

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

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City of Malvern

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Dwain Pelzer	Mayor	January 2008
Ervin Crouch	Council Member	January 2008
Tom Mulholland	Council Member	January 2008
Renae Pearce	Council Member	January 2008
Gary Perkins	Council Member	January 2010
Doug Shere	Council Member	January 2010
Julie Snyder	City Clerk	Indefinite
T. J. Pattermann	Attorney	Indefinite

City of Malvern

November 9, 2007

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 and each major fund of the City of Malvern, 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 Malvern's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, and each major fund of the City of Malvern 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.

Continued...

November 9, 2007
Independent Auditor's Report
City of Malvern

In accordance with *Government Auditing Standards*, we have also issued our report dated November 9, 2007 on our consideration of the City of Malvern'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 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.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 12 and 30 through 32 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Malvern's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2006 (none of which are presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 5, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

2007 FINANCIAL HIGHLIGHTS

Receipts of the City's governmental activities increased 52%, or approximately \$387,000, from fiscal 2006 to fiscal 2007. Intergovernmental receipts increased approximately \$191,000 and miscellaneous receipts increased approximately \$186,000.

Disbursements decreased 2%, or approximately \$32,000, in fiscal 2007 from fiscal 2006. Public safety decreased by \$1173, and public works decreased by \$42,186. Culture and recreation decreased by \$484,563, community and economic development decreased by \$46,223, general government decreased \$14,518, and capital projects increased by \$535,191. Debt service decreased by \$14,518.

The City's total cash basis net assets increased by 397%, or \$94,740, from June 30, 2006 to June 30, 2007. Of this amount, the assets of the governmental activities increased approximately \$13,604, and business type activities increased by \$81,136.

USING THIS ANNUAL REPORT

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

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

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

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

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

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

Basis of Accounting

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

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-Wide Financial Statement

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

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

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

- ❖ Governmental Activities include public safety, public works, 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 sanitary sewer system. This activity is financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

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

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

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

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

Reconciliations between the government-wide statement and the fund financial statements follow the fund financial statements.

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 \$(200) thousand to \$(186) thousand. The analysis that follows focuses on the changes in cash balances for governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities (Expressed in Thousands)				
Year Ended June 30,				
	2007		2006	
Receipts and other financing sources:				
Property tax	\$	313	\$	291
Other city tax		83		74
Licenses and permits		1		1
Use of money and property		12		27
Intergovernmental		396		205
Charges for service		96		99
Special assessments		10		13
Miscellaneous		216		30
		<u>1127</u>		<u>740</u>
Disbursements and other financing uses:				
Public safety		71		72
Public works		251		293
Culture and recreation		195		679
Community and economic development		7		54
General Government		142		121
Debt service		76		90
Capital projects		630		95
		<u>1372</u>		<u>1404</u>
Deficiency of receipts under disbursements		(245)		(664)
Other financing sources, net		<u>259</u>		<u>80</u>
Net change in cash basis net assets		14		(584)
Cash basis net assets beginning of year		<u>(200)</u>		<u>384</u>
Cash basis net assets end of year	\$	<u>(186)</u>	\$	<u>(200)</u>

The City's total receipts for governmental activities decreased by 52%, or \$387,000. The total cost of all programs and services decreased by approximately 2%, or \$32,000, with no new programs added this year. The decrease in receipts was primarily the result of revenues not coming in for projects and intergovernmental receipts.

The cost of all governmental activities this year was \$1372 thousand compared to \$1404 thousand last year. There were no major projects being done and the city council tried to keep costs at a minimum.

Changes in Cash Basis Net Assets of Business Type Activities (Expressed in Thousands)		
	Year Ended June 30,	
	2007	2006
Operating receipts		
Charges for service	\$ 232	\$ 227
Operating disbursements		
Water	61	212
Sewer	60	40
	<u>121</u>	<u>252</u>
Excess deficiency of operating receipts under disbursements	111	(25)
Non-operating receipts and transfers		
Interest on investments	1	1
Miscellaneous	3	2
Debt service	(54)	(43)
	<u>(50)</u>	<u>(40)</u>
Excess deficiency of receipts over (under) disbursements	(61)	(65)
Other financing uses	<u>20</u>	<u>(75)</u>
Net change in cash basis net assets	81	(140)
Cash basis net assets beginning of year	<u>223</u>	<u>363</u>
Cash basis net assets end of year	\$ <u>304</u>	\$ <u>223</u>

Total business type activities receipts for the fiscal year were \$232 thousand compared to \$227 thousand last year. The cash balance increased by \$81 thousand.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Malvern completed the year, its governmental funds reported a combined fund balance of \$(186,159), an increase of \$13,604 from last year's total of \$(199,673). 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 decreased \$78,487 from the prior year of \$(248,936) to \$(327,403).
- ❖ The Road Use Tax Fund had an increase of \$13,170, Employee Benefits Fund increased \$5639, and Local Option Sales Tax Fund decreased \$16,813. The Urban Renewal Tax Increment fund did not change.
- ❖ The Debt Service Fund cash balance decreased by \$5396 to \$16,501 during the fiscal year.
- ❖ The Capital Projects Fund cash balance increased from \$(143,132) to \$(47,661) during the fiscal year due to CAT grant monies received.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- ❖ The Sewer Fund cash balance increased by \$14,711 to \$167,738, due to charging water/sewer customers to help build a reserve for upcoming sewer projects and repairs.
- ❖ The Water Fund cash balance increased by \$66,425 to \$137,009 during the fiscal year due to charging water/sewer customers more to help build a reserve to pay for upcoming water projects and repairs.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City budget was exceeded in culture and recreation due to a new heating/ac unit being put into the basement of the community building and the Council took over and bonded for a loan taken out by the Friends of the Library.

