

CITY OF BRITT

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

JUNE 30, 2007

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CITY OF BRITT

OFFICIALS

(After January 2007)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
James Nelson	Mayor	Jan 2008
Patricia Byers	Mayor Pro tem	Jan 2008
Gary Gelner	Council Member	Jan 2008
Dwight Leerar	Council Member	Jan 2008
Nathan Lemmon	Council Member	Jan 2010
Douglas Weiland	Council Member	Jan 2010
Jean Purvis	City Clerk	Jan 2008
Darcy Eisenman	Deputy City Clerk	Jan 2008
Jane Swenson	Treasurer	Jan 2008
Earl Hill	Attorney	Jan 2008

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Britt, 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 City of Britt'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 that 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 and the aggregate remaining fund information of the City of Britt 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 October 5, 2007 on our consideration of the City of Britt'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 6 through 15 and 28 through 29 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 Britt'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 (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 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.

October 5, 2007

Renner & Birchem, P.C.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Britt provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2007. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2007 FINANCIAL HIGHLIGHTS

- Revenues of the City's governmental activities decreased 36.2% approximately \$738,842, from fiscal 2006 to fiscal 2007. Property tax increased approximately \$58,000 and short-term borrowing decreased approximately \$818,313.
- Disbursements decreased 24.1% or approximately \$470,737 in fiscal 2007 from fiscal 2006. Public works disbursements increased approximately \$95,000. Capital projects, public safety and general government disbursements decreased approximately \$415,000, \$10,280 and \$52,000 respectively.
- The City's total cash basis net assets decreased 7.1%, or approximately \$100,600, from June 30, 2006 to June 30, 2007. Of this amount, the assets of the governmental activities decreased approximately \$90,000 and the assets of the business type activities decreased by approximately \$10,600.

USING THIS ANNUAL REPORT

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

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

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial

statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

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

Basis of Accounting

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

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information that helps answer this question.

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

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

Fund Financial Statements

The City has two kinds of funds:

- 1) Governmental funds account for most of the City’s basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Revolving Loan, 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 statements for governmental funds include a statement of cash receipts, disbursements and changes in cash balances.

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

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

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 \$1,050,248 to \$960,316. The analysis that follows focuses on the changes in cash balances for governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities		
	Year ended June 30,	
	2007	2006
Receipts and transfers:		
Program receipts:		
Charges for service	\$ 46,713	38,844
Operating grants, contributions and restricted interest	193,280	188,280
Capital grants, contributions and restricted interest	40,374	82,346
General receipts:		
Property tax	673,818	586,934
Local option sales tax	134,871	142,126
Unrestricted investment earnings	36,402	3,742
Other general receipts	174,670	178,385
Transfers, net	95,000	110,000
Short-term borrowing		818,313
Total receipts and transfers	<u>1,395,128</u>	<u>2,148,970</u>

Disbursements:		
Public safety	236,671	246,957
Public works	319,535	285,394
Culture and recreation	162,517	164,626
Community and economic development	95,011	156,537
General government	233,067	223,085
Debt service	158,533	183,818
Capital projects	279,726	694,880
Total disbursements	<u>1,485,060</u>	<u>1,955,297</u>
Increase (decrease) in cash basis net assets	(89,932)	193,673
Cash basis net assets beginning of year	<u>1,050,248</u>	<u>857,075</u>
Cash basis net assets end of year	<u>\$ 960,316</u>	<u>1,050,748</u>

The City's total receipts for governmental activities decreased by 35.1% or \$753,842. The total cost of all programs and services decreased by \$470,737, or 24.1%, with no new programs added this year.

The City's property tax receipts for 2007 increased by approximately \$86,884.

The cost of all governmental activities this year was \$1.485 million compared to \$1.956 million last year. However, as shown in the Statement of Activities and Net Assets on page 17, the amount taxpayers ultimately financed for these activities was only \$1.205 million because some of the cost was paid by those directly benefited from the programs (\$46,713) or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest (\$233,654). Overall, the City's governmental activities receipts, including intergovernmental aid and fees for service totaled approximately \$1,395,000. The City paid for the remaining "public benefit" portion of governmental activities with approximately \$1,205,000 in tax (some of which could only be used for certain programs) and with other receipts, such as interest and general entitlements.

