

CITY OF WEST BEND, IOWA

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

YEAR ENDED JUNE 30, 2007

City of West Bend, Iowa

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City of West Bend, Iowa

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City of West Bend, Iowa

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Robert Klepper	Mayor	12-31-07
Joe Eoriatti	Mayor Pro Tem	12-31-09
Mary Jane Hanselmen	Council Member	12-31-07
Paul Lauck	Council Member	12-31-07
Joe Montag	Council Member	12-31-07
Bruce Helleseeth	Council Member	12-31-09
Lisa Sewell	Clerk	Indefinite
Kim Elbert	Treasurer	Indefinite
Donald Capotosto	Attorney	Indefinite

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of the City of West Bend at June 30, 2007, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated October 23, 2007 on our consideration of the City of West Bend'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 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 4 through 10 and 53 through 56 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 West Bend's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2006 (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 9 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.

Cornwell, Frideres, Maher & Associates, P.L.C.
Certified Public Accountants

October 23, 2007

Basic Financial Statements

City of West Bend, Iowa

Notes to Financial Statements

June 30, 2007

(1) Summary of Significant Accounting Policies

The City of West Bend is a political subdivision of the State of Iowa located in Palo Alto and Kossuth counties. It 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 of West Bend 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. It also provides water, sewer, electric, gas, and sanitation utilities.

The financial statements of the City of West Bend have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, the City of West Bend 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 these 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: Palo Alto County Joint E911 Service Board and Palo Alto and Kossuth County Compensation boards.

City of West Bend, Iowa

Notes to Financial Statements

June 30, 2007

B. Basis of Presentation

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

The Statement of Net Assets presents the City's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories.

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction, or improvement of those assets.

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 two preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues 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 restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

City of West Bend, Iowa

Notes to Financial Statements

June 30, 2007

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

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax revenues and other revenues 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 expenditures, the fixed charges and the capital improvement costs not paid from other funds.

The City reports the following major proprietary funds:

Enterprise:

The Water Fund is used to account for the operation and maintenance of the City's water system.

The Sewer Fund is used to account for the operation and maintenance of the City's wastewater treatment and sanitary sewer system.

The Electric Fund is used to account for the operation and maintenance of the City's electric utilities.

The Gas Fund is used to account for the operation and maintenance of City's gas system.

City of West Bend, Iowa

Notes to Financial Statements

June 30, 2007

C. Measurement Focus and Basis of Accounting

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days after year end.

Property tax, local option sales tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest are considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the City.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgements and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt are reported as other financing sources.

Under terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted 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 revenues.

City of West Bend, Iowa

Notes to Financial Statements

June 30, 2007

The proprietary funds of the City apply all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's Enterprise Funds is charges to customers for sales and services. Operating expenses for Enterprise Funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The City maintains its financial records on the cash basis. The financial statements of the City are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the financial statements:

Cash and Cash Equivalents – The cash balances of most City funds are pooled and invested. Interest on investments is recognized as revenue when earned and allocated to the funds on a systematic basis, or as provided by law. Investments consist of non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid (including restricted assets) are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, have a maturity date no longer than twelve months.

City of West Bend, Iowa

Notes to Financial Statements

June 30, 2007

Property Tax Receivable, Including Tax Increment Financing – Property tax, including tax increment financing, in governmental funds is accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date which is the date the tax asking is certified by the City to the County Board of Supervisors. Current year property tax receivable represent taxes collected by the County but not remitted to the City at June 30, 2007 and unpaid taxes. The succeeding year property tax receivable represent taxes certified by the City to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the City is required to certify its budget to the County Auditor by March 15 of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable have been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenues recognized in these funds become due and collectible in September and March of the current fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2005 assessed property valuations; is for the tax accrual period July 1, 2006 through June 30, 2007 and reflects tax asking contained in the budget certified to the County Board of Supervisors in March, 2006.

Customer Accounts – Accounts receivable are recorded in the Enterprise Fund at the time the service is billed. Bad debt reserve of \$1,500 is netted against the balance of customer accounts.

