

CITY OF POCAHONTAS, IOWA

INDEPENDENT AUDITOR'S REPORTS

BASIC FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

SCHEDULE OF FINDINGS

AS OF AND FOR THE YEAR ENDED JUNE 30, 2007

City of Pocahontas, Iowa

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City of Pocahontas, Iowa

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City of Pocahontas, Iowa

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
George Tuttle	Mayor	Jan 2008
Kent Wood	Council Member	Jan 2008
Gus Holzmueler	Council Member	Jan 2008
Rod Stoulil	Council Member	Jan 2010
John Dewall	Council Member	Jan 2010
Brooks Taylor	Council Member	Jan 2010
Greg Fritz	City Administrator	Appointed
Joan Dewall	Clerk	Jan 2008
Jeff Johnson	Treasurer	Appointed
James W. Hudson	Attorney	Appointed
Dennis Marten	Airport Commissioner	July 2008
Ray Krips	Airport Commissioner	July 2008
Ken DeYoung	Airport Commissioner	July 2009
Dr. Dennis Dahl	Airport Commissioner	July 2011
Gary McCarten	Airport Commissioner	July 2011
Nancy Kopriva	Library Trustee	July 2008
Donna Dewall	Library Trustee	July 2008
Jada Hallberg	Library Trustee	July 2008
Walter Cooke	Library Trustee	July 2009
Pat Spangler	Library Trustee	July 2010
Martie Nedved	Library Trustee	July 2010
Don Beneke	Library Trustee	July 2011
Dennis Fitzgerald	Library Trustee	July 2011
Chris Radig	Library Trustee	July 2011

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 Pocahontas, Iowa, as of and for the year ended June 30, 2007, which collectively comprise the basic financial statements of the City's primary government listed in the table of contents. These financial statements are the responsibility of the City of Pocahontas' 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.

The financial statements referred to above include only the primary government of the City of Pocahontas, Iowa, which consists of all funds, organizations, institutions, agencies, departments, and offices that comprise the City's legal entity. The financial statements do not include financial data for the City's legally separate component unit, the Pocahontas Community Hospital, which U.S. generally accepted accounting principles require to be reported with the financial data of the City's primary government. As a result, the primary government financial statements do not purport to, and do not present fairly the cash basis financial position of the reporting of the City of Pocahontas, Iowa as of June 30, 2007 and the changes in cash basis financial position for the year then ended in conformity with U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information for the primary government of the City of Pocahontas, Iowa as of June 30, 2007, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated September 28, 2007 on our consideration of the City of Pocahontas' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 10 and 27 through 29 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Pocahontas' primary government's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the primary government's 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 6, 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

September 28, 2007

Management's Discussion and Analysis

The City of Pocahontas 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

- Total receipts decreased 24%, or approximately \$1,440,000 from fiscal 2006 to fiscal 2007. Governmental Funds revenues decreased \$420,210 while Proprietary Funds revenues decreased \$1,019,463 from the previous year.
- Total disbursements decreased 21%, or approximately \$1,204,000, in fiscal 2007 from fiscal 2006. Governmental Fund expenditures decreased \$139,716 and Proprietary Funds expenditures decreased \$1,064,596 from the previous year.
- The City's total cash basis net assets increased 3%, or approximately \$66,700 from June 30, 2006 to June 30, 2007. Of this amount, the assets of the governmental activities decreased \$77,759 and the assets of the business type activities increased \$143,443.

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 New Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

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

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

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

Other Supplementary Information provides detailed information about the non-major governmental funds.

Basis of Accounting

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

Reporting the City's Financial Activities

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information 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 waterworks, sanitary sewer system, and the electric system. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

- 1) Governmental funds account for most of the City's basic service. 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, 3) the Debt Service Fund, 4) and the Capital Projects Fund. The governmental fund financial

statements provide a detailed, short-term view of the City’s general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City’s programs.

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

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

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

Reconciliations between 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 decreased from a year ago, decreasing from \$1.107 million to \$1.030 million. The analysis that follows focuses on the changes in cash basis net assets of governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities

	Year ended June 30,	
	2007	2006
Receipts and Transfers		
Program Receipts:		
Charges for service	\$ 251,676	\$ 208,712
Operating Grants, contributions and restricted interest	\$ 405,239	\$ 476,977
Capital grants, contributions and restricted interest	\$ 25,669	
General receipts:		
Property tax	\$ 651,655	\$ 657,519
Local Option Sales Tax	\$ 125,926	\$ 97,732
Unrestricted interest on investments	\$ 62,676	\$ 29,791
Other general receipts	\$ 26,561	\$ 227,481
Transfers, net	\$ 235,600	\$ 507,000
Total receipts and transfers	\$ 1,785,002	\$ 2,205,212

Disbursements:		
Public Safety	\$ 236,813	\$ 226,559
Public Works	\$ 471,068	\$ 452,681
Culture and Recreation	\$ 181,058	\$ 174,088
Community and Economic Development	\$ 473,909	\$ 637,418
General Government	\$ 226,240	\$ 240,394
Debt Service	\$ 224,068	\$ 224,455
Capital Projects	\$ 48,605	\$ 45,882
Total Disbursements	\$ 1,861,761	\$ 2,001,477
Increase in cash basis net assets	\$ (76,759)	\$ 203,735
Cash Basis net assets beginning of year	\$ 1,107,731	\$ 903,996
Cash basis net assets end of year	\$ 1,030,972	\$ 1,107,731

The City's total receipts for governmental activities decreased 19%, or \$420,210. The total cost of all programs and services decreased \$139,716, or 7.0%, with no new programs added this year. The largest decrease was in other general receipts which decreased 88% or approximately \$201,000. Property tax collections decreased less than 1% or approximately \$5,900. Tax collections are expected to remain level in the future due to statutory levy limits and the residential rollback.

The cost of all governmental activities this year was \$1.861 million compared to \$2.001 million last year. The largest change was in Community and Economic Development which decreased 26% or \$163,509. Other program increases generally reflected increases in the cost of salaries, health insurance and other benefits.

