

CITY OF SERGEANT BLUFF, IOWA

Sergeant Bluff, Iowa

**INDEPENDENT AUDITORS' REPORTS
BASIC FINANCIAL STATEMENTS,
SUPPLEMENTARY INFORMATION AND
SCHEDULE OF FINDINGS AND RESPONSES**

**For the Year Ended
June 30, 2007**

CITY OF SERGEANT BLUFF, IOWA

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INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and
Members of the City Council
City of Sergeant Bluff
Sergeant Bluff, Iowa

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 Sergeant Bluff, 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 Sergeant Bluff's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Sergeant Bluff, Iowa, as of June 30, 2007, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 30, 2008 on our consideration of the City of Sergeant Bluff's internal control over financial reporting and on 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 the internal control over financial reporting or on 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.



KING, REINSCH, PROSSER & CO., L.L.P.
Certified Public Accountants

The management's discussion and analysis and budgetary comparison information on pages 3 through 10 and pages 36 through 38 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, 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 Sergeant Bluff's basic financial statements. Supplementary information included on pages 39 through 41 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information has been subjected to the auditing procedures applied in the 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.

King Reinsch Prosser & Co. LLP

Sioux City, Iowa
May 30, 2008

Management's Discussion and Analysis

The discussion and analysis of the City of Sergeant Bluff's financial performance for the year ended June 30, 2007 provides a narrative overview of its financial activities. Readers are encouraged to consider the information presented here in conjunction with the City's financial statements, which follow.

Financial Highlights

- The City's assets of approximately \$25 million are divided between Governmental Activities (\$12 million) and Business-Type Activities (\$13 million). Combined assets exceeded liabilities by approximately \$18 million. Of this amount, approximately \$5 million is unrestricted and may be used to meet the City's ongoing obligations to citizens and creditors.
- At June 30, 2007, the City of Sergeant Bluff's governmental funds reported combined ending fund balances of approximately \$400,000.
- The unreserved fund balance for the general fund, at the end of the current fiscal year was approximately \$460,000. This represents 24 percent of total general fund expenditures.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City of Sergeant Bluff's basic financial statements. The City's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains supplementary information in addition to the basic financial statements.

Government-Wide Financial Statements. The government-wide financial statements are designed to provide readers with a broad overview of the City of Sergeant Bluff's finances, in a manner similar to a private-sector business. The Statement of Net Assets is essentially a balance sheet that combines all funds on a government-wide basis. Changes in net assets over time may be an indicator of whether the City's financial position is improving or worsening.

The Statement of Activities presents information showing how the City's net assets changed during the most recent fiscal year. All changes in the net assets are reported as soon as the underlying event occurs, giving rise to the change regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in the statement for some items that will only result in cash flows in future fiscal periods (e.g. uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City of Sergeant Bluff that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the

City of Sergeant Bluff include general government, public safety, public works, community and economic development, culture and recreation and debt service. The Business-Type Activities of the City include an electric, water, sewer, solid waste and storm water utility.

The government-wide financial statements can be found on pages 11-12 of this report.

Fund Financial Statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Sergeant Bluff, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statement, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of the governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City of Sergeant Bluff maintains 7 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, local option sales tax fund, debt service fund, and capital projects fund, which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements as supplementary information.

The basic governmental fund financial statements can be found on pages 13-16 of this report.

Proprietary Funds. The City of Sergeant Bluff maintains one type of proprietary fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its Electric, Water, Sewer, Solid Waste and Storm Water Utilities.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Electric, Water, Sewer, Solid Waste and Storm Water Utilities as all are considered, or have been designated to be major funds of the City.

The basic proprietary fund financial statements can be found on pages 17-19 of this report.

Fiduciary Funds. Fiduciary funds are used to account for resources held for the benefit of parties external to the City. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the City of Sergeant Bluff's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The basic fiduciary funds financial statements are reported in a separate statement of fiduciary net assets.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 21-35 of this report.

Government-Wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The largest part of the City's net assets reflects its investment in capital assets (land, buildings and improvements, and equipment) less any related debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The following comparative chart shows the changes in net assets for the years ended June 30, 2007 and 2006:

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total City</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Current and other assets	\$ 2,777,899	\$ 2,309,142	\$ 4,745,441	\$ 4,171,629	\$ 7,523,340	\$ 6,480,771
Capital assets	<u>9,775,066</u>	<u>9,886,699</u>	<u>8,043,323</u>	<u>7,950,809</u>	<u>17,818,389</u>	<u>17,837,508</u>
Total assets	\$ 12,552,965	\$ 12,195,841	\$ 12,788,764	\$ 12,122,438	\$ 25,341,729	\$ 24,318,279
Long-term debt outstanding	\$ 4,071,355	\$ 3,975,057	\$ 1,307,792	\$ 1,417,809	\$ 5,379,147	\$ 5,392,866
Other liabilities	<u>1,482,811</u>	<u>1,325,092</u>	<u>509,199</u>	<u>369,059</u>	<u>1,992,010</u>	<u>1,694,151</u>
Total liabilities	\$ 5,554,166	\$ 5,300,149	\$ 1,816,991	\$ 1,786,868	\$ 7,371,157	\$ 7,087,017
Net assets:						
Invested in capital assets, net of related debt	\$ 5,781,523	\$ 5,946,699	\$ 6,780,542	\$ 6,555,809	\$ 12,562,065	\$ 12,502,508
Restricted	857,183	638,793	-	-	857,183	638,793
Unrestricted	<u>360,093</u>	<u>310,200</u>	<u>4,191,231</u>	<u>3,779,761</u>	<u>4,551,324</u>	<u>4,089,961</u>
Total net assets	\$ <u>6,998,799</u>	\$ <u>6,895,692</u>	\$ <u>10,971,773</u>	\$ <u>10,335,570</u>	\$ <u>17,970,572</u>	\$ <u>17,231,262</u>

This summary reflects a 1 percent increase in governmental activities net assets and an increase of 6 percent in the business-type activities net assets.

Total revenue reported in Fiscal Year 2007 was \$6,778,036. The following table breaks down revenues collected for governmental activities and business-type activities for fiscal year 2007 and 2006.

Revenue Source	Governmental Activities		Business-Type Activities		Total	
	2007	2006	2007	2006	2007	2006
Program revenues:						
Charges for services	\$ 300,360	\$ 210,132	\$ 4,217,851	\$ 4,005,574	\$ 4,518,211	\$ 4,215,706
Operating grants and contributions	354,098	316,786	-	-	354,098	316,786
Capital grants and contributions	-	97,785	-	-	-	97,785
Total program revenues	\$ 654,458	\$ 624,703	\$ 4,217,851	\$ 4,005,574	\$ 4,872,309	\$ 4,630,277
General revenues and transfers:						
Property taxes	\$ 1,300,523	\$ 1,128,602	\$ -	\$ -	\$ 1,300,523	\$ 1,128,602
Local option sales tax	362,474	305,685	-	-	362,474	305,685
Hotel/motel tax	17,678	34,436	-	-	17,678	34,436
Interest	48,395	39,688	9,243	2,428	57,638	42,116
Insurance recoveries	39,946	-	-	-	39,946	-
Use of property	6,000	-	8,570	13,880	14,570	13,880
Gain on sale of assets	37,495	50,763	-	-	37,495	50,763
Miscellaneous	24,055	29,267	51,348	13,999	75,403	43,266
Transfers	373,298	171,209	(373,298)	(171,209)	-	-
Total general revenues and transfers	\$ 2,209,864	\$ 1,759,650	\$ (304,137)	\$ (140,902)	\$ 1,905,727	\$ 1,618,748
	\$ 2,864,322	\$ 2,384,353	\$ 3,913,714	\$ 3,864,672	\$ 6,778,036	\$ 6,249,025

Program revenues totaled \$4,872,309 for fiscal year 2007. Governmental activities provided \$654,458 and business-type activities provided \$4,217,851. Revenue collected for charges for services during the year was \$4,518,211, accounting for 93 percent of total program revenues.

General revenues for fiscal year 2007 totaled \$1,905,727, with governmental activities providing \$2,209,864, and business-type activities using \$304,137. Property tax revenues for fiscal year 2007 totaled \$1,300,523, accounting for 68 percent of general revenues.

Expenses for fiscal year 2007 totaled \$6,038,726. Expenses for governmental activities totaled \$2,761,215, accounting for 46 percent of total expenses. Business-type activity expenses totaled \$3,277,511, for 54 percent of the total. The following table shows total expenses by Function/Program:

Program Level	Governmental Activities		Business-Type Activities		Total	
	2007	2006	2007	2006	2007	2006
Public safety	\$ 975,313	\$ 934,927	\$ -	\$ -	\$ 975,313	\$ 934,927
Public works	827,094	732,433	-	-	827,094	732,433
Culture and recreation	271,297	141,698	-	-	271,297	141,698
Community and economic development	160,778	72,653	-	-	160,778	72,653
General government	329,372	294,363	-	-	329,372	294,363
Interest and related costs on long-term debt	197,361	196,326	-	-	197,361	196,326
Electric utility	-	-	2,093,169	1,963,272	2,093,169	1,963,272
Water utility	-	-	414,362	447,258	414,362	447,258
Sewer utility	-	-	490,398	542,269	490,398	542,269
Solid waste utility	-	-	246,814	197,206	246,814	197,206
Storm water utility	-	-	32,768	19,737	32,768	19,737
Total expenses	\$ 2,761,215	\$ 2,372,400	\$ 3,277,511	\$ 3,169,742	\$ 6,038,726	\$ 5,542,142

The following table shows the activities included within each program level:

Public Safety	Individual & Community Protection, Physical Health
Public Works	Roadway Construction, Airport Operations, General Streets, Transportation Services
Culture and Recreation	Education & Culture, Leisure Time Opportunities
Community and Economic Development	Economic Development and Community Beautification
General Government	Administration, Accounting, Support Services
Debt Service	Payment of Interest
Electric Utility	Operation of Electric Distribution System
Water Utility	Operation of Water Supply Distribution System
Sewer Utility	Operation of Waste Water Treatment Plant/Collection System
Solid Waste Utility	Operation of Garbage and Recycling Collection and Disposal System
Storm Water Utility	Operation of Storm Water Drainage System

Governmental Activities

To aid in the understanding of the Statement of Activities, some additional clarification is given. Of particular interest is the format that is significantly different than a typical Statement of Revenues, Expenses and Changes in Fund Balance. Please note that the expenses are listed in the first column, with revenues from that particular program reported to the right. The result is a Net (Expense) Revenue calculation. This format highlights the respective financial burden that each of the functions place on the taxpayers. For example, the City spent \$975,313 for Public Safety and received \$187,134 in revenue, leaving a cost to taxpayers of \$788,179 to be funded by various methods. The new format also identifies how much each function draws from general revenues or is self-financing through fees or grants. Some of the individual line item revenues reported for each function are:

Public Safety	Fines, Fees
Public Works	Road Use Tax, Rent
Culture and Recreation	Fees, State Aid
General Government	Licenses, Permits

The total cost of governmental activities this year was \$2,761,215. Of these costs, \$300,360 was paid by those who directly benefited from the programs. Costs paid by other governments and organizations that subsidized certain programs with grants and contributions were \$354,098, leaving a Net Expense of \$2,106,757 for Governmental Activities. These expenses were covered with tax revenues, interest, and other general revenues. The Statement of Activities in the financial statements provides further detail. The Net (Expense) Revenue by Governmental Activity is shown in the following table:

<u>Functions/Programs</u>	<u>Net (Expense) Revenue</u>	
	<u>2007</u>	<u>2006</u>
Governmental activities:		
Public safety	\$ (788,179)	\$ (671,708)
Public works	(541,987)	(447,149)
Culture and recreation	(214,099)	(141,698)
Community and economic development	(67,913)	(40,191)
General government	(297,218)	(250,625)
Interest and related costs on long-term debt	<u>(197,361)</u>	<u>(196,326)</u>
Total net (expense) governmental activities	<u>\$(2,106,757)</u>	<u>\$(1,747,697)</u>
General revenues and transfers	<u>2,209,864</u>	<u>1,759,650</u>
Change in net assets	<u>\$ 103,107</u>	<u>\$ 11,953</u>

Total resources available during the year to finance governmental operations were \$9,760,014, consisting of net assets at July 1, 2006 of \$6,895,692, program revenues of \$654,458 and general revenues of \$2,209,864. Total governmental activities during the year expended \$2,761,215; thus, net assets were increased by \$103,107 to \$6,998,799.

Business-Type Activities

Business-type activities increased the City's net assets by \$636,203, accounting for 86 percent of the growth in the City's net assets.

The cost of all proprietary activities this year was \$3,277,511. As shown in the Statement of Activities, program revenue was \$4,217,851, resulting in a total Net Revenue of \$940,340.

<u>Business-Type Activities</u>	<u>Net (Expense) Revenue</u>	
	<u>2007</u>	<u>2006</u>
Electric utility	\$ 492,203	\$ 658,635
Water utility	351,153	178,200
Sewer utility	47,487	(84,801)
Solid waste utility	592	16,110
Storm water utility	<u>48,905</u>	<u>67,688</u>
Total net revenue business-type activities	<u>\$ 940,340</u>	<u>\$ 835,832</u>
General revenues and transfers	<u>(304,137)</u>	<u>(140,902)</u>
Change in net assets	<u>\$ 636,203</u>	<u>\$ 694,930</u>

Total resources available during the year to finance proprietary fund activities were \$14,249,284, consisting of net assets at July 1, 2006, of \$10,335,570, program revenues of \$4,217,851, and general revenues net of transfers of (\$304,137). Total proprietary fund activities during the year expended \$3,277,511; thus, net assets were increased by \$636,203 to \$10,971,773.

Financial Analysis of The City's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance related legal requirements. The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing financing requirements. Unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of a fiscal year. The City's Governmental Funds reported combined ending fund balances \$379,728. The combined Governmental Funds balance decreased \$148,771 from the prior year.

The General Fund is the main operating fund of the City. During the year, expenditures exceeded revenues in the General Fund by \$25,052. Capital Projects expenditures exceeded revenues by \$464,479. This change is the result of issuing an anticipatory note being shown at the fund level. Also the Electric Utility Fund had revenues exceed expenditures by \$525,153. This is a decrease from prior year which was \$666,268. The decrease is due to increasing operating costs along with decreasing demand.

Budgetary Highlights

Comparing the fiscal year 2007 original (adopted) citywide amount of \$5,895,115 to the final budget amount of \$6,824,115 shows a net increase of \$929,000.

<u>Original Budget</u>	<u>Supplemental Changes</u>	<u>Amended Budget</u>
<u>\$ 5,895,115</u>	<u>\$ 929,000</u>	<u>\$ 6,824,115</u>

The following table shows the budget variances by program structure:

<u>Program</u>	<u>Final Budget</u>	<u>Actual (Cash Basis)</u>	<u>Variance Favorable (Unfavorable)</u>
Public Safety	\$ 936,688	\$ 930,385	\$ 6,303
Public Works	348,629	281,352	67,277
Culture and Recreation	278,127	252,812	25,315
Community and Economic Development	118,379	124,448	(6,069)
General Government	326,945	307,653	19,292
Debt Service	721,461	554,481	166,980
Capital Projects	486,000	430,868	55,132
Business-Type/Enterprise	<u>3,607,886</u>	<u>3,352,754</u>	<u>255,132</u>
	<u>\$ 6,824,115</u>	<u>\$ 6,234,753</u>	<u>\$ 589,362</u>

See pages 36-38 for more detail information regarding the City's budget.

Capital Assets

The City's investment in capital assets, including land, buildings and improvements, equipment, streets, electric systems, sewer systems, water systems, and other infrastructure represents the value of the resources utilized to provide services to our citizens. The investment in capital assets as of June 30, 2007, was \$17,818,389, (net of accumulated depreciation). This is a decrease of \$19,119 from fiscal year 2006. The gross additions to capital assets for fiscal years 2007 and 2006 are as follows:

	Governmental Activities		Business-Type Activities		Total	
	2007	2006	2007	2006	2007	2006
Infrastructure	\$ -	\$ 22,794	\$ -	\$ -	\$ -	\$ 22,794
Buildings	32,788	-	6,744	-	39,532	-
Land improvements	1,135,181	-	-	-	1,135,181	-
Distribution system	-	-	1,369,728	8,340	1,369,728	8,340
Equipment	171,437	245,067	62,743	78,848	234,180	323,915
Construction in progress	<u>480,102</u>	<u>898,359</u>	<u>199,193</u>	<u>1,082,877</u>	<u>679,295</u>	<u>1,981,236</u>
Total	<u>\$ 1,819,508</u>	<u>\$ 1,166,220</u>	<u>\$ 1,638,408</u>	<u>\$ 1,170,065</u>	<u>\$ 3,457,916</u>	<u>\$ 2,336,285</u>

Construction in progress consisted of costs associated with West Ridge road, the water treatment plant, wastewater treatment plant, and #5 lift station.

See Note 5 to the financial statements for more information on the City's capital assets.

Debt Administration

On June 30, 2007 the City had \$5,325,000 of debt outstanding. This is a decrease of \$10,000 from the prior year. \$470,000 of new debt was issued and \$480,000 of existing debt was retired.

See Note 6 to the financial statements for more information on the City's long-term debt.

Economic Factors

The City of Sergeant Bluff continues to report strong residential and commercial building projects. Property tax is a major source of revenue and Sergeant Bluff is fortunate that it has seen minor, but consistent increases in assessed and taxable valuation.

This steady growth has allowed the City to maintain its high level of service. The City has budgeted for use of General Fund balance during the past years, but has projected a balanced budget for the next three years. The General Fund balance continues to remain at a solid 33 percent of expenditures.

Requests for Information

This financial report is designed to provide a general overview of the City of Sergeant Bluff's financial position for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City of Sergeant Bluff, Administration Office, Sergeant Bluff, Iowa.

FINANCIAL STATEMENTS

CITY OF SERGEANT BLUFF, IOWA

STATEMENT OF NET ASSETS

JUNE 30, 2007

	<u>ASSETS</u>	<u>Primary Government</u>		<u>Total</u>
		<u>Governmental Activities</u>	<u>Business-Type Activities</u>	
Current assets:				
Cash		\$ 1,507,539	\$ 1,969,590	\$ 3,477,129
Investments		1,765,419	29,899	1,795,318
Receivables (net, where applicable, of allowance for uncollectibles):				
Taxes		9,844	-	9,844
Subsequent year taxes		1,173,077	-	1,173,077
Accounts		19,211	484,261	503,472
Accrued interest		-	32	32
Estimated unbilled usage		-	157,384	157,384
Due from other governmental agencies		74,196	-	74,196
Internal balances		(1,838,430)	1,838,430	-
Inventories		6,650	143,584	150,234
Prepaid assets		13,936	41,807	55,743
Total current assets		<u>\$ 2,731,442</u>	<u>\$ 4,664,987</u>	<u>\$ 7,396,429</u>
Non-current assets:				
Restricted assets - cash		\$ -	\$ 58,235	\$ 58,235
Unamortized bond issue costs		46,457	22,219	68,676
Land		393,609	202,934	596,543
Construction in progress		230,180	42,337	272,517
Infrastructure, property and equipment, net of accumulated depreciation (Note 5)		9,151,277	7,798,052	16,949,329
Total non-current assets		<u>\$ 9,821,523</u>	<u>\$ 8,123,777</u>	<u>\$ 17,945,300</u>
Total assets		<u>\$ 12,552,965</u>	<u>\$ 12,788,764</u>	<u>\$ 25,341,729</u>
	<u>LIABILITIES</u>			
Current liabilities:				
Accounts payable		\$ 256,698	\$ 439,526	\$ 696,224
Accrued wages and related taxes		35,583	7,499	43,082
Accrued interest payable		15,033	3,939	18,972
Unearned revenue		2,420	-	2,420
Deferred revenue - subsequent year taxes		1,173,077	-	1,173,077
Bonds and notes payable due within one year		1,265,000	115,000	1,380,000
Total current liabilities		<u>\$ 2,747,811</u>	<u>\$ 565,964</u>	<u>\$ 3,313,775</u>
Liabilities payable from restricted assets:				
Customer deposits		\$ -	\$ 58,235	\$ 58,235
Total liabilities payable from restricted assets		<u>\$ -</u>	<u>\$ 58,235</u>	<u>\$ 58,235</u>
Non-current liabilities:				
Bonds and notes payable due in more than one year		\$ 2,775,000	\$ 1,170,000	\$ 3,945,000
Compensated absences due in more than one year		31,355	22,792	54,147
Total non-current liabilities		<u>\$ 2,806,355</u>	<u>\$ 1,192,792</u>	<u>\$ 3,999,147</u>
Total liabilities		<u>\$ 5,554,166</u>	<u>\$ 1,816,991</u>	<u>\$ 7,371,157</u>
	<u>NET ASSETS</u>			
Invested in capital assets, net of related debt		\$ 5,781,523	\$ 6,780,542	\$ 12,562,065
Restricted:				
Debt service		90,656	-	90,656
Local option sales tax purposes		350,893	-	350,893
Road purposes		415,634	-	415,634
Unrestricted		360,093	4,191,231	4,551,324
Total net assets		<u>\$ 6,998,799</u>	<u>\$ 10,971,773</u>	<u>\$ 17,970,572</u>

CITY OF SERGEANT BLUFF, IOWA

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2007

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Primary government:				
Governmental activities:				
Public safety	\$ 975,313	\$ 187,134	\$ -	\$ -
Public works	827,094	7,233	277,874	-
Culture and recreation	271,297	48,505	8,693	-
Community and economic development	160,778	25,334	67,531	-
General government	329,372	32,154	-	-
Interest and related costs on long-term debt	197,361	-	-	-
Total governmental activities	<u>\$ 2,761,215</u>	<u>\$ 300,360</u>	<u>\$ 354,098</u>	<u>\$ -</u>
Business-type activities:				
Electric utility	\$ 2,093,169	\$ 2,585,372	\$ -	\$ -
Water utility	414,362	765,515	-	-
Sewer utility	490,398	537,885	-	-
Solid waste utility	246,814	247,406	-	-
Storm water utility	32,768	81,673	-	-
Total business-type activities	<u>\$ 3,277,511</u>	<u>\$ 4,217,851</u>	<u>\$ -</u>	<u>\$ -</u>
Total primary government	<u>\$ 6,038,726</u>	<u>\$ 4,518,211</u>	<u>\$ 354,098</u>	<u>\$ -</u>
General revenues:				
Property taxes, levied for general purposes				
Property taxes, levied for tax increment financing debt				
Property taxes, levied for debt service				
Local option sales tax				
Hotel/motel taxes				
Interest				
Insurance recoveries				
Use of property				
Gain on sale of assets				
Miscellaneous				
Transfers				
Total general revenues and transfers				
Change in net assets				
Net assets - beginning				
Net assets - ending				

See accompanying notes to financial statements.