Due from and Due to Other Funds – During the course of its operations, the City has numerous transactions between funds. To the extent certain transactions between funds had not been paid or received as of June 30, 2007, balances of interfund amounts receivable or payable have been recorded in the fund financial statements.

City of West Bend, Iowa

Notes to Financial Statements

June 30, 2007

Due From Other Governments – Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories – Inventories of materials and supplies are valued at cost using the first-in/first-out method. Inventories in the Enterprise funds consist of materials and supplies. Inventories are recorded as expenses when consumed rather than when purchased.

Restricted Assets – Funds set aside for payment of Enterprise Fund revenue bonds/notes are classified as restricted assets since their use is restricted by applicable bond/note indentures. Other restricted assets include customer deposits restricted for application to unpaid customer accounts or for refund to customers and funds set aside through the City's agreement with North Iowa Municipal Electric Cooperative Association (NIMECA).

Capital Assets – Capital assets, which include property, equipment and vehicles and infrastructure assets (e.g. roads, bridges, curbs, gutters, sidewalks, and similar items which are immovable and of value only to the city) are reported in the applicable governmental or business type activities columns in the government-wide Statement of Net Assets and in the Proprietary Funds Statement of Net Assets. Capital assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair not adding to the value of the asset or materially extending asset lives are not capitalized. Reportable capital assets are defined by the City as assets with initial, individual costs in excess of the following thresholds and estimated useful lives in excess of two years.

<u>Asset Class</u>	<u>Amount</u>
Land, buildings and improvements	\$ 15,000
Equipment and vehicles	1,000
Infrastructure	20,000

City of West Bend, Iowa

Notes to Financial Statements

June 30, 2007

Capital assets of the City are depreciated using the straight line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives (In Years)</u>
Buildings	39 years
Improvements other than buildings	15-20 years
Vehicles	3-20 years
Equipment	6-10 years
Infrastructure	15-50 years

Bond Issuance Costs – Bond issuance costs associated with revenue bonds are deferred and amortized over the term of the bonds using the bond outstanding method which approximates the interest method.

Deferred Revenue – Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds, the succeeding year property tax receivable, as well as delinquent property tax receivable and other receivables not collected within sixty days after year end.

Deferred revenue in the Statement of Net Assets consists of succeeding year property tax and tax increment financing receivable that will not be recognized as revenue until the year for which they are levied.

City of West Bend, Iowa

Notes to Financial Statements

June 30, 2007

Compensated Absences – City employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental fund financial statements only for employees that have resigned or retired. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2007. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund.

Long-term Liabilities – In the government-wide and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental or business type activities column in the Statement of Net Assets and the proprietary fund Statement of Net Assets.

In the governmental fund financial statements, the face amount of debt issued is reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Equity – In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Estimates and Assumptions – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

City of West Bend, Iowa

Notes to Financial Statements

June 30, 2007

E. Budgets and Budgetary Accounting

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

(2) **Cash**

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

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

The City had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No.3, as amended by Statement No. 40.

City of West Bend, Iowa
Notes to Financial Statements

June 30, 2007

(3) Capital Assets

Capital assets activity for the year ended June 30, 2007 was as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ <u>3,537</u>	---	---	<u>3,537</u>
Capital assets being depreciated:				
Buildings	141,000	---	---	141,000
Improvements other than buildings	31,111	---	---	31,111
Machinery, equipment and vehicles	332,867	51,177	13,600	370,444
Infrastructure, road network	<u>341,082</u>	<u>554,259</u>	---	<u>895,341</u>
Total capital assets being depreciated	<u>846,060</u>	<u>605,436</u>	<u>13,600</u>	<u>1,437,896</u>
Less accumulated depreciation for:				
Buildings	135,884	500	---	136,384
Improvements other than buildings	3,663	2,997	---	6,660
Machinery, equipment and vehicles	185,836	26,486	13,600	198,722
Infrastructure, road network	<u>25,622</u>	<u>44,228</u>	---	<u>69,850</u>
Total accumulated depreciation	<u>351,005</u>	<u>74,211</u>	<u>13,600</u>	<u>411,616</u>
Total capital assets being depreciated, net	<u>495,055</u>	<u>531,225</u>	---	<u>1,026,280</u>
Governmental activities capital assets, net	\$ <u>498,592</u>	<u>531,225</u>	---	<u>1,029,817</u>

Included in machinery, equipment and vehicles is equipment valued at \$12,979 which was capitalized from a capital lease. This equipment also had current depreciation expense of \$1,298 and accumulated depreciation of \$5,192.