DEBT ADMINISTRATION

At June 30, 2007, the City had approximately \$1,493,532 in bonds and other long-term debt, compared to approximately \$1,327,103 last year as shown below:

	Outstanding Debt at Year End	
	(Expressed in Thousands)	
	Year Ended June 30,	
	2007	2006
General obligation notes	\$ 805	\$ 609
Revenue notes	688	718
	<u>\$ 1493</u>	<u>\$ 1327</u>

Debt increased as a result of debt issuance of \$275,000 and payments of notes and bonds of \$108,571 over the course of the fiscal year.

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City’s corporate limits. The City’s outstanding general obligation debt was \$805,000 at fiscal year end, which is significantly below the City’s constitutional debt limit of \$2 million.

ECONOMIC FACTORS AND NEXT YEAR’S BUDGETS AND RATES

The City of Malvern’s elected and appointed officials and citizens considered many factors when setting the fiscal year 2008 budget, tax rates and fees that will be charged for various City activities. The City increased the tax rates approximately 1.68526 from the previous year.

These indicators were taken into account when adopting the budget for fiscal year 2008. The debt service levy was increased from 1.59871 in 2006 to 2.83604 in 2007 for a difference of 1.23733. This was increased due to bonding for the new city shop building payment. The employee benefits levy increased from 2.59761 in 2006 to 2.83604 in 2007 since the general tax rate of \$8.10 per thousand of taxable valuation was no longer sufficient to fund all existing debt and operations. This is due to the continued tax valuation rollbacks.

Budget disbursements are expected to decrease by \$865,043 from 2007 due to the new library addition is completed and the Mayor and Council are making an effort to cut back in all programs of the budget.

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 any questions about this report or need additional financial information, contact Julie Snyder, City Clerk, 107 E. 4th Street, Malvern, Iowa.

City of Malvern
Basic Financial Statements

City of Malvern
Statement of Activities and Net Assets – Cash Basis
As of and for the year ended June 30, 2007

		Program Receipts		
	Disbursements	Charges for Service	Operating Grants Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions/Programs:				
Governmental activities:				
Public safety	\$ 70,934	1,279	184	-
Public works	250,608	72,389	129,898	-
Culture and recreation	194,648	22,292	33,715	-
Community and economic development	7,159	-	1,080	-
General government	141,743	-	4,550	-
Debt service	75,750	1,067	-	-
Capital projects	630,666	-	-	459,984
Total governmental activities	1,371,508	97,027	169,427	459,984
Business type activities:				
Water	61,223	125,415	-	-
Sewer	114,337	106,638	-	-
Total business type activities	175,560	232,053	-	-
Total	\$ 1,547,068	401,480	97,027	459,984

General Receipts:

Property tax levied for:
 General purposes
 Employee benefits
 Debt service
Local option sales tax
Grants and contributions not restricted to specific purpose
Unrestricted interest on investments
Anticipatory warrants issued
Anticipatory warrants redeemed
Loan proceeds
Sale of assets
Transfers
 Total general receipts

Change in cash basis net assets

Cash basis net assets beginning of year

Cash basis net assets end of year

Cash Basis Net Assets:

Restricted:
 Streets
 Employee benefits
 Urban renewal purposes
 Debt service
 Other purposes
Unrestricted

 Total cash basis net assets

See notes to financial statements

Net (Disbursement) Receipts and Changes in
Cash Basis Net Assets

	Governmental Activities	Business Type Activities	Total
	(69,471)	-	(69,471)
	(48,321)	-	(48,321)
	(138,641)	-	(138,641)
	(6,079)	-	(6,079)
	(137,193)	-	(137,193)
	(74,683)	-	(74,683)
	(170,682)	-	(170,682)
	<u>(645,070)</u>	<u>-</u>	<u>(645,070)</u>
	-	64,192	64,192
	<u>-</u>	<u>(7,699)</u>	<u>(7,699)</u>
	<u>-</u>	<u>56,493</u>	<u>56,493</u>
	(645,070)	56,493	(588,577)
\$	228,625	-	228,625
	38,651	-	38,651
	61,150	-	61,150
	67,299	-	67,299
	4,061	3,950	8,011
	315	566	881
	292,536	-	292,536
	(292,536)	-	(292,536)
	275,000	-	275,000
	3,700	-	3,700
	(20,127)	20,127	-
	<u>658,674</u>	<u>24,643</u>	<u>683,317</u>
	13,604	81,136	94,740
	<u>(199,763)</u>	<u>223,611</u>	<u>23,848</u>
\$	<u>(186,159)</u>	<u>304,747</u>	<u>118,588</u>
\$	132,593	-	132,593
	23,772	-	23,772
	16,039	-	16,039
	16,501	15,674	32,175
	-	36,665	36,665
	<u>(375,064)</u>	<u>252,408</u>	<u>(122,656)</u>
\$	<u>(186,159)</u>	<u>304,747</u>	<u>118,588</u>

City of Malvern
Statement of Cash Receipts, Disbursements
and Changes in Cash Balances - Governmental Funds
As of and for the year ended June 30, 2007

