



**OFFICE OF AUDITOR OF STATE**  
**STATE OF IOWA**

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**NEWS RELEASE**

FOR RELEASE

November 2, 2007

Contact: Andy Nielsen  
515/281-5834

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

The City has implemented new reporting standards for the year ended June 30, 2007, with significant changes in content and structure of the financial statements. The new financial statements now include a Statement of Activities and Net Assets which provides information about the activities of the City as a whole. Also included is Management's Discussion and Analysis of the City's financial statements.

The City's receipts totaled \$2,872,804 for the year ended June 30, 2007. The receipts included \$170,137 in property tax, \$94,182 from tax increment financing, \$1,885,235 from charges for service, \$330,536 from operating grants, contributions and restricted interest, \$172,332 from capital grants, contributions and restricted interest, \$127,212 from local option sales tax, \$69,601 from unrestricted interest on investments, \$21,740 from the sale of capital assets and \$1,829 from other general receipts.

Disbursements for the year totaled \$2,709,662, and included \$341,052 for debt service, \$226,993 for public safety and \$210,339 for public works. Also, disbursements for business type activities totaled \$1,564,617.

A copy of the audit report is available for review in the City Clerk's Office, in the Office of Auditor of State and on the Auditor of State's web site at <http://auditor.iowa.gov/reports/reports.htm>.

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**CITY OF STATE CENTER**  
**INDEPENDENT AUDITOR'S REPORTS**  
**BASIC FINANCIAL STATEMENTS**  
**AND SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF FINDINGS**  
**JUNE 30, 2007**

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**City of State Center**

**Officials**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Jake Osgood	Mayor	Jan 2008
Roger Reker	Council Member	Jan 2008
Matthew Streeter	Council Member	Jan 2008
Steve Lively	Council Member	Jan 2010
Harlan Quick	Council Member	Jan 2010
Mike Riemenschneider	Council Member	Jan 2010
Henrietta Bogan	Clerk	Indefinite
Curt Ward	Attorney	Indefinite

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Independent Auditor's Report

To the Honorable Mayor and  
Members of the City Council:

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

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

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles. Also, as permitted by the Code of Iowa, the accounting records of the City have not been audited for all prior years. Accordingly, we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2006.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2006, as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of State Center as of June 30, 2007, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

As described in Note 14, during the year ended June 30, 2007, the City adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences.

In accordance with Government Auditing Standards, we have also issued our report dated August 17, 2007 on our consideration of the City of State Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 12 and 26 through 28 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of State Center's basic financial statements. Other supplementary information included in Schedules 1 through 4 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2006, as discussed in the third paragraph, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



DAVID A. VAUDT, CPA  
Auditor of State



WARREN G. JENKINS, CPA  
Chief Deputy Auditor of State

August 17, 2007

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## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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

Because the City is implementing new reporting standards for this fiscal year with significant changes in content and structure, and since the City is not required to be audited annually, much of the information is not easily comparable to prior years. Comparative data has been provided if available.

### **2007 FINANCIAL HIGHLIGHTS**

- The cash basis net assets of the City's governmental activities increased approximately \$140,000 due, in part, to increased investment earnings in the Ira D. Kauffman Charitable Community Trust and a decrease in General Fund disbursements.
- The cash basis net assets of the City's business type activities increased approximately \$23,000 due to the collection of a new storm water fee to fund storm water improvements.

### **USING THIS ANNUAL REPORT**

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

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

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

The Fund Financial Statements tell how governmental services were financed in the short term, as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

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

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

Other Supplementary Information provides detailed information about the nonmajor governmental and proprietary funds and the City's indebtedness.

### **BASIS OF ACCOUNTING**

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

## **REPORTING THE CITY'S FINANCIAL ACTIVITIES**

### *Government-wide Financial Statement*

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

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

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

- Governmental Activities include public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the water, sewer, electric and storm water systems. These activities are financed primarily by user fees and related charges.

### *Fund Financial Statements*

The City has two kinds of funds:

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

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

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

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

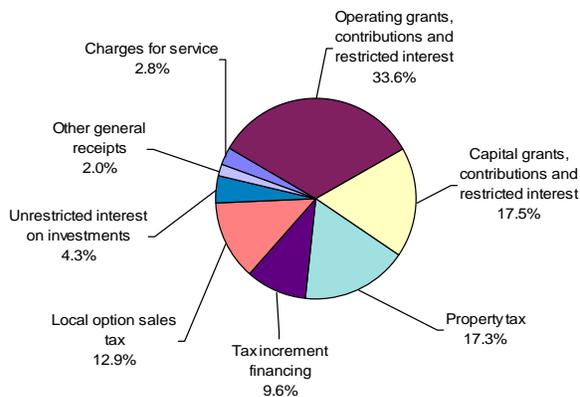
## **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from a year ago, increasing from \$2,640,324 to \$2,780,297. The analysis that follows focuses on the changes in cash basis net assets of governmental activities.