Net (Expense) Revenue and
Changes in Net Assets

<u>Governmental</u> <u>Activities</u>	<u>Business-Type</u> <u>Activities</u>	<u>Total</u>
\$ (788,179)	\$ -	\$ (788,179)
(541,987)	-	(541,987)
(214,099)	-	(214,099)
(67,913)	-	(67,913)
(297,218)	-	(297,218)
<u>(197,361)</u>	<u>-</u>	<u>(197,361)</u>
<u>\$ (2,106,757)</u>	<u>\$ -</u>	<u>\$ (2,106,757)</u>
\$ -	\$ 492,203	\$ 492,203
-	351,153	351,153
-	47,487	47,487
-	592	592
<u>-</u>	<u>48,905</u>	<u>48,905</u>
<u>\$ -</u>	<u>\$ 940,340</u>	<u>\$ 940,340</u>
<u>\$ (2,106,757)</u>	<u>\$ 940,340</u>	<u>\$ (1,166,417)</u>
\$ 811,666	\$ -	\$ 811,666
139,332	-	139,332
349,525	-	349,525
362,474	-	362,474
17,678	-	17,678
48,395	9,243	57,638
39,946	-	39,946
6,000	8,570	14,570
37,495	-	37,495
24,055	51,348	75,403
<u>373,298</u>	<u>(373,298)</u>	<u>-</u>
<u>\$ 2,209,864</u>	<u>\$ (304,137)</u>	<u>\$ 1,905,727</u>
\$ 103,107	\$ 636,203	\$ 739,310
<u>6,895,692</u>	<u>10,335,570</u>	<u>17,231,262</u>
<u>\$ 6,998,799</u>	<u>\$ 10,971,773</u>	<u>\$ 17,970,572</u>

CITY OF SERGEANT BLUFF, IOWA

BALANCE SHEET - GOVERNMENTAL FUNDS

JUNE 30, 2007

	<u>General</u>	<u>Special Revenue Local Option Sales Tax</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>ASSETS</u>						
Cash and pooled investments	\$ 583,304	\$ 299,436	\$ 102,921	\$ -	\$ 521,878	\$ 1,507,539
Investments	4,545	-	-	1,625,000	135,874	1,765,419
Receivables (net, where applicable, of allowance for uncollectibles):						
Accounts	19,211	-	-	-	-	19,211
Taxes	6,976	-	2,868	-	-	9,844
Subsequent year taxes	892,420	-	280,657	-	-	1,173,077
Due from other governmental agencies	-	51,457	-	-	22,739	74,196
Inventories	-	-	-	-	6,650	6,650
 Total assets	 <u>\$ 1,506,456</u>	 <u>\$ 350,893</u>	 <u>\$ 386,446</u>	 <u>\$ 1,625,000</u>	 <u>\$ 687,141</u>	 <u>\$ 4,555,936</u>
<u>LIABILITIES AND FUND BALANCES</u>						
Liabilities:						
Accounts payable	\$ 116,220	\$ -	\$ 100	\$ 140,378	\$ -	\$ 256,698
Accrued wages and related taxes	35,583	-	-	-	-	35,583
Unearned revenue	2,420	-	-	-	-	2,420
Interfund payable	-	-	-	1,838,430	-	1,838,430
Deferred revenue - subsequent year taxes	892,420	-	280,657	-	-	1,173,077
Bond anticipation note payable	-	-	-	870,000	-	870,000
Total liabilities	<u>\$ 1,046,643</u>	<u>\$ -</u>	<u>\$ 280,757</u>	<u>\$ 2,848,808</u>	<u>\$ -</u>	<u>\$ 4,176,208</u>
Fund balances:						
Reserved for:						
Inventories	\$ -	\$ -	\$ -	\$ -	\$ 6,650	\$ 6,650
Debt service	-	-	105,689	-	-	105,689
Unreserved, reported in:						
General fund	459,813	-	-	-	-	459,813
Special revenue funds	-	350,893	-	-	680,491	1,031,384
Capital projects fund	-	-	-	(1,223,808)	-	(1,223,808)
Total fund balances (deficits)	<u>\$ 459,813</u>	<u>\$ 350,893</u>	<u>\$ 105,689</u>	<u>\$ (1,223,808)</u>	<u>\$ 687,141</u>	<u>\$ 379,728</u>
 Total liabilities and fund balances (deficits)	 <u>\$ 1,506,456</u>	 <u>\$ 350,893</u>	 <u>\$ 386,446</u>	 <u>\$ 1,625,000</u>	 <u>\$ 687,141</u>	 <u>\$ 4,555,936</u>

CITY OF SERGEANT BLUFF, IOWA

RECONCILIATION OF THE BALANCE SHEET -

GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS

JUNE 30, 2007

Total governmental fund balances (page 13)	\$ 379,728
 <i>Amounts reported for governmental activities in the statement of net assets are different because:</i>	
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the governmental funds balance sheet.	9,775,066
Prepaid expenses are reported in the governmental activities but are not reported in the funds as they do not provide current economic resources.	13,936
Accrued interest payable on long-term debt does not require current financial resources; therefore, it is not reported as a liability in the governmental funds balance sheet.	(15,033)
Compensated absences are not due and payable in the current period and therefore, are not reported as liabilities in the funds.	(31,355)
Long-term liabilities are not due and payable in the current period and, therefore, they are not reported in the governmental funds balance sheet.	
Due within one year	\$ 395,000
Due in more than one year	2,775,000
Deferred charges	<u>(46,457)</u> <u>(3,123,543)</u>
Total net assets of governmental activities (page 11)	\$ <u>6,998,799</u>

CITY OF SERGEANT BLUFF, IOWA

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES

IN FUND BALANCES - GOVERNMENTAL FUNDS

FOR THE YEAR ENDED JUNE 30, 2007

	<u>General</u>	<u>Special Revenue Local Option Sales Tax</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenue:						
Taxes	\$ 811,666	\$ -	\$ 349,525	\$ -	\$ -	\$ 1,161,191
Tax increment financing	-	-	-	-	139,332	139,332
Other city taxes	17,678	362,474	-	-	-	380,152
Special assessment	-	-	-	25,334	-	25,334
Licenses and permits	36,208	-	-	-	-	36,208
Intergovernmental revenue	17,969	-	-	-	277,874	295,843
Charges for services	127,732	-	-	-	69,739	197,471
Fines and forfeits	18,378	-	-	-	-	18,378
Contributions	81,224	-	-	-	-	81,224
Rental income	6,000	-	-	-	-	6,000
Interest	41,465	-	-	108	6,822	48,395
Miscellaneous	15,826	-	-	-	8,229	24,055
Total revenue	<u>\$ 1,174,146</u>	<u>\$ 362,474</u>	<u>\$ 349,525</u>	<u>\$ 25,442</u>	<u>\$ 501,996</u>	<u>\$ 2,413,583</u>
Expenditures:						
Operating:						
Public safety	\$ 874,160	\$ -	\$ -	\$ -	\$ 46,367	\$ 920,527
Public works	297,768	-	-	-	-	297,768
Culture and recreation	268,710	-	-	-	-	268,710
Community and economic development	124,156	-	-	-	-	124,156
General government	339,113	-	-	-	-	339,113
Capital projects	-	-	-	503,037	-	503,037
Debt service	-	-	554,582	5,200	-	559,782
Total expenditures	<u>\$ 1,903,907</u>	<u>\$ -</u>	<u>\$ 554,582</u>	<u>\$ 508,237</u>	<u>\$ 46,367</u>	<u>\$ 3,013,093</u>
Excess (deficiency) of revenues over expenditures	<u>\$ (729,761)</u>	<u>\$ 362,474</u>	<u>\$ (205,057)</u>	<u>\$ (482,795)</u>	<u>\$ 455,629</u>	<u>\$ (599,510)</u>
Other financing sources (uses):						
Proceeds from the sale of assets	\$ 37,495	\$ -	\$ -	\$ -	\$ -	\$ 37,495
Insurance proceeds	39,946	-	-	-	-	39,946
Transfers in	631,681	-	284,696	18,316	4,413	939,106
Transfers out	(4,413)	(291,548)	-	-	(269,847)	(565,808)
Total other financing sources (uses)	<u>\$ 704,709</u>	<u>\$ (291,548)</u>	<u>\$ 284,696</u>	<u>\$ 18,316</u>	<u>\$ (265,434)</u>	<u>\$ 450,739</u>
Net change in fund balance	\$ (25,052)	\$ 70,926	\$ 79,639	\$ (464,479)	\$ 190,195	\$ (148,771)
Fund balances (deficits) - beginning of year	<u>484,865</u>	<u>279,967</u>	<u>26,050</u>	<u>(759,329)</u>	<u>496,946</u>	<u>528,499</u>
Fund balances (deficits) - end of year	<u>\$ 459,813</u>	<u>\$ 350,893</u>	<u>\$ 105,689</u>	<u>\$ (1,223,808)</u>	<u>\$ 687,141</u>	<u>\$ 379,728</u>

CITY OF SERGEANT BLUFF, IOWA

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES

IN FUND BALANCES - GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2007

Net changes in fund balances - total governmental funds (page 15) \$ (148,771)

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays, including infrastructure, as expenditures. However, in the government-wide statement of activities and changes in net assets, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. Depreciation expense exceeded capital outlays in the current year as follows:

Capital asset purchases capitalized	\$ 671,227	
Depreciation expense	<u>(782,860)</u>	(111,633)

Prepaid insurance is not reported in the governmental funds as it is not available to provide current financial resources. (2,612)

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds:

Accrued compensated absences	3,702
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Accrued interest expense on long-term debt is reported in the government-wide statement of activities and changes in net assets, but does not require the use of current financial resources; therefore, accrued interest expense is not reported as expenditures in governmental funds. 145

The issuance of long-term debt (e.g. bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs when debt is first issued, whereas the amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.