	General	Road Use Tax	Employee Benefits	Special Local Option Sales Tax
Receipts				
Property tax	\$ 217,239	-	36,945	-
Other city tax	11,386	-	1,706	67,299
Licenses and permits	1,067	-	-	-
Use of money and property	11,983	-	-	-
Intergovernmental	12,093	120,678	-	12,000
Charges for service	95,960	-	-	-
Special assessments	1,080	-	-	-
Miscellaneous	6,757	8	-	-
Total receipts	<u>357,565</u>	<u>120,686</u>	<u>38,651</u>	<u>79,299</u>
Disbursements				
Operating:				
Public safety	68,653	-	2,281	-
Public works	131,422	105,791	13,395	-
Culture and recreation	181,777	-	6,871	6,000
Community and economic development	7,159	-	-	-
General government	123,703	-	10,465	7,575
Debt service	-	-	-	-
Capital projects	-	-	-	-
Total disbursements	<u>512,714</u>	<u>105,791</u>	<u>33,012</u>	<u>13,575</u>
Excess (deficiency) of receipts over (under) disbursements	(155,149)	14,895	5,639	65,724
Other financing sources (uses):				
Sale of general fixed assets	3,700	-	-	-
Anticipatory warrants issued	-	-	-	-
Anticipatory warrants redeemed	-	-	-	-
Loan proceeds	-	-	-	-
Operating transfers in	76,537	-	-	-
Operating transfers out	(3,555)	(1,725)	-	(82,537)
Total other financing sources (uses)	<u>76,682</u>	<u>(1,725)</u>	<u>-</u>	<u>(82,537)</u>
Net change in cash balances	(78,467)	13,170	5,639	(16,813)
Cash balances beginning of year	<u>(248,936)</u>	<u>119,423</u>	<u>18,133</u>	<u>16,813</u>
Cash balances end of year	\$ <u><u>(327,403)</u></u>	<u><u>132,593</u></u>	<u><u>23,772</u></u>	<u><u>-</u></u>
Cash Basis Fund Balances				
Reserved:				
Debt service	\$ -	-	-	-
Unreserved:				
General fund	(327,403)	-	-	-
Special revenue funds	-	132,593	23,772	-
Debt service	-	-	-	-
Total cash basis fund balances	\$ <u><u>(327,403)</u></u>	<u><u>132,593</u></u>	<u><u>23,772</u></u>	<u><u>-</u></u>

See notes to financial statements

<u>Revenue</u>			
<u>Urban Renewal Tax Increment</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total</u>
-	58,414	-	312,598
-	2,736	-	83,127
-	-	-	1,067
-	-	-	11,983
-	-	251,470	396,241
-	-	-	95,960
-	9,204	-	10,284
-	-	208,514	215,279
-	70,354	459,984	1,126,539
-	-	-	70,934
-	-	-	250,608
-	-	-	194,648
-	-	-	7,159
-	-	-	141,743
-	75,750	-	75,750
-	-	630,666	630,666
-	75,750	630,666	1,371,508
-	(5,396)	(170,682)	(244,969)
-	-	-	3,700
-	-	292,536	292,536
-	-	(292,536)	(292,536)
-	-	275,000	275,000
-	-	14,280	90,817
-	-	(23,127)	(110,944)
-	-	266,153	258,573
-	(5,396)	95,471	13,604
16,039	21,897	(143,132)	(199,763)
16,039	16,501	(47,661)	(186,159)
-	16,501	-	16,501
-	-	-	(327,403)
16,039	-	-	172,404
-	-	(47,661)	(47,661)
16,039	16,501	(47,661)	(186,159)

City of Malvern
 Reconciliation of the Statement of Cash
 Receipts, Disbursements and Changes in Cash Balances
 to the Statement of Activities and Net Assets -
 Governmental Funds
 As of and for the year ended June 30, 2007

Total governmental funds cash balances	\$	(186,159)
<i>Adjustments</i>		
None		-
Cash basis net assets of governmental activities	\$	(186,159)
Net change in cash balances	\$	13,604
<i>Adjustments</i>		
None		-
Change in cash balance of governmental activities	\$	13,604

See notes to financial statements

City of Malvern
Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Proprietary Funds
As of and for the year ended June 30, 2007

	Enterprise Funds		
	Water	Sewer	Total
Operating receipts:			
Charges for service	\$ 125,415	106,638	232,053
Operating disbursements:			
Business type activities	61,223	60,002	121,225
Excess of operating receipts over operating disbursements	64,192	46,636	110,828
Non-operating receipts (disbursements):			
Interest on investments	283	283	566
Miscellaneous	3,950	-	3,950
Debt service	-	(54,335)	(54,335)
Total non-operating receipts (disbursements)	4,233	(54,052)	(49,819)
Excess (deficiency) of receipts over (under) disbursements	68,425	(7,416)	61,009
Other financing uses:			
Operating transfers in	-	23,127	23,127
Operating transfers out	(2,000)	(1,000)	(3,000)
	(2,000)	22,127	20,127
Net change in cash balances	66,425	14,711	81,136
Cash balances beginning of year	70,584	153,027	223,611
Cash balances end of year	\$ 137,009	167,738	304,747
 Cash Basis Fund Balances			
Reserved for debt service	-	15,674	15,674
Reserved for other purposes	36,665	-	36,665
Unreserved	100,344	152,064	252,408
	\$ 137,009	167,738	304,747

See notes to financial statements

City of Malvern
 Reconciliation of the Statement of Cash Receipts, Disbursements
 and Changes in Cash Balances
 to the Statement of Activities and Net Assets –
 Proprietary Funds
 As of and for the year ended June 30, 2007

Total enterprise funds cash balances	\$	304,747
<i>Adjustments</i>		
None		-
Cash basis net assets of business type activities	\$	304,747
Net change in cash balances	\$	81,136
<i>Adjustments</i>		
None		-
Change in cash balance of business type activities	\$	81,136

See notes to financial statements

City of Malvern
Notes to Financial Statements
June 30, 2007

NOTE (1) Summary of Significant Accounting Policies

The City of Malvern is a political subdivision of the State of Iowa located in Mills County. It was first incorporated in 1869 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, culture and recreation, community and economic development, and general government services. The City also provides water and sewer utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Malvern 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 which meet the Governmental Accounting Standards Board criteria.

