

CITY OF LENOX
LENOX, IOWA

INDEPENDENT AUDITOR'S REPORT
FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
ADDITIONAL REQUIRED AUDITOR'S REPORTS

Year Ended June 30, 2007

TABLE OF CONTENTS

		<u>Page</u>
OFFICIALS		1
INDEPENDENT AUDITOR'S REPORT		2 - 3
MANAGEMENT'S DISCUSSION AND ANALYSIS		4 - 8
FINANCIAL STATEMENTS:	<u>Exhibit</u>	
Statement of Activities and Net Assets - Cash Basis	A	9
Statement of Cash Receipts, Disbursements and Changes in Balances – Governmental Funds	B	10
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	C	11
Notes to Financial Statements		12 - 18
REQUIRED SUPPLEMENTARY INFORMATION		
Budgetary Comparison Schedule of Receipts, Disbursements, and Changes in Cash Balance – Actual to Budget (Cash Basis) – All Governmental And Proprietary Funds		19
Notes to Required Supplementary Information – Budget Reporting		20
OTHER SUPPLEMENTARY INFORMATION	<u>Schedule</u>	
Schedule of Cash Receipts, Disbursements and Changes in Cash Balances Nonmajor Governmental Funds	1	21 - 22
Schedule of Indebtedness	2	23
Bond and Other Debt Payable Summary Schedule	3	24
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		25 - 27
SCHEDULE OF FINDINGS		28 - 29

CITY OF LENOX, IOWA
OFFICIALS
June 30, 2007

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Stan Curtis	Mayor	December, 2007
Cindy Heuett	Council Member	December 31, 2009
Glenn Grout	Council Member	December 31, 2009
Sandy Marshall	Council Member	December 31, 2007
Robert Halligan	Council Member	December 31, 2007
Brent Wise	Council Member	December 31, 2007
Karen Zabel	Clerk	December, 2007
Stewart Nielsen	Attorney	December, 2007

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Members of the City Council
City of Lenox
Lenox, Iowa

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

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

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

The financial statements referred to above include only the primary government of the City of Lenox, 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 units, 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 financial statements do not purport to, and do not, present fairly the financial position of the reporting entity of the City of Lenox, Iowa,

To the Honorable Mayor and
Members of the City Council
City of Lenox

as of June 30, 2007, and the changes in its financial position, for the year then ended in conformity with U.S. generally accepted accounting principles. In accordance with U.S. generally accepted accounting principles, the Lenox Municipal Light and Power has issued separate reporting entity financial statements.

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 of the primary government of the City of Lenox, 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 January 11, 2008, on our consideration of City of Lenox, Iowa's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 8 and 19 through 20 are not required parts of the primary government basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the primary government financial statements that collectively comprise the City of Lenox, Iowa's primary government financial statements. Other supplementary information included in Schedules 21 through 24, is presented for purposes of additional analysis and is not a required part of the primary government financial statements. Such information has been subjected to the auditing procedures applied in our audits of the primary government financial statements and, in our opinion, is fairly stated in all material respects in relation to the primary government financial statements taken as a whole.

D. Napier, Smidgrass, Mickelson + Co., P.C.

January 11, 2008

CITY OF LENOX
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2007

The City of Lenox 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 ending June 30, 2007. We encourage readers to consider this information in conjunction with the City's financial statements which follow.

Basis of Accounting

The City has elected to present its financial statements on a cash basis of accounting. The cash basis of accounting is a basis other than generally accepted accounting principles. Basis of accounting is a reference to when financial events are recorded, such as the timing for recognizing revenues, expenses and their related assets and liabilities. Under the City's cash basis of accounting, revenues and expenses are recorded when they result from cash transactions. As a result of the use of the cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods and services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

Report Layout

This annual report is presented in a format consistent with the presentation requirements of the Governmental Accounting Standards Board (GASB) Statement No. 34. Besides the Management's Discussion and Analysis (MD&A), the report consists of government-wide statements, fund financial statements, notes to the financial statements, combining schedules of non-major funds and supplementary information. The first several statements are highly condensed and present a government-wide view of the City's finances. Within this view, all City operations are categorized and reported as either governmental or business-type activities. Governmental activities include basic services such as public safety, public works, health and social services, culture and recreation, community and economic development, general government administration, debt service, and capital projects. Business-type activities are gas and sewer.

Statement of Activities

The focus of the Statement of Activities is to present the major program costs and match major resources with each. To the extent a program's cost is not recovered by grants, donations and direct charges, it is paid from general taxes and other resources. This statement summarizes and simplifies the user's analysis to determine the extent to which programs are self-supporting and/or subsidized by general revenues.

The MD&A is intended to explain the significant changes in financial position and differences in operations between the current and prior years.

Reporting the City as a whole

Government-Wide Financial Statements

To aid in the understanding of the Statement of Activities, some additional explanation is given. First all receipts and disbursements are categorized as either governmental activities or business-type activities. These are defined as follows:

Governmental funds - Most of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. The City's major governmental functions are:

Public Safety: This category includes police operations, fire protections, emergency management, ambulance service and animal control.