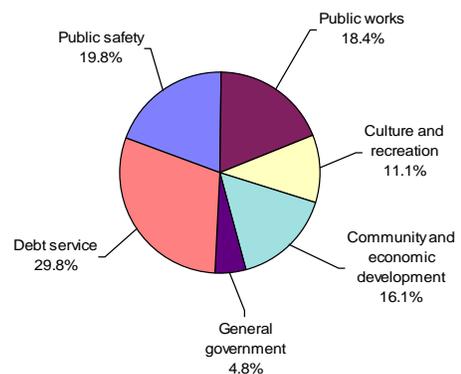
**Changes in Cash Basis Net Assets of Governmental Activities**

	Year ended June 30, 2007
<b>Receipts:</b>	
Program receipts:	
Charges for service	\$ 27,401
Operating grants, contributions and restricted interest	330,536
Capital grants, contributions and restricted interest	172,332
General receipts:	
Property tax	170,137
Tax increment financing	94,182
Local option sales tax	127,212
Unrestricted interest on investments	42,589
Other general receipts	19,819
Total receipts	984,208
<b>Disbursements:</b>	
Public safety	226,993
Public works	210,339
Culture and recreation	126,774
Community and economic development	184,601
General government	55,286
Debt service	341,052
Total disbursements	1,145,045
Change in cash basis net assets before transfers	(160,837)
Transfers, net	300,810
Change in cash basis net assets	139,973
Cash basis net assets beginning of year	2,640,324
Cash basis net assets end of year	\$ 2,780,297

**Receipts by Source**



**Disbursements by Function**



The cash basis net assets of the City's governmental funds increased primarily due to an increase in investment earnings in the Ira D. Kauffman Charitable Community Trust and a decrease in General Fund disbursements.

The cost of all governmental activities this year was \$1,145,045. However, as shown in the Statement of Activities and Net Assets on pages 14-15, the amount taxpayers ultimately financed for these activities was only \$614,776 because some of the cost was paid by those directly benefited from the programs (\$27,401) or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest (\$502,868). The City paid for the remaining "public benefit" portion of governmental activities with approximately \$614,776 in tax (some of which could only be used for certain programs) and other receipts, such as interest.

Changes in Cash Basis Net Assets of Business Type Activities	
	Year ended June 30, 2007
Receipts:	
Program receipts:	
Charges for service:	
Water	\$ 169,465
Sewer	163,912
Electric	1,495,840
Storm water	28,617
General receipts:	
Unrestricted interest on investments	27,012
Sale of capital assets	3,750
Total receipts	<u>1,888,596</u>
Disbursements:	
Water	103,388
Sewer	52,813
Electric	1,401,899
Storm water	6,517
Total disbursements	<u>1,564,617</u>
Change in cash basis net assets before transfers	323,979
Transfers, net	<u>(300,810)</u>
Change in cash basis net assets	23,169
Cash basis net assets beginning of year	<u>1,239,446</u>
Cash basis net assets end of year	<u><u>\$ 1,262,615</u></u>

Total business type activities cash basis net assets increased from a year ago, from \$1,239,446 to \$1,262,615. The overall increase is a result of the City collecting a storm water fee to fund storm water improvements.

#### **INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS**

As the City of State Center completed the year, its governmental funds reported a combined fund balance of \$2,780,297, an increase of approximately \$140,000 more than last year's total of \$2,640,324. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance increased \$36,833 from the prior year to a year-end balance of \$600,343. This increase is primarily due to a decrease in General Fund disbursements.
- The Debt Service Fund cash balance increased \$15,446 to a balance of \$468,967 at the fiscal year end. This increase was primarily attributable to a \$30,000 transfer to the electric principal and interest account to build a surplus to fund future improvements.
- The Ira D. Kauffman Charitable Community Trust Fund cash balance increased \$57,295 to \$1,484,629 during the fiscal year due, in part, to the Trust having higher than anticipated investment earnings that were not disbursed during the current year.

**INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS**

- The Water Fund cash balance increased \$56,208 to a year-end balance of \$280,336. This increase was due primarily to an increase in water collections as a result of a rate increase.
- The Electric Fund cash balance decreased \$78,082 to a year-end balance of \$876,656. The decrease was due to the costs associated with the installation of new lines along Highway 30, increased costs associated with generating electricity and the purchase of a new truck.

**BUDGETARY HIGHLIGHTS**

Over the course of the year, the City did not amend its budget.

The City’s receipts were \$322,526 less than budgeted. This was due, in part, to the City budgeting for \$150,000 in lot sales in the Figgins subdivision compared to actual receipts of \$3,750. In addition, the City budgeted more for the housing rehabilitation grant than was received during the fiscal year.

Total disbursements were \$305,906 less than budgeted. This was primarily due to the City overestimating FY 2007 disbursements for the housing rehabilitation grant and budgeting for certain disbursements which did not occur in FY 2007, such as the purchase of new equipment for the Water Fund and capital outlays in the Sewer Fund. In addition, Electric Fund disbursements were less than budgeted.

**DEBT ADMINISTRATION**

At June 30, 2007, the City had \$1,985,000 in notes outstanding, compared to \$2,225,000 last year. The chart below segregates the City’s debt into its component parts.

Outstanding Debt at Year-End		
	June 30,	
	2007	2006
General obligation notes	\$ 1,255,000	1,380,000
Revenue notes	730,000	845,000
Total	\$ 1,985,000	2,225,000

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City’s corporate limits. The City’s outstanding general obligation debt is \$1,255,000, below its constitutional debt limit of approximately \$1,259,000.

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES**

The City of State Center's elected and appointed officials and citizens considered many factors when setting the fiscal year 2008 budget, tax rates and fees charged for various City activities. The City's FY 2008 assessed value has increased \$1,341,000 from the FY 2007 level.