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: Mills County Assessor's Conference Board, Mills County Emergency Management Commission and Mills County E911 Board.

B. Basis of Presentation

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

City of Malvern
Notes to Financial Statements
June 30, 2007

NOTE (1) Summary of Significant Accounting Policies - Continued

B. Basis of Presentation - Continued

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

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

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

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

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

The City reports the following major governmental funds:

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

Special Revenue:

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

The Employee Benefit Fund is used to account for property taxes levied to pay employee benefits.

The Local Option Sales Tax Fund is used to account for receipts required from the tax authorized by referendum and used for property tax relief.

City of Malvern
Notes to Financial Statements
June 30, 2007

NOTE (1) Summary of Significant Accounting Policies - Continued

B. Basis of Presentation - Continued

Special Revenue (continued):

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

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

The Capital Projects Fund is used to account for all resources used in the construction of capital facilities with the exception of those financed through enterprise funds.

The City reports the following major proprietary funds:

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

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

C. Measurement Focus and Basis of Accounting

The City of Malvern 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.

City of Malvern
Notes to Financial Statements
June 30, 2007

NOTE (1) Summary of Significant Accounting Policies - Continued

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 culture and recreation function.

E. Property Tax Calendar

The City's property tax rates were extended against the assessed valuation of the City as of January 1, 2005, to compute the amounts which became liens on property on July 1, 2006. These taxes were due and payable in two installments on September 30, 2006 and March 31, 2007, at the Mills County Treasurer's Office. These taxes are recognized as income to the City when they are received from the county.

NOTE (2) Cash and Pooled Investments

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

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

The City's cash, which consists of cash in bank and certificates of deposit, totaled \$118,588.

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

City of Malvern
Notes to Financial Statements
June 30, 2007

NOTE (3) Notes Payable

Annual debt service requirements to maturity of general obligation notes are as follows:

Year Ended June 30,	General Obligation Notes		Revenue Note		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2008	\$ 90,524	37,839	32,000	20,580	122,524	58,419
2009	75,575	34,293	33,000	19,620	108,575	53,913
2010	78,730	30,595	34,000	18,630	112,730	49,225
2011	81,995	26,741	35,000	17,610	116,995	44,351
2012	86,374	22,724	37,000	16,560	123,374	39,284
2013-2017	392,334	48,821	200,000	65,550	592,334	114,371
2018-2022	-	-	232,000	33,720	232,000	33,720
2023-2024	-	-	83,000	3,450	83,000	3,450
Total	\$ 805,532	201,013	686,000	195,720	1,491,532	396,733

The Code of Iowa requires that principal and interest on general obligation bonds be paid from the Debt Service Fund.

The City has a general obligation debt limit of approximately \$2,000,000 which was not exceeded during the year ended June 30, 2007.

The resolution providing for the issuance of the water revenue note includes the provision that the debt is secured by the equipment purchased and debt service payments are due on an annual basis. The City has complied with the provision.

The resolutions providing for the issuance of the sewer revenue notes include the following provisions:

- a) Proceeds of the note shall be credited to the project fund and expended therefrom for the purpose of the issuance.
- b) The notes will only be redeemed from the future earnings of the sewer enterprise activity, and the note holders hold a lien on the future earnings of the fund.
- c) Sufficient monthly transfers shall be made to the sewer revenue note sinking account for the purpose of making the note principal and interest payments when due.

The City has complied with the provisions of the resolution.

City of Malvern
Notes to Financial Statements
June 30, 2007

NOTE (4) Interest Costs

The City of Malvern paid the following interest costs during the year.

Interest reflected in capital projects costs	\$ 8,444
Interest reflected in debt service costs	<u>51,544</u>
	<u>\$ 59,988</u>

NOTE (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.

Plan members are required to contribute 3.70 % of their annual covered salary and the City is required to contribute 5.75 % of annual covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2007, 2006, and 2005, were \$8,384, \$7,815, and \$7,455, respectively, equal to the required contributions for each year.

NOTE (6) Compensated Absences

City employees accumulate vacation days for subsequent use or for payment at the end of the calendar year during which it was required to be taken. These accumulations are not recognized as disbursements by the City until used or paid. Employees are entitled to payment of accrued vacation upon termination, retirement, death, or disability. The City's approximate liability for earned vacation benefits payable to employees at June 30, 2007, primarily relating to the General Fund is \$3,923. This liability is computed on rates of pay effective as of June 30, 2007.

City of Malvern
Notes to Financial Statements
June 30, 2007

NOTE (7) Anticipatory Warrants

Anticipatory warrants are warrants which are legally drawn on City funds but are not paid for lack of funds, in accordance with Chapter 74 of the Code of Iowa. The warrants bear interest at rates in effect at the time the warrants are first presented for redemption.

Changes in anticipatory warrants for the year ended June 30, 2007 were as follows:

	Interest Rate Per Annum	Balance June 30, 2006	Issued During the Year	Redeemed During the Year	Balance June 30, 2007
Library	7.75 %	\$ -	285,000	285,000	-
Essential Corporate Purpose	7.75 %	-	7,536	7,536	-
		\$ -	<u>292,536</u>	<u>292,536</u>	<u>-</u>

NOTE (8) Interfund Transfers

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

Transfer to	Transfer from	Amount
General	Special Revenue: Local Option Sales Tax	\$ 76,537
Capital Projects	General	3,555
	Special Revenue: Road Use	1,725
	Local Option Sales Tax	6,000
	Enterprise:	
	Water	2,000
	Sewer	1,000
		<u>14,280</u>
Sewer	Capital Projects	<u>23,127</u>
		<u>\$ 113,944</u>

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

City of Malvern
Notes to Financial Statements
June 30, 2007

NOTE (9) Commitments

Law Enforcement Contract

The City has contracted with Mills County, Iowa whereby the County provides law enforcement services within the City of Malvern through the office of the Sheriff of Mills County, Iowa through June 30, 2008 for an annual amount of \$16,360.