Public Works: This category includes roads, bridges, sidewalks, street lighting, shop, equipment repair and snow removal.

Health and Social Services: We have nothing in this department.

Culture and Recreation: This category includes recreation, park, pool, golf, library and tennis court.

Community and Economic Development: This category includes economic development, planning and zoning, community center and industrial site.

General Government: This category includes mayor, city council, city clerk, administrator, treasurer, elections, legal services, city hall, insurance, employee benefits and other general government.

Debt Service: This category includes general debt service for the city.

Capital Projects: This category would include any large project the city would be entering into on a given year. This past year there were no capital projects to report.

Business-Type (Proprietary) Funds: When the City charges customers for the services it provides, these services are generally reported in business-type or proprietary funds. These are self-sufficient funds. The City's business-type funds are gas and sewer utility. This also includes all debt service and capital projects associated specifically with these utilities which includes Sewer Reserve and Sewer Bond & Interest.

2007 Financial Highlights

Revenues of the City's governmental activities decreased by \$140,039 from fiscal 2006 to fiscal 2007. Property tax decreased by \$4,578. Proprietary activities revenues decreased by \$379,405.

Governmental activities disbursements decreased by \$442,101 from fiscal year 2006 to fiscal year 2007. Proprietary activities disbursements decreased by \$312,990.

The City's total cash balance increased by \$41,548.

Sources of Funds for Governmental Activities

	<u>FY 2007</u>	<u>FY 2006</u>
Receipts		
Property tax	\$ 393,095	\$ 397,673
Other city taxes	56,939	12,666
Licenses and permits	3,867	4,996
Use of money and property	16,476	8,462
Intergovernmental	146,672	272,653
Charges for Services	184,026	185,781
Miscellaneous	<u>64,014</u>	<u>122,897</u>
Total receipts	<u>\$ 865,089</u>	<u>\$1,005,128</u>
Disbursements:		
Public safety	\$ 233,815	\$ 364,984
Public works	181,683	555,893
Culture and recreation	156,534	139,602
Community and economic development	7,573	2,790
General government	96,415	86,521
Debt service	<u>118,298</u>	<u>86,629</u>
Total disbursements	<u>\$ 794,318</u>	<u>\$1,236,419</u>
Excess of receipts over(under) disbursements	\$ 70,771	\$ (231,291)
Total other financing sources	<u>---</u>	<u>---</u>
Net change in cash balances	<u>\$ 70,771</u>	<u>\$ (231,291)</u>
Cash balances beginning of year	<u>\$ 780,095</u>	<u>\$ 991,353</u>
Cash balances end of year:		
General fund	\$ 483,528	\$ 426,852
Special revenue funds	313,848	290,028
Capital projects fund	23,825	33,474
Other non-major government funds	<u>29,665</u>	<u>9,708</u>
Total	<u>\$ 850,866</u>	<u>\$ 760,062</u>

Proprietary Fund Activities:

	<u>FY 2007</u>	<u>FY 2006</u>
Receipts		
Use of money and property	\$ 55,081	\$ 31,844
Charges for Services	2,461,509	2,885,818
Miscellaneous	<u>602,170</u>	<u>580,503</u>
Total receipts	<u>\$3,118,760</u>	<u>\$3,498,165</u>
Disbursements:		
Business type activities	<u>\$3,147,983</u>	<u>\$3,460,973</u>
Excess of receipts over/(under) disbursements	\$ (29,223)	\$ 37,192
Other financing sources, net	<u>---</u>	<u>---</u>
Excess of receipts and other financing sources over (under) disbursements and other financing uses	\$ (29,223)	\$ 37,192
Cash balance beginning of year	<u>2,224,779</u>	<u>2,187,587</u>
Cash balances end of year	<u>\$2,195,556</u>	<u>\$2,224,779</u>

Individual Major Governmental Fund Analysis

As the City of Lenox completed the year, its governmental funds reported a combined fund balance of \$850,866, an increase of \$70,771 over the June 30, 2006 balance of \$780,095. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

General Fund: The General Fund cash balance increased \$56,676 from the previous year mostly due to the transfer of funds from Road Use Hwy 49 funds.

Road Use Fund: The Road Use Fund cash balance decreased by \$28,814 also due to the transfer of funds for Hwy 49 to the General Fund.

Local Option Sales Tax Fund: This Local Option Sales Tax increased by \$36,609 the difference of a full year of collecting the option tax.

Capital Projects: The Capital Project funds increased by \$19,957 because of a pay back of a housing rehabilitation home.

Individual Major Business Type Fund Analysis

Sewer Fund: The Sewer Fund cash balance increased by \$78,776, which was due primarily to a decrease in expenditures and an increase in interest.

Gas Fund: The Gas Fund cash balance increased by \$35,152, which was due primarily to an increase in sales of commodity and interest on investments.

Budgetary Highlights:

Over the course of the year, the City amended its budget once. The amendment was approved on May 14, 2007.

The City is no longer reporting cable TV revenue and expenditures as it was turned over to the Utilities with the final money transferred in January 2007,

Debt Administration

There was no new debt incurred by the City in the 2006-2007 fiscal year.