Bond issuance costs	\$ 5,200	
Bond principal retirement	370,000	
Amortization of deferred charges	<u>(12,924)</u>	<u>362,276</u>

Change in net assets of governmental activities (page 12) \$ 103,107

CITY OF SERGEANT BLUFF, IOWA

STATEMENT OF NET ASSETS - PROPRIETARY FUNDS

JUNE 30, 2007

	Enterprise Funds	
<u>ASSETS</u>	Electric Utility	Water Utility
Current assets:		
Cash	\$ 1,201,449	\$ 303,446
Investments	-	19,718
Receivables (net, where applicable, of allowance for uncollectibles):		
Accounts	250,159	132,326
Accrued interest	-	-
Estimated unbilled funds	90,755	39,008
Interfund receivable	1,838,430	-
Inventories	143,584	-
Prepaid assets	13,935	13,936
Total current assets	\$ 3,538,312	\$ 508,434
Non-current assets:		
Restricted assets - cash	\$ 58,235	\$ -
Unamortized bond issue costs	-	2,705
Land	-	151,344
Construction in progress	-	20,287
Infrastructure, property and equipment, net of accumulated depreciation	932,455	3,375,502
Total non-current assets	\$ 990,690	\$ 3,549,838
Total assets	\$ 4,529,002	\$ 4,058,272
<u>LIABILITIES</u>		
Current liabilities:		
Accounts payable	\$ 343,997	\$ 15,568
Accrued wages and related taxes	5,351	135
Accrued interest payable	-	551
General obligation bonds payable due within one year	-	20,000
Total current liabilities	\$ 349,348	\$ 36,254
Liabilities payable from restricted assets:		
Customer deposits	\$ 58,235	\$ -
Total liabilities payable from restricted assets	\$ 58,235	\$ -
Non-current liabilities:		
General obligation bonds payable due in more than one year	\$ -	\$ 160,000
Compensated absences	8,735	8,695
Total non-current liabilities	\$ 8,735	\$ 168,695
Total liabilities	\$ 416,318	\$ 204,949
<u>NET ASSETS</u>		
Invested in capital assets, net of related debt	\$ 932,455	\$ 3,369,838
Unrestricted	3,180,229	483,485
Total net assets	\$ 4,112,684	\$ 3,853,323

See accompanying notes to financial statements.

Enterprise Funds

Sewer Utility	Solid Waste Utility	Storm Water Utility	Total
\$ 308,629	\$ 44,205	\$ 111,861	\$ 1,969,590
10,181	-	-	29,899
66,566	26,833	8,377	484,261
32	-	-	32
18,991	6,475	2,155	157,384
-	-	-	1,838,430
-	-	-	143,584
<u>13,936</u>	<u>-</u>	<u>-</u>	<u>41,807</u>
<u>\$ 418,335</u>	<u>\$ 77,513</u>	<u>\$ 122,393</u>	<u>\$ 4,664,987</u>
\$ -	\$ -	\$ -	\$ 58,235
19,514	-	-	22,219
51,590	-	-	202,934
22,050	-	-	42,337
<u>3,391,807</u>	<u>-</u>	<u>98,288</u>	<u>7,798,052</u>
<u>\$ 3,484,961</u>	<u>\$ -</u>	<u>\$ 98,288</u>	<u>\$ 8,123,777</u>
<u>\$ 3,903,296</u>	<u>\$ 77,513</u>	<u>\$ 220,681</u>	<u>\$ 12,788,764</u>
\$ 64,360	\$ 14,864	\$ 737	\$ 439,526
2,013	-	-	7,499
3,388	-	-	3,939
<u>95,000</u>	<u>-</u>	<u>-</u>	<u>115,000</u>
<u>\$ 164,761</u>	<u>\$ 14,864</u>	<u>\$ 737</u>	<u>\$ 565,964</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 58,235</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 58,235</u>
\$ 1,010,000	\$ -	\$ -	\$ 1,170,000
5,362	-	-	22,792
<u>\$ 1,015,362</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,192,792</u>
<u>\$ 1,180,123</u>	<u>\$ 14,864</u>	<u>\$ 737</u>	<u>\$ 1,816,991</u>
\$ 2,379,961	\$ -	\$ 98,288	\$ 6,780,542
343,212	62,649	121,656	4,191,231
<u>\$ 2,723,173</u>	<u>\$ 62,649</u>	<u>\$ 219,944</u>	<u>\$ 10,971,773</u>

CITY OF SERGEANT BLUFF, IOWA

STATEMENT OF REVENUES, EXPENSES, AND

CHANGES IN NET ASSETS - PROPRIETARY FUNDS

FOR THE YEAR ENDED JUNE 30, 2007

	<u>Enterprise Funds</u>	
	<u>Electric Utility</u>	<u>Water Utility</u>
Operating revenues:		
Charges for services	\$ 2,585,372	\$ 765,515
Operating expenses:		
Cost of service	\$ 2,039,572	\$ 348,563
Depreciation	<u>53,597</u>	<u>58,202</u>
Total operating expenses	<u>\$ 2,093,169</u>	<u>\$ 406,765</u>
Operating income (loss)	\$ 492,203	\$ 358,750
Non-operating income (expense):		
Interest income	\$ 7,996	\$ 846
Revenue from use of property	-	8,570
Other non-operating revenues	24,954	15,415
Interest expense	<u>-</u>	<u>(7,597)</u>
Total non-operating income (expenses)	<u>\$ 32,950</u>	<u>\$ 17,234</u>
Income (loss) before transfers	\$ 525,153	\$ 375,984
Transfers out	<u>(183,004)</u>	<u>(137,087)</u>
Change in net assets	\$ 342,149	\$ 238,897
Net assets - beginning	<u>3,770,535</u>	<u>3,614,426</u>
Net assets - ending	<u>\$ 4,112,684</u>	<u>\$ 3,853,323</u>

See accompanying notes to financial statements.

Enterprise Funds

<u>Sewer Utility</u>	<u>Solid Waste Utility</u>	<u>Storm Water Utility</u>	<u>Total</u>
\$ 537,885	\$ 247,406	\$ 81,673	\$ 4,217,851
\$ 377,476	\$ 246,814	\$ 30,298	\$ 3,042,723
<u>67,333</u>	<u>-</u>	<u>2,470</u>	<u>181,602</u>
<u>\$ 444,809</u>	<u>\$ 246,814</u>	<u>\$ 32,768</u>	<u>\$ 3,224,325</u>
\$ 93,076	\$ 592	\$ 48,905	\$ 993,526
\$ 401	\$ -	\$ -	\$ 9,243
-	-	-	8,570
10,979	-	-	51,348
<u>(45,589)</u>	<u>-</u>	<u>-</u>	<u>(53,186)</u>
<u>\$ (34,209)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 15,975</u>
\$ 58,867	\$ 592	\$ 48,905	\$ 1,009,501
<u>(53,207)</u>	<u>-</u>	<u>-</u>	<u>(373,298)</u>
\$ 5,660	\$ 592	\$ 48,905	\$ 636,203
<u>2,717,513</u>	<u>62,057</u>	<u>171,039</u>	<u>10,335,570</u>
<u>\$ 2,723,173</u>	<u>\$ 62,649</u>	<u>\$ 219,944</u>	<u>\$ 10,971,773</u>

CITY OF SERGEANT BLUFF, IOWA

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS

FOR THE YEAR ENDED JUNE 30, 2007

	Enterprise Funds	
	Electric Utility	Water Utility
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers	\$ 2,641,102	\$ 723,047
Cash paid to suppliers for goods and services	(1,596,963)	(259,860)
Cash paid to employees for services	(228,659)	(104,630)
Other receipts	24,954	23,985
Net cash provided by (used in) operating activities	\$ 840,434	\$ 382,542
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchases of capital assets	\$ (16,703)	\$ (51,050)
Principal paid on capital debt	-	(20,000)
Interest and bond costs paid	-	(7,265)
Net cash provided by (used in) capital and related financing activities	\$ (16,703)	\$ (78,315)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
Operating transfers to other funds	\$ (183,004)	\$ (137,087)
Advances from (to) other funds, net of repayments	82,891	-
Net cash provided by (used in) non-capital financing activities	\$ (100,113)	\$ (137,087)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest earned on investments	\$ 7,996	\$ -
Net cash provided by (used in) investing activities	\$ 7,996	\$ -
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	\$ 731,614	\$ 167,140
CASH AT BEGINNING OF YEAR	528,070	136,306
CASH AT END OF YEAR	\$ 1,259,684	\$ 303,446
Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating income (loss)	\$ 492,203	\$ 358,750
Adjustments to reconcile net operating income (loss) to net cash provided by operating activities:		
Depreciation	\$ 53,597	\$ 58,202
Miscellaneous receipts	24,954	23,985
(Increase) decrease in assets:		
Accounts receivable	36,428	(32,921)
Estimated unbilled usage	(12,503)	(9,547)
Prepays	2,612	2,612
Inventories	8,754	-
Increase (decrease) in liabilities:		
Accounts payable	197,617	(17,933)
Accrued wages and compensated absences	4,967	(606)
Customer deposits	31,805	-
Total adjustments	\$ 348,231	\$ 23,792
Net cash provided by (used in) operating activities	\$ 840,434	\$ 382,542
CASH RECONCILIATION:		
Cash	\$ 1,201,449	\$ 303,446
Unrestricted cash	58,235	-
Total	\$ 1,259,684	\$ 303,446

See accompanying notes to financial statements.