City of West Bend, Iowa
Notes to Financial Statements

June 30, 2007

	Balance Beginning of Year	<u>Increases</u>	<u>Decreases</u>	Balance End of Year
Business type activities:				
Capital assets not being depreciated:				
Land	\$ 5,750	---	---	5,750
Construction in progress	<u>1,516,020</u>	<u>622,000</u>	<u>469,074</u>	<u>1,668,946</u>
Total capital assets not being depreciated	<u>1,521,770</u>	<u>622,000</u>	<u>469,074</u>	<u>1,674,696</u>
Capital assets being depreciated:				
Buildings	2,897,635	126,593	---	3,024,228
Machinery, equipment and vehicles	666,420	1,960	---	668,380
Infrastructure, sewer, water, electric, gas networks	<u>3,858,443</u>	<u>431,904</u>	---	<u>4,290,347</u>
Total capital assets being depreciated	<u>7,422,498</u>	<u>560,457</u>	---	<u>7,982,955</u>
Less accumulated depreciation for:				
Buildings	1,684,781	84,654	---	1,769,435
Machinery, equipment and vehicles	483,417	35,794	---	519,211
Infrastructure, sewer, water, electric, gas networks	<u>1,810,687</u>	<u>129,456</u>	---	<u>1,940,143</u>
Total accumulated depreciation	<u>3,978,885</u>	<u>249,904</u>	---	<u>4,228,789</u>
Total capital assets being depreciated, net	<u>3,443,613</u>	<u>310,553</u>	---	<u>3,754,166</u>
Business type activities capital assets, net	\$ 4,965,383	932,553	469,074	5,428,862
	=====	=====	=====	=====

Included in machinery, vehicles and vehicles is equipment valued at \$49,186 which was capitalized from a capital lease. This equipment also had current depreciation expense of \$4,919 and accumulated depreciation of \$18,036.

City of West Bend, Iowa

Notes to Financial Statements

June 30, 2007

Depreciation expense was charged to functions of the primary government as follows:

Governmental activities:

Public safety	\$ 4,681
Public works, which includes the depreciation of general infrastructure assets	62,274
Culture and recreation	6,871
General government	<u>385</u>
Total depreciation expense – governmental activities	\$ 74,211 =====

Business type activities:

Water	\$ 48,390
Sewer	53,446
Electric	139,160
Gas	<u>8,908</u>
Total depreciation expense – business type activities	\$ 249,904 =====

City of West Bend, Iowa

Notes to Financial Statements

June 30, 2007

(4) Changes in Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2007 is as follows:

	<u>Balance Beginning of Year</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance End of Year</u>	<u>Due Within One Year</u>
Governmental activities:					
General obligation bonds/notes:					
Drainage improvements	\$ ---	550,000	50,000	500,000	40,000
Water improvements	<u>260,000</u>	<u>---</u>	<u>40,000</u>	<u>220,000</u>	<u>40,000</u>
Total	<u>\$ 260,000</u>	<u>550,000</u>	<u>90,000</u>	<u>720,000</u>	<u>80,000</u>
	=====	=====	=====	=====	=====
	<u>Balance Beginning of Year</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance End of Year</u>	<u>Due Within One Year</u>
Business type activities:					
Revenue bonds/notes:					
Electric	\$ 1,520,000	---	70,000	1,450,000	70,000
Sewer	<u>484,000</u>	<u>---</u>	<u>32,000</u>	<u>452,000</u>	<u>32,000</u>
Total	<u>\$ 2,004,000</u>	<u>---</u>	<u>102,000</u>	<u>1,902,000</u>	<u>103,000</u>
	=====	=====	=====	=====	=====

City of West Bend, Iowa

Notes to Financial Statements

June 30, 2007

General obligation bonds/notes

Two issues of unmatured general obligation bonds/notes, totaling \$720,000, are outstanding at June 30, 2007. General obligation bonds bear interest at rates ranging from 3.60% to 5.40% and mature in varying annual amounts, ranging from \$30,000 to \$60,000, with the final maturities due in the year ending June 30, 2017.