Economic Factors and Next Year's Budget and Rates:

The City of Lenox's elected and appointed officials and citizens considered many factors when setting the fiscal year 2008 budget, tax rates and fees that will be charged for various city activities. The City's fiscal year 2007 assessed value increased by \$1,301,543 from the fiscal year 2006.

The proposed 2008 budget includes total receipts of \$4,068,360 and disbursements of \$4,068,360.

The proposed fiscal year 2007 levy is \$8.10 per \$1,000 of assessed property valuation, which is unchanged from fiscal year 2006.

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

Contacting the City's Financial Management:

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Karen Zabel, City Administrator, 200 S. Main, Lenox, Iowa 50851.

FINANCIAL STATEMENTS

CITY OF LENOX, IOWA
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS
As of and for the Year Ended June 30, 2007

Exhibit A

	PROGRAM RECEIPTS			
FUNCTIONS/PROGRAMS:	Disbursements	Charges For Services	Operating Grants Contributions, and Restricted Interest	Capital Grants Contributions and Restricted Interest
Governmental activities:				
Public safety	\$ 213,483	\$ 52,836	\$ -	\$ -
Public works	98,839	-	116,766	-
Health and social services	-	-	-	-
Culture and recreation	176,865	78,608	3,092	-
Community/economic development	7,573	-	-	-
General government	84,218	5,118	-	-
Debt service	118,298	-	-	-
Capital projects	-	-	19,920	-
Total governmental activities	\$ 699,276	\$ 136,562	\$ 139,778	-
Business type activities:				
Sewer	\$ 685,643	\$ 736,887	\$ -	\$ -
Gas	2,314,450	2,326,792	-	-
Cable	147,890	-	-	-
Total business type activities	\$ 3,147,983	\$ 3,063,679	\$ -	\$ -
TOTAL PRIMARY GOVERNMENT	\$ 3,847,259	\$ 3,200,241	\$ 139,778	-
GENERAL RECEIPTS:				
Property taxes levied for:				
General purposes				
Debt service				
Grants and contributions not restricted				
Interest on investments				
Miscellaneous				
Sale of assets				
Transfers				
TOTAL GENERAL RECEIPTS				
CHANGE IN CASH BASIS NET ASSETS				
CASH BASIS NET ASSETS, BEGINNING OF YEAR				
CASH BASIS NET ASSETS, END OF YEAR				
CASH BASIS NET ASSETS:				
Restricted:				
Streets				
Employee benefits				
Debt service				
Other purposes				
Unrestricted				
TOTAL CASH BASIS NET ASSETS				

The Notes to Financial Statements are an integral part of this statement.

**NET (DISBURSEMENTS) RECEIPTS AND
CHANGES IN CASH BASIS NET ASSETS**

<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
\$ (160,647)	\$ -	\$ (160,647)
17,927	-	17,927
-	-	-
(95,165)	-	(95,165)
(7,573)	-	(7,573)
(79,100)	-	(79,100)
(118,298)	-	(118,298)
19,920	-	19,920
<u>\$ (422,936)</u>	<u>\$ -</u>	<u>\$ (422,936)</u>
\$ -	\$ 51,244	\$ 51,244
-	12,342	12,342
-	(147,890)	(147,890)
<u>\$ -</u>	<u>\$ (84,304)</u>	<u>\$ (84,304)</u>
<u>\$ (422,936)</u>	<u>\$ (84,304)</u>	<u>\$ (507,240)</u>
\$ 294,455	\$ -	\$ 294,455
98,640	-	98,640
56,939	-	56,939
16,129	55,081	71,210
23,859	-	23,859
3,685	-	3,685
-	-	-
<u>\$ 493,707</u>	<u>\$ 55,081</u>	<u>\$ 548,788</u>
\$ 70,771	\$ (29,223)	\$ 41,548
<u>780,095</u>	<u>2,224,779</u>	<u>3,004,874</u>
<u>\$ 850,866</u>	<u>\$ 2,195,556</u>	<u>\$ 3,046,422</u>
\$ 205,041	\$ -	\$ 205,041
32,175	-	32,175
23,825	371,020	394,845
106,297	653,625	759,922
483,528	1,170,911	1,654,439
<u>\$ 850,866</u>	<u>\$ 2,195,556</u>	<u>\$ 3,046,422</u>