Changes in Cash Basis Net Assets of Business Type Activities		
	Year ended June 30,	
	2007	2006
Receipts:		
Program receipts:		
Charges for service:		
Water	\$ 151,354	131,987
Sewer	150,476	147,133
General receipts:		
Unrestricted interest on investments	18,213	
Other general receipts		19,032
Total receipts	<u>320,043</u>	<u>298,152</u>
Disbursements and transfers:		
Water	83,484	86,397
Sewer	152,216	145,833
Transfers	95,000	110,000
Total disbursements and transfers	<u>330,700</u>	<u>342,230</u>
Increase (decrease) in cash basis net assets	(10,657)	(44,078)
Cash basis net assets beginning of year	<u>375,883</u>	<u>419,961</u>
Cash basis net assets end of year	<u>\$ 365,226</u>	<u>375,883</u>

Total business type activities receipts for the fiscal year were \$320,043 compared to \$298,152 last year. Total disbursements and transfers for the fiscal year decreased by 3.37% to a total of \$330,700. The cash balance decreased by \$10,657 during the fiscal year compared to a decrease of \$44,078 last year.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Britt completed the year, its governmental funds reported a combined fund balance of \$960,316, a decrease of \$89,932 below last year's total of \$1,050,248. 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 \$96,366 from the prior year to \$182,646. The increase included a correcting transfer entry of \$125,000.
- The Road Use Tax Fund cash balance increased by \$38,675 to \$97,501 during the fiscal year.
- The Employee Benefit Fund cash balance decreased by \$4,249 to \$28,058 during the fiscal year.

- The Local Option Tax Fund cash balance decreased by \$81,989 to \$283,058 during the fiscal year. The decrease included a correcting transfer of \$125,300 from prior year.
- The Capital Projects Fund cash balance decreased by \$218,533 to \$67,934 during the fiscal year.
- The Debt Service Fund cash balance increased by \$15,274.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance increased by \$17,254 to \$187,427 during the fiscal year.
- The Sewer Fund cash balance decreased by \$27,911 to \$85,576 during the fiscal year.

BUDGETARY HIGHLIGHTS

The City amended its budget on June 4, 2007. The amendment resulted in an increase in miscellaneous and other financing sources of \$83,500 and \$969,979 respectively and an increase in expenditures of \$1,068,979.

DEBT ADMINISTRATION

At June 30, 2007, the City had \$1,055,000 in general obligation and revenue bonds, compared to \$1,255,000 at the end of the prior year, as shown below.

	Outstanding Debt at Year-End	
	June 30,	
	2007	2006
General obligation bonds and short-term borrowing	\$ 845,000	980,000
Revenue notes	210,000	275,000
Total	<u>\$ 1,055,000</u>	<u>1,255,000</u>

The constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City’s corporate limits. The City’s outstanding general obligation debt of \$845,000 is significantly below its constitutional debt limit of approximately \$1,500,000.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City of Britt's elected and appointed officials and citizens considered many factors when setting the fiscal year 2008 budget, tax rates, and fees that will be charged for various City activities.