Administrative Services Contract

The City renewed its agreement with PeopleService, whereby the City engages PeopleService to manage, operate, and maintain the City's water and wastewater utility system. The Company in turn refunds to the City all cost savings on non-payroll operating expenses. The monthly contracted fee is \$7,279 effective through June 30, 2008.

As required in this agreement, PeopleService computes, bills, collects and transmits to the City the revenues from water, sewer and landfill usage.

Rescue Services Contract

Malvern Volunteer Rescue, Inc. is a separate entity established to provide rescue services. In July 1989, the City signed an ambulance service contract with the Organization, which has been extended for successive one year terms. The Organization is required to provide 24 hour phone service, all insurance, maintenance, repairs and supplies for City owned rescue unit vehicles and trained personnel to respond to rescue calls. The City is required to pay the Organization \$1,000 a month for these services.

Community Services

The City has a 28E agreement with Mills County for the purpose of providing emergency communication services. The City's share of the support is \$10,048 for the year ending June 30, 2008.

Construction Commitments

The City has the following construction commitments incomplete as of June 30, 2007:

	Contract Amount	Paid to Date	Remaining Commitment	Retainage Payable
Street improvements	\$ 74,828	\$ 37,414	\$ 37,414	\$ -

City of Malvern
Notes to Financial Statements
June 30, 2007

NOTE (10) Lease Agreement

The City leases a copier under an operating lease agreement. Rental expense paid during the fiscal year ended June 30, 2007 totaled \$1,320.

Future minimum required lease payments on the copier are as follows:

Year Ending June 30,		
2008	\$	1,440
2009		1,440
2010		1,440
2011		<u>1,200</u>
	\$	<u>5,520</u>

NOTE (11) Risk Management

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

NOTE (12) Deficit Fund Balances

The General Fund had a deficit balance of \$327,403 at June 30, 2007. The deficit will be eliminated with property tax collections, local option sales tax receipts and transfers from other funds.

The Capital Projects Fund had a deficit balance of \$47,681 at June 30, 2007. The deficit will be eliminated with transfers from other funds.

Required Supplementary Information

City of Malvern
 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	Net
Receipts			
Property tax	\$ 312,598	-	312,598
Other city tax	83,127	-	83,127
Licenses and permits	1,067	-	1,067
Use of money and property	11,983	566	12,549
Intergovernmental	396,241	-	396,241
Charges for service	95,960	232,053	328,013
Special assessments	10,284	-	10,284
Miscellaneous	215,279	3,950	219,229
Total receipts	<u>1,126,539</u>	<u>236,569</u>	<u>1,363,108</u>
Disbursements			
Public safety	70,934	-	70,934
Public works	250,608	-	250,608
Culture and recreation	194,648	-	194,648
Community and economic development	7,159	-	7,159
General government	141,743	-	141,743
Debt service	75,750	-	75,750
Capital projects	630,666	-	630,666
Business type activities	-	175,560	175,560
Total disbursements	<u>1,371,508</u>	<u>175,560</u>	<u>1,547,068</u>
Excess (deficiency) of receipts over (under) disbursements	(244,969)	61,009	(183,960)
Other financing sources, net	<u>258,573</u>	<u>20,127</u>	<u>278,700</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	13,604	81,136	94,740
Balances beginning of year	<u>(199,763)</u>	<u>223,611</u>	<u>23,848</u>
Balances end of year	<u>\$ (186,159)</u>	<u>304,747</u>	<u>118,588</u>

See accompanying independent auditors' report

Budgeted Amounts		Budget to
Original	Final	Net
		Variance
311,751	311,751	847
105,321	105,321	(22,194)
6,550	6,550	(5,483)
17,600	17,600	(5,051)
1,063,195	1,439,195	(1,042,954)
332,986	332,986	(4,973)
36,000	36,000	(25,716)
89,900	89,900	129,329
<u>1,963,303</u>	<u>2,339,303</u>	<u>(976,195)</u>
76,800	76,800	5,866
306,400	306,400	55,792
182,350	182,350	(12,298)
3,675	7,175	16
211,560	223,560	81,817
179,113	179,113	103,363
800,000	1,202,000	571,334
189,200	189,200	13,640
<u>1,949,098</u>	<u>2,366,598</u>	<u>819,530</u>
14,205	(27,295)	(156,665)
-	-	278,700
14,205	(27,295)	122,035
-	-	23,848
<u>14,205</u>	<u>(27,295)</u>	<u>145,883</u>

City of Malvern
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 (GASB) Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

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

Formal and legal budgetary control is based upon major classes of disbursements known as functions, not by fund or fund type. These functions are: public safety, public works, 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 Funds and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$417,500. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2007, disbursements exceeded the amounts budgeted in the culture and recreation function.