CITY OF LENOX, 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

	General	Debt Service	Other Nonmajor Governmental Funds	Total
RECEIPTS:				
Property taxes	\$ 240,344	\$ 98,640	\$ 54,111	\$ 393,095
Tax increment financing collections	-	-	-	-
Other city taxes	-	-	56,939	56,939
Licenses and permits	3,867	-	-	3,867
Use of money and property	14,625	-	1,851	16,476
Intergovernmental	29,906	-	116,766	146,672
Charges for services	184,026	-	-	184,026
Special assessments	-	-	-	-
Miscellaneous	41,348	-	22,666	64,014
Total receipts	\$ 514,116	\$ 98,640	\$ 252,333	\$ 865,089
DISBURSEMENTS:				
Operating:				
Public safety	\$ 188,003	\$ -	\$ 45,812	\$ 233,815
Public works	83,149	-	98,534	181,683
Health and social services	-	-	-	-
Culture and recreation	147,076	-	9,458	156,534
Community/economic development	7,573	-	-	7,573
General government	82,931	-	13,484	96,415
Debt service	-	118,298	-	118,298
Capital projects	-	-	-	-
Total disbursements	\$ 508,732	\$ 118,298	\$ 167,288	\$ 794,318
EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS	\$ 5,384	\$ (19,658)	\$ 85,045	\$ 70,771
OTHER FINANCING SOURCES (USES):				
Short term note proceeds	\$ -	\$ -	\$ -	\$ -
Sale of capital assets	-	-	-	-
Operating transfers in	61,301	10,009	-	71,310
Operating transfers out	(10,009)	-	(61,301)	(71,310)
TOTAL OTHER FINANCING SOURCES (USES)	\$ 51,292	\$ 10,009	\$ (61,301)	\$ -
NET CHANGE IN CASH BALANCES	\$ 56,676	\$ (9,649)	\$ 23,744	\$ 70,771
CASH BALANCES, BEGINNING OF YEAR	426,852	33,474	319,769	780,095
CASH BALANCES, END OF YEAR	\$ 483,528	\$ 23,825	\$ 343,513	\$ 850,866
CASH BASIS FUND BALANCES:				
Reserved:				
Debt service	\$ -	\$ 23,825	\$ -	\$ 23,825
Unreserved:				
General fund	483,528	-	-	483,528
Special revenue funds	-	-	313,848	313,848
Capital projects fund	-	-	29,665	29,665
Permanent fund	-	-	-	-
TOTAL CASH BASIS FUND BALANCES	\$ 483,528	\$ 23,825	\$ 343,513	\$ 850,866

The Notes to Financial Statements are an integral part of this statement.

CITY OF LENOX, IOWA
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND
CHANGES IN CASH BALANCES
As of and for the Year Ended June 30, 2007

Exhibit C

	Enterprise			Total
	Sewer	Gas	Cable	
OPERATING RECEIPTS:				
Charge for service	\$ 144,942	\$2,316,567	\$ -	\$ 2,461,509
Total operating receipts	<u>\$ 144,942</u>	<u>\$2,316,567</u>	<u>\$ -</u>	<u>\$ 2,461,509</u>
OPERATING DISBURSEMENTS:				
Business type activities	\$ 115,570	\$2,314,450	\$ 147,890	\$ 2,577,910
Total operating disbursements	<u>\$ 115,570</u>	<u>\$2,314,450</u>	<u>\$ 147,890</u>	<u>\$ 2,577,910</u>
EXCESS (DEFICIENCY) OF OPERATING RECEIPTS (OVER) UNDER OPERATING DISBURSEMENTS	<u>\$ 29,372</u>	<u>\$ 2,117</u>	<u>\$(147,890)</u>	<u>\$ (116,401)</u>
NON-OPERATING RECEIPTS (DISBURSEMENTS)				
Interest on investments	\$ 27,531	\$ 22,810	\$ 4,740	\$ 55,081
Miscellaneous	591,945	10,225	-	602,170
Debt service	(570,073)	-	-	(570,073)
TOTAL NON-OPERATING RECEIPTS (DISBURSEMENTS)	<u>\$ 49,403</u>	<u>\$ 33,035</u>	<u>\$ 4,740</u>	<u>\$ 87,178</u>
EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS	<u>\$ 78,775</u>	<u>\$ 35,152</u>	<u>\$(143,150)</u>	<u>\$ (29,223)</u>
OTHER FINANCING SOURCES (USES):				
Operating transfers in	-	-	-	-
Operating transfers out	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
NET CHANGE IN CASH BALANCES	<u>\$ 78,775</u>	<u>\$ 35,152</u>	<u>\$(143,150)</u>	<u>\$ (29,223)</u>
CASH BALANCES, BEGINNING OF YEAR	<u>1,147,143</u>	<u>934,486</u>	<u>143,150</u>	<u>2,224,779</u>
CASH BALANCES, END OF YEAR	<u><u>\$1,225,918</u></u>	<u><u>\$ 969,638</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 2,195,556</u></u>
CASH BASIS FUND BALANCES:				
Reserved for debt service	\$ 371,020	\$ -	\$ -	\$ 371,020
Reserved for capital replacement	653,625	-	-	653,625
Reserved for customer deposits	-	-	-	-
Unreserved	201,273	969,638	-	1,170,911
Total cash basis fund balances	<u><u>\$1,225,918</u></u>	<u><u>\$ 969,638</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 2,195,556</u></u>

The Notes to Financial Statements are an integral part of this statement.

CITY OF LENOX, IOWA
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

Note 1. Significant Accounting Policies

The City of Lenox is a political subdivision of the State of Iowa located in Taylor County. It was first incorporated in 1872 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, culture, recreation, public improvements and general administrative services.

Reporting Entity

For financial reporting purposes, the City of Lenox has included all funds, organizations, agencies, boards, commissions and authorities, except for its component unit, the Lenox Municipal Light and Power. 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 primary government financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the City.