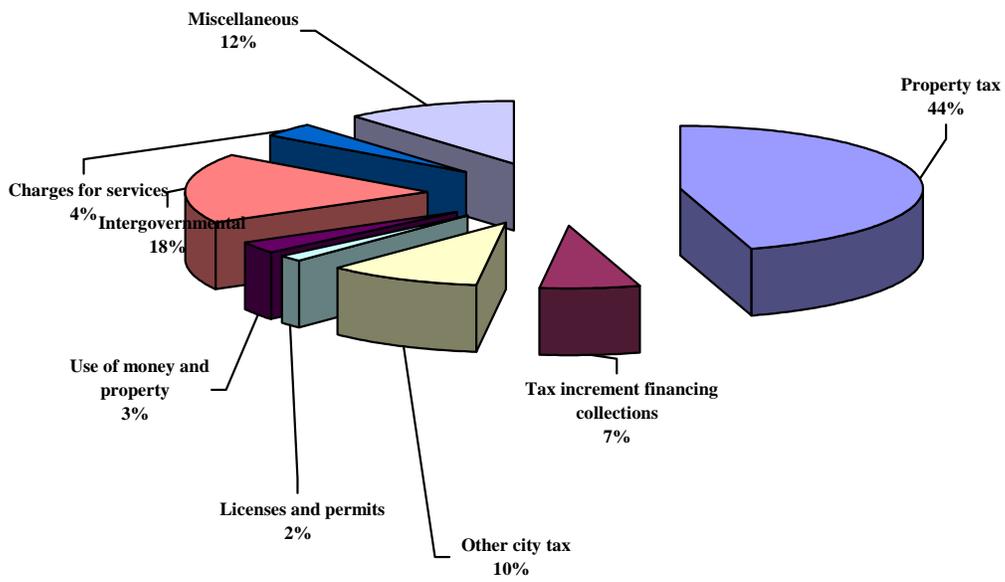
These among other economic factors were taken into account when adopting the budget for fiscal year 2008. Amounts available for appropriation in the operating budget are \$3.7 million, an increase of 33.3% from the final 2007 budget. Proposed bonding for the aquatic center and anticipated associated grants and awards are expected to lead this increase. These increases will be used to defray construction costs of the new aquatic center. Budgeted disbursements are expected to increase by approximately \$1,500,000.

If these estimates are realized, the City's budgeted cash balance is expected to decrease approximately \$87,000 by the close of 2008. Actual amounts can and usually do differ from budgeted amounts.

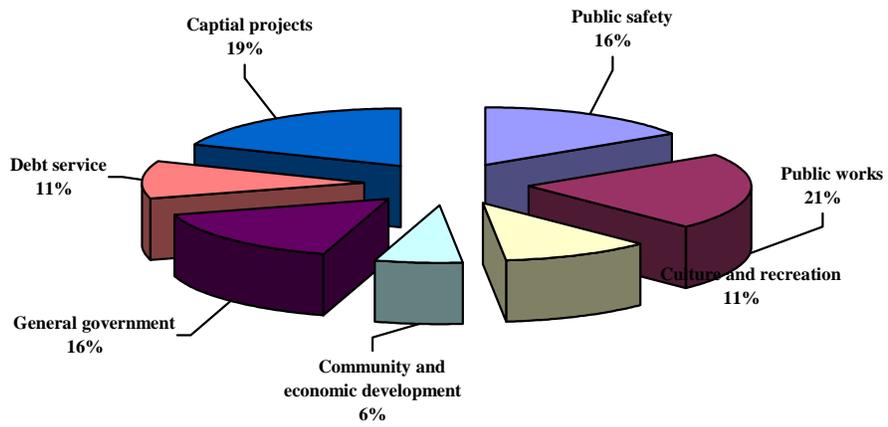
CONTACTING THE CITY'S FINANCIAL MANAGEMENT

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 Jeanie Purvis, City Clerk, 170 Main Avenue South, Britt, Iowa.

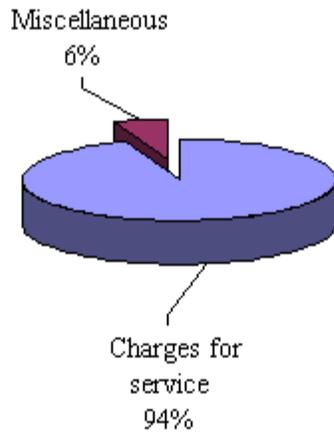
Governmental Activity Receipts by Source For the Year Ending June 30, 2007



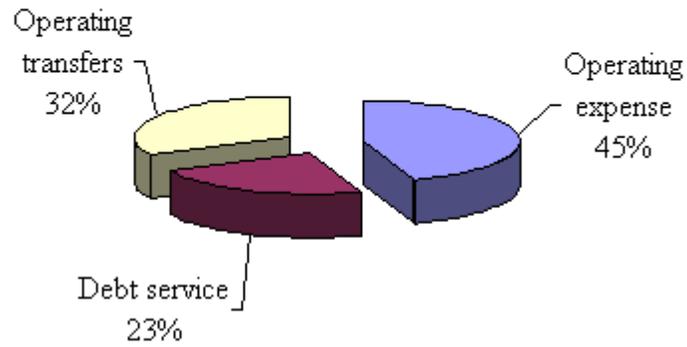
Governmental Activities Disbursements by Function For the Year Ending June 30, 2007