Other Supplementary Information

City of Malvern
Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Combining General Fund
As of and for the year ended June 30, 2007

	General	Liberty Memorial Sinking	Park Sinking
Receipts:			
Property tax	\$ 217,239	-	-
Other city tax	11,386	-	-
Licenses and fees	1,067	-	-
Use of money and property	11,405	578	-
Intergovernmental	12,093	-	-
Charges for services	95,960	-	-
Special assessments	1,080	-	-
Miscellaneous	4,742	-	-
Total receipts	<u>354,972</u>	<u>578</u>	<u>-</u>
Disbursements:			
Operating:			
Public safety	68,653	-	-
Public works	131,422	-	-
Culture and recreation	177,725	-	-
Community and economic development	7,159	-	-
General government	123,703	-	-
Total disbursements	<u>508,662</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of receipts over (under) disbursements	(153,960)	578	-
Other financing sources (uses):			
Sale of general fixed assets	3,700	-	-
Operating transfers in	88,931	-	-
Operating transfers out	(3,555)	(12,394)	-
Total other financing sources (uses)	<u>89,076</u>	<u>(12,394)</u>	<u>-</u>
Net change in cash balances	(64,614)	(11,816)	-
Cash balances beginning of year	<u>(280,100)</u>	<u>18,120</u>	<u>7,101</u>
Cash balances end of year	<u>\$ (344,714)</u>	<u>6,304</u>	<u>7,101</u>

See accompanying independent auditors' report

Schedule 1

Liberty Memorial Trust	Less Intrafund Transfers	Total
-	-	217,239
-	-	11,386
-	-	1,067
-	-	11,983
-	-	12,093
-	-	95,960
-	-	1,080
2,015	-	6,757
<u>2,015</u>	<u>-</u>	<u>357,565</u>
-	-	68,653
-	-	131,422
4,052	-	181,777
-	-	7,159
-	-	123,703
<u>4,052</u>	<u>-</u>	<u>512,714</u>
(2,037)	-	(155,149)
-	-	3,700
-	(12,394)	76,537
-	12,394	(3,555)
<u>-</u>	<u>-</u>	<u>76,682</u>
(2,037)	-	(78,467)
<u>5,943</u>	<u>-</u>	<u>(248,936)</u>
<u>3,906</u>	<u>-</u>	<u>(327,403)</u>

City of Malvern
Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Combining Capital Projects Fund
As of and for the year ended June 30, 2007

	Liberty Memorial Project	Library Building Project	Sewer Project	Total
Receipts:				
Intergovernmental	\$ -	251,470	-	251,470
Miscellaneous	-	208,514	-	208,514
Total receipts	<u>-</u>	<u>459,984</u>	<u>-</u>	<u>459,984</u>
Disbursements:				
Capital projects	-	630,666	-	630,666
Total disbursements	<u>-</u>	<u>630,666</u>	<u>-</u>	<u>630,666</u>
Deficiency of receipts under disbursements	-	(170,682)	-	(170,682)
Other financing sources (uses):				
Loan proceeds	-	275,000	-	275,000
Anticipatory warrants issued	-	292,536	-	292,536
Anticipatory warrants redeemed	-	(292,536)	-	(292,536)
Operating transfers in	-	14,280	-	14,280
Operating transfers out	-	-	(23,127)	(23,127)
Total other finance sources (uses)	<u>-</u>	<u>289,280</u>	<u>(23,127)</u>	<u>266,153</u>
Net change in cash balances	-	118,598	(23,127)	95,471
Cash balances beginning of year	<u>(42,951)</u>	<u>(123,308)</u>	<u>23,127</u>	<u>(143,132)</u>
Cash balances end of year	<u>\$ (42,951)</u>	<u>(4,710)</u>	<u>-</u>	<u>(47,661)</u>

See accompanying independent auditors' report

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

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation notes:			
Downtown sidewalk improvement	Feb 1, 2001	5.00 %	\$ 640,000
Liberty memorial improvement	Jul 1, 2004	4.50 %	100,000
Building	Jul 26, 2004	0.00 %	108,000
Library	Jan 18, 2007	4.75 %	275,000
Revenue note:			
Sewer	Jun 14, 2004	3.00 %	799,000
Anticipatory warrants:			
Essential corporate purpose	Jul 10, 2006	7.75 %	235,000
Library project	Jul 14, 2006	7.75 %	285,000

See accompanying independent auditors' report

Schedule 3

<u>Balance Beginning of Year</u>	<u>Issued During Year</u>	<u>Redeemed During Year</u>	<u>Balance End of Year</u>	<u>Interest Paid</u>	<u>Interest Due and Unpaid</u>
481,103	-	38,571	442,532	23,579	-
80,000	-	10,000	70,000	3,600	-
48,000	-	30,000	18,000	-	-
<u>-</u>	<u>275,000</u>	<u>-</u>	<u>275,000</u>	<u>4,572</u>	<u>-</u>
<u>609,103</u>	<u>275,000</u>	<u>78,571</u>	<u>805,532</u>	<u>31,751</u>	<u>-</u>
<u>609,103</u>	<u>-</u>	<u>30,000</u>	<u>688,000</u>	<u>24,335</u>	<u>-</u>
-	7,536	7,536	-	189	-
<u>-</u>	<u>285,000</u>	<u>285,000</u>	<u>-</u>	<u>3,683</u>	<u>-</u>
<u>-</u>	<u>292,536</u>	<u>292,536</u>	<u>-</u>	<u>3,872</u>	<u>-</u>