Changes in Cash Basis Net Assets of Business Type Activities

	Year ended June 30,	
	2007	2006
Receipts and Transfers		
Program Receipts:		
Charges for service:		
Electric	\$ 1,637,416	\$ 1,339,649
Water	\$ 357,234	\$ 355,193
Sewer	\$ 266,528	\$ 267,283
Telecommunications (Internet)	\$ 49,042	\$ 105,127
Capital grants, contributions and restricted interest	\$ 44,499	\$ 451,191
Miscellaneous	\$ 58,994	\$ 45,380
Bond proceeds	\$ 447,669	\$ 1,317,022
Total receipts and transfers	\$ 2,861,382	\$ 3,880,845

Disbursements:		
Electric	\$ 1,497,426	\$ 1,606,266
Water	\$ 546,204	\$ 435,188
Sewer	\$ 374,064	\$ 1,144,684
Telecommunications (Internet)	\$ 53,613	\$ 81,605
Miscellaneous	\$ 11,032	\$ 7,792
Transfers	\$ 235,600	\$ 507,000
Total Disbursements	\$ 2,717,939	\$ 3,782,535
Increase in cash basis net assets	\$ 143,443	\$ 98,310
Cash Basis net assets beginning of year	\$ 1,134,138	\$ 1,035,824
Cash basis net assets end of year	\$ 1,277,581	\$ 1,134,134

Total business type activities receipts for the fiscal year were \$2.861 million compared to \$3.881 million last year. The decrease was due primarily to the additional receipts from bond proceeds. The cash balance increased by approximately \$143,000 from the prior year. Total disbursements for the fiscal year decreased to \$2.718 million compared to \$3.783 million last year. The completion of several large capital projects, including the wastewater treatment plant renovation, contributed to this substantial decrease.

Individual Major Governmental Fund Analysis

As the City of Pocahontas completed the year, its governmental funds reported a combined fund balance of \$1,030,972, a decrease of \$76,759 below last year's total of \$1,107,731. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance increased \$105,108 from the prior year to \$285,404. The majority of this increase was due to additional receipts from use of money and property, intergovernmental, and charges for service.
- The Industrial Development Revenue Fund cash balance decreased \$148,318 and ended with a negative balance of \$105,956. The majority of the decrease was due to a loan to a new industrial business in the community. The City loaned funds for the construction of a new manufacturing facility and expects to be repaid in full during the next fiscal year. The city holds title to the building as security.

Individual Major Business Type Fund Analysis

- The Water Fund cash balance decreased \$89,700 to \$315,783, due primarily to an increase in debt service payments over the prior year.

- The Electric Fund cash balance increased \$303,069 to \$851,209 due primarily to increased revenue from charges for service.
- The Sewer Fund cash balance decreased \$66,355 to \$70,955, due primarily to the a decrease in intergovernmental and bond proceeds receipts.

Budgetary Highlights

Over the course of the year, the City amended its budget one time. The amendment increased estimated revenues and expenditures for various programs. The City had sufficient cash balances to absorb the additional costs estimated under the budget amendment.

The City's receipts were \$759,899 under budget. This was primarily due to the City receiving less in charges for services and less intergovernmental revenue than anticipated. Actual interest income and miscellaneous revenue greatly exceeded estimated amount.

Total expenditures were \$966,680 under budget. All individual programs were under budget with the exception of Business type activities and Community and Economic Development. The projects causing the two programs to be over budget were previously included under Capital Projects. We have updated our computer software to reflect this change to prevent individual programs from exceeding the budgeted amount.

Debt Administration

At June 30, 2007, the City had \$4,266,469 in bonds and other long-term debt outstanding, compared to \$4,235,132 last year, as shown below.

		Outstanding Debt At Year-End	
		June 30	
		<u>2007</u>	<u>2006</u>
General obligation bonds	\$	920,000	\$ 1,100,000
Revenue Bonds	\$	2,387,801	\$ 2,410,132
Promissory Notes	\$	958,668	\$ 725,000
Total	\$	4,266,469	\$ 4,235,132

Annual payments on the general obligation and revenue bonds decreased the outstanding amounts. A final draw was taken on the electric promissory note increasing the balance and the City's total debt. The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$920,000 is significantly below its constitutional debt limit of \$2.74 million.

Economic Factors and Next Year's Budget and Rates

The elected and appointed officials and citizens of Pocahontas considered many factors when setting the fiscal year 2008 budget, tax rates and fees charged for various City activities. One of those factors is the economy. The unemployment in the county now stands at 3.4%. This compares with the State's unemployment rate of 3.9% and the national rate of 4.7%. Inflation was at 2.7% from June 2006 to June 2007.

Economic conditions in Pocahontas and the surrounding area look positive. The strong farm economy benefits the local economy. Construction of a large wind farm is ongoing with another project slated for the spring of 2008. Two separate ethanol plants are under consideration for Pocahontas County which would also have a positive economic impact. The addition of several new businesses including Prairie Lakes AEA, SAR Biomass Energy, and Pocahontas Inn and Suites will also benefit the area.

These indicators were taken into account when adopting the budget for fiscal year 2008. Total revenues of \$4.460 million will decrease \$900,000 from the previous year primarily due to less intergovernmental revenue after the completion of the wastewater project. Property tax revenue will decrease \$15,252. Total expenditures of \$4,572 million million, excluding transfers, will decrease approximately \$150,000 from the previous year. Community and Economic Development and Business Type Activities will see the largest increases in expenditures. The City has added no major new programs or initiatives to the 2008 budget.

If these estimates are realized, the City's budgeted cash balance is expected to decrease approximately \$572,000 by the close of 2008.

Contacting the City's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Greg Fritz, City Administrator or Joan DeWall, City Clerk, 23 West Elm Avenue, Pocahontas, IA 50574.