**Business Type Activity Receipts by Source
For Fiscal Year Ending June 30, 2007**



**Business Type Funds Disbursements
For Fiscal Year Ending June 30, 2007**



BASIC FINANCIAL STATEMENTS

Statement of Activities and Net Assets - Cash Basis

As of and for the year ended June 30, 2007

	Program Receipts				Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
	Disbursements	Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	Total
Functions / Programs:							
Governmental activities:							
Public safety	\$ 236,671		2,657		(234,014)		(234,014)
Public works	319,535	26,080	171,024		(122,431)		(122,431)
Culture and recreation	162,517	10,487	19,599		(132,431)		(132,431)
Community and economic development	95,011	10,146			(84,865)		(84,865)
General government	233,067				(233,067)		(233,067)
Debt service	158,533				(158,533)		(158,533)
Capital projects	279,726			40,374	(239,352)		(239,352)
Total governmental activities	1,485,060	46,713	193,280	40,374	(1,204,693)		(1,204,693)
Business type activities:							
Water	83,484	151,354				67,870	67,870
Sewer	152,216	150,476				(1,740)	(1,740)
Total business type activities	235,700	301,830				66,130	66,130
Total	\$ 1,720,760	348,543	193,280	40,374	(1,204,693)	66,130	(1,138,563)
General Receipts:							
Property tax levied for:							
General purposes					\$ 327,626		327,626
Tax increment financing					86,642		86,642
Employee benefits and insurance					97,777		97,777
Debt service					161,773		161,773
Local option sales tax					134,871		134,871
Unrestricted interest on investments					36,402	18,213	54,615
Miscellaneous					174,670		174,670
Transfers					95,000	(95,000)	
Total general receipts					1,114,761	(76,787)	1,037,974
Change in cash basis net assets					(89,932)	(10,657)	(100,589)
Cash basis net assets beginning of year					1,050,248	375,883	1,426,131
Cash basis net assets end of year					\$ 960,316	365,226	1,325,542
Cash Basis Net Assets							
Restricted:							
Streets					\$ 97,501		97,501
Urban renewal purposes					223,431		223,431
Debt service					3,572	92,223	95,795
Other purposes					425,108		425,108
Unrestricted					210,704	273,003	483,707
Total cash basis net assets					\$ 960,316	365,226	1,325,542

See notes to financial statements.

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

As of and for the year ended June 30, 2007

	Special Revenue							Total
	General	Road Use Tax	Employee Benefits	Local Option	Debt Service	Capital Projects	Nonmajor	
Receipts:								
Property tax	\$ 327,626		97,777		161,773			587,176
Tax increment financing							86,642	86,642
Other city tax	697			134,174				134,871
Licenses and permits	22,291							22,291
Use of money and property	12,367		1,394	10,738	1,034	5,567	7,916	39,016
Intergovernmental	22,256	171,024				40,374		233,654
Charges for services	46,713							46,713
Miscellaneous	57,007	36,355				26,252	30,151	149,765
Total receipts	488,957	207,379	99,171	144,912	162,807	72,193	124,709	1,300,128
Disbursements:								
Operating:								
Public safety	201,933		34,738					236,671
Public works	37,546	203,704	43,569	34,716				319,535
Culture and recreation	156,141		6,376					162,517
Community and economic development	29,961			4,865			60,185	95,011
General government	152,310		18,737	62,020				233,067
Debt service					158,533			158,533
Capital projects						279,726		279,726
Total disbursements	577,891	203,704	103,420	101,601	158,533	279,726	60,185	1,485,060
Excess (deficiency) of receipts over (under) disbursements	(88,934)	3,675	(4,249)	43,311	4,274	(207,533)	64,524	(184,932)
Other financing sources (uses):								
Operating transfers in	185,300	35,000			11,000			231,300
Operating transfers out				(125,300)		(11,000)		(136,300)
Total other financing sources (uses)	185,300	35,000		(125,300)	11,000	(11,000)		95,000
Net change in cash balances	96,366	38,675	(4,249)	(81,989)	15,274	(218,533)	64,524	(89,932)
Cash balances beginning of year	86,280	58,826	32,307	365,047	(11,702)	286,467	233,023	1,050,248
Cash balances end of year	\$ 182,646	97,501	28,058	283,058	3,572	67,934	297,547	960,316
Cash Basis Fund Balances								
Reserved:								
Debt service					3,572			3,572
Unreserved:								
General fund	\$ 182,646							182,646
Special revenue funds		97,501	28,058	283,058			297,547	706,164
Capital projects						67,934		67,934
Total cash basis fund balances	\$ 182,646	97,501	28,058	283,058	3,572	67,934	297,547	960,316

See notes to financial statements.

