.30	205,000
2010	-	-	3.00	197,000	3.30	215,000
2011	-	-	3.00	203,000	3.55	225,000
2012	-	-	3.00	210,000	3.70	230,000
2013	-	-	3.00	216,000	-	-
2014	-	-	3.00	222,000	-	-
2015	-	-	3.00	229,000	-	-
2016	-	-	3.00	236,000	-	-
2017	-	-	3.00	243,000	-	-
2018	-	-	3.00	250,000	-	-
2019	-	-	3.00	258,000	-	-
2020	-	-	3.00	265,000	-	-
2021	-	-	3.00	273,000	-	-
2022	-	-	3.00	282,000	-	-
2023	-	-	3.00	290,000	-	-
2024	-	-	3.00	299,000	-	-
Total		<u>\$ 117,733</u>		<u>\$ 4,051,000</u> *		<u>\$ 1,075,000</u>

* Amount is based upon entire loan being borrowed at fiscal year end.
Only \$4,037,000 was actually outstanding as of June 30, 2007.

City of Jefferson

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

For the Last Four Years

	2007	2006	2005	2004
Receipts:				
Property tax	\$ 1,586,705	\$ 1,599,116	\$ 1,535,837	\$ 1,413,435
Tax increment financing collections	307,079	251,752	206,592	184,977
Other city tax	144,994	56,549	55,725	57,917
Licenses and permits	33,796	18,089	18,303	14,600
Use of money and property	35,863	16,862	14,096	12,225
Intergovernmental	742,255	950,415	915,590	606,722
Charges for service	413,822	456,697	457,735	316,278
Miscellaneous	97,895	72,250	107,909	115,591
Total	\$ 3,362,409	\$ 3,421,730	\$ 3,311,787	\$ 2,721,745
Disbursements:				
Operating:				
Public safety	\$ 497,633	\$ 496,320	\$ 489,929	\$ 556,413
Public works	371,245	404,907	440,591	423,836
Culture and recreation	7,988	883,826	803,456	778,352
Community and economic development	871,208	478,638	410,310	154,769
Health and social services	297,139	15,142	8,492	-
General government	435,667	449,568	391,135	369,158
Debt service	588,602	595,908	1,700,641	577,531
Capital projects	155,407	878,420	2,344,771	4,102,904
Business type activities	207,691	80,398	-	-
Total	\$ 3,432,580	\$ 4,283,127	\$ 6,589,325	\$ 6,962,963

See accompanying independent auditor's report.

City of Jefferson

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

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund, the discretely presented component unit, and the aggregate remaining fund information of the City of Jefferson, 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 August 27, 2007. 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 Jefferson's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of Jefferson's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. A reportable condition is described in Part II of the accompanying Schedule of Findings.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Jefferson'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 III of the accompanying Schedule of Findings.

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

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Jefferson and other parties to whom the City of Jefferson 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 Jefferson 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.

August 27, 2007
Ames, Iowa

City of Jefferson

City of Jefferson

Schedule of Findings

Year ended June 30, 2007

Part I: Summary of the Independent Auditors' 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) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, including material weaknesses.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.

City of Jefferson

Schedule of Findings

Year ended June 30, 2007

Part II: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITION:

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

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

Response – We will consider this.

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

City of Jefferson
 Schedule of Findings

Year ended June 30, 2007

Part III: Other Findings Related to Statutory Reporting:

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

Recommendation – Although the budget was amended once, it 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 do so.

Conclusion – Response accepted.

III-B-07 Questionable Disbursements – No disbursements were noted that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

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

III-D-07 Business Transactions – 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>
Derek Teeples, brother of employee and son of Council Member, owner of Teeples Heating and Cooling	Services	6,504*
Bob Smith, Employee, owner of Ben Franklin	Supplies	17,481
Derek Bauer, Son of Employee, Co-Owner of Tri-County Lumber	Supplies	4,086

City of Jefferson
 Schedule of Findings
 Year ended June 30, 2007

Bill Figenshaw, Council Member, owner of Figenshaw Furniture	Supplies	400
Nick Sorensen, Employee, owner of Almost Perfect Construction	Services	330
Randy Bunkers, Council Member, owner of Bunker's Dunkers	Food	264
Mike Wright, Employee, Owner of Wright Electric LLC	Services	548

* Of this amount, \$4,000 was for a service that was covered by bids.

In accordance with Chapter 362.5(10) of the Code of Iowa, the transactions with the first three individuals appear to represent conflicts of interest since total transactions with each individual were more than \$1,500. The transactions with the other individuals do not appear to represent conflicts of interest because total transactions with those individuals did not exceed \$1,500.

Recommendation – The City should consult with legal counsel to determine the disposition of this matter.

Response – We will do so.

Conclusion – Response accepted.

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

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

III-G-07 Deposits and Investments – The City and its component unit own \$2,325 par value common stock of the West Central Cooperative. Although this type of investment is not permitted by the Code of Iowa, it was acquired by patronage dividend, therefore the City is not in violation of Chapter 12 of the Code of Iowa.

The stock is not readily marketable, and can only be redeemed by the Coop and thus no market value of the shares is determinable. However, the City should monitor the marketability of the stock and consider selling the stock if a market becomes available.

City of Jefferson
Schedule of Findings
Year ended June 30, 2007

III-H-07 Revenue Bonds and Notes – The resolutions authorizing the issuance of the sewer revenue bonds require a minimum net revenue amount to be maintained. The City has not met the minimum amount for the fiscal year ended June 30, 2007. Also, the Sewer account is in a deficit balance as of June 30, 2007 therefore the Sinking account is not backed by cash.

Also, interest paid on the water revenue bonds on December 1, 2006 was made from the sewer sinking account rather than the water sinking account.

Recommendation – The City should either increase revenues or decrease disbursements in sufficient amounts so that their minimum net revenue requirements can be met and so the Sewer account balance can be brought up to a positive position.

The City should also transfer money from the water sinking account to the sewer sinking account to reimburse it for the amount of interest that was paid from the wrong account.

Response – The City increased the water and sewer rates on January 1, 2007 and July 1, 2007.

The City also has already made the transfer from the water sinking account to the sewer sinking account.

Conclusion – Response accepted.

III-I-07 Outstanding Checks – Per Chapter 556.11 of the Code of Iowa, checks that are still outstanding after three years should be reported to the State Treasurer annually by November 1st. The City did not do this.

Recommendation – The City should comply with Chapter 556.11 of the Code of Iowa.

Response – We will do so.

Conclusion – Response accepted.

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

Special Revenue Fund:	
Community Development Block Grant	\$ 9,700
Capital Projects Funds:	
Harrison Street Sewer Main	33,574
Railroad Grade Separation	16,576
Airport Improvements	18,551

City of Jefferson
Schedule of Findings
Year ended June 30, 2007

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

Response –The deficits will be eliminated.

Conclusion – Response accepted.

III-K-07 Form 1099s – Not all Form 1099s were prepared and filed as required by the Internal Revenue Code.

Recommendation – The City should file Form 1099s as required.

Response – We will do so.

Conclusion – Response accepted.