Basic Financial Statements

City of Pocahontas, Iowa

Statement of Activities and Net Assets - Cash Basis

As of and for the year ended June 30, 2007

	<u>Disbursements</u>	<u>Program Receipts</u>		
		<u>Charges for Service</u>	<u>Operating Grants, Contributions, and Restricted Interest</u>	<u>Capital Grants, Contributions, and Restricted Interest</u>
Functions/Programs:				
Governmental activities:				
Public safety	\$ 236,813	1,630	3,390	-
Public works	471,068	207,146	191,909	25,669
Culture and recreation	181,058	32,733	34,447	-
Community and economic development	473,909	3,498	131,573	-
General government	226,240	6,669	3,070	-
Debt service	224,068	-	40,850	-
Capital projects	<u>48,605</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total governmental activities	<u>1,861,761</u>	<u>251,676</u>	<u>405,239</u>	<u>25,669</u>
Business type activities:				
Water	546,204	357,234	-	-
Electric	1,497,426	1,637,416	-	-
Sewer	374,064	266,528	-	44,499
Other non-major	<u>64,645</u>	<u>64,074</u>	<u>-</u>	<u>-</u>
Total business type activities	<u>2,482,339</u>	<u>2,325,252</u>	<u>-</u>	<u>44,499</u>
Total	<u>\$ 4,344,100</u>	<u>2,576,928</u>	<u>405,239</u>	<u>70,168</u>

<hr/> Net (Disbursements) Receipts and Changes in Cash Basis Net Assets <hr/>		
Governmental Activities	Business Type Activities	Total
(231,793)	-	(231,793)
(46,344)	-	(46,344)
(113,878)	-	(113,878)
(338,838)	-	(338,838)
(216,501)	-	(216,501)
(183,218)	-	(183,218)
<u>(48,605)</u>	<u>-</u>	<u>(48,605)</u>
<u>(1,179,177)</u>	<u>-</u>	<u>(1,179,177)</u>
-	(188,970)	(188,970)
-	139,990	139,990
-	(63,037)	(63,037)
<u>-</u>	<u>(571)</u>	<u>(571)</u>
<u>-</u>	<u>(112,588)</u>	<u>(112,588)</u>
<u>(1,179,177)</u>	<u>(112,588)</u>	<u>(1,291,765)</u>

(continued)

Statement of Activities and Net Assets - Cash Basis

As of and for the year ended June 30, 2007

	Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
	Governmental Activities	Business Type Activities	Total
General Receipts:			
Property tax levied for:			
General purposes	\$ 456,034	-	456,034
Tax increment financing	60,937	-	60,937
Debt service	134,684	-	134,684
Local options sales tax	125,926	-	125,926
Unrestricted interest on investments	62,676	43,962	106,638
Miscellaneous	26,561	-	26,561
Bond proceeds	-	447,669	447,669
Transfers	235,600	(235,600)	-
Total general receipts and transfers	<u>1,102,418</u>	<u>256,031</u>	<u>1,358,449</u>
Change in cash basis net assets	(76,759)	143,443	66,684
Cash basis net assets beginning of year	<u>1,107,731</u>	<u>1,134,138</u>	<u>2,241,869</u>
Cash basis net assets end of year	<u>1,030,972</u>	<u>1,277,581</u>	<u>2,308,553</u>
Cash Basis Net Assets			
Restricted:			
Employee benefits	80,957	-	80,957
Culture and recreation	162,860	-	162,860
Debt service	(26,210)	115,670	89,460
Other	367,701	-	367,701
Unrestricted	<u>445,664</u>	<u>1,161,911</u>	<u>1,607,575</u>
Total cash basis net assets	<u>\$ 1,030,972</u>	<u>1,277,581</u>	<u>2,308,553</u>

See notes to financial statements.

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

Exhibit B

	<u>General</u>	<u>Industrial Development Revenue Fund</u>	<u>Debt Service</u>	<u>Other Nonmajor Governmental Funds</u>	<u>Total</u>
Receipts:					
Property tax	\$ 307,166	-	132,042	139,567	578,775
Tax increment financing collections	-	-	-	60,937	60,937
Other city tax	10,292	-	2,642	128,887	141,821
Licenses and permits	2,717	-	-	-	2,717
Use of money and property	96,592	10,973	19,023	6,357	132,945
Intergovernmental	38,924	-	-	225,913	264,837
Charges for service	223,168	-	-	-	223,168
Special assessments	-	3,498	-	2,991	6,489
Miscellaneous	24,099	29,790	21,827	61,997	137,713
Total receipts	702,958	44,261	175,534	626,649	1,549,402
Disbursements:					
Operating:					
Public safety	196,912	-	-	39,901	236,813
Public works	183,119	-	-	287,949	471,068
Culture and recreation	149,788	-	-	31,270	181,058
Community and economic development	47,064	228,579	-	198,266	473,909
General government	180,890	-	-	45,350	226,240
Debt service	-	-	224,068	-	224,068
Capital projects	-	-	-	48,605	48,605
Total disbursements	757,773	228,579	224,068	651,341	1,861,761
Deficiency of receipts under disbursements	(54,815)	(184,318)	(48,534)	(24,692)	(312,359)
Other financing sources (uses):					
Operating transfers in	210,000	36,000	600	69,077	315,677
Operating transfers out	(50,077)	-	-	(30,000)	(80,077)
Total other financing sources	159,923	36,000	600	39,077	235,600
Net change in cash balances	105,108	(148,318)	(47,934)	14,385	(76,759)
Cash balances beginning of year	180,296	42,362	21,724	863,349	1,107,731
Cash balances end of year	\$ 285,404	(105,956)	(26,210)	877,734	1,030,972
Cash Basis Fund Balances					
Reserved:					
Debt service	\$ -	-	(26,210)	-	(26,210)
Unreserved:					
General fund	285,404	-	-	-	285,404
Special revenue funds	-	(105,956)	-	461,518	355,562
Capital projects funds	-	-	-	266,216	266,216
Permanent funds	-	-	-	150,000	150,000
Total cash basis fund balances	\$ 285,404	(105,956)	(26,210)	877,734	1,030,972

See notes to financial statements.