The FY 2008 budget contains total receipts of \$3,252,936 and disbursements of \$3,231,885. This budget is somewhat higher than the FY 2007 budget which contained total receipts of \$3,073,452 and disbursements of \$2,968,975. The FY 2008 budget includes additional tax increment financing collections and increased charges for service. The City also plans to install water and sewer lines to a new residential development sometime in the fiscal year. In addition, the City will be replacing certain electric lines, has planned for new equipment purchases and purchased electric power is anticipated to increase. The City has also budgeted for engineering costs on a new lift station and will set aside funds for future work on the lagoon.

The FY 2008 levy is \$7.77140 per \$1,000 of taxable valuation, an increase from \$7.71720 per \$1,000 of taxable valuation in 2007. The debt service levy decreased from \$.41129 per \$1,000 of taxable valuation in FY 2007 to \$.38007 per \$1,000 of taxable valuation in FY 2008.

These parameters were taken into account when adopting the budget for FY 2008.

## **CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Henrietta Bogan, City Clerk, P.O. Box 668, State Center, IA 50247-0668.

## **Basic Financial Statements**

City of State Center

Statement of Activities and Net Assets – Cash Basis

As of and for the year ended June 30, 2007

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
<b>Functions/Programs:</b>				
Governmental activities:				
Public safety	\$ 226,993	3,154	37,563	55,799
Public works	210,339	5,192	112,432	13,428
Culture and recreation	126,774	7,950	76,653	-
Community and economic development	184,601	-	103,888	103,105
General government	55,286	11,105	-	-
Debt service	341,052	-	-	-
Total governmental activities	1,145,045	27,401	330,536	172,332
Business type activities:				
Water	103,388	169,465	-	-
Sewer	52,813	163,912	-	-
Electric	1,401,899	1,495,840	-	-
Storm water	6,517	28,617	-	-
Total business type activities	1,564,617	1,857,834	-	-
Total	\$ 2,709,662	1,885,235	330,536	172,332
<b>General Receipts:</b>				
Property and other city tax levied for:				
General purposes				
Debt service				
Tax increment financing				
Local option sales tax				
Unrestricted interest on investments				
Sale of capital assets				
Miscellaneous				
Transfers				
Total general receipts and transfers				
Change in cash basis net assets				
Cash basis net assets beginning of year				
Cash basis net assets end of year				
<b>Cash Basis Net Assets</b>				
Restricted:				
Streets				
Urban renewal				
Housing rehabilitation				
Debt service				
Ira D. Kauffman Charitable Community Trust				
Other purposes				
Unrestricted				
<b>Total cash basis net assets</b>				

See notes to financial statements.

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
Governmental Activities	Business Type Activities	Total
(130,477)	-	(130,477)
(79,287)	-	(79,287)
(42,171)	-	(42,171)
22,392	-	22,392
(44,181)	-	(44,181)
(341,052)	-	(341,052)
(614,776)	-	(614,776)
-	66,077	66,077
-	111,099	111,099
-	93,941	93,941
-	22,100	22,100
-	293,217	293,217
(614,776)	293,217	(321,559)
158,750	-	158,750
11,387	-	11,387
94,182	-	94,182
127,212	-	127,212
42,589	27,012	69,601
17,990	3,750	21,740
1,829	-	1,829
300,810	(300,810)	-
754,749	(270,048)	484,701
139,973	23,169	163,142
2,640,324	1,239,446	3,879,770
\$ 2,780,297	1,262,615	4,042,912
\$ 121,795	-	121,795
48,920	-	48,920
45,160	-	45,160
468,967	13,273	482,240
1,484,629	-	1,484,629
10,638	-	10,638
600,188	1,249,342	1,849,530
\$ 2,780,297	1,262,615	4,042,912

**Exhibit B**

## City of State Center

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

As of and for the year ended June 30, 2007

	General	Debt Service	Permanent Ira D. Kauffman Charitable Community Trust	Nonmajor	Total
<b>Receipts:</b>					
Property tax	\$ 158,750	11,387	-	-	170,137
Tax increment financing	-	-	-	94,182	94,182
Other city tax	129,041	-	-	-	129,041
Licenses and permits	4,444	-	-	-	4,444
Use of money and property	66,203	4,873	98,257	178	169,511
Intergovernmental	8,496	-	-	246,127	254,623
Charges for service	4,784	-	-	14,685	19,469
Special assessments	-	13,428	-	-	13,428
Miscellaneous	80,543	-	5,631	25,209	111,383
Total receipts	452,261	29,688	103,888	380,381	966,218
<b>Disbursements:</b>					
Operating:					
Public safety	150,107	-	-	76,886	226,993
Public works	116,695	-	-	93,644	210,339
Culture and recreation	126,774	-	-	-	126,774
Community and economic development	-	-	46,593	138,008	184,601
General government	55,286	-	-	-	55,286
Debt service	-	341,052	-	-	341,052
Total disbursements	448,862	341,052	46,593	308,538	1,145,045
Excess (deficiency) of receipts over (under) disbursements	3,399	(311,364)	57,295	71,843	(178,827)
<b>Other financing sources (uses):</b>					
Sale of capital assets	10,434	-	-	7,556	17,990
Operating transfers in	23,000	326,810	-	-	349,810
Operating transfers out	-	-	-	(49,000)	(49,000)
Total other financing sources (uses)	33,434	326,810	-	(41,444)	318,800
Net change in cash balances	36,833	15,446	57,295	30,399	139,973
Cash balances beginning of year	563,510	453,521	1,427,334	195,959	2,640,324
Cash balances end of year	\$ 600,343	468,967	1,484,629	226,358	2,780,297
<b>Cash Basis Fund Balances</b>					
Reserved for debt service	\$ -	468,967	-	-	468,967
Unreserved:					
General fund	600,343	-	-	-	600,343
Special revenue funds	-	-	-	226,358	226,358
Permanent fund	-	-	1,484,629	-	1,484,629
Total cash basis fund balances	\$ 600,343	468,967	1,484,629	226,358	2,780,297

See notes to financial statements.