City of Malvern
 Note Maturities
 June 30, 2007

General Obligation Notes									
Year Ending June 30,	Downtown Sidewalk Improvement Issued Feb 1, 2001		Liberty Memorial Building Issued Jul 1, 2004		Building Issued Jul 26, 2005		Library Issued Jan 18, 2007		Total
	Interest Rate	Amount	Interest Rate	Amount	Interest Rate	Amount	Interest Rate	Amount	
	2008	5.00 %	\$ 40,524	4.50 %	\$ 10,000	0.00 %	\$ 18,000	4.75%	
2009	5.00 %	42,575	4.50 %	10,000	-	-	4.75%	23,000	75,575
2010	5.00 %	44,730	4.50 %	10,000	-	-	4.75%	24,000	78,730
2011	5.00 %	46,995	4.50 %	10,000	-	-	4.75%	25,000	81,995
2012	5.00 %	49,374	4.50 %	10,000	-	-	4.75%	27,000	86,374
2013	5.00 %	51,874	4.50 %	10,000	-	-	4.75%	28,000	89,874
2014	5.00 %	54,500	4.50 %	10,000	-	-	4.75%	29,000	93,500
2015	5.00 %	57,259	-	-	-	-	4.75%	31,000	88,259
2016	5.00 %	54,701	-	-	-	-	4.75%	32,000	86,701
2017	-	-	-	-	-	-	4.75%	34,000	34,000
Total		\$ 442,532		\$ 70,000		\$ 18,000		\$ 275,000	\$ 805,532

Revenue Note		
Sewer		
Issued Jun 14, 2004		
Year Ending June 30,	Interest Rate	Amount
2008	3.00 %	\$ 32,000
2009	3.00 %	33,000
2010	3.00 %	34,000
2011	3.00 %	35,000
2012	3.00 %	37,000
2013	3.00 %	38,000
2014	3.00 %	39,000
2015	3.00 %	40,000
2016	3.00 %	41,000
2017	3.00 %	42,000
2018	3.00 %	44,000
2019	3.00 %	45,000
2020	3.00 %	46,000
2021	3.00 %	48,000
2022	3.00 %	49,000
2023	3.00 %	51,000
2024	3.00 %	32,000
Total		\$ 686,000

See accompanying independent auditors' report

City of Malvern
 Schedule of Receipts By Source and Disbursements By Function -
 All Governmental Funds
 For the Last Four Years

	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Receipts				
Property tax	\$ 312,598	291,091	296,538	298,651
Tax increment financing collections	-	-	-	35
Other city tax	83,127	73,964	71,480	86,086
Licenses and permits	1,067	472	1,300	1,702
Use of money and property	11,983	27,374	21,749	21,773
Intergovernmental	396,241	205,055	368,599	149,818
Charges for service	95,960	99,198	83,860	81,461
Special assessments	10,284	12,731	10,666	18,719
Miscellaneous	<u>215,279</u>	<u>29,583</u>	<u>99,245</u>	<u>73,302</u>
Total	<u>\$ 1,126,539</u>	<u>739,468</u>	<u>953,437</u>	<u>731,547</u>
Disbursements				
Operating:				
Public safety	\$ 70,934	72,107	70,772	57,574
Public works	250,608	292,794	270,334	238,082
Culture and recreation	194,648	679,211	157,495	151,843
Community and economic development	7,159	53,382	2,646	12,421
General government	141,743	120,676	130,528	173,022
Debt service	75,750	90,268	62,150	62,150
Capital projects	<u>630,666</u>	<u>95,475</u>	<u>982,106</u>	<u>122,955</u>
Total	<u>\$ 1,371,508</u>	<u>1,403,913</u>	<u>1,676,031</u>	<u>818,047</u>

See accompanying independent auditors' report

City of Malvern

November 9, 2007

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

To the Honorable Mayor and
Members of the City Council:

We have audited the financial statements of the governmental activities, the business type activities, each major fund of the City of Malvern, 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 November 9, 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 Malvern'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 City of Malvern's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of City of Malvern'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 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 significant deficiencies, that adversely affects the City of Malvern'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 of Malvern's financial statements that is more than inconsequential will not be prevented or detected by the City of Malvern's internal control. We consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

City of Malvern
Independent Auditor's Report on
Internal Control and Compliance

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 of Malvern's internal control.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Malvern'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 that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of non-compliance that are described in Part II of the accompanying Schedule of Findings.

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

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

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

City of Malvern
Schedule of Findings
Year Ended June 30, 2007

Part I: Findings Related to the Financial Statements:

SIGNIFICANT DEFICIENCIES:

I-A-07 Segregation of Duties

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

Recommendation – We realize that with a limited number of office employees, segregation of duties is difficult. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances. In addition, the Council should review monthly the Clerk’s Report and actual to budget comparisons.

Response – We will implement additional controls.

Conclusion – Response accepted.

I-B-07 Service Organization Policies

Comment – Per discussion with PeopleService; there is also a lack of segregation of duties among their employees. The same person is responsible for billing, receipting, posting and reconciling of utility billings.

Recommendation – The City should exercise oversight of this service organization and request that policies be established to obtain the maximum internal control possible.

Response – We will review this further.

Conclusion – Response acknowledged.

I-C-07 Support Documentation

Comment – The City agreed to reimburse the Friends of Library for debt of \$182,000 incurred for construction of the library. The City received \$159,048 from the Friends of Library to pay contract costs. However, there was no support for the remaining reimbursement of \$22,952.

Recommendation – All disbursements should be supported by original invoices or other supporting documentation. Prior to signing, the checks and supporting documentation should be reviewed by a second or independent person.

Response – We will do this.

Conclusion – Response accepted.

City of Malvern
Schedule of Findings
Year Ended June 30, 2007

Part I: Findings Related to the Financial Statements Continued

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

Part II: Other Findings Related to Statutory Reporting:

II-A-07 Certified Budget

Comment - Disbursements during the year ended June 30, 2007 exceeded the amounts budgeted in the culture and recreation function. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

Recommendation – 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 – The budget will be amended in sufficient amounts in the future, if applicable.

Conclusion – Response accepted.

II-B-07 Entertainment Expense

We noted no disbursements for parties, banquets or other entertainment for employees that we believe may constitute an unlawful expenditure from public funds as defined in an Attorney General's opinion dated April 25, 1979.