Details of general obligation bonds/notes payable at June 30, 2007 are as follows:

Governmental activities:	Date of Issue	Interest Rates	Final Due Date	Annual Payments	Amount Originally Issued	Outstanding June 30, 2007
General obligation bonds/notes:						
Drainage improvements	Sep 15, 2006	3.85%-4.30%	June 30, 2017	40,000-60,000	\$ 550,000	\$ 500,000
Corporate purpose	April 1, 2002	3.60%-5.10%	June 30, 2012	35,000-50,000	\$ 400,000	\$ <u>220,000</u>
Total governmental activities						\$ 720,000 =====

A summary of the annual general obligation bond/note principal and interest requirements to maturity by year is as follows:

Year Ending	General Obligation			
	<u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 80,000	31,348	111,348	
2009	85,000	27,948	112,948	
2010	90,000	24,250	114,250	
2011	90,000	20,245	110,245	
2012	100,000	16,173	116,173	
2013-2017	<u>275,000</u>	<u>35,809</u>	<u>310,809</u>	
Total	\$ 720,000	155,773	875,773	
	=====	=====	=====	

City of West Bend, Iowa
Notes to Financial Statements

June 30, 2007

Revenue notes

Two issues of unmaturred revenue bonds/notes, totaling \$1,902,000, are outstanding at June 30, 2007. These bonds/notes bear interest at rates of 1.60% to 4.70% and mature in varying annual amounts ranging from \$30,000 to \$135,000, with the final maturities due in the year ending June 30, 2022.

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

- (a) The bonds/notes will only be redeemed from the future earnings of the enterprise activity and the bond/note holders hold a lien on the future earnings of the funds.
- (b) Sufficient monthly transfers shall be made to separate hotel and motel tax revenue, sewer and water bond sinking accounts for the purpose of making the bond/note principal and interest payments when due.
- (c) User rates shall be established at a level which produces and maintains net revenues at a level not less than 110% of the amount of principal and interest on the bonds/notes falling due in the same year.

During the year ended June 30, 2007, the City was in compliance with the revenue bond/note provisions.

Details of revenue notes payable at June 30, 2007 are as follows:

Business type activities:	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Final Due Date</u>	<u>Annual Payments</u>	<u>Amount Originally Issued</u>	<u>Outstanding June 30, 2007</u>
Revenue bonds/notes:						
Electric revenue	Feb. 1, 2004	1.60%-4.70%	June 1, 2022	65,000-135,000	\$ 1,650,000	\$ 1,450,000
Sewer revenue CW9516R and CW9136R	Dec. 1, 1998	4.19%	June 30, 2018	30,000-50,000	699,000	<u>452,000</u>
Total business type activities						\$ 1,902,000 =====

City of West Bend, Iowa

Notes to Financial Statements

June 30, 2007

A summary of the annual revenue note principal and interest requirements to maturity is as follows:

Year Ending <u>June 30,</u>	<u>Revenue</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 103,000	74,617	177,617
2009	105,000	71,443	176,443
2010	111,000	68,030	179,030
2011	117,000	64,251	181,251
2012	119,000	60,139	179,139
2013-2017	692,000	230,877	922,877
2018-2022	<u>655,000</u>	<u>83,480</u>	<u>738,480</u>
Total	\$ 1,902,000 =====	652,837 =====	2,554,837 =====

City of West Bend, Iowa
Notes to Financial Statements

June 30, 2007

(5) Interfund Transfers

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

<u>Transfer To</u>	<u>Transfer From</u>	<u>Amount</u>
General	Special Revenue:	
	Hotel Motel Tax	\$ 6,000
	Enterprise:	
	Electric	29,920
	Gas	23,920
Debt Service	Special Revenue:	
	TIF	17,825
	Local Option Sales Tax	66,305
Internal Service: Self insurance	Enterprise:	
	Water	659
	Sewer	659
	Electric	4,425
	Gas	3,073
	Special Revenue:	
	Trust and Agency	<u>2,926</u>
Total		\$ 155,712 =====