These primary government financial statements present the City of Lenox (the primary government) and exclude the component unit. The component unit discussed below is included in the City's reporting entity because of the significance of its operational or financial relationship with the City. It has not been included in these primary government financial statements, which present the primary government only. Complete financial statements of the individual component unit, which issued separate financial statements as noted below, can be obtained from its administrative office.

Component Unit

The Lenox Municipal Light and Power is a component unit of the City of Lenox and is not presented in these primary government financial statements. It is legally separate from the City, but is financially accountable to the City. The Utilities is governed by a three-member board appointed by the City Council and the Utilities' operating budget is subject to the approval of the City Council.

CITY OF LENOX, IOWA
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

Note 1. Summary of Significant Accounting Policies (continued)

Basis of Presentation

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

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 primary government 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 primary government fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

CITY OF LENOX, IOWA
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

Note 1. Summary of Significant Accounting Policies (continued)

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general fund 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.

Debt Service:

The General Obligation Bonds/Notes Fund is used to account for the payment of interest and principal on the City's general long-term debt.

The City reports the following major proprietary fund:

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

The Gas Fund accounts for the operation and maintenance of the City's natural gas system.

The Cable T.V. Fund accounts for the operation and maintenance of the City's cable t.v. system. This fund has been transferred to the Lenox Municipal Light and Power.

Measurement Focus and Basis of Accounting

The City of Lenox, Iowa maintains its financial records on the basis of cash receipts and disbursements and the primary government 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 primary government financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

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

CITY OF LENOX, IOWA
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

Note 1. Summary of Significant Accounting Policies (continued)

Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2007, disbursements exceeded the amounts budgeted in the Public Safety and Debt Service Functions.

Note 2. Deposits and Investments

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

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

The City's investments are normally categorized to give an indication of the level of risk assumed by the City at year end. At June 30, 2007, the City's investments consisted of certificates of deposit and were not subject to risk categorization.

Note 3. Notes Payable

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

CITY OF LENOX, IOWA
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

Note 3. Notes Payable (continued)

Year Ending June 30,	General Obligation Notes		Revenue Notes	
	Principal	Interest	Principal	Interest
2008	\$ 50,000	\$ 13,483	\$ 200,000	\$ 369,423
2009	50,000	11,638	215,000	352,508
2010	55,000	9,668	235,000	333,940
2011	55,000	7,373	---	324,188
2012	60,000	4,985	---	324,188
2013	25,000	2,288	---	324,188
2014	25,000	1,163	---	324,188
2015	---	---	3,705,000	162,094
Total	<u>\$ 320,000</u>	<u>\$ 50,598</u>	<u>\$4,355,000</u>	<u>\$2,514,717</u>

Year Ending June 30,	Other Debt		Total	
	Principal	Interest	Principal	Interest
2008	\$ 21,988	\$ 3,616	\$ 271,988	\$ 386,522
2009	12,500	2,469	277,500	366,615
2010	12,500	1,844	302,500	345,452
2011	12,500	1,219	67,500	332,780
2012	11,873	594	71,873	329,767
2013	---	---	25,000	326,476
2014	---	---	25,000	325,351
2015	---	---	3,705,000	162,094
Total	<u>\$ 71,361</u>	<u>\$ 9,742</u>	<u>\$4,746,361</u>	<u>\$2,575,057</u>

The resolutions providing for the issuance of the sewer revenue refunding 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 the sewer revenue note sinking account for the purpose of making the note principal and interest payments when due.
- (c) Additional monthly transfers shall be made to the sewer revenue reserve account until a specific minimum balance has been accumulated. This account is restricted for the purpose of paying principal and interest on the note in the event that funds in the sinking fund account are insufficient.

CITY OF LENOX, IOWA
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

Note 4. Pension and Retirement Benefits

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

Plan members are required to contribute 3.70% of their annual salary and the City is required to contribute 5.75% of annual covered payroll except for police employees, in which case the percentages are 6.08% and 9.12%, respectively. Contribution requirements are established by state statute. The City's contribution to IPERS for the year ended June 30, 2007 was \$20,644, equal to the required contribution for the year.

Note 5. 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, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation payments 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 Pay	<u>\$ 16,342</u>

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

Note 6. Risk Management

The City of Lenox 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.

CITY OF LENOX, IOWA
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2007

Note 7. Gas Distribution and Operating Agreements

The City has agreements with the cities of Clearfield, Lorimor, Prescott and Bedford, Iowa to provide wholesale gas and billing services to these communities in return for a distribution system fee established in each agreement. The agreements extend automatically in intervals of one year unless intent of termination is indicated by either party.

Note 8. Jointly Governed Organization

The City also participates in one jointly governed organization for which the City is not financially accountable or that the nature and significance of the relationship with the City is such that exclusion does not cause the City's financial statements to be misleading or incomplete. City officials are members of the Taylor County Assessor's Conference Board.

Note 9. Major Utility Customer

The City provides natural gas service utility within the City and is a supplier to three other cities. A material part of the gas service revenue is from a single industrial customer which represents approximately 43% of the total gas service revenue of the City.