Enterprise Funds

Sewer Utility	Solid Waste Utility	Storm Water Utility	Total
\$ 516,901	\$ 245,119	\$ 81,740	\$ 4,207,909
(305,714)	(244,971)	(29,561)	(2,437,069)
(147,177)	-	-	(480,466)
<u>10,979</u>	<u>-</u>	<u>-</u>	<u>59,918</u>
<u>\$ 74,989</u>	<u>\$ 148</u>	<u>\$ 52,179</u>	<u>\$ 1,350,292</u>
\$ (169,275)	\$ -	\$ (37,120)	\$ (274,148)
(90,000)	-	-	(110,000)
(43,805)	-	-	(51,070)
<u>(303,080)</u>	<u>\$ -</u>	<u>\$ (37,120)</u>	<u>\$ (435,218)</u>
\$ (53,207)	\$ -	\$ -	\$ (373,298)
-	-	-	82,891
<u>(53,207)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (290,407)</u>
\$ -	\$ -	\$ -	\$ 7,996
\$ -	\$ -	\$ -	\$ 7,996
\$ (281,298)	\$ 148	\$ 15,059	\$ 632,663
<u>589,927</u>	<u>44,057</u>	<u>96,802</u>	<u>1,395,162</u>
<u>\$ 308,629</u>	<u>\$ 44,205</u>	<u>\$ 111,861</u>	<u>\$ 2,027,825</u>
\$ 93,076	\$ 592	\$ 48,905	\$ 993,526
\$ 67,333	\$ -	\$ 2,470	\$ 181,602
10,979	-	-	59,918
(15,127)	(2,335)	(151)	(14,106)
(5,857)	48	218	(27,641)
2,612	-	-	7,836
-	-	-	8,754
(78,562)	1,843	737	103,702
535	-	-	4,896
<u>-</u>	<u>-</u>	<u>-</u>	<u>31,805</u>
<u>\$ (18,087)</u>	<u>\$ (444)</u>	<u>\$ 3,274</u>	<u>\$ 356,766</u>
<u>\$ 74,989</u>	<u>\$ 148</u>	<u>\$ 52,179</u>	<u>\$ 1,350,292</u>
\$ 308,629	\$ 44,205	\$ 111,861	\$ 1,969,590
-	-	-	58,235
<u>\$ 308,629</u>	<u>\$ 44,205</u>	<u>\$ 111,861</u>	<u>\$ 2,027,825</u>

CITY OF SERGEANT BLUFF, IOWA
STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2007

	<u>Agency Fund</u>
ASSETS:	
Cash	\$ <u>6,163</u>
LIABILITIES:	
Accounts payable	\$ <u>-</u>
NET ASSETS:	
Unrestricted	\$ <u><u>6,163</u></u>

CITY OF SERGEANT BLUFF, IOWA

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The City of Sergeant Bluff, Iowa, is a political subdivision of the State of Iowa located in Woodbury County, and was incorporated in 1854, under the laws of the State of Iowa, later amended in 1974 under the Home Rule City Act. The City operates under a Mayor-Council form of government, with an appointed administrator, elected on a nonpartisan basis and administers the following programs as authorized by its charter: public safety, public works, culture and recreation, community and economic development, general government, capital projects and debt service. The City also has municipal electric, water, sewer, solid waste and storm water utility systems which are governed by the City Council.

The City's financial statements are prepared in accordance with U.S. generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow certain other pronouncements issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. The City elects not to apply the applicable FASB statements and interpretations issued after November 30, 1989 in accounting and reporting its proprietary operations. The more significant accounting policies established in GAAP and used by the City are discussed below.

- A. Reporting Entity - For financial reporting purposes, the City of Sergeant Bluff, Iowa, 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. The City has no component units that meet the Governmental Accounting Standards Board criteria.

CITY OF SERGEANT BLUFF, IOWA

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

Jointly Governed Organizations - The City also participates in several jointly governed organizations for which the City is not financially accountable or that the nature and significance of the relationship with the City are such that exclusion does not cause the City's financial statements to be misleading or incomplete. City officials are members of the following Boards or Commissions: Woodbury County Solid Waste Agency Board, Woodbury County Joint E-911 Services Board and Woodbury County Conference Board.

- B. Basis of Presentation - The City's basic financial statements include both government-wide (reporting the City as a whole) and fund financial statements (reporting the City's major funds). Both the government-wide and fund financial statements categorize primary activities as either governmental or business-type. The City's general, special revenue, debt service, and capital projects funds are classified as governmental activities.

Government-Wide Statements - In the government-wide statement of net assets, both the governmental and business-type activities columns (a) are presented on a consolidated basis by column, and (b) are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The City's net assets are reported in three parts-invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. The City first uses restricted resources to finance qualifying activities.

The government-wide statement of activities reports both the gross and net cost of each of the City's governmental functions (public safety, public works, culture and recreation, community and economic development, general government, etc.) and business-type activities. The functions are also supported by related program revenue, operating grants, and capital grants. Program revenue must be directly associated with the function or a business-type activity. Operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants.

Direct expenses are reported for each City function. The City does not allocate indirect expenses to each function.

This government-wide focus is more on the sustainability of the City as an entity and the change in the City's net assets resulting from the current year activities.

CITY OF SERGEANT BLUFF, IOWA

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

Fund Accounting - The accounts of the City are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for by a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Government resources are allocated to, and accounted for, in individual funds based on the purpose for which they are to be spent and the means by which spending activities are controlled.

The emphasis in fund financial statements is on the major funds in both the governmental category and enterprise type. GASB No. 34 sets forth minimum criteria for the determination of major funds. The City electively added funds, as major funds, which had a specific community focus. The nonmajor funds are combined into a single column in the governmental fund financial statements.

Governmental Fund Types - The governmental fund financial statements are reported using the current financial resources measurement focus. This means that the focus of the governmental funds' measurement is upon the determination of financial position and changes in financial position (sources, uses and balances of financial resources) rather than upon net income. The following is a description of the major governmental funds of the City:

- 1) General Fund - The General Fund is the main operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund. The sources of revenue include property taxes, charges for services, fines and fees, licenses and permits, as well as state and federal grants. The expenditures of the General Fund relate to general administration, police and fire protection, economic development, and culture and recreation.
- 2) Special Revenue Fund - The Local Option Sales Tax Fund is used to account for receipt of the City's share of the one percent local option sales.
- 3) Debt Service Fund - Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt, principal, interest, and related costs.
- 4) Capital Projects Fund - The Capital Projects Fund is used to account for the construction of major capital improvements and infrastructure financed by transfer from other funds and bond issues. The current capital projects include the West Ridge Road Project, pool rehabilitation, and Settler's Point Subdivision.

CITY OF SERGEANT BLUFF, IOWA

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

Proprietary Fund - The focus of proprietary fund measurement is upon determination of operating income, changes in net assets, financial position, and cash flows. Operating revenues and expenses are distinguished from non-operating revenues and expenses. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal operating revenues of enterprise funds are charges to customers for services. Operating expenses consist of cost of sales and services, administrative expenses and depreciation on capital assets.

Enterprise Funds - Enterprise Funds are used to account for business-like activities provided to the general public. These activities are financed primarily by user charges and the measurement of financial activity focuses on net income measurement similar to the private sector. The major enterprise funds are listed as follows:

The Water and Sewer Funds are used to account for the provision of water and sewer services to the residents of the City. Activities of the fund include administration, operation and maintenance of the water system and billing and collection activities. The fund also accounts for the accumulation of resources for, and the payment of, long-term debt principal and interest for water and sewer debt. All costs are financed through charges to utility customers with rates reviewed regularly and adjusted if necessary to ensure integrity of the funds.

The Solid Waste Fund is used to account for billing, collection and payment for solid waste collection and disposal services. All costs are financed through charges to sanitation customers.

The Electric Fund is used to account for the operations of the City's electric distribution system, including the administration, operation and maintenance. All costs are financed through charges to utility customers with rates adjusted monthly to ensure integrity of the fund.

The Storm Water Utility Fund is used to account for the operations of the City's storm water utility system, including the administration, operation and maintenance. All costs are financed through charges to utility customers.

CITY OF SERGEANT BLUFF, IOWA

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

Fiduciary Fund - Fiduciary fund accounts for assets held by the City in a purely custodial capacity. Since an agency fund is custodial in nature, they do not involve the measurement of results of operations and are not incorporated into the government-wide financial statements. The City's Agency Fund is used to account for a medical flexible spending account for employees.

- C. Measurement Focus and Basis of Accounting - Basis of accounting refers to the point at which revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made, regardless of the measurement focus applied.

Accrual Basis of Accounting - Accrual basis of accounting is used for all activities in the government-wide financial statements and for the proprietary and fiduciary activities in the fund financial statements. Revenues are recognized when earned and expenses are recognized when incurred.

Modified Accrual Basis of Accounting - Modified accrual basis of accounting is used by all governmental funds in the fund financial statements. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The City considers property taxes as available if they are collected within 60 days after year-end. A one-year availability period is used for revenue recognition for all other governmental fund revenues.

Expenditures are recorded when the related fund liability is incurred. An exception to this general rule is that principal and interest on general obligation debt, if any, is recognized when due.

Those revenues susceptible to accrual are property taxes, assessments, and intergovernmental revenues. Licenses, fines and permits are not susceptible to accrual because generally they are not measurable until received in cash.

- D. Budget - The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2007, disbursements exceeded the amount budgeted in the community and economic development function.

CITY OF SERGEANT BLUFF, IOWA

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

- E. Pooled Cash And Investments - The cash balances of most City funds are pooled and invested.
- 1) Cash and Cash Equivalents - Includes investments with original maturities of three months or less.
 - 2) Investments - Investments consist of certificates of deposit with original maturities of more than three months and perfected repurchase agreement. The City reports certificates of deposit and perfected repurchase agreement at cost.
- F. Property Tax Receivable - Property tax in governmental funds is accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the City Council to the County Board of Supervisors. Current year delinquent property taxes receivable represents unpaid taxes from the current year. The succeeding year property tax receivable represents taxes certified by the City Council to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the City Council is required to certify its budget to the County Auditor by March 15 of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1-1/2 percent per month penalty for delinquent payments; is based on January 1, 2005 assessed property valuations; is for the tax accrual period July 1, 2006 through June 30, 2007 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April 2006. Any county collections on the 2006-2007 tax levy remitted to the City within 60 days subsequent to June 30, 2007, are recorded as property tax revenue.

CITY OF SERGEANT BLUFF, IOWA

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

- G. Short-Term Interfund Receivables/Payables - During the course of its operations, the City has numerous transactions between funds to finance operations, provide services, construct assets, and service debt. To the extent that certain transactions between funds have not been paid or received as of June 30, 2007, balances of interfund amounts payable or receivable have been recorded. Any residual balances outstanding between governmental activities and business-type activities are reported in the government-wide financial statements as interfund balances and eliminated upon consolidation.

- H. Restricted Assets - Customer deposits held as a security deposit for utility customers are records as restricted assets to indicate that their use is limited to payment of delinquent utility bills or refunds to customers.

- I. Inventories - Inventories of the proprietary fund types are valued at cost, which approximates market, using the first-in/first-out (FIFO) method. The costs of governmental fund-type inventories are recorded as expenditures when purchase rather than when consumed.

- J. Prepaid Items - Payments made to vendors for services that will benefit periods beyond June 30, 2007 are recorded as prepaid items.

- K. Bond Issue Costs - Bond issuance costs are deferred and amortized over the term of the bonds.