City of Britt

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
	Water	Sewer	Sewer Utility Sinking	Sewer Reserve	
Operating receipts:					
Charges for service	\$ 151,354	150,476			301,830
Total operating receipts	151,354	150,476			301,830
Operating disbursements:					
Business type activities	83,484	71,326			154,810
Total operating disbursements	83,484	71,326			154,810
Excess of operating receipts over operating disbursements	67,870	79,150			147,020
Non-operating receipts (disbursements):					
Interest on investments	9,384	8,829			18,213
Debt service		(80,890)			(80,890)
Net non-operating receipts (disbursements)	9,384	(72,061)			(62,677)
Excess of receipts over disbursements	77,254	7,089			84,343
Operating transfers out	(60,000)	(35,000)			(95,000)
Net change in cash balances	17,254	(27,911)			(10,657)
Cash balances beginning of year	170,173	113,487	20,223	72,000	375,883
Cash balances end of year	\$ 187,427	85,576	20,223	72,000	365,226
Cash Basis Fund Balances					
Reserved for debt service			20,223	72,000	92,223
Unreserved	\$ 187,427	85,576			273,003
Total cash basis fund balances	\$ 187,427	85,576	20,223	72,000	365,226

See notes to financial statements.

CITY OF BRITT

Notes to Financial Statements

June 30, 2007

(1) Summary of Significant Accounting Policies

The City of Britt is a political subdivision of the State of Iowa located in Hancock County. It was first incorporated in 1881 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, culture, recreation, public improvements and general administrative services. The City of Britt also provides water and sewer utilities for its citizens.

A. Reporting Entity

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

Jointly Governed Organizations

The City also participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Hancock County Assessor's Conference Board and Hancock County Development Commission, Hancock County Disaster/911 and Hancock County Task Force.

B. Basis of Presentation

Government-wide Financial Statements – The Statement of Activities and Net Assets reports information on all 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.

CITY OF BRITT

Notes to Financial Statements (continued)

June 30, 2007

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 that are not paid from other funds.

Special Revenue:

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

The Employee Benefits Fund is used to account for employee benefits.

The Local Option Tax Fund is used to account for local option sales tax collected.

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

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

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.

CITY OF BRITT

Notes to Financial Statements (continued)

June 30, 2007

The Sewer Utility Sinking Fund and Sewer Revenue are to provide for payment of debt service on the sewer revenue bonds.

C. Measurement Focus and Basis of Accounting

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

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

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

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

CITY OF BRITT

Notes to Financial Statements (continued)

June 30, 2007

(3) Bonds Payable

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

Year Ending June 30,	General Obligation Bonds		Revenue Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2008	\$ 65,000	41,920	65,000	12,185	130,000	54,105
2009	75,000	32,078	70,000	8,447	145,000	40,525
2010	75,000	29,152	75,000	4,388	150,000	33,540
2011	80,000	26,190			80,000	26,190
2012	85,000	22,990			85,000	22,990
2013-2017	<u>465,000</u>	<u>60,575</u>			<u>465,000</u>	<u>60,575</u>
Total	<u>\$845,000</u>	<u>212,905</u>	<u>210,000</u>	<u>25,020</u>	<u>1,055,000</u>	<u>237,925</u>

The resolutions providing for the issuance of the revenue bonds include the following provision:

- (a) The bonds will only be redeemed from the future earnings of the enterprise activity and the bond holders hold a lien on the future earnings of the funds.
- (b) Sufficient monthly transfers shall be made to the sewer revenue bond sinking fund for the purpose of making the bond principal and interest payments when due.
- (c) \$720,000 of sewer revenue capital loan notes were issued April 1, 1997, payable until April 2010. A reserve fund of \$72,000 has been established to be used solely for the purpose of paying principal at maturity of or interest on the notes and parity obligations for the payment of which insufficient money shall be available in the sinking fund.