City of State Center

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

As of and for the year ended June 30, 2007

	Enterprise			
	Water	Electric	Nonmajor	Total
Operating receipts:				
Charges for service	\$ 169,465	1,481,540	192,529	1,843,534
Miscellaneous	-	14,300	-	14,300
Total operating receipts	169,465	1,495,840	192,529	1,857,834
Operating disbursements:				
Business type activities	103,388	1,401,899	59,330	1,564,617
Excess of operating receipts over operating disbursements	66,077	93,941	133,199	293,217
Non-operating receipts:				
Interest on investments	6,904	20,108	-	27,012
Sale of capital assets	-	3,750	-	3,750
Total non-operating receipts	6,904	23,858	-	30,762
Excess of receipts over disbursements	72,981	117,799	133,199	323,979
Operating transfers out	(16,773)	(195,881)	(88,156)	(300,810)
Net change in cash balances	56,208	(78,082)	45,043	23,169
Cash balances beginning of year	224,128	954,738	60,580	1,239,446
Cash balances end of year	\$ 280,336	876,656	105,623	1,262,615
<b>Cash Basis Fund Balances</b>				
Reserved for debt service	\$ 1,093	55,135	1,153	57,381
Unreserved	279,243	821,521	104,470	1,205,234
Total cash basis fund balances	\$ 280,336	876,656	105,623	1,262,615

See notes to financial statements.

City of State Center

Notes to Financial Statements

June 30, 2007

**(1) Summary of Significant Accounting Policies**

The City of State Center is a political subdivision of the State of Iowa located in Marshall County. It was first incorporated in 1867 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, health and social services, culture and recreation, community and economic development and general government services. The City also provides water, sewer and electric utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of State Center has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City.

These financial statements present the City of State Center and its blended component unit. The component unit discussed below is included in the City's reporting entity because of the significance of its operational or financial relationship with the City.

Blended Component Unit

The Ira D. Kauffman Charitable Community Trust has been incorporated under the provisions of the Iowa Nonprofit Corporation Act to operate exclusively for the benefit of the City of State Center. In accordance with criteria set by the Governmental Accounting Standards Board, the Trust meets the definition of a component unit which should be blended. The financial activity of the component unit has been blended as a Permanent Fund of the City.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Marshall County Assessor's Conference Board, Marshall County Emergency Management Commission and Marshall County Joint E911 Service Board.

B. Basis of Presentation

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

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

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

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

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

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

The City reports the following major governmental funds:

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

The Permanent, Ira D. Kauffman Charitable Community Trust Fund is used to account for contributions and disbursements from the trust which are used for the betterment of the City.

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

The City reports the following major proprietary funds:

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

The Electric Fund accounts for the operation and maintenance of the City’s electric system.

C. Measurement Focus and Basis of Accounting

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

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

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

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2007, disbursements exceeded the amounts budgeted in the public safety, community and economic development and general government functions.

**(2) Cash and Pooled Investments**

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

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

At June 30, 2007, the City had the following investments:

Type	Carrying Amount	Fair Value	Maturity
Mutual Funds	\$ 1,438,906	1,572,486	N/A

Interest rate risk – The City’s investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the City. The Ira D. Kauffman Charitable Community Trust, a blended component unit of the City, does not have a formal policy limiting investment maturities as a means of managing exposure to interest rate risk.

Credit risk – The City’s investments in mutual funds are unrated.

Concentration of credit risk – The City and the Ira D. Kauffman Charitable Community Trust place no limits on the amount that may be invested in any one issuer. However, the City’s policy does require the City to diversify its investments to eliminate the risk of loss resulting from the over concentration of assets in a specific maturity, issuer or class of securities.

**(3) Long Term Debt**

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

Year Ending June 30,	General Obligation Notes		Revenue Notes		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2008	\$ 130,000	57,163	125,000	34,275	255,000	91,438
2009	130,000	51,938	130,000	28,843	260,000	80,781
2010	135,000	46,528	135,000	22,973	270,000	69,501
2011	145,000	40,730	140,000	16,660	285,000	57,390
2012	150,000	34,298	150,000	9,890	300,000	44,188
2013-2017	455,000	76,570	50,000	3,728	505,000	80,298
2018-2020	110,000	11,673	-	-	110,000	11,673
Total	\$ 1,255,000	318,900	730,000	116,369	1,985,000	435,269

The resolution providing for the issuance of the electric refunding revenue notes includes the following provisions.

- (a) The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the funds.
- (b) Sufficient monthly transfers shall be made to a separate Electric Sinking Account for the purpose of making the note principal and interest payments when due.
- (c) An Electric Reserve Account shall be created into which there shall be set apart and paid from legally available funds of the City the amount of \$104,000. All money credited to the Electric Reserve Account shall be used for the payment of principal and interest on the notes whenever the funds on deposit in the Electric Sinking Account are insufficient.
- (d) An Electric Improvement Account shall also be created. Net revenues remaining after first making the required payments into the Electric Sinking and Electric Reserve Accounts and after the Electric Reserve Account contains the required balance shall be transferred to this account in the amount of \$2,500 each month until \$150,000 has been accumulated. This account is restricted for the purpose of making note and interest payments which the other accounts might be unable to make and/or paying for the costs of improvements and extensions to the Utility.