City of Pocahontas, Iowa

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

As of and for the year ended June 30, 2007

	Enterprise Funds		
	<u>Water</u>	<u>Electric</u>	<u>Sewer</u>
Operating receipts:			
Use of money and property	\$ 3,400	-	-
Charges for service	324,436	1,580,340	260,778
Miscellaneous	29,398	57,076	5,750
Total operating receipts	<u>357,234</u>	<u>1,637,416</u>	<u>266,528</u>
Operating disbursements:			
Business type activities	<u>435,842</u>	<u>1,304,820</u>	<u>310,438</u>
Total operating disbursements	<u>435,842</u>	<u>1,304,820</u>	<u>310,438</u>
Excess (deficiency) of operating receipts over (under) operating disbursements	<u>(78,608)</u>	<u>332,596</u>	<u>(43,910)</u>
Non-operating receipts (disbursements):			
Bond proceeds	137,669	275,000	35,000
Interest on investments	8,601	28,179	7,182
Intergovernmental	-	-	44,499
Debt service	<u>(110,362)</u>	<u>(192,606)</u>	<u>(63,626)</u>
Total non-operating receipts (disbursements)	<u>35,908</u>	<u>110,573</u>	<u>23,055</u>
Excess of receipts over disbursements	(42,700)	443,169	(20,855)
Operating transfers out	<u>(47,000)</u>	<u>(140,100)</u>	<u>(45,500)</u>
Net change in cash balances	(89,700)	303,069	(66,355)
Cash balances beginning of year	<u>405,483</u>	<u>548,140</u>	<u>137,310</u>
Cash balances end of year	<u>\$ 315,783</u>	<u>851,209</u>	<u>70,955</u>
Cash Basis Fund Balances			
Reserved for debt service	\$ -	115,670	-
Reserved for capital improvements	136,805	150,000	51,209
Reserved for capital equipment	14,669	47,588	53,925
Unreserved	<u>164,309</u>	<u>537,951</u>	<u>(34,179)</u>
Total cash basis fund balances	<u>\$ 315,783</u>	<u>851,209</u>	<u>70,955</u>

See notes to financial statements.

Exhibit C

Other <u>Nonmajor</u>	<u>Total</u>
7,652	11,052
56,422	2,221,976
-	92,224
<u>64,074</u>	<u>2,325,252</u>
<u>64,645</u>	<u>2,115,745</u>
<u>64,645</u>	<u>2,115,745</u>
<u>(571)</u>	<u>209,507</u>
-	447,669
-	43,962
-	44,499
<u>-</u>	<u>(366,594)</u>
<u>-</u>	<u>169,536</u>
(571)	379,043
<u>(3,000)</u>	<u>(235,600)</u>
(3,571)	143,443
<u>43,205</u>	<u>1,134,138</u>
<u>39,634</u>	<u>1,277,581</u>
-	115,670
-	338,014
-	116,182
<u>39,634</u>	<u>707,715</u>
<u>39,634</u>	<u>1,277,581</u>

City of Pocahontas, Iowa

Notes to Financial Statements

June 30, 2007

(1) Summary of Significant Accounting Policies

The City of Pocahontas is a political subdivision of the State of Iowa located in Pocahontas County. It was first incorporated in 1870 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, health and social services, culture and recreation, community and economic development and general government services. The City also provides water, sewer and electric utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Pocahontas has included only the primary government of the City of Pocahontas, which consists of all funds, organizations, institutions, agencies, departments, and offices that comprise the City's legal entity. The financial statements do not include financial data for the City's legally separate component unit, which U.S. generally accepted accounting principles require to be reported with the financial data of the City's primary government.

Jointly Governed Organizations

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

City of Pocahontas, Iowa

Notes to Financial Statements

June 30, 2007

B. Basis of Presentation

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

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

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

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.

City of Pocahontas, Iowa

Notes to Financial Statements

June 30, 2007

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 Industrial Development Fund is used to account for various economic development projects.

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

The City reports the following major proprietary funds:

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

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

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

C. Measurement Focus and Basis of Accounting

The City of Pocahontas 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.

City of Pocahontas, Iowa

Notes to Financial Statements

June 30, 2007

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

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

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2007, disbursements exceeded the amounts budgeted in the community and economic development, debt service, and business type activities functions.

(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 has no investments at June 30, 2007. During the year, the City deposited excess funds in certificates of deposit.

City of Pocahontas, Iowa

Notes to Financial Statements

June 30, 2007

(3) Bonds Payable

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

Year Ending June 30,	General Obligation Bonds		Revenue Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2008	\$ 175,000	37,168	203,000	78,940	378,000	116,108
2009	165,000	30,605	212,000	71,792	377,000	102,397
2010	175,000	24,005	220,000	64,149	395,000	88,154
2011	180,000	16,917	229,000	56,049	409,000	72,966
2012	125,000	9,538	232,000	47,499	357,000	57,037
2013-2017	100,000	6,550	616,801	153,786	716,801	160,336
2018-2022	---	---	468,000	73,980	468,000	73,980
2023-2024	---	---	207,000	9,360	207,000	9,360
Total	\$ 920,000	124,783	2,387,801	555,555	3,307,801	680,338

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

- (a) The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the funds.
- (b) Sufficient monthly transfers shall be made to a separate electric revenue note sinking account within the enterprise funds for the purpose of making the note principal and interest payments when due.
- (c) There shall be an electric reserve fund with a minimum balance of \$90,000 set up upon issuance of the notes. If the balance is reduced below those amounts, funds shall be deposited to bring it back to the minimum required level.

City of Pocahontas, Iowa

Notes to Financial Statements

June 30, 2007

- (d) There shall be an electric improvement fund with a minimum balance of \$50,000 set up upon issuance of the notes. If the balance is reduced below those amounts, funds shall be deposited to bring it back to the minimum required level.
- (e) The Water Revenue Fund must produce and maintain net revenues at a level not less than 110% of the amount of principal and interest on the revenue bond due in any one year.
- (f) The Sewer Revenue Fund must produce and maintain net revenues at a level not less than 110% of the amount of principal and interest on the revenue bond due in any one year.

The City's wastewater treatment system did not maintain net revenues of 110% of the principal and interest due on the Sewer Revenue Bond as stated in the loan agreement.

(4) Promissory Note

The City entered into a loan agreement dated February 8, 2006 for \$1,000,000 secured by the electric utility revenue and receivables. This agreement has an interest rate of 4.75% for five years with a variable rate thereafter, but not to exceed 7.75%. The loan matures February 8, 2016 at which time all principal and interest are due. Semi-annual payments of \$63,392.25 are due on this note beginning June 1, 2007.