The City Council directed that \$226,794 be advanced to the Urban Renewal Tax Increment Fund from the Water Utility Fund and Local Option Fund in order to pay the costs of streets and utilities improvements within the Britt Urban Renewal Area. This advance shall be treated as a loan (the "Loan") to the Urban Renewal Tax Increment Fund and shall be repaid to the Water Utility Fund and Local Option Fund out of incremental tax revenues received with respect to the Urban Renewal Area.

Payments on the loan are subject to annual appropriation by the City Council and to the Council's determination that there are incremental tax revenues available for such purpose which have been allocated to or accrued in the Urban Renewal Tax Increment Fund.

Once appropriated, payments shall be made on the Loan each year to the extent there are incremental tax revenues available for such purpose which have been allocated to or accrued in the Urban Renewal Tax Increment Fund. The right is hereby reserved to issue additional obligations, or to enter into additional loans, payable from the Urban Renewal Tax Increment Fund, which may either rank on parity with the loan or may have a priority over the loan with respect to the revenues in the Urban Renewal Tax Increment fund.

CITY OF BRITT

Notes to Financial Statements (continued)

June 30, 2007

(4) Pension and Retirement Benefits

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

Most regular plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contribution to IPERS for the years ended June 30, 2007, 2006 and 2005 were \$23,469, \$22,189, and \$22,568 respectively, equal to the required contribution for each year.

(5) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation and comp time hours for subsequent use or for payment upon termination, retirement or death. Sick leave hours are accumulated for subsequent use but are not paid 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 comp time termination payments payable to employees at June 30, 2007, primarily relating to the General Fund, is as follows:

<u>Type of Benefit</u>	<u>Amount June 30, 2007</u>
Vacation and Comp Time	\$ <u>6,896</u>

This liability has been computed based on rates of pay as of June 30, 2007.

(6) Interfund Transfers

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

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General Fund	Enterprise:	
	Water	\$ 60,000
	Special Revenue:	
	Local Option	<u>125,300</u>
		<u>185,300</u>
Road Use Tax	Enterprise:	
	Sewer	<u>35,000</u>
Debt Service	Capital Projects	<u>11,000</u>
Total		<u>\$231,300</u>

CITY OF BRITT

Notes to Financial Statements (continued)

June 30, 2007

(7) Related Party Transactions

No transactions between the City and City officials occurred during the year ended June 30, 2007.

(8) Risk Management

The City is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 556 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

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

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

The City's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The City's annual contributions to the Pool for the year ended June 30, 2007 were \$33,990.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000 per claim and \$5,000,000 in aggregate per year. For members requiring specific coverage from \$3,000,000 to \$10,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$100,000 each occurrence, each location, with excess coverage reinsured on an individual-member basis.

CITY OF BRITT

Notes to Financial Statements (continued)

June 30, 2007

(8) Risk Management (con't)

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event that a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. As of June 30, 2007, settled claims have not exceeded the risk pool or reinsurance company coverage since the pool's inception.