The resolution providing for the issuance of the water and sewer revenue notes includes the following provisions.

- (a) The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the funds.
- (b) Sufficient monthly transfers shall be made to separate Sinking Accounts for the purpose of making the note principal and interest payments when due.
- (c) Reserve Accounts shall be created for each into which there shall be set apart and paid from legally available funds of the City a sum equal to the lesser of (1) the maximum amount of principal and interest coming due on the notes in any succeeding fiscal year, (2) 125% of the average amount of principal and interest coming due on the outstanding notes in any succeeding fiscal year or (3) 10% of the principal amount of the notes then outstanding, calculated to be \$8,500 and \$11,500, respectively.

The City has not established the reserve accounts for the electric, water and sewer revenue notes or the sinking accounts for the water and sewer revenue notes as required by the note resolutions.

#### **(4) Development Agreement**

The City has entered into a development agreement with the State Center Development Association to assist in an urban renewal project. The City agreed to pay the developer a maximum of \$480,000 in exchange for development of commercial property located in the urban renewal area. The payments are \$20,000 each and are to be made semi-annually on June 1 and December 1, beginning June 1, 2006 and continuing for a total of twelve years, or until such date the maximum of \$480,000 has been paid.

In addition to the payments, the City agrees to rebate to the developer on each December 1 and June 1, beginning December 1, 2007 and continuing through June 1, 2019, the incremental property tax received by the City with respect to the incremental valuation of the property. Rebates are limited to a maximum of \$225,000.

During the year ended June 30, 2007, the City paid the developer \$60,000, which included \$20,000 for 2006 paid in August 2006. The outstanding balance on the development agreement at June 30, 2007 was \$420,000.

#### **(5) Pension and Retirement Benefits**

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

Most regular plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contribution to IPERS for the year ended June 30, 2007 was \$24,944, equal to the required contribution for the year.

**(6) Compensated Absences**

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

Type of Benefit	Amount
Vacation	\$ 42,500
Compensatory time	2,700
Sick leave	<u>63,900</u>
Total	<u>\$ 109,100</u>

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

**(7) Interfund Transfers**

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

Transfer to	Transfer from	Amount
General	Enterprise: Electric	\$ 23,000
Debt Service	Special Revenue: Urban Renewal Tax Increment	49,000
	Enterprise: Water	16,773
	Electric	172,881
	Sewer	88,156
		<u>326,810</u>
Total		<u>\$ 349,810</u>

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

**(8) J. G. Gutekunst Trust**

In 1971, the City received land from the J. G. Gutekunst estate. This bequest is to be used as a park and the site of a public library. In addition, the City receives semi-annual distributions of net income from the J. G. Gutekunst Trust. According to the last will and testament of J. G. Gutekunst, the distributions are for the purpose of maintaining and improving the bequeathed property and for improving any public library located on the premises given to the City of State Center.

Distributions are credited to the General Fund, Library Account. The Library received \$33,000 from this Trust during the year ended June 30, 2007.

**(9) Ira D. Kauffman Community Trust**

According to the provisions of the last will and testament of Ira D. Kauffman, the City received \$81,622 in fiscal year 1997 and \$975,471 in fiscal year 1998. The proceeds were deposited into the Permanent, Ira D. Kauffman Charitable Community Trust Fund and are to be used for a public purpose which will benefit the residents of the City of State Center. The balance of this account at June 30, 2007 totaled \$1,484,629.

**(10) Risk Management**

The City of State Center is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in the fiscal year ended June 30, 2007.

The City assumes liability for claims up to the individual deductible limitations of \$750 for the City's health insurance. The City's payment to employees for the year ended June 30, 2007 for individual deductibles was \$2,967.

**(11) Deficit Balance**

The Special Revenue, Police Reserves Fund had a deficit balance of \$155 at June 30, 2007. The deficit will be eliminated through future receipts.

**(12) Construction Commitment**

The City entered into a contract for Phase II of Figgin's Subdivision totaling approximately \$270,000. As of June 30, 2007, approximately \$10,000 had been paid on the contract. The remaining \$260,000 will be paid as work on the project progresses.

**(13) Subsequent Event**

In July 2007, the City authorized a loan agreement for project anticipation notes not to exceed \$300,000. The anticipation notes will be used to pay costs in connection with the construction of street, water and sanitary sewer improvements within Figgin's Subdivision.

**(14) Accounting Change**

Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures, and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences, were implemented for the year ended June 30, 2007. The statements create new basic financial statements for reporting the City's financial activities. The financial statements now include a government-wide financial statement and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

Implementation of these standards had no effect on the beginning balances of the City.