Note 10. 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>
Debt Service	General	\$ 10,009
General	Special Revenue: Road Use	<u>61,301</u>
		<u>\$ 71,310</u>

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF LENOX, IOWA
 BUDGETARY COMPARISON SCHEDULE OF RECEIPTS, DISBURSEMENTS,
 AND CHANGES IN CASH BALANCES - ACTUAL TO BUDGET (CASH BASIS) -
 ALL GOVERNMENTAL AND PROPRIETARY FUNDS
 As of and for the Year Ended June 30, 2007

	Governmental Funds Actual	Proprietary Funds Actual	Net
RECEIPTS:			
Property tax	\$ 393,095	\$ -	\$ 393,095
Tax increment financing collections	-	-	-
Other city tax	56,939	-	56,939
Licenses and permits	3,867	-	3,867
Uses of money and property	16,476	55,081	71,557
Intergovernmental	146,672	-	146,672
Charges for services	184,026	2,461,509	2,645,535
Special assessments	-	-	-
Miscellaneous	64,014	602,170	666,184
TOTAL RECEIPTS	<u>\$ 865,089</u>	<u>\$ 3,118,760</u>	<u>\$ 3,983,849</u>
DISBURSEMENTS:			
Public safety	\$ 233,815	\$ -	\$ 233,815
Public works	181,683	-	181,683
Health and social services	-	-	-
Culture and recreation	156,534	-	156,534
Community and economic development	7,573	-	7,573
General government	96,415	-	96,415
Debt service	118,298	-	118,298
Capital projects	-	-	-
Business type activities	-	3,147,983	3,147,983
TOTAL DISBURSEMENTS	<u>\$ 794,318</u>	<u>\$ 3,147,983</u>	<u>\$ 3,942,301</u>
EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS	\$ 70,771	\$ (29,223)	\$ 41,548
OTHER FINANCING SOURCES, NET	<u>-</u>	<u>-</u>	<u>-</u>
EXCESS OF RECEIPTS AND OTHER FINANCING SOURCES OVER (UNDER) DISBURSEMENTS AND OTHER FINANCING USES	\$ 70,771	\$ (29,223)	\$ 41,548
CASH BALANCES, BEGINNING OF YEAR	<u>780,095</u>	<u>2,224,779</u>	<u>3,004,874</u>
CASH BALANCES, END OF YEAR	<u><u>\$ 850,866</u></u>	<u><u>\$ 2,195,556</u></u>	<u><u>\$ 3,046,422</u></u>

See accompanying independent auditor's report.

Budgeted Amounts		Final to Net Variance
Original	Final	
\$ 392,157	\$ 392,157	\$ 938
-	-	-
18,073	18,073	38,866
4,425	4,425	(558)
4,900	78,900	(7,343)
137,801	137,801	8,871
3,553,214	3,553,214	(907,679)
-	-	-
10,105	10,105	656,079
<u>\$ 4,120,675</u>	<u>\$ 4,194,675</u>	<u>\$ (210,826)</u>
\$ 214,423	\$ 229,423	\$ (4,392)
211,379	233,379	51,696
-	-	-
158,287	178,287	21,753
13,000	13,000	5,427
81,339	123,539	27,124
98,357	98,357	(19,941)
-	-	-
3,291,575	3,371,575	223,592
<u>\$ 4,068,360</u>	<u>\$ 4,247,560</u>	<u>\$ 305,259</u>
\$ 52,315	\$ (52,885)	\$ (94,433)
-	-	-
\$ 52,315	\$ (52,885)	<u>\$ (94,433)</u>
<u>3,157,193</u>	<u>3,157,193</u>	
<u>\$ 3,209,508</u>	<u>\$ 3,104,308</u>	

CITY OF LENOX, 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 and Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund or fund type. 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, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$179,200. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2007, disbursements exceeded the amounts budgeted in the public safety and debt service functions and in the general government functions prior to budget amendments.

OTHER SUPPLEMENTARY INFORMATION

CITY OF LENOX, IOWA
 SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS
 AND CHANGES IN CASH BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 As of and for the Year Ended June 30, 2007

Schedule 1

	Special Revenue		
	Road Use	Employee Benefits	Library
RECEIPTS:			
Property tax	\$ -	\$ 47,431	\$ -
Tax increment financing collections	-	-	-
Other city tax	-	-	-
Licenses and permits	-	-	-
Uses of money and property	-	1,199	615
Intergovernmental	116,766	-	-
Charges for services	-	-	-
Special assessments	-	-	-
Miscellaneous	268	-	2,478
TOTAL RECEIPTS	\$ 117,034	\$ 48,630	\$ 3,093
DISBURSEMENTS:			
Operating:			
Public safety	\$ -	\$ 25,481	\$ -
Public works	84,547	13,987	-
Health and social services	-	-	-
Culture and recreation	-	7,010	2,448
Community and economic development	-	-	-
General government	-	13,484	-
Debt service	-	-	-
Capital projects	-	-	-
TOTAL DISBURSEMENTS	\$ 84,547	\$ 59,962	\$ 2,448
EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS	\$ 32,487	\$ (11,332)	\$ 645
OTHER FINANCING SOURCES (USES):			
Short term note proceeds	\$ -	\$ -	\$ -
Sale of capital assets	-	-	-
Operating transfers in	-	-	-
Operating transfers out	(61,301)	-	-
TOTAL OTHER FINANCING SOURCES (USES)	\$ (61,301)	\$ -	\$ -

See accompanying independent auditor's report.