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

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

REQUIRED SUPPLEMENTARY INFORMATION

City of Britt

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	Less Funds not Required to be Budgeted	Net	Budgeted Amounts		Final to Net Variance
					Original	Final	
Receipts:							
Property tax	\$ 587,176			587,176	549,917	549,917	37,259
Tax increment financing collections	86,642			86,642	84,000	84,000	2,642
Other city tax	134,871			134,871	174,724	174,724	(39,853)
Licenses and permits	22,291			22,291	3,760	3,760	18,531
Use of money and property	39,016	18,213		57,229	18,600	18,600	38,629
Intergovernmental	233,654			233,654	388,331	388,331	(154,677)
Charges for services	46,713	301,830		348,543	328,450	328,450	20,093
Miscellaneous	149,765		30,151	119,614	14,097	97,597	22,017
Total receipts	1,300,128	320,043	30,151	1,590,020	1,561,879	1,645,379	(55,359)
Disbursements:							
Public safety	236,671			236,671	240,778	250,778	14,107
Public works	319,535			319,535	313,901	322,901	3,366
Culture and recreation	162,517			162,517	176,418	196,418	33,901
Community and economic development	95,011		60,185	34,826	330,000	330,000	295,174
General government	233,067			233,067	197,305	240,305	7,238
Debt service	158,533			158,533	159,033	159,033	500
Capital projects	279,726			279,726	226,395	286,395	6,669
Business type activities		235,700		235,700	261,635	261,635	25,935
Total disbursements	1,485,060	235,700	60,185	1,660,575	1,905,465	2,047,465	386,890
Excess (deficiency) of receipts over (under) disbursements	(184,932)	84,343	(30,034)	(70,555)	(343,586)	(402,086)	331,531
Other financing sources, net	95,000	(95,000)				43,000	(43,000)
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(89,932)	(10,657)	(30,034)	(70,555)	(343,586)	(359,086)	288,531
Balances beginning of year	1,050,248	375,883	104,150	1,321,981	1,414,490	1,414,490	(92,509)
Cash balances end of year	\$ 960,316	365,226	74,116	1,251,426	1,070,904	1,055,404	196,022

See accompanying independent auditor's report.

City of Britt

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2007

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

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

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, a budget amendment increased budgeted disbursements by \$142,000. The budget amendments are reflected in the final budgeted amounts.

OTHER SUPPLEMENTARY INFORMATION

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

As of and for the year ended June 30, 2007

	Special Revenue		
	Revolving Loan	Urban Renewal Tax Increment	Total
Receipts:			
Tax increment financing collections		86,642	86,642
Use of money and property		7,916	7,916
Miscellaneous	\$ 30,151		30,151
Total receipts	30,151	94,558	124,709
Disbursements:			
Community and economic development	60,185		60,185
Total disbursements	60,185		60,185
Excess (deficiency) of receipts over (under) disbursements	(30,034)	94,558	64,524
Cash balances beginning of year	104,150	128,873	233,023
Cash balances end of year	\$ 74,116	223,431	297,547
Cash Basis Fund Balances			
Unreserved:			
Special revenue funds	\$ 74,116	223,431	297,547

See accompanying independent auditor's report.

Schedule of Indebtedness

Year ended June 30, 2007

Obligation	Date of Issue	Rate of Interest	Amount Originally Issued	Balance Beginning of Year	Issued During the Year	Redeemed During Year	Balance End of Year	Interest Paid
General Obligation Bonds:								
Capital loan (refinance)	4-1-04	1.35-2.15%	\$ 460,000	155,000		155,000		3,332
Short-term borrowing	7-28-05	3.15%	825,000	825,000		825,000		
Capital loan	3-15-07	3.9-4.3%	845,000		845,000		845,000	
Total				<u>980,000</u>	<u>845,000</u>	<u>980,000</u>	<u>845,000</u>	<u>3,332</u>
Revenue Bond:								
Sewer	4-1-97	4.75-5.85%	720,000	<u>275,000</u>		<u>65,000</u>	<u>210,000</u>	<u>15,890</u>
Internal Loan:								
Tax increment			226,794	<u>226,794</u>			<u>226,794</u>	
Total				<u>\$ 1,481,794</u>	<u>845,000</u>	<u>1,045,000</u>	<u>1,281,794</u>	<u>19,222</u>

See accompanying independent auditor's report.

City of Britt

Bond Maturities

June 30, 2007

Year Ending June 30,	General Obligation Bond	
	Capital Loan	
	Issued March 15, 2007	
	Interest Rates	Amount
2008	3.90%	\$ 65,000
2009	3.90	75,000
2010	3.95	75,000
2011	4.00	80,000
2012	4.05	85,000
2013	4.10	85,000
2014	4.15	90,000
2015	4.20	95,000
2016	4.25	95,000
2017	4.30	100,000
Total		\$ 845,000

Year Ending June 30,	Revenue Notes	
	Sewer	
	Issued April 1, 1997	
	Interest Rates	Amount
2008	5.75%	\$ 65,000
2009	5.80	70,000
2010	5.85	75,000
Total		\$ 210,000

See accompanying independent auditor's report.