Future payments are due as follows based on 4.75% interest:

<u>Year ending</u> <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>
2008	\$ 82,132	\$ 44,654
2009	86,079	40,706
2010	90,216	36,569
2011	94,552	32,232
2012	99,097	27,688
2013-2016	<u>506,592</u>	<u>63,247</u>
	958,668	245,096
	=====	=====

City of Pocahontas, Iowa

Notes to Financial Statements

June 30, 2007

(5) Pension and Retirement Benefits

The City contributes to the Iowa Public Employees Retirement System (IPERS),

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

Most regular plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2007, 2006 and 2005 were \$40,317, \$39,264 and \$37,593, respectively, equal to the required contributions for each year.

(6) Compensated Absences

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

<u>Type of Benefit</u>	<u>Amount</u>
Vacation and comp time	\$ 39,100 =====

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

City of Pocahontas, Iowa

Notes to Financial Statements

June 30, 2007

(7) 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	Enterprise:	
	Water	\$ 45,000
	Sewer	45,000
	Electric	117,000
	Internet	<u>3,000</u>
		<u>210,000</u>
Capital Projects:		
Capital Improvements	General	<u>5,000</u>
Capital Equipment	General	30,077
	Enterprise:	
	Water	1,000
	Sewer	500
	Electric	2,500
	Special Revenue:	
	Road Use	<u>30,000</u>
		<u>64,077</u>
Special Revenue:		
Industrial Development	Enterprise:	
	Water	1,000
	Electric	20,000
	General	<u>15,000</u>
		<u>36,000</u>
Debt Service	Enterprise:	
	Sewer	<u>600</u>
Total		\$ 315,677
		=====

City of Pocahontas, Iowa

Notes to Financial Statements

June 30, 2007

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

(8) Related Party Transactions

The City had business transactions between the City and City officials totaling \$22,694 during the year ended June 30, 2007.

(9) Risk Management

The City of Pocahontas 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.

(10) Commitments

As of June 30, 2007, the City had the following commitments with respect to unfinished capital projects:

<u>Capital Project</u>	<u>Remaining Commitment</u>
2006 Street Project	\$ 60,901 =====

The City will pay for the 2007 street project out of its road use and local option monies.

City of Pocahontas, Iowa

Notes to Financial Statements

June 30, 2007

(11) Deficit Balances

The Special Revenue, Industrial Development Revenue Fund had a deficit balance of \$105,956 at June 30, 2007. This deficit will be eliminated upon sale of real estate.

The Debt Service Fund had a deficit balance of \$26,210 at June 30, 2007. This deficit will be eliminated upon transfer of funds.

The Enterprise Fund, Sewer Operating Account had a deficit balance of \$34,179 at June 30, 2007. This deficit should be eliminated with the increase of sewer rates.

The Special Revenue, Tax Increment Fund had a deficit balance of \$33,314 at June 30, 2007. This deficit will be eliminated upon receipt of taxes.

(12) Economic Development Loans Receivable

The City has various long-term loans receivable totaling \$208,074 as of June 30, 2007 due from various business in Pocahontas. The loans were financed with the proceeds of an LSDA Rural Development Grant, matching contribution from the City and repayments from the businesses. Interest rates on these loans vary from 2% - 4.5% with monthly payments varying from \$221 to \$1,307.

Required Supplementary Information

City of Pocahontas, Iowa
 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 <u>Actual</u>	Proprietary Funds <u>Actual</u>
Receipts:		
Property tax	\$ 578,775	-
Tax increment financing collections	60,937	-
Other city tax	141,821	-
Licenses and permits	2,717	-
Use of money and property	132,945	55,014
Intergovernmental	264,837	44,499
Charges for service	223,168	2,221,976
Special assessments	6,489	-
Miscellaneous	137,713	92,224
Total receipts	<u>1,549,402</u>	<u>2,413,713</u>
Disbursements:		
Public safety	236,813	-
Public works	471,068	-
Culture and recreation	181,058	-
Community and economic development	473,909	-
General government	226,240	-
Debt service	224,068	-
Capital projects	48,605	-
Business type activities	-	2,482,339
Total disbursements	<u>1,861,761</u>	<u>2,482,339</u>
Excess (deficiency) of receipts over (under) disbursements	(312,359)	(68,626)
Other financing sources (uses), net	<u>235,600</u>	<u>212,069</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(76,759)	143,443
Balances beginning of year	<u>1,107,731</u>	<u>1,134,138</u>
Balances end of year	<u>\$ 1,030,972</u>	<u>1,277,581</u>
See accompanying independent auditor's report.		

<u>Total</u>	<u>Budgeted Amounts</u>		<u>Final to Total Variance</u>
	<u>Original</u>	<u>Final</u>	
578,775	575,939	575,939	2,836
60,937	73,000	73,000	(12,063)
141,821	95,851	137,251	4,570
2,717	2,025	2,525	192
187,959	81,875	103,875	84,084
309,336	365,000	890,300	(580,964)
2,445,144	3,105,140	3,105,140	(659,996)
6,489	-	-	6,489
229,937	75,709	109,984	119,953
<u>3,963,115</u>	<u>4,374,539</u>	<u>4,998,014</u>	<u>(1,034,899)</u>
236,813	241,475	246,475	9,662
471,068	469,225	477,475	6,407
181,058	188,822	188,822	7,764
473,909	297,410	352,410	(121,499)
226,240	252,690	252,690	26,450
224,068	223,468	223,468	(600)
48,605	905,500	1,212,500	1,163,895
2,482,339	1,961,940	2,356,940	(125,399)
<u>4,344,100</u>	<u>4,540,530</u>	<u>5,310,780</u>	<u>966,680</u>
(380,985)	(165,991)	(312,766)	(68,219)
<u>447,669</u>	<u>-</u>	<u>-</u>	<u>447,669</u>
66,684	(165,991)	(312,766)	379,450
<u>2,241,869</u>	<u>1,951,986</u>	<u>1,951,986</u>	<u>289,883</u>
<u>2,308,553</u>	<u>1,785,995</u>	<u>1,639,220</u>	<u>669,333</u>

City of Pocahontas, Iowa

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2007

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

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

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Fund, the Permanent Fund and the Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$770,250 and increased budgeted revenues by \$623,475. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2007, disbursements exceeded the amounts budgeted in the community and economic development, debt service and business type activities functions.