Special Revenue

<u>Emergency</u>	<u>Local Option Sales Tax</u>	<u>Capital Projects</u>	<u>Total</u>
\$ 6,680	\$ -	\$ -	\$ 54,111
-	-	-	-
-	56,939	-	56,939
-	-	-	-
-	-	37	1,851
-	-	-	116,766
-	-	-	-
-	-	-	-
-	-	19,920	22,666
<u>\$ 6,680</u>	<u>\$ 56,939</u>	<u>\$ 19,957</u>	<u>\$ 252,333</u>
\$ -	\$ 20,331	\$ -	\$ 45,812
-	-	-	98,534
-	-	-	-
-	-	-	9,458
-	-	-	-
-	-	-	13,484
-	-	-	-
-	-	-	-
<u>\$ -</u>	<u>\$ 20,331</u>	<u>\$ -</u>	<u>\$ 167,288</u>
<u>\$ 6,680</u>	<u>\$ 36,608</u>	<u>\$ 19,957</u>	<u>\$ 85,045</u>
\$ -	\$ -	\$ -	\$ -
-	-	-	-
-	-	-	-
-	-	-	(61,301)
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (61,301)</u>

CITY OF LENOX, IOWA
SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
NONMAJOR GOVERNMENTAL FUNDS
As of and for the Year Ended June 30, 2007

Schedule 1
(Continued)

	Special Revenue		
	Road Use	Employee Benefits	Library
NET CHANGE IN CASH BALANCE	\$ (28,814)	\$ (11,332)	\$ 645
CASH BALANCES, BEGINNING OF YEAR	233,855	43,507	20,032
CASH BALANCES, END OF YEAR	\$ 205,041	\$ 32,175	\$ 20,677
CASH BASIS FUND BALANCES:			
Reserved:			
Debt service	\$ -	\$ -	\$ -
Unreserved:			
General fund	-	-	-
Special revenue funds	205,041	32,175	20,677
Capital projects fund	-	-	-
Permanent fund	-	-	-
TOTAL CASH BASIS FUND BALANCES	\$ 205,041	\$ 32,175	\$ 20,677

See accompanying independent auditor's report.

<u>Special Revenue</u>			
<u>Emergency</u>	<u>Local Option Sales Tax</u>	<u>Capital Projects</u>	<u>Total</u>
\$ 6,680	\$ 36,608	\$ 19,957	\$ 23,744
<u>-</u>	<u>12,667</u>	<u>9,708</u>	<u>319,769</u>
<u>\$ 6,680</u>	<u>\$ 49,275</u>	<u>\$ 29,665</u>	<u>\$ 343,513</u>
\$ -	\$ -	\$ -	\$ -
-	-	-	-
6,680	49,275	-	313,848
-	-	29,665	29,665
-	-	-	-
<u>\$ 6,680</u>	<u>\$ 49,275</u>	<u>\$ 29,665</u>	<u>\$ 343,513</u>

CITY OF LENOX, IOWA
 SCHEDULE OF INDEBTEDNESS
 Year Ended June 30, 2007

<u>Obligation</u>	<u>Date of Issue</u>	<u>Interest Rate for Entire Issue</u>	<u>Amount Originally Issued</u>
General obligation bonds:			
Street improvement	February 1, 2002	4.20-6.20%	\$ 70,000
Street improvement	November 1, 2002	2.25-4.60%	330,000
Street improvement	June 1, 2004	4.20-6.20%	210,000
Total			
Revenue notes:			
Sewer revenue notes	August 1, 1999	7.0-8.75%	\$ 5,395,000
Other:			
Golf equipment	August 1, 1999	5.50%	\$ 39,530
Fire truck	December 1, 2005	5.00%	83,873

See accompanying independent auditor's report.

<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>
\$ 15,000	\$ -	\$ 15,000	\$ -	\$ 930	\$ -
195,000	-	30,000	165,000	8,138	-
175,000	-	20,000	155,000	7,045	-
<u>\$ 385,000</u>	<u>\$ -</u>	<u>\$ 65,000</u>	<u>\$ 320,000</u>	<u>\$ 16,113</u>	<u>\$ -</u>
<u>\$ 4,540,000</u>	<u>\$ -</u>	<u>\$ 185,000</u>	<u>\$ 4,355,000</u>	<u>\$ 384,923</u>	<u>\$ -</u>
\$ 18,480	\$ -	\$ 8,992	\$ 9,488	\$ 1,016	\$ -
73,873	-	12,000	61,873	3,944	-
<u>\$ 92,353</u>	<u>\$ -</u>	<u>\$ 20,992</u>	<u>\$ 71,361</u>	<u>\$ 4,960</u>	<u>\$ -</u>