City of Britt

Schedule of Receipts by Source and Disbursements by Function –
All Governmental Funds

For the Last Four Years

	2007	2006	2005	2004
Receipts:				
Property tax	\$ 587,176	527,179	452,456	424,817
Tax increment financing	86,642	57,755	46,303	19,110
Other city tax	134,871	142,126	122,940	126,438
Licenses and permits	22,291	2,651	1,981	3,969
Use of money and property	39,016	7,787	22,930	25,352
Intergovernmental	233,654	292,596	262,084	321,789
Charges for service	46,713	38,844	43,713	36,732
Miscellaneous	149,765	147,244	92,955	116,808
Total	\$ 1,300,128	1,216,182	1,045,362	1,075,015
Disbursements:				
Operating:				
Public safety	\$ 236,671	246,957	215,160	210,273
Public works	319,535	285,894	381,731	180,968
Culture and recreation	162,517	164,626	153,489	117,531
Community and economic development	95,011	156,537	117,946	165,503
General government	233,067	223,085	164,539	78,845
Debt service	158,533	183,818	159,815	54,692
Capital project	279,726	694,880	91,982	126,410
Total	\$ 1,485,060	1,955,797	1,284,662	934,222

See accompanying independent auditor's report.

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

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Britt, 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 October 5, 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 Britt'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 Britt's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Britt's internal control over financial reporting.

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

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Britt'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 Britt's financial statements that is more than inconsequential will not be prevented or detected by the City of Britt's internal control. We consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings to be significant deficiencies in the 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 Britt'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 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, of the significant deficiencies described above, we believe items I-A-07, I-B-07, and I-C-07 are material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Britt'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 II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 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 Britt's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the City's responses, we did not audit the City of Britt's responses and, accordingly, we express no opinion of 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 Britt and other parties to whom the City of Britt 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 Britt 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.

October 5, 2007

Renner & Birchem, P.C.

City of Britt

Schedule of Findings

Year ended June 30, 2007

Part I: Findings Related to the Financial Statements:

Significant Deficiencies:

I-A-07 Segregation of Duties - One important aspect of internal accounting control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The areas of cash receipts, cash disbursements, investments, and payroll under ideal conditions would be segregated.

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

Response - We will investigate 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.

I-B-07 Utility Billing – During the audit, we identified a multi unit residential customer that was being incorrectly under billed for a number of billing periods. The change occurred when billing system was updated.

Recommendation – The City should implement procedures to ensure proper utility rates are used and if system updated or rates change all customers are being properly billed.

Response – This was an isolated incident and will not occur again. The customer rates have been corrected.

Conclusion - Response accepted.

I-C-07 Separately Maintained Records – During the audit, it was noted that aquatic center donations and fund raising receipts are not being run through the City Clerk’s office. Savings accounts and certificates of deposits are maintained separate from the City’s accounts allowing transactions to go unrecorded. Accordingly, certain donations to this account are not being appropriately included on the City’s financial statements.

Recommendation – All receipts should be run through the City Clerk’s office and fully documented in the City’s financial records. For better accountability, financial and budgetary control, the total financial activity and balances of all City accounts should be included in the City’s accounting records and reported to the Council on a monthly basis.

Response – The City has subsequently taken control of the aquatic center accounts, receipts and expenditures.

Conclusion - Response accepted.

City of Britt

Schedule of Findings

Year ended June 30, 2007

Instances of Non-compliance:

No matters were noted.

Part II: Other Findings Related to Statutory Reporting:

- II-A-07 Certified Budget – Disbursements during the year ended June 30, 2007 did not exceed amounts budgeted which is in compliance with Chapter 384.20 of the Code of Iowa.
- II-B-07 Questionable Disbursements - We noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- II-C-07 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- II-D-07 Business Transactions - No transactions between the City and City officials were noted.
- II-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.
- II-F-07 Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not.
- II-G-07 Deposits and Investments - We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy.
- II-H-07 Revenue Bonds - The City has complied with the revenue bond resolutions.
- II-I-07 Bank Statements – Chapter 554d.114(5) of the Code of Iowa requires that if actual checks are not returned with the statement that the electronic form must also include the backs of the instruments.

Recommendation – The City should require the bank to provide required information in either a paper copy or in electronic form on a CD for the City to maintain at their office.

Response – We will do this.

Conclusion – Response accepted.