Other Supplementary Information

City of Pocahontas, Iowa

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

As of and for the year ended June 30, 2007

	Special Revenue			
	Road <u>Use</u>	Employee <u>Benefits</u>	Local Option Sales <u>Tax</u>	Tax Increment <u>Fund (TIF)</u>
Receipts:				
Property tax	\$ -	139,567	-	-
Tax increment financing collections	-	-	-	60,937
Other city tax	-	2,961	125,926	-
Use of money and property	-	-	-	-
Intergovernmental	164,239	-	-	-
Special assessments	-	-	-	-
Miscellaneous	-	642	-	-
Total receipts	<u>164,239</u>	<u>143,170</u>	<u>125,926</u>	<u>60,937</u>
Disbursements:				
Operating:				
Public safety	-	39,901	-	-
Public works	111,223	32,217	79,583	64,926
Culture and recreation	-	17,745	-	-
Community and economic development	-	24,405	-	55,647
General government	-	45,350	-	-
Capital projects	-	-	-	-
Total disbursements	<u>111,223</u>	<u>159,618</u>	<u>79,583</u>	<u>120,573</u>
Excess (deficiency) of receipts over (under) disbursements	<u>53,016</u>	<u>(16,448)</u>	<u>46,343</u>	<u>(59,636)</u>

Schedule 1

				<u>Capital Projects</u>	
<u>Revolving Loan Fund</u>	<u>Housing Grant</u>	<u>"Irma Elbert Bequest"</u>	<u>"Charlotte Lenore Zech Bequest"</u>	<u>Capital Improvement</u>	<u>Capital Equipment</u>
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
133	-	2,400	-	3,824	-
-	55,484	-	-	2,800	3,390
-	-	-	-	2,991	-
<u>35,193</u>	<u>-</u>	<u>10,875</u>	<u>-</u>	<u>2,413</u>	<u>12,874</u>
<u>35,326</u>	<u>55,484</u>	<u>13,275</u>	<u>-</u>	<u>12,028</u>	<u>16,264</u>
-	-	-	-	-	-
-	-	-	-	-	-
-	-	13,525	-	-	-
51,532	66,682	-	-	-	-
-	-	-	-	-	-
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>16,544</u>	<u>32,061</u>
<u>51,532</u>	<u>66,682</u>	<u>13,525</u>	<u>-</u>	<u>16,544</u>	<u>32,061</u>
<u>(16,206)</u>	<u>(11,198)</u>	<u>(250)</u>	<u>-</u>	<u>(4,516)</u>	<u>(15,797)</u>

(continued)

City of Pocahonats, Iowa

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

As of and for the year ended June 30, 2007

	Special Revenue			
	Road <u>Use</u>	Employee <u>Benefits</u>	Local Option Sales <u>Tax</u>	Tax Increment Fund (TIF) <u>Fund (TIF)</u>
Other financing sources (uses):				
Operating transfers out	(30,000)	-	-	-
Operating transfers in	-	-	-	-
Total other financing sources (uses)	<u>(30,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in cash balances	23,016	(16,448)	46,343	(59,636)
Cash balances beginning of year	<u>194,100</u>	<u>97,405</u>	<u>115,363</u>	<u>26,322</u>
Cash balances end of year	<u>\$ 217,116</u>	<u>80,957</u>	<u>161,706</u>	<u>(33,314)</u>
Cash Basis Fund Balances				
Unreserved:				
Special revenue funds	217,116	80,957	161,706	(33,314)
Capital project funds	-	-	-	-
Permanent funds	-	-	-	-
Total cash basis fund balances	<u>\$ 217,116</u>	<u>80,957</u>	<u>161,706</u>	<u>(33,314)</u>

See accompanying independent auditor's report.

Schedule 1

				<u>Capital Projects</u>	
<u>Revolving Loan Fund</u>	<u>Housing Grant</u>	<u>"Irma Elbert Bequest"</u>	<u>"Charlotte Lenore Zech Bequest"</u>	<u>Capital Improvement</u>	<u>Capital Equipment</u>
-	-	-	-	-	-
-	-	-	-	5,000	64,077
-	-	-	-	5,000	64,077
(16,206)	(11,198)	(250)	-	484	48,280
<u>19,875</u>	<u>29,722</u>	<u>8,856</u>	<u>4,254</u>	<u>37,399</u>	<u>180,053</u>
<u>3,669</u>	<u>18,524</u>	<u>8,606</u>	<u>4,254</u>	<u>37,883</u>	<u>228,333</u>
3,669	18,524	8,606	4,254	-	-
-	-	-	-	37,883	228,333
-	-	-	-	-	-
<u>3,669</u>	<u>18,524</u>	<u>8,606</u>	<u>4,254</u>	<u>37,883</u>	<u>228,333</u>

(continued)

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

As of and for the year ended June 30, 2007

	Permanent			<u>Total</u>
	<u>"Jean Wallace Perry Memorial"</u>	<u>"Charlotte Lenore Zech Bequest"</u>	<u>"Irma Elbert Bequest"</u>	
Receipts:				
Property tax	\$ -	-	-	139,567
Tax increment financing collections	-	-	-	60,937
Other city tax	-	-	-	128,887
Use of money and property	-	-	-	6,357
Intergovernmental	-	-	-	225,913
Special assessments	-	-	-	2,991
Miscellaneous	-	-	-	61,997
Total receipts	<u>-</u>	<u>-</u>	<u>-</u>	<u>626,649</u>
Disbursements:				
Operating:				
Public safety	-	-	-	39,901
Public works	-	-	-	287,949
Culture and recreation	-	-	-	31,270
Community and economic development	-	-	-	198,266
General government	-	-	-	45,350
Capital projects	-	-	-	48,605
Total disbursements	<u>-</u>	<u>-</u>	<u>-</u>	<u>651,341</u>
Excess (deficiency) of receipts over (under) disbursements	<u>-</u>	<u>-</u>	<u>-</u>	<u>(24,692)</u>