**Required Supplementary Information**

City of State Center

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

Required Supplementary Information

Year ended June 30, 2007

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds not Required to be Budgeted	Total
Receipts:				
Property tax	\$ 170,137	-	-	170,137
Tax increment financing	94,182	-	-	94,182
Other city tax	129,041	-	-	129,041
Licenses and permits	4,444	-	-	4,444
Use of money and property	169,511	27,012	98,257	98,266
Intergovernmental	254,623	-	-	254,623
Charges for service	19,469	1,847,284	-	1,866,753
Special assessments	13,428	-	-	13,428
Miscellaneous	111,383	14,300	5,631	120,052
Total receipts	966,218	1,888,596	103,888	2,750,926
Disbursements:				
Public safety	226,993	-	-	226,993
Public works	210,339	-	-	210,339
Culture and recreation	126,774	-	-	126,774
Community and economic development	184,601	-	46,593	138,008
General government	55,286	-	-	55,286
Debt service	341,052	-	-	341,052
Business type activities	-	1,564,617	-	1,564,617
Total disbursements	1,145,045	1,564,617	46,593	2,663,069
Excess (deficiency) of receipts over (under) disbursements	(178,827)	323,979	57,295	87,857
Other financing sources (uses)	318,800	(300,810)	-	17,990
Excess of receipts and other financing sources over disbursements and other financing uses	139,973	23,169	57,295	105,847
Balances beginning of year	2,640,324	1,239,446	1,427,334	2,452,436
Balances end of year	\$ 2,780,297	1,262,615	1,484,629	2,558,283

See accompanying independent auditor's report.

Budgeted Amounts <u>Original/Final</u>	Final to Net Variance
167,719	2,418
92,951	1,231
113,940	15,101
750	3,694
92,200	6,066
126,919	127,704
2,098,872	(232,119)
8,024	5,404
372,077	(252,025)
<u>3,073,452</u>	<u>(322,526)</u>
124,675	(102,318)
239,230	28,891
210,885	84,111
40,000	(98,008)
46,950	(8,336)
341,052	-
1,966,183	401,566
<u>2,968,975</u>	<u>305,906</u>
104,477	(16,620)
-	17,990
104,477	1,370
3,403,703	(951,267)
<u>3,508,180</u>	<u>(949,897)</u>

City of State Center

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2007

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

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

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund and the Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. There were no budget amendments during the fiscal year.

During the year ended June 30, 2007, disbursements exceeded the amounts budgeted in the public safety, community and economic development and general government functions.

**Other Supplementary Information**

City of State Center

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

As of and for the year ended June 30, 2007

	Special Revenue		
	Road Use Tax	Tax Increment Financing	Township Fire
Receipts:			
Tax increment financing	\$ -	94,182	-
Use of money and property	-	-	178
Intergovernmental	112,432	-	55,799
Charges for service	-	-	14,685
Miscellaneous	-	-	-
Total receipts	<u>112,432</u>	<u>94,182</u>	<u>70,662</u>
Disbursements:			
Operating:			
Public safety	-	-	76,886
Public works	93,644	-	-
Community and economic development	-	60,000	-
Total disbursements	<u>93,644</u>	<u>60,000</u>	<u>76,886</u>
Excess (deficiency) of receipts over (under) disbursements	<u>18,788</u>	<u>34,182</u>	<u>(6,224)</u>
Other financing sources (uses):			
Sale of capital assets	-	-	7,556
Operating transfers out	-	(49,000)	-
Total other financing sources (uses)	<u>-</u>	<u>(49,000)</u>	<u>7,556</u>
Net change in cash balances	18,788	(14,818)	1,332
Cash balances beginning of year	103,007	63,738	9,306
Cash balances end of year	<u>\$ 121,795</u>	<u>48,920</u>	<u>10,638</u>
<b>Cash Basis Fund Balances</b>			
Unreserved:			
Special revenue funds	<u>\$ 121,795</u>	<u>48,920</u>	<u>10,638</u>

See accompanying independent auditor's report.

Housing Rehabilitation Program	Police Reserves	Total
-	-	94,182
-	-	178
77,896	-	246,127
-	-	14,685
25,209	-	25,209
103,105	-	380,381
-	-	76,886
-	-	93,644
78,008	-	138,008
78,008	-	308,538
25,097	-	71,843
-	-	7,556
-	-	(49,000)
-	-	(41,444)
25,097	-	30,399
20,063	(155)	195,959
45,160	(155)	226,358
45,160	(155)	226,358

**City of State Center**

## City of State Center

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

As of and for the year ended June 30, 2007

	Enterprise		Total
	Sewer	Storm Water	
Operating receipts:			
Charges for service	\$ 163,912	28,617	192,529
Operating disbursements:			
Business type activities	52,813	6,517	59,330
Excess of operating receipts over disbursements	111,099	22,100	133,199
Operating transfers out	(88,156)	-	(88,156)
Net change in cash balances	22,943	22,100	45,043
Cash balances beginning of year	58,160	2,420	60,580
Cash balances end of year	\$ 81,103	24,520	105,623
<b>Cash Basis Fund Balances</b>			
Reserved for debt service	\$ 1,153	-	1,153
Unreserved	79,950	24,520	104,470
Total cash basis fund balances	\$ 81,103	24,520	105,623

See accompanying independent auditor's report.

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City of State Center  
Schedule of Indebtedness  
Year ended June 30, 2007

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation notes:			
Corporate purpose	May 1, 1999	4.55-5.00%	\$ 1,000,000
Corporate purpose and refunding	Oct 15, 2004	3.40-5.25	810,000
Total			
Revenue notes:			
Electric refunding	Jan 1, 2002	4.45-5.00%	\$ 1,040,000
Water	Oct 15, 2004	3.80-5.05	85,000
Sewer	Oct 15, 2004	3.80-5.00	115,000
Total			

See accompanying independent auditor's report.