CITY OF LENOX, IOWA
 BOND AND OTHER DEBT PAYABLE SUMMARY SCHEDULE
 June 30, 2007

Schedule 3

Year Ending June 30,	General Obligation Bonds			
	Street Improvements		Street Improvements	
	Issued November 1, 2002		Issued June 1, 2004	
	Interest Rates	Amount	Interest Rates	Amount
2008	3.85%	\$ 30,000	3.45%	\$ 20,000
2009	4.10%	30,000	3.70%	20,000
2010	4.30%	35,000	3.95%	20,000
2011	4.45%	35,000	4.15%	20,000
2012	4.60%	35,000	4.35%	25,000
2013		-	4.50%	25,000
2014		-	4.65%	25,000
Total		\$ 165,000		\$ 155,000

Year Ending June 30,	Revenue Notes		Other Debt	
	Sewer		Equipment Lease	
	Issued August 1, 1999		Issued August 1, 2004	
	Interest Rates	Amount	Interest Rates	Amount
2008	8.10%	\$ 200,000	5.50%	\$ 9,488
2008	8.20%	215,000		-
2009	8.30%	235,000		-
2010		-		-
2011		-		-
2012		-		-
2013		-		-
2014		-		-
2015	8.75%	3,705,000		-
Total		\$ 4,355,000		\$ 9,488

See accompanying independent auditor's report.

<u>Total</u>
\$ 50,000
50,000
55,000
55,000
60,000
25,000
25,000
<u><u>\$ 320,000</u></u>

<u>Other Debt</u>		
<u>Fire Truck Note</u>		
<u>Issued December 1, 2005</u>		
<u>Interest</u>		
<u>Rates</u>	<u>Amount</u>	<u>Total</u>
5.00%	\$ 12,500	\$ 21,988
5.00%	12,500	12,500
5.00%	12,500	12,500
5.00%	12,500	12,500
5.00%	11,873	11,873
	-	-
	-	-
	-	-
	-	-
	<u>\$ 61,873</u>	<u>\$ 71,361</u>

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
City of Lenox, Iowa

We have audited the accompanying financial statements of the government activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Lenox, 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 January 11, 2008. 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 City of Lenox, Iowa's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of City of Lenox, Iowa's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Lenox, Iowa's internal control over financial reporting.

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

A control deficiency exists when the design or operation of 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 City of Lenox, Iowa's ability to initiate, authorize, record, process, or report financial data reliably in accordance with an other comprehensive basis of accounting such that there is more than a remote likelihood a misstatement of City of Lenox, Iowa's financial statements that is more than inconsequential will not be prevented or detected by City of Lenox, Iowa's internal control. We consider the deficiencies in internal control described in the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies, and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe none of the significant deficiencies described above are material weaknesses.

Compliance and Other Matters

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

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

City of Lenox, Iowa's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the City's responses, we did not audit City of Lenox, Iowa'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 Lenox, Iowa, and other parties to whom City of Lenox, Iowa, 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.

Drapen, Smidgrasso, Mickelson + Co., P.C.

January 11, 2008

CITY OF LENOX, IOWA
SCHEDULE OF FINDINGS
Year Ended June 30, 2007

Findings Related to the Financial Statements

Significant Deficiencies:

2007-A Segregation of duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that certain functions are not entirely segregated.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, the City should review its internal control procedure to obtain the maximum internal control possible under the circumstances.

Response - We have as much segregation as possible. For bill paying four separate people review the bills and two others who balance the list of bills with the bills to be paid.

Conclusion - Response acknowledged. The City should segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

Other Findings Related to Required Statutory Reporting:

2007-1 Official Depositories - A resolution naming official depositories has been approved by the City. The maximum deposit amounts stated in the resolution were exceeded during the year ended June 30, 2007.

Recommendation - Chapter 12 C.2 of the Code of Iowa states in part to "specify the maximum amount that may be kept on deposit in each depository." The City should review its deposits in the financial institutions and its resolution setting the maximum amount for official depositories.

Response - The City has approved a new depository policy increasing the maximum amount per depository.

Conclusion - Response acknowledged.

2007-2 Certified Budget - Disbursements during the year ended June 30, 2007, exceeded the amounts budgeted for the Public Safety and Debt Service Functions. The General Government Function exceeded the budgeted amount prior to the budget amendment.

CITY OF LENOX, IOWA
SCHEDULE OF FINDINGS
Year Ended June 30, 2007

Recommendation - 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. The budget should be amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements are allowed to exceed the budgeted amounts.

Response - The Council will be informed that the amendments must be done before expenditures are made even if the budget is amended more than once a year.

Conclusion - Response acknowledged.

- 2007-3 Questionable Disbursements - We noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- 2007-4 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- 2007-5 Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amounts of coverage should be reviewed annually to ensure that the coverage is adequate for current operations.
- 2007-6 Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not.
- 2007-7 Business Transactions - No business transactions between the City and City officials or employees were disclosed.
- 2007-8 Deposits and Investments - No instances of non-compliance with deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted, except as noted in 2003-1.
- 2007-9 Revenue Notes - The City has established the sinking and reserve accounts as required by the Sewer Revenue Note Resolution.