- L. Property and Equipment - Capital assets with an initial individual cost of \$1,000 or more are capitalized. Property and equipment are valued at historical cost or estimated historical cost if actual historical cost is not available. Contributed assets are reported at their fair value as of the date received. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Infrastructure has been capitalized using historical or estimated historical cost beginning in 1980 as required by GASB 34. Depreciation on all assets is provided on the straight-line basis over the following estimated lives:

Buildings	20 - 50 Years
Utility Plant	30 - 33 Years
Land Improvements	20 - 50 Years
Machinery & Equipment	5 - 20 Years
Infrastructure	20 - 100 Years

CITY OF SERGEANT BLUFF, IOWA

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

- M. Compensated Absences - The City accrued accumulated unpaid vacation costs and related employee benefits when earned (or estimated to be earned) by the employee. The amount estimated to be used in subsequent fiscal years for governmental funds is reported only as a general liability in the government-wide statement of net assets and represents a reconciling item between the fund and government-wide presentations.
- N. Long-Term Obligations - Long-term debt is recognized as a liability of a governmental fund when due, or when resources have been accumulated in the debt service fund for payment early in the following year. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund. The remaining portion of such obligations is reported in the government-wide financial statements. Long-term liabilities expected to be financed from proprietary fund operations are accounted for in those funds.
- O. Fund Equity - Reserves represent those portions of fund equity legally segregated for a specific future use.
- P. Interfund Activity - Interfund activity are reported as services provided, reimbursements or transfers. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements are when a fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers between governmental or between proprietary funds are netted as part of the reconciliation to the government-wide financial statements.

NOTE 2 - CASH AND CASH EQUIVALENTS AND INVESTMENTS:

The City's deposits 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 obligation 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; and certain joint investment trusts.

CITY OF SERGEANT BLUFF, IOWA

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

NOTE 2 - CASH AND CASH EQUIVALENTS AND INVESTMENTS (CONTINUED):

At June 30, 2007, the City had investments as follows:

Certificates of deposits	\$ 170,318
Perfected repurchase agreement	<u>1,625,000</u>
	<u>\$ 1,795,318</u>

The City's \$1,625,000 investment in repurchase agreements is held in the name of the City and underlying securities (totaling \$1,750,000) are held by an authorized custodian of the City.

NOTE 3 - DUE FROM OTHER GOVERNMENTS:

At June 30, 2007, amounts due from other governments were as follows:

Due from the Iowa Department of Transportation for road use tax collections	\$ 22,739
Due from the State of Iowa for local option sales taxes	<u>51,457</u>
Total due from other governments	<u>\$ 74,196</u>

NOTE 4 - INTERFUND RECEIVABLES AND PAYABLES:

As of June 30, 2007, short-term interfund borrowings were as follows:

<u>Interfund Receivables</u>	<u>Interfund Payables</u>	<u>Amount</u>
Proprietary - electric	Capital projects	<u>\$ 1,838,430</u>

Electric Utility advanced the Capital Projects fund for projects to be financed with current resources and additional debt issuance. The balances are scheduled to be collected in the subsequent year.

CITY OF SERGEANT BLUFF, IOWA

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

NOTE 5 - CAPITAL ASSETS:

A summary of changes in capital assets is as follows:

<u>Governmental activities</u>	<u>Balance July 1, 2006</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2007</u>
Capital assets not being depreciated:				
Land	\$ 393,609	\$ -	\$ -	\$ 393,609
Construction in progress	<u>898,359</u>	<u>480,102</u>	<u>1,148,281</u>	<u>230,180</u>
Total capital assets not being depreciated	<u>\$ 1,291,968</u>	<u>\$ 480,102</u>	<u>\$ 1,148,281</u>	<u>\$ 623,789</u>
Capital assets being depreciated:				
Buildings	\$ 1,967,139	\$ 32,788	\$ -	\$ 1,999,927
Equipment	2,446,701	171,437	107,592	2,510,546
Land improvements	502,286	1,135,181	-	1,637,467
Infrastructure	<u>10,518,799</u>	<u>-</u>	<u>-</u>	<u>10,518,799</u>
Total capital assets being depreciated:	<u>\$ 15,434,925</u>	<u>\$ 1,339,406</u>	<u>\$ 107,592</u>	<u>\$ 16,666,739</u>
Less: accumulated depreciation for:				
Buildings	\$ 238,239	\$ 57,432	\$ -	\$ 295,671
Equipment	1,389,548	182,947	107,592	1,464,903
Land improvements	18,836	13,603	-	32,439
Infrastructure	<u>5,193,571</u>	<u>528,878</u>	<u>-</u>	<u>5,722,449</u>
Total accumulated depreciation	<u>\$ 6,840,194</u>	<u>\$ 782,860</u>	<u>\$ 107,592</u>	<u>\$ 7,515,462</u>
Total capital assets being depreciated, net	<u>\$ 8,594,731</u>	<u>\$ 556,546</u>	<u>\$ -</u>	<u>\$ 9,151,277</u>
Governmental activities capital assets, net	<u>\$ 9,886,699</u>	<u>\$ 1,036,648</u>	<u>\$ 1,148,281</u>	<u>\$ 9,775,066</u>

CITY OF SERGEANT BLUFF, IOWA

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

NOTE 5 - CAPITAL ASSETS (CONTINUED):

<u>Business-Type Activities</u>	Balance July 1, 2006	<u>Additions</u>	<u>Deletions</u>	Balance June 30, 2007
Capital assets not being depreciated:				
Land	\$ 202,934	\$ -	\$ -	\$ 202,934
Construction in progress	<u>1,207,436</u>	<u>199,193</u>	<u>1,364,292</u>	<u>42,337</u>
Total capital assets not being depreciated	<u>\$ 1,410,370</u>	<u>\$ 199,193</u>	<u>\$ 1,364,292</u>	<u>\$ 245,271</u>
Capital assets being depreciated:				
Buildings and improvements	\$ 855,800	\$ 6,744	\$ -	\$ 862,544
Equipment	479,056	62,743	-	541,799
Distribution system	<u>6,772,657</u>	<u>1,369,728</u>	<u>-</u>	<u>8,142,385</u>
Total capital assets being depreciated	\$ 8,107,513	\$ 1,439,215	\$ -	\$ 9,546,728
Less: accumulated depreciation	<u>1,567,074</u>	<u>181,602</u>	<u>-</u>	<u>1,748,676</u>
Total capital assets being depreciated, net	<u>\$ 6,540,439</u>	<u>\$ 1,257,613</u>	<u>\$ -</u>	<u>\$ 7,798,052</u>
Business-type activities capital assets, net	<u>\$ 7,950,809</u>	<u>\$ 1,456,806</u>	<u>\$ 1,364,292</u>	<u>\$ 8,043,323</u>

Construction in progress at June 30, 2007 consisted of costs associated with West Ridge Road, the water treatment plant, wastewater treatment plant, and an upgrade to #5 lift station.

Depreciation expense was charged to functions/programs of the City as follows:

Governmental activities:	
Public safety	\$ 143,937
Public works	590,742
Culture and recreation	24,280
Community and economic development	14,673
General government	<u>9,228</u>
Total depreciation expense - governmental activities	<u>\$ 782,860</u>
Business-type activities:	
Water	\$ 58,202
Sewer	67,333
Electric	53,597
Storm water	<u>2,470</u>
Total depreciation expense - business-type activities	<u>\$ 181,602</u>

CITY OF SERGEANT BLUFF, IOWA

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

NOTE 5 - CAPITAL ASSETS (CONTINUED):

	<u>Governmental</u>	<u>Business-Type</u>
	<u>Activities</u>	<u>Activities</u>
Bond issue costs	\$ 46,457	\$ 22,219
Land	393,609	202,934
Construction in progress	230,180	42,337
Capital assets (net of accumulated depreciation)	9,151,277	7,798,052
Less: general obligation bonds payable	<u>(4,040,000)</u>	<u>(1,285,000)</u>
Investment in capital assets, net of related debt	<u>\$ 5,781,523</u>	<u>\$ 6,780,542</u>

NOTE 6 - LONG-TERM DEBT:

The City's computed legal debt limit as of June 30, 2007, is \$9,152,768 of which \$5,325,000 is committed for outstanding general obligation debt.

The following is a summary of bond transactions of the City for the year ended June 30, 2007:

	<u>Governmental</u>	<u>Business-Type</u>
	<u>Activities</u>	<u>Activities</u>
	<u>Bonds and</u>	<u>Bonds and</u>
	<u>Notes Paid by</u>	<u>Notes Paid by</u>
	<u>Debt Service</u>	<u>Enterprise</u>
	<u>Fund</u>	<u>Funds</u>
<u>Primary Government</u>		
Bonds payable and notes payable July 1, 2006	\$ 3,940,000	\$ 1,395,000
Plus: bonds and notes issued	470,000	-
Less: payments	<u>(370,000)</u>	<u>(110,000)</u>
Bonds payable June 30, 2007	<u>\$ 4,040,000</u>	<u>\$ 1,285,000</u>
Due within one year	<u>\$ 1,265,000</u>	<u>\$ 115,000</u>

<u>General Obligation</u>	<u>Date of</u>	<u>Interest</u>	<u>Final</u>	<u>Annual</u>	<u>Amount</u>	<u>Outstanding</u>
	<u>Issue</u>	<u>Rates</u>	<u>Due Date</u>	<u>Payments</u>	<u>Originally</u>	<u>June 30, 2007</u>
					<u>Issued</u>	
Corporate purpose	1999	4.30-5.50%	2015	\$75,000 - \$120,000	\$ 1,330,000	\$ 815,000
Swimming pool	2001	4.75-5.40%	2017	\$65,000 - \$120,000	1,300,000	985,000
Corporate purpose	2001	3.50-5.20%	2015	\$65,000 - \$100,000	960,000	690,000
Corporate purpose	2004	2.00-4.80%	2016	\$35,000 - \$50,000	500,000	395,000
Refunding + Water	2005	2.75-4.10%	2015	\$25,000 - \$135,000	720,000	465,000
Interstate Lift Station	2006	2.85-4.10%	2017	\$90,000 - \$130,000	1,285,000	1,105,000
Bond Anticipation Note	2006	3.6%	2008	\$400,000	400,000	400,000
Bond Anticipation Note	2007	3.9%	2008	\$470,000	470,000	470,000
Total general obligation					<u>\$ 6,965,000</u>	<u>\$ 5,325,000</u>

CITY OF SERGEANT BLUFF, IOWA

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

NOTE 6 - LONG-TERM DEBT (CONTINUED):

The following is a schedule of debt service requirements to maturity:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 1,380,000	\$ 231,356	\$ 1,611,356
2009	490,000	179,710	669,710
2010	505,000	159,333	664,333
2011	435,000	137,760	572,760
2012	470,000	118,465	588,465
2013 -2017	<u>2,045,000</u>	<u>259,678</u>	<u>2,304,678</u>
	<u>\$ 5,325,000</u>	<u>\$ 1,086,302</u>	<u>\$ 6,411,302</u>

In June 2007 the City issued \$470,000 of bond anticipation notes to finance the West Ridge Road project. The notes mature June 1, 2008 and accrue interest at 3.90 percent.