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Balance Beginning of Year	Redeemed During Year	Balance End of Year	Interest Paid
615,000	65,000	550,000	29,130
765,000	60,000	705,000	32,815
<u>\$ 1,380,000</u>	<u>125,000</u>	<u>1,255,000</u>	<u>61,945</u>
675,000	100,000	575,000	31,625
75,000	5,000	70,000	3,297
95,000	10,000	85,000	4,185
<u>\$ 845,000</u>	<u>115,000</u>	<u>730,000</u>	<u>39,107</u>

City of State Center

Note Maturities

June 30, 2007

Year Ending June 30,	General Obligation					Total
	Corporate Purpose Issued May 1, 1999		Corporate Purpose and Refunding Issued Oct 15, 2004			
	Interest		Interest			
	Rates	Amount	Rates	Amount		
2008	4.55%	\$ 70,000	3.40%	\$ 60,000	130,000	
2009	4.60	70,000	3.65	60,000	130,000	
2010	4.65	75,000	3.85	60,000	135,000	
2011	4.75	80,000	4.05	65,000	145,000	
2012	4.85	80,000	4.25	70,000	150,000	
2013	4.90	85,000	4.45	70,000	155,000	
2014	5.00	90,000	4.60	70,000	160,000	
2015		-	4.75	70,000	70,000	
2016		-	4.90	35,000	35,000	
2017		-	4.95	35,000	35,000	
2018		-	5.05	35,000	35,000	
2019		-	5.15	35,000	35,000	
2020		-	5.25	40,000	40,000	
Total		\$ 550,000		\$ 705,000	1,255,000	

See accompanying independent auditor's report.



**City of State Center**



**OFFICE OF AUDITOR OF STATE**  
STATE OF IOWA

David A. Vaudt, CPA  
Auditor of State

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

To the Honorable Mayor and  
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of State Center, Iowa, as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated August 17, 2007. Our report expressed unqualified opinions on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of State Center's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the City of State Center's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of State Center's internal control over financial reporting.

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

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

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by the City of State Center'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, of the significant deficiencies described above, we believe items A and B are material weaknesses.

#### Compliance and Other Matters

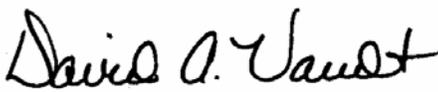
As part of obtaining reasonable assurance about whether the City of State Center's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in the accompanying Schedule of Findings.

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

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

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of State Center and other parties to whom the City of State Center 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 State Center during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

  
DAVID A. VAUDT, CPA  
Auditor of State

  
WARREN G. JENKINS, CPA  
Chief Deputy Auditor of State

August 17, 2007

City of State Center  
 Schedule of Findings  
 Year ended June 30, 2007

**Findings Related to the Financial Statements:**

**SIGNIFICANT DEFICIENCIES:**

(A) Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Generally, one individual may have control over the following areas:

	<u>Applicable Offices</u>
(1) Receipts – collecting, depositing, journalizing, posting and reconciling.	City, Library, Rose Garden, Fire Department
(2) Disbursements – check writing, signing, posting and reconciling.	City, Library, Rose Garden, Fire Department
(3) Payroll – preparation and distribution.	City, Library
(4) Investments – authorization and accounting functions.	City, Library
(5) Accounting procedures manual.	City, Library, Rose Garden, Fire Department
(6) Bank account reconciliations.	City, Library, Rose Garden, Fire Department

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

Responses:

City – Every attempt is made to have a double check on office matters.

Library – We will review.

Rose Garden – There are a small number of transactions and volunteers.

Fire Department – Duties are segregated. The Treasurer writes checks and the Fire Chief and EMS Chief reconciles.

Conclusion – Responses acknowledged. The City and other offices should continually review the segregation of duties among employees to ensure assets are safeguarded.

In addition, the City and other offices should document reviews performed.

(B) Reconciliation of Utility Billings, Collections and Delinquencies – Utility billings, collections and delinquent accounts were not reconciled throughout the year.

Recommendation – Procedures should be established to reconcile utility billings, collections and delinquencies for each billing period. The Council or a Council designated independent person should review the reconciliations and monitor delinquencies.

City of State Center

Schedule of Findings

Year ended June 30, 2007

Response – This was overlooked in the transition of employees. We will proceed with the method you advised and the finance chairman will review.

Conclusion – Response accepted.

- (C) Library Investments – A detailed record of library investment transactions was not maintained.

Recommendation – A detailed record of investment transactions should be maintained and should include investment number, purchase date, redemption date, interest rate and amount of principal and interest received.

Response – We will start keeping this record.

Conclusion – Response accepted.

- (D) Fire Department and First Responders Receipts – The Fire Department and First Responders do not issue receipts for collections.

Recommendation – Prenumbered receipts should be issued for all collections.

Response – Receipt books will be purchased.

Conclusion – Response accepted.

- (E) Information Systems – The City's computer-based system software does not require the user to periodically change log-ins/passwords. Passwords are not periodically changed.

In addition, the City does not have written policies for password privacy and confidentiality, usage of the Internet and a disaster recovery plan.

Recommendation – The City should take steps to implement procedures to require periodic changes in passwords. The City should also develop written policies addressing the above items in order to improve the City's control over computer-based systems.

Response – The City Clerk will meet with Council Members regarding developing policies.

Conclusion – Response accepted.

- (F) Disbursements – Housing Rehabilitation Fund disbursements are not approved by the Council. In addition, there is no approval by the applicable Board or Department for Rose Garden and Fire Department disbursements.