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

City of West Bend, Iowa
Notes to Financial Statements

June 30, 2007

(6) Due From and Due to Other Funds

The detail of interfund receivables and payables at June 30, 2007 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Enterprise Gas	Enterprise Water	\$ 115,363
	Special Revenue TIF	<u>391,900</u>
Total		<u>\$ 507,263</u> =====

These balances result from interfund loans to finance projects. Repayments will be made from future revenues.

(7) Pension and Retirement Benefits

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

Most regular plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of annual covered payroll. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contribution to IPERS for the years ended June 30, 2007, 2006 and 2005 were \$16,841, \$16,402 and \$15,941 respectively, equal to the required contributions for each year.

City of West Bend, Iowa

Notes to Financial Statements

June 30, 2007

(8) Risk Management

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

(9) Construction in Progress

The City of West Bend is in the process of participating in the construction of a generating plant in Council Bluffs. As of June 30, 2007, \$1,668,946 has been expended on this project. This project is expected to be completed in the fall of 2007, with the additional investment to be approximately \$30,000.

(10) Commitments

The City has committed to a \$100,000 Economic Development loan to be paid over the next four years. This loan will be funded by tax increment funding. As of June 30, 2007 \$49,588 has been paid on this grant.

The City has also committed to 2007 street improvements for approximately \$83,000.

Required Supplementary Information

City of West Bend, Iowa

Notes to Required Supplementary Information – Budgetary Reporting

Year ended June 30, 2007

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

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures. Encumbrances are not recognized on the cash basis budget and appropriations lapse at year end.

Formal and legal budgetary control is based upon 9 major classes of disbursements known as functions, not by fund. These 9 functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Fund and Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted receipts by \$233,150 and increased budgeted disbursements by \$489,656. This budget amendment is reflected in the final budgeted amounts.

Other Supplementary Information

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 West Bend, Iowa, as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated October 23, 2007. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Audit 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 West Bend'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 West Bend's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of West Bend'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 a deficiency in internal control over financial reporting that we consider to be a significant deficiency.

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 West Bend's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood a

misstatement of the City of West Bend's financial statements that is more than inconsequential will not be prevented or detected by the City of West Bend's internal control. We consider the deficiency in internal control described in Part I of the accompanying Schedule of Findings to be a significant deficiency 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 West Bend'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. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of West Bend'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.

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 West Bend'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 West Bend'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 West Bend and other parties to whom the City of West Bend 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 West Bend 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.

Cornwell, Frideres, Maher & Associates, P.L.C.
Certified Public Accountants

October 23, 2007

City of West Bend, Iowa

Schedule of Findings

Year ended June 30, 2007

Part I: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

SIGNIFICANT DEFICIENCY:

I-A-07 Financial Reporting – During the audit, we noted that material balance sheet items Such as accounts receivable, accounts payable, capital asset additions and long term debt changes were not adjusted to actual. Adjustments have subsequently been made by the City to properly include these amounts in the financial statements.

Recommendation – The City should implement procedures to ensure all material balance sheet items are adjusted to actual.

Response – We prefer having our auditor assist in adjusting the balance sheet accounts to actual. Also, recording our transactions on the cash basis helps us monitor our budget variances.

Conclusion – Response accepted.

Part II: Other Findings Related to Required Statutory Reporting:

II-A-07 Certified Budget – Disbursements during the year ended June 30, 2007, did not exceed the amounts budgeted.

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

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

City of West Bend, Iowa

Schedule of Findings

Year ended June 30, 2007

II-D-07 Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Bruce Helleseth, Council Member, Owner of Helleseth Construction	Street Repairs	\$ 1,882

This transaction does not appear to represent a conflict of interest since the total transaction is less than \$2,500.

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

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

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

II-H-07 Revenue Bonds/Notes – The provisions of the resolutions for the issuance of the City's revenue bonds/notes were complied with.