NOTE 7 - TRANSFERS:

The following is a summary of transfers between funds:

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Nonmajor Governmental</u>	<u>Total Transfers Out</u>
General	\$ -	\$ -	\$ -	\$ 4,413	\$ 4,413
Local option sales tax	291,548	-	-	-	291,548
Nonmajor governmental	157,129	94,402	18,316	-	269,847
Water	-	137,087	-	-	137,087
Sewer	-	53,207	-	-	53,207
Electric	<u>183,004</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>183,004</u>
Total transfers in	<u>\$ 631,681</u>	<u>\$ 284,696</u>	<u>\$ 18,316</u>	<u>\$ 4,413</u>	<u>\$ 939,106</u>

Transfers are used to:

1. Move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them.
2. To move revenues restricted to debt service from the fund collecting the revenues to the debt service fund as debt service payments become due.

CITY OF SERGEANT BLUFF, IOWA

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

NOTE 8 - PENSION AND RETIREMENT:

Iowa Public Employees Retirement System - 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 percent of their annual covered salary and the City is required to contribute 5.75 percent 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 contributions to IPERS for the years ended June 30, 2007, 2006, and 2005 were \$72,742, \$69,610, and \$67,424, respectively, equal to the required contributions for each year.

NOTE 9 - DEFICIT UNRESTRICTED NET ASSETS:

The capital projects fund ended the fiscal year with a deficit balance of \$1,223,808. The deficit will be financed with future bond proceeds.

NOTE 10 - RISK MANAGEMENT:

The City of Sergeant Bluff 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. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE 11 - COMMITMENTS:

At June 30, 2007, the City had a construction contract totaling \$313,563 of which \$131,318 has been expended to date on the West Ridge Road project. The remaining balance will be paid as work progresses.

CITY OF SERGEANT BLUFF, IOWA

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

NOTE 12 - INDUSTRIAL DEVELOPMENT REVENUE BONDS:

The City has issued a total of \$9,100,000 of industrial development revenue bonds under the provisions of Chapter 419 of the Code of Iowa. The bonds and related interest are payable solely from the rents payable by tenants of the properties constructed, and the bond principal and interest do not constitute liabilities of the City.

A resolution was signed December 2007 authorizing the issuance of the Senior Living Facility Revenue Bond Anticipation Note, Series 2007 in the amount of \$9,200,000 under the provisions of Chapter 419 of the Code of Iowa. The bonds and related interest are payable solely from Sunrise Retirement Community, the entity constructing the property, and the bond principal and interest do not constitute liabilities of the City.

NOTE 13 - COMMUNITY ECONOMIC BETTERMENT (CEBA) LOAN:

On December 15, 1998, the City received \$175,000 from the Iowa Department of Economic Development under a CEBA loan agreement. The City subsequently loaned \$175,000 to a private business. No interest or principal payments are required during the first and second years. At the project completion date, \$1,250 will be forgiven for each new job created and the balance remaining will be amortized over the remaining three years in equal annual payments with 6 percent per annum interest. The City's liability for repayment of this loan is limited to those amounts the City collects through its good faith enforcement of security interest with the business; therefore, the liability for this loan is not included in the Government-Wide Financial Statements.

NOTE 14 - CLAIMS:

On September 14, 2007 the City received \$35,000 from Employer's Mutual Casualty Insurance Company and on October 24, 2007 received \$725,000 from Brown Construction relating to litigation with the swimming pool.

NOTE 15 - SUBSEQUENT EVENT:

In March 2008, the City issued \$1,170,000 General Obligation Corporate Purpose Bonds, Series 2008, for the purpose of redeeming the \$870,000 Bond Anticipation Notes, and to provide funds to pay costs of constructing the street, sanitary sewer, storm sewer and water improvements projects. The bonds bear interest at 2.6 - 4.55 percent, require annual principal payments, and mature June 1, 2027.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF SERGEANT BLUFF, IOWA

BUDGETARY COMPARISON SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND

CHANGES IN BALANCES - BUDGET AND ACTUAL (CASH BASIS) -

GOVERNMENTAL AND PROPRIETARY FUNDS

REQUIRED SUPPLEMENTARY INFORMATION

FOR THE YEAR ENDED JUNE 30, 2007

	<u>Actual Amounts</u>			<u>Budgeted Amounts</u>		<u>Final to</u>
	<u>Governmental</u>	<u>Proprietary</u>	<u>Total</u>	<u>Original</u>	<u>Final</u>	<u>Actual</u>
	<u>Funds</u>	<u>Funds</u>		<u>Original</u>	<u>Final</u>	<u>Variances</u>
Receipts:						
Property taxes	\$ 1,165,251	\$ -	\$ 1,165,251	\$ 1,146,193	\$ 1,146,193	\$ 19,058
Tax increment financing	139,332	-	139,332	-	-	139,332
Other city tax	386,018	-	386,018	283,567	283,567	102,451
Special assessment	25,334	-	25,334	-	-	25,334
Licenses and permits	37,443	-	37,443	39,447	39,447	(2,004)
Intergovernmental revenue	294,757	-	294,757	316,300	316,300	(21,543)
Charges for services	189,298	4,207,908	4,397,206	3,840,977	3,840,977	556,229
Use of money and property	54,396	17,813	72,209	7,200	7,200	65,009
Miscellaneous	124,685	51,349	176,034	88,735	158,735	17,299
Total receipts	<u>\$ 2,416,514</u>	<u>\$ 4,277,070</u>	<u>\$ 6,693,584</u>	<u>\$ 5,722,419</u>	<u>\$ 5,792,419</u>	<u>\$ 901,165</u>
Disbursements:						
Public safety	\$ 930,385	\$ -	\$ 930,385	\$ 849,688	\$ 936,688	\$ 6,303
Public works	281,352	-	281,352	348,629	348,629	67,277
Culture and recreation	252,812	-	252,812	278,127	278,127	25,315
Community and economic development	124,448	-	124,448	38,379	118,379	(6,069)
General government	307,653	-	307,653	314,945	326,945	19,292
Capital projects	430,868	-	430,868	36,000	486,000	55,132
Debt service	554,481	-	554,481	721,461	721,461	166,980
Business type activities	-	3,352,754	3,352,754	3,307,886	3,607,886	255,132
Total disbursements	<u>\$ 2,881,999</u>	<u>\$ 3,352,754</u>	<u>\$ 6,234,753</u>	<u>\$ 5,895,115</u>	<u>\$ 6,824,115</u>	<u>\$ 589,362</u>
Deficiency of receipts under disbursements	\$ (465,485)	\$ 924,316	\$ 458,831	\$ (172,696)	\$ (1,031,696)	\$ 1,490,527
Other financing sources (uses), net	<u>920,739</u>	<u>(373,298)</u>	<u>547,441</u>	<u>-</u>	<u>500,000</u>	<u>47,441</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	\$ 455,254	\$ 551,018	\$ 1,006,272	<u>\$ (172,696)</u>	<u>\$ (531,696)</u>	<u>\$ 1,537,968</u>
Fund balances - beginning of year	<u>979,274</u>	<u>3,345,136</u>	<u>4,324,410</u>			
Fund balances - end of year	<u>\$ 1,434,528</u>	<u>\$ 3,896,154</u>	<u>\$ 5,330,682</u>			

CITY OF SERGEANT BLUFF, IOWA

BUDGET TO GAAP RECONCILIATION

REQUIRED SUPPLEMENTARY INFORMATION

FOR THE YEAR ENDED JUNE 30, 2007

	<u>Governmental Funds</u>			<u>Proprietary Funds</u>		
				<u>Enterprise</u>		
	<u>Cash Basis</u>	<u>Accrual Adjustments</u>	<u>Modified Accrual Basis</u>	<u>Cash Basis</u>	<u>Accrual Adjustments</u>	<u>Accrual Basis</u>
Revenues	\$ 2,416,514	\$ (2,931)	\$ 2,413,583	\$ 4,277,070	\$ 9,942	\$ 4,287,012
Expenditures/expenses	<u>2,881,999</u>	<u>131,094</u>	<u>3,013,093</u>	<u>3,352,754</u>	<u>(75,243)</u>	<u>3,277,511</u>
Net	\$ (465,485)	\$ (134,025)	\$ (599,510)	\$ 924,316	\$ 85,185	\$ 1,009,501
Other financing sources, net	920,739	(470,000)	450,739	(373,298)	-	(373,298)
Beginning fund balances/net assets	<u>979,274</u>	<u>(450,775)</u>	<u>528,499</u>	<u>3,345,136</u>	<u>6,990,434</u>	<u>10,335,570</u>
Ending fund balances/net assets	<u>\$ 1,434,528</u>	<u>\$ (1,054,800)</u>	<u>\$ 379,728</u>	<u>\$ 3,896,154</u>	<u>\$ 7,075,619</u>	<u>\$ 10,971,773</u>

CITY OF SERGEANT BLUFF, IOWA

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING

JUNE 30, 2007

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

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except the Agency Fund, and appropriates the amount deemed necessary for each of the different City offices and departments. The budgets may be amended during the year utilizing similar statutorily prescribed procedures. Encumbrances are not recognized on the cash basis budget and appropriations lapse at year end.

Formal and legal budgetary control is based upon 9 major classes of expenditures known as functions, not by fund. These 9 functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, and business-type activities. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Fund, and Enterprise 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 fiscal year 2007, the City had one budget amendment. The amendment was as follows:

<u>Program</u>	<u>Original Budget</u>	<u>May 22, 2007 Amendment</u>	<u>Final Budget</u>
Public Safety	\$ 849,688	\$ 87,000	\$ 936,688
Public Works	348,629	-	348,629
Culture and Recreation	278,127	-	278,127
Community and Economic Development	38,379	80,000	118,379
General Government	314,945	12,000	326,945
Debt Service	721,461	-	721,461
Capital Projects	36,000	450,000	486,000
Business-Type/Enterprise	<u>3,307,886</u>	<u>300,000</u>	<u>3,607,886</u>
	<u>\$ 5,895,115</u>	<u>\$ 929,000</u>	<u>\$ 6,824,115</u>

During the year ended June 30, 2007, disbursements in the community and economic development function exceeded the amount budgeted.