Certain disbursements to other entities were classified as transfers in the financial records. These instances have been resolved for financial reporting purposes.

Recommendation – The City should include Housing Rehabilitation Fund disbursements on the monthly list of bills for approval by the Council. In addition, Rose Garden and Fire Department disbursements should be approved by the applicable Board or Department.

Disbursements to outside entities should not be classified as transfers in the financial records.

City of State Center

Schedule of Findings

Year ended June 30, 2007

Responses –

City – We will list Housing Rehabilitation Fund disbursements monthly. Also we will rename disbursements to the outside entities as “donations” instead of reporting as transfers.

Rose Garden – The Rose Garden Board will try scheduling quarterly meetings to review disbursements.

Fire Department – The Fire Department approves disbursements at each monthly meeting.

Conclusion – Responses acknowledged. Approval of disbursements should be clearly documented.

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

City of State Center  
Schedule of Findings  
Year ended June 30, 2007

**Other Findings Related to Required Statutory Reporting:**

- (1) Certified Budget – Disbursements during the year ended June 30, 2007 exceeded the amounts budgeted in the public safety, community and economic development and general government functions. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

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

Response – We will closely monitor in the future.

Conclusion – Response accepted.

- (2) Questionable Disbursements – No disbursements we believe may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 were noted.
- (3) Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- (4) Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Jim Eckhardt, Fire Chief, owner of Eckhardt Enterprises	Insurance	\$ 57,910

In accordance with Chapter 362.5(11) of the Code of Iowa, the transaction for insurance may represent a conflict of interest since the total cumulative transaction amount was greater than \$2,500 during the fiscal year.

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

Response – We will contact the City Attorney.

Conclusion – Response accepted.

- (5) Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure the coverage is adequate for current operations.
- (6) Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.

City of State Center

Schedule of Findings

Year ended June 30, 2007

- (7) Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City’s investment policy were noted.
- (8) Water and Sewer Revenue Notes – The provisions for the water and sewer revenue notes require sufficient monthly transfers be made to separate water and sewer revenue note sinking accounts for the purpose of making the bond principal and interest payments when due. In addition, the provisions for the electric, water and sewer revenue notes require reserve accounts to be established.

The City has not established the sinking accounts as required by the water and sewer revenue note provisions. The City makes the required monthly transfers to the Debt Service Fund and disburses debt payments from the Debt Service Fund as they come due.

Also, the required reserve accounts for the electric, water and sewer revenue notes have not been established.

Recommendation – The City should establish the required reserve and sinking accounts and make sufficient monthly transfers to the sinking accounts for the purpose of making the bond principal and interest payments when due. In addition, the revenue notes should be paid directly from the sinking accounts.

Response – We have set aside funds for the electric and water reserve and sinking accounts. However, in the future we will establish separate electric and water reserve and sinking funds to comply with the note resolutions. Also, the revenue notes will be paid from the proper sinking accounts.

Conclusion – Response accepted.

- (9) Notice of Public Hearing for Public Improvements – The City published a notice of public hearing for the Figgin’s Subdivision project as required by the Code of Iowa. However, Chapter 362.3 states a notice of the hearing must be published not less than four nor more than twenty days before the date of the hearing. The public notice was published twenty-seven days in advance of the hearing.

Recommendation – The City should ensure the notice of public hearing is published in accordance with the Code of Iowa.

Response – This was due to administration at the newspaper. It was an isolated incident.

Conclusion – Response accepted.

- (10) Local Option Sales Tax – The City collects a local option sales tax which is to be allocated for use in the following percentages: 50% for street replacement, 25% for public safety and 25% for general corporate purposes.

The City’s records did not contain sufficient detail to determine whether the local option sales tax proceeds were spent in accordance with the purposes stated in the ballot.

City of State Center

Schedule of Findings

Year ended June 30, 2007

Recommendation – The City should establish a separate special revenue fund to facilitate tracking of local option sales tax proceeds and the disbursement of such funds in accordance with purposes stated in the ballot.

Response – This fund will be established

Conclusion – Response accepted.

- (11) Electronic Check Retention – Chapter 554D.114 of the Code of Iowa allows an entity to retain cancelled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each cancelled check. The Rose Garden and Fire Department retain cancelled checks through electronic image, but do not obtain an image of the back of each cancelled check as required.

Recommendation – The Rose Garden and Fire Department should obtain and retain an image of both the front and back of each cancelled check as required.

Response – We will request from the bank immediately.

Conclusion – Response accepted.

- (12) Financial Condition – The Special Revenue, Police Reserves Fund had a deficit balance of \$155 at June 30, 2007.

Recommendation – The City should investigate alternatives to eliminate this deficit in order to return these accounts to a sound financial position.

Response – The Mayor will visit with the Chief of Police to determine a solution.

Conclusion – Response accepted.

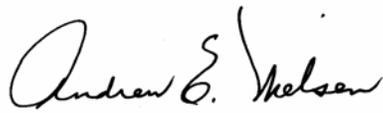
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City of State Center

Staff

This audit was performed by:

Michelle B. Meyer, CPA, Manager  
Lesley R. Geary, CPA, Senior Auditor II  
Ryan J. Sisson, Staff Auditor  
Tiffany M. Maske, Assistant Auditor

A handwritten signature in black ink that reads "Andrew E. Nielsen". The signature is written in a cursive style with a large initial 'A' and a distinct 'E'.

Andrew E. Nielsen, CPA  
Deputy Auditor of State