(continued)

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

As of and for the year ended June 30, 2007

	Permanent			
	"Jean Wallace Perry <u>Memorial"</u>	"Charlotte Lenore Zech <u>Bequest"</u>	"Irma Elbert <u>Bequest"</u>	<u>Total</u>
Other financing sources (uses):				
Operating transfers out	-	-	-	(30,000)
Operating transfers in	-	-	-	<u>69,077</u>
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>39,077</u>
Net change in cash balances	-	-	-	14,385
Cash balances beginning of year	<u>2,500</u>	<u>87,500</u>	<u>60,000</u>	<u>863,349</u>
Cash balances end of year	<u>\$ 2,500</u>	<u>87,500</u>	<u>60,000</u>	<u>877,734</u>
Cash Basis Fund Balances				
Unreserved:				
Special revenue funds	-	-	-	461,518
Capital project funds	-	-	-	266,216
Permanent funds	<u>2,500</u>	<u>87,500</u>	<u>60,000</u>	<u>150,000</u>
Total cash basis fund balances	<u>\$ 2,500</u>	<u>87,500</u>	<u>60,000</u>	<u>877,734</u>

See accompanying independent auditor's report.

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

As of and for the year ended June 30, 2007

	Enterprise Funds			
	Meter Deposits	Clinic	Internet	Total
Operating receipts:				
Use of money and property	\$ -	7,652	-	7,652
Charges for service	<u>7,380</u>	<u>-</u>	<u>49,042</u>	<u>56,422</u>
Total operating receipts	<u>7,380</u>	<u>7,652</u>	<u>49,042</u>	<u>64,074</u>
Operating disbursements:				
Business type activities	<u>9,587</u>	<u>1,445</u>	<u>53,613</u>	<u>64,645</u>
Total operating disbursements	<u>9,587</u>	<u>1,445</u>	<u>53,613</u>	<u>64,645</u>
Excess of operating receipts over operating disbursements	<u>(2,207)</u>	<u>6,207</u>	<u>(4,571)</u>	<u>(571)</u>
Operating transfers in (out)	<u>-</u>	<u>-</u>	<u>(3,000)</u>	<u>(3,000)</u>
Net change in cash balances	(2,207)	6,207	(7,571)	(3,571)
Cash balances beginning of year	<u>12,519</u>	<u>6,140</u>	<u>24,546</u>	<u>43,205</u>
Cash balances end of year	<u>\$ 10,312</u>	<u>12,347</u>	<u>16,975</u>	<u>39,634</u>
Cash Basis Fund Balances				
Unreserved	<u>\$ 10,312</u>	<u>12,347</u>	<u>16,975</u>	<u>39,634</u>
Total cash basis fund balances	<u>\$ 10,312</u>	<u>12,347</u>	<u>16,975</u>	<u>39,634</u>

See notes to financial statements.

City of Pocahontas, Iowa

Schedule of Indebtedness

Year ended June 30, 2007

<u>Obligation</u>	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount Originally Issued</u>
General obligation bonds: G.O. refunding bonds Series 2001	Nov 1, 2001	3.00-4.40%	\$ 1,715,000
Revenue bonds:			
Electric	Apr 15, 2002	2.75-4.10%	\$ 900,000
Water	Apr 6, 2004	3.00%	1,418,582
Sewer	Jul 7, 2004	3.00%	12,000
Promissory note:			
Electric	Feb 8, 2006	4.75%	\$ 1,000,000

See accompanying independent auditor's 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>
<u>\$ 1,100,000</u>	<u>-</u>	<u>180,000</u>	<u>920,000</u>	<u>43,468</u>	<u>-</u>
580,000	-	85,000	495,000	25,533	-
1,355,331	137,669	64,000	1,429,000	42,630	-
<u>474,801</u>	<u>35,000</u>	<u>46,000</u>	<u>463,801</u>	<u>14,738</u>	<u>-</u>
<u>\$ 2,410,132</u>	<u>172,669</u>	<u>195,000</u>	<u>2,387,801</u>	<u>82,901</u>	<u>-</u>
<u>\$ 725,000</u>	<u>275,000</u>	<u>41,332</u>	<u>958,668</u>	<u>40,741</u>	<u>-</u>

Bond Maturities- General Obligation Bonds

June 30, 2007

Year Ending <u>June 30,</u>	General Obligation	
	Refunding Bonds Series 2001	
	Issued November 1, 2001	
	Interest	
	<u>Rates</u>	<u>Amount</u>
2008	3.75	175,000
2009	4.00	165,000
2010	4.05	175,000
2011	4.10	180,000
2012	4.15	125,000
2013	4.30	50,000
2014	4.40	50,000
Total		<u>\$ 920,000</u>

See accompanying independent auditor's report.

Bond Maturities - Revenue Bonds

June 30, 2007

Year Ending <u>June 30,</u>	Electric Revenue Bonds		Sewer Revenue Bonds	
	Series 2002		Series 2004	
	Issued April 15, 2002		Issued July 7, 2004	
	Interest		Interest	
	<u>Rates</u>	<u>Amount</u>	<u>Rates</u>	<u>Amount</u>
2008	4.15	90,000	3.00	47,000
2009	4.35	95,000	3.00	49,000
2010	4.50	100,000	3.00	50,000
2011	4.60	105,000	3.00	52,000
2012	4.70	105,000	3.00	53,000
2013		-	3.00	55,000
2014		-	3.00	57,000
2015		-	3.00	58,000
2016		-	3.00	42,801
Total		<u>\$ 495,000</u>		<u>\$ 463,801</u>

Year Ending <u>June 30,</u>	Water Revenue Bonds		
	Series 2004		
	Issued April 23, 2004		
	Interest		
	<u>Rates</u>	<u>Amount</u>	<u>Total</u>
2008	3.00	66,000	203,000
2009	3.00	68,000	212,000
2010	3.00	70,000	220,000
2011	3.00	72,000	229,000
2012	3.00	74,000	232,000
2013	3.00	76,000	131,000
2014	3.00	78,000	135,000
2015	3.00	81,000	139,000
2016	3.00	83,000	125,801
2017	3.00	86,000	86,000
2018	3.00	88,000	88,000
2019	3.00	91,000	91,000
2020	3.00	94,000	94,000
2021	3.00	96,000	96,000
2022	3.00	99,000	99,000
2023	3.00	102,000	102,000
2024	3.00	105,000	105,000
Total		<u>\$ 1,429,000</u>	<u>2,387,801</u>

See accompanying independent auditor's report.