II-C-07 Travel Expense

No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

II-D-07 Business Transactions

No business transactions were noted between the City and City officials or employees.

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.

City of Malvern
Schedule of Findings
Year Ended June 30, 2007

Part II: Other Findings Related to Statutory Reporting Continued:

II-F-07 Council Minutes

No transactions were found that we believe should have been approved in the Council minutes and were not.

II-G-07 Enterprise Debt

The City is in compliance with the provisions of the revenue note resolutions.

II-H-07 Deposits and Investments

We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy.

II-I-07 Excess Balances

Comment – The balances in the Special Revenue Fund-Road Use Tax Account, Enterprise Funds - Water and Sewer Accounts at June 30, 2007, were in excess of the respective fund's disbursements during the year.

Recommendation – The City should consider the necessity of maintaining these substantial balances, and where financially feasible, consider reducing the balances in an orderly manner through revenue reductions. Certain funds can be transferred to the General Fund in order to eliminate the deficit.

Response – We will review this further.

Conclusion – Response accepted.

II-J-07 Financial Condition

Comment – As previously noted, the General Fund and Capital Projects Fund had deficit balances at June 30, 2007.

Recommendation – The City should monitor the activity in these funds in order to eliminate the deficits. The City needs to control spending within budget limits and corresponding revenue sources.

Response – We will review this further and return these funds to a sound financial condition.

Conclusion – Response accepted

NEWS RELEASE

Schroer & Associates, P.C. today released an audit report on the City of Malvern, Iowa.

The City's receipts totaled \$1,934,274 for the year ended June 30, 2007, a 98 percent increase from 2006. The receipts included \$328,426 in property tax, \$401,480 from charges for service, \$97,027 from operating grants, contributions and restricted interest, \$67,299 from local option sales tax, \$811 from unrestricted investment earnings, \$459,984 in capital grants, contributions and restricted interest, \$275,000 in loan proceeds, \$11,711 from other general receipts and \$292,536 in anticipatory warrants issued. The significant increases were due to note proceeds, anticipatory warrants and capital grants.

Disbursements for the year totaled \$1,839,604, an 8 percent increase from the prior year, and included \$250,608 for public works, \$630,666 for capital projects, and \$194,648 in culture and recreation. Also, disbursements for business type activities totaled \$175,560 and \$292,536 in anticipatory warrants redeemed.

A copy of the audit report is available for review in the Office of Auditor of State and the City Clerk's office.

November 9, 2007

To the Honorable Mayor and
Members of the City Council
City of Malvern
PO Box 501
Malvern, IA 51551

We have compiled the annual financial report of the City of Malvern for the year ended June 30, 2007, included in the accompanying prescribed form in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants.

Our compilation was limited to presenting in the form prescribed by the State of Iowa information that is the representation of management. We have not audited or reviewed the financial statements referred to above, and accordingly, do not express an opinion or any other form of assurance on them. These financial statements were compiled by us from financial statements for that same period that we previously audited, as indicated in our report dated November 9, 2007.

These financial statements are presented in accordance with the requirements of the State of Iowa, which differ from generally accepted accounting principles. Accordingly, these financial statements are not designed for those who are not informed about such differences.

November 9, 2007

Julie Snyder
City of Malvern
501 Main
Malvern, IA 51551

Dear Julie:

Enclosed are copies of the City of Malvern's Annual Report for publication.

Please sign and forward to the State Auditor in the envelope provided.

Sincerely,

SCHROER & ASSOCIATES, P.C.

Diane McGrain
Shareholder

DM/sh
Enc.

November 9, 2007

Julie Snyder
City of Malvern
501 Main
Malvern, IA 51551

Dear Julie:

Enclosed are 2 Draft copies of the City of Malvern's audit for 2007. Please review for any needed changes and let us know as to how many copies are needed. We still need the MD & A to insert, before issuing.

Also enclosed is the management representation letter needed for our file. Please sign and have the mayor sign and return to me in the envelope provided.

Sincerely,

SCHROER & ASSOCIATES, P.C.

Diane McGrain
Shareholder

DM/sh
Enc.

December 31, 2007

David Vaudt
Office of State Auditor
State Capitol Building, Rm 111
Des Moines, IA 50319

Dear Sir:

We have enclosed for your records the following information regarding the audit of the City of Malvern, Iowa for the year ended June 30, 2007.

- 2 copies of the audit report
- 1 copy of the news release
- 1 copy of the number of hours worked
- 1 copy of the invoice

Sincerely,

SCHROER & ASSOCIATES, P.C.

Diane McGrain
Shareholder

DM/sh
Enc.

City of Malvern

Hours Worked: 41.75

December 31, 2007

Julie Snyder
City of Malvern, Iowa
501 Main Street
Malvern, IA 51551

Dear Julie:

We have filed the required copies of your audit report with the Office of Auditor of State. A filing fee is required to be paid based on your final amended budget, according to the following schedule:

<u>Budgeted Expenditures (in millions of dollars)</u>	<u>Fee Amount</u>
Under 1	\$100.00
At least 1, but less than 3	\$175.00
At least 3, but less than 5	\$250.00
At least 5, but less than 10	\$425.00
At least 10, but less than 25	\$625.00
25 and over	\$850.00

You are required to send the appropriate filing fee. The check should be made payable to "Auditor of State" and mailed to Office of Auditor of State, Capitol Building, Room 111, Des Moines, IA 50319.

If you have any questions, please do not hesitate to call me at 712-322-8734.

Sincerely,

SCHROER & ASSOCIATES, P.C.

Diane McGrain
Shareholder

DM/sh