SUPPLEMENTARY INFORMATION

CITY OF SERGEANT BLUFF, IOWA

COMBINING BALANCE SHEET - GOVERNMENTAL NONMAJOR FUNDS

JUNE 30, 2007

	Special Revenue Funds			Total
	Road	Pioneer Flats	Volunteer	Governmental
<u>ASSETS</u>	<u>Use Tax</u>	<u>Tax Increment</u>	<u>Fire</u>	<u>Nonmajor</u>
		<u>Financing</u>	<u>Department</u>	<u>Funds</u>
Cash	\$ 386,245	\$ 86,262	\$ 49,371	\$ 521,878
Investments	-	-	135,874	135,874
Due from other governmental agencies	22,739	-	-	22,739
Inventories	<u>6,650</u>	<u>-</u>	<u>-</u>	<u>6,650</u>
Total assets	<u>\$ 415,634</u>	<u>\$ 86,262</u>	<u>\$ 185,245</u>	<u>\$ 687,141</u>
<u>LIABILITIES AND FUND BALANCES</u>				
LIABILITIES:				
Accounts payable	\$ -	\$ -	\$ -	\$ -
Interfund payable	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
FUND BALANCES:				
Reserved for:				
Inventories	\$ 6,650	\$ -	\$ -	\$ 6,650
Unreserved	<u>408,984</u>	<u>86,262</u>	<u>185,245</u>	<u>680,491</u>
Total fund balances	<u>\$ 415,634</u>	<u>\$ 86,262</u>	<u>\$ 185,245</u>	<u>\$ 687,141</u>
Total liabilities and fund balances	<u>\$ 415,634</u>	<u>\$ 86,262</u>	<u>\$ 185,245</u>	<u>\$ 687,141</u>

CITY OF SERGEANT BLUFF, IOWA

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES

IN FUND BALANCES - GOVERNMENTAL NONMAJOR FUNDS

FOR THE YEAR ENDED JUNE 30, 2007

	<u>Special Revenue Funds</u>			Total
	<u>Road</u>	Pioneer Flats	Volunteer	Governmental
	<u>Use Tax</u>	Tax Increment	Fire	Nonmajor
		<u>Financing</u>	<u>Department</u>	<u>Funds</u>
REVENUE:				
Tax increment financing	\$ -	\$ 139,332	\$ -	\$ 139,332
Intergovernmental revenue	277,874	-	-	277,874
Charges for services	-	-	69,739	69,739
Interest	-	-	6,822	6,822
Miscellaneous	4,819	-	3,410	8,229
Total revenue	<u>\$ 282,693</u>	<u>\$ 139,332</u>	<u>\$ 79,971</u>	<u>\$ 501,996</u>
EXPENDITURES:				
Public safety	\$ -	\$ -	\$ 46,367	\$ 46,367
Total expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 46,367</u>	<u>\$ 46,367</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>\$ 282,693</u>	<u>\$ 139,332</u>	<u>\$ 33,604</u>	<u>\$ 455,629</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	\$ -	\$ -	\$ 4,413	\$ 4,413
Transfers out	(216,777)	(53,070)	-	(269,847)
Total other financing sources (uses)	<u>\$ (216,777)</u>	<u>\$ (53,070)</u>	<u>\$ 4,413</u>	<u>\$ (265,434)</u>
NET CHANGE IN FUND BALANCE	\$ 65,916	\$ 86,262	\$ 38,017	\$ 190,195
FUND BALANCES - BEGINNING OF YEAR	<u>349,718</u>	<u>-</u>	<u>147,228</u>	<u>496,946</u>
FUND BALANCES - END OF YEAR	<u>\$ 415,634</u>	<u>\$ 86,262</u>	<u>\$ 185,245</u>	<u>\$ 687,141</u>

CITY OF SERGEANT BLUFF, IOWA

SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION

ALL GOVERNMENTAL FUNDS

FOR THE LAST FOUR YEARS ENDED JUNE 30,

	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
REVENUES:				
Property tax	\$ 1,161,191	\$ 1,063,633	\$ 984,838	\$ 1,043,606
Tax increment financing	139,332	64,969	-	-
Other city tax	380,152	340,121	327,599	331,845
Licenses and permits	36,208	48,673	39,175	44,407
Intergovernmental	295,843	383,978	316,846	376,970
Charges for services	197,471	117,432	141,887	148,640
Use of money and property	54,395	46,288	51,173	47,802
Special assessments	25,334	6,567	1,094	-
Miscellaneous	123,657	90,720	374,214	157,001
Total	<u>\$ 2,413,583</u>	<u>\$ 2,162,381</u>	<u>\$ 2,236,826</u>	<u>\$ 2,150,271</u>
EXPENDITURES:				
Operating:				
Public safety	\$ 920,527	\$ 934,948	\$ 1,131,396	\$ 955,098
Public works	297,768	242,232	225,671	236,940
Culture and recreation	268,710	136,670	260,106	295,518
Community and economic development	124,156	62,889	93,899	94,772
General government	339,113	281,676	266,095	325,995
Debt service	559,782	902,415	559,441	618,256
Capital projects	503,037	549,773	1,037,788	497,679
Total	<u>\$ 3,013,093</u>	<u>\$ 3,110,603</u>	<u>\$ 3,574,396</u>	<u>\$ 3,024,258</u>



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**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
City of Sergeant Bluff
Sergeant Bluff, Iowa

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Sergeant Bluff, Iowa, as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements and have issued our report thereon dated May 30, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered the City of Sergeant Bluff, Iowa'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 an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

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

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

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



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

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the City of Sergeant Bluff, Iowa'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 noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that are described in Part II of the accompanying schedule of findings and responses.

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's responses to findings identified in our audit are described in the accompany schedule of findings and responses. While we have expressed our conclusions on the City's responses, we did not audit the City's responses and, accordingly, we express no opinion on them.

We also noted certain additional matters that we reported to management of City of Sergeant Bluff, Iowa in a separate letter dated May 30, 2008.

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 Sergeant Bluff, Iowa, and other parties to whom the City may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Sergeant Bluff, Iowa 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.

King Reinach Prosser & Co LLP

Sioux City, Iowa
May 30, 2008

CITY OF SERGEANT BLUFF

SCHEDULE OF FINDINGS AND RESPONSES

FOR THE YEAR ENDED JUNE 30, 2007

Part I: Findings Related to the Financial Statements

REPORTABLE CONDITIONS:

I-A-07 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual from handling duties which are incompatible. Incompatible duties, for accounting control purposes, are those duties that place a person in a position where they could both perpetrate and conceal errors or fraud. To accomplish proper segregation of duties, the system, insofar as possible, should provide for different individuals to perform the functions of (a) authorizing transactions, (b) recording transactions, (c) maintaining custody of the assets that result from transactions, and (d) comparing assets with the related amounts recorded in the accounting records. In performing our audit, one individual has control over collecting, depositing, journalizing and posting receipts.

Recommendation - The size of the City's accounting and administrative staff precludes certain internal controls that would be preferred if the staff were large enough to provide optimum segregation of duties. This situation dictates that the Council should remain actively involved in the financial affairs of the City to provide oversight and review functions.

Response - The City understands the nature of the weakness and the necessity for the Council to provide oversight and review functions. The City will review its procedures and implement changes as deemed necessary.

Conclusion - Response accepted.

I-B-07 Financial Accounting and Reporting - An internal control system that does not prevent or detect material misstatements identified by the auditor is considered a control deficiency. We proposed numerous adjusting journal entries as a result of our audit which were subsequently made by the City. The errors included incorrect determination of major funds; functional classifications of revenues and expenses; and coding of transactions in the incorrect funds. The adjusting journal entries were deemed material to the City's financial statements. This control deficiency is primarily the result of unfamiliarity with generally accepted accounting principles (GAAP) on the part of the City's administrative staff.

Recommendation - We recommend the City continue to engage the services of the outside accounting firm to record the necessary GAAP adjustments into the City's books and records.

Response - The City will consider the continued need for these services.

Conclusion - Response accepted.

CITY OF SERGEANT BLUFF

SCHEDULE OF FINDINGS AND RESPONSES

FOR THE YEAR ENDED JUNE 30, 2007

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

I-C-07 Records of Accounts - The fire department maintains some accounting records and bank balances pertaining to the operations of the fire service. These transactions and the resulting balances are not recorded in the Clerk's records. Chapter 384.20 of the Code of Iowa states in part that "a city shall keep accounts which show an accurate and detailed statement of all public funds collected, received, or expended for any city purpose".

Recommendation - For better accountability, financial and budgetary control, the financial activity and balances of all City accounts should be recorded in the Clerk's records.

Response - We will endeavor to obtain at least a quarterly report of receipts and disbursements from the fire department and include such transactions in the City's ledger.

Conclusion - Response accepted.

Part II: Other Findings Related to Required Statutory Reporting

II-A-07 Certified Budget - Disbursements for the year ended June 30, 2007 exceeded the amount budgeted in the community and economic development function. Chapter 384.20 of the Code of Iowa states, in part, "Public monies may not be expended or encumbered except under an annual or continuing appropriation."

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

Response - The budget will be amended in the future, if applicable.

Conclusion - Response accepted.

II-B-07 Questionable Disbursements - No disbursements were noted that did 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.

CITY OF SERGEANT BLUFF
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2007

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

- II-D-07 Business Transactions - There were no business transactions between the City and City officials or employees 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.

Although minutes of Council proceedings were published, they were not published within fifteen days as required by Chapter 372.13(6) of the Code of Iowa. Also, the publication did not include listing of claims and a summary of all receipts.

Recommendation - The City should comply with Chapter 21 of the Code of Iowa and should publish minutes, receipts and claims as required.

Response - We will comply with the Code requirements.

Conclusion - Response accepted.

- II-G-07 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy.

- II-H-07 Deficit Balance - At June 30, 2007, the City's Capital Projects Fund had a deficit balance of \$1,223,808.

Recommendation - After the issuance of bonds, the City should review to be sure that the deficit balance is eliminated.

Response - We will review.

Conclusion - Response accepted.

CITY OF SERGEANT BLUFF

SCHEDULE OF FINDINGS AND RESPONSES

FOR THE YEAR ENDED JUNE 30, 2007

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

II-I-07 Transfers - For financial reporting, the City's management should approve and take responsibility for transfers between funds. The outside accounting firm that provides the financial reporting services to the City has proposed numerous transfers between funds.

Recommendation - We recommend that the City's Council should approve the transfers proposed by the outside accounting firm in the minutes or budget, as applicable.

Response - We will do as recommended.

Conclusion - Response accepted.

II-J-07 Financial Report - The Annual Financial Report was not filed by December 1 as required by Chapter 384.22 of the Code of Iowa.

Recommendation - The City should comply with Chapter 384.22 of the Code of Iowa and file the Annual Financial Report by December 1.

Response - We will comply with the requirements.

Conclusion - Response accepted.

II-K-07 TIF Collections - TIF receipts were recorded in the debt service fund.

Recommendation - TIF receipts should be recorded in a separate special revenue fund as required by Chapter 403.19 of the Code of Iowa.

Response - TIF receipts will be recorded in a separate special revenue fund as required by the Code of Iowa.

Conclusion - Response accepted.