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	\$ 578,775	592,328	569,770	582,771
Tax increment financing collections	60,937	51,243	16,831	5,506
Other city tax	141,821	111,680	173,693	57,090
Licenses and permits	2,717	2,290	2,005	5,978
Use of money and property	132,945	138,368	70,116	79,805
Intergovernmental	264,837	413,845	349,556	217,340
Charges for service	223,168	198,951	208,711	197,975
Special assessments	6,489	10,446	13,873	23,054
Miscellaneous	<u>137,713</u>	<u>179,061</u>	<u>80,092</u>	<u>57,168</u>
 Total	 <u>\$ 1,549,402</u>	 <u>1,698,212</u>	 <u>1,484,647</u>	 <u>1,226,687</u>
Disbursements:				
Operating:				
Public safety	\$ 236,813	226,559	245,152	235,853
Public works	471,068	452,681	345,215	330,161
Culture and recreation	181,058	174,088	188,266	172,439
Community and economic development	473,909	637,418	350,567	537,037
General government	226,240	240,394	236,556	215,623
Debt service	224,068	224,455	219,784	225,130
Capital projects	<u>48,605</u>	<u>45,882</u>	<u>286,398</u>	<u>34,135</u>
 Total	 <u>\$ 1,861,761</u>	 <u>2,001,477</u>	 <u>1,871,938</u>	 <u>1,750,378</u>

See accompanying independent auditor's report.

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

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Pocahontas, Iowa, as of and for the year ended June 30, 2007, which collectively comprise the primary government's basic financial statements listed in the table of contents, and have issued our report thereon dated September 28, 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 Pocahontas' 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 Pocahontas' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Pocahontas' 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 the internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and other deficiencies we consider to be material weaknesses.

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

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 Pocahontas' internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe items I-A-07, and I-B-07 are material weaknesses.

Compliance and Other Matters

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

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2007 are based exclusively on knowledge obtained from procedures performed during our audit on 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 Pocahontas' 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 Pocahontas' 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 Pocahontas and other parties to whom the City of Pocahontas 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 Pocahontas 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

September 28, 2007

City of Pocahontas, Iowa

Schedule of Findings

Year ended June 30, 2007

Part I: Findings Related to the Financial Statements:

SIGNIFICANT DEFICIENCIES:

I-A-07 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the cash receipts listing, posting of cash receipts to the cash receipts journal, and the preparation of deposit slips for utility billing 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.

Response - Based upon the size of our office staff, duties are segregated to the greatest extent possible.

Conclusion - The City should utilize administrative personnel to provide additional control through a review of financial transactions and reports.

I-B-07 Segregation of Duties - Community Center - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the same person writes checks, signs checks, posts receipts and disbursements and reconciles the bank account. Also prenumbered receipts are not utilized.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, we recommend that the Community Center Board review its control procedures to obtain the maximum internal control possible under the circumstances. Prenumbered receipts should be utilized to help insure proper control over cash receipts.

City of Pocahontas, Iowa

Schedule of Findings

Year ended June 30, 2007

Response - We will investigate possible alternatives.

Conclusion - Response accepted.

Part II: Other Findings Related to Statutory Reporting:

II-B-07 Certified Budget – Disbursements during the year ended June 30, 2007 exceeded the amounts budgeted in the community and economic development, debt service, and business type activities functions. 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 be amended in sufficient amounts before the disbursements exceed the budget.

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

Conclusion – Response accepted.

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 Pocahontas, 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>
Brooks Taylor – Council Member		
Editor of Record Democrat	Newspaper printings	\$ 4,849
	Economic Development Loan	12,000
Gus Holzmueller – Council Member		
Owner of Pocahontas Ford	Auto Repairs	4,421
Kent Wood – Council Member		
14% Owner of Wood’s Supermarket		1,150
Ray Kripps – Airport Commissioner		
Owner of Ray Kripps Builders		<u>274</u>
		22,694
		=====

In accordance with Chapter 362.5(10) of the Code of Iowa, the transactions with Wood’s Supermarket and Ray Kripps Builders, do not appear to represent conflicts of interest since the total transactions with each were less than \$2,500 during the fiscal year. The transaction with the Pocahontas Ford does appear to represent a conflict of interest since it was greater than \$2,500 during the fiscal year. The transaction with the newspaper does not appear to represent a conflict of interest since a resolution was passed naming The Record Democrat as the official newspaper. Taylor didn’t vote on this resolution. The economic development loan does not appear to represent a conflict of interest as it was approved by the economic development committee.

City of Pocahontas, Iowa

Schedule of Findings

Year ended June 30, 2007

Recommendation – The City should receive bids if they expect to engage in related party transactions in excess of \$2,500 during the fiscal year.

Response – This was an oversight this year. We did not realize that total repairs would exceed the threshold this past year.

Conclusion – Response accepted.

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 – The City's wastewater treatment system did not maintain net revenues of 110% of the principle and interest due on the sewers revenue bond as stated in the loan agreement.

Recommendation – City officials should review their rates to insure this loan covenant is met.

Response – We have increased our sewer rates so this should eliminate the violation.

Conclusion – Response accepted.

II-I-07 Telecommunications Services – No instances of non-compliance with Chapter 388.10 of the Code of Iowa were noted.

City of Pocahontas, Iowa

Schedule of Findings

Year ended June 30, 2007

II-J-07 Deficit Balances – There was several deficit balances noted as of June 30, 2007.

Recommendation – City officials should review these deficits in order to return these funds to a sound financial position.

Response – See footnote #11 in notes to financial statements for our plans to eliminate these deficits.

Conclusion – Response accepted.