

CITY OF ARLINGTON

Arlington, Iowa

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

June 30, 2007

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CITY OF ARLINGTON

Officials

Don Handel Mayor January 2008

Christopher Henry Council Member January 2010

Lyle Dean Meisner Council Member January 2010

Denise Palas Council Member January 2008

Dustin Schott Council Member January 2008

Allen Wescott Council Member January 2008

Virginia Mitchell City Clerk/Treasurer Indefinite

T. David Katsumes City Attorney Indefinite



Gardiner Thomsen
Certified Public Accountants

Independent Auditors' 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 Arlington, 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 Arlington's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Arlington 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 October 8, 2007 on our consideration of the City of Arlington's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations and contracts. 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 20 and 21 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 Arlington's basic financial statements. Other supplementary information included in Schedules 1 through 4, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

October 8, 2007

Gardiner Thomsen, P.C.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Arlington 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

- Revenues of the City's governmental activities were \$225,382 in fiscal 2007.
- Property tax totaled \$110,005.
- Disbursements were \$246,675 for governmental activities in 2007.
- The City's total cash basis net assets increased 25% or \$58,755. Of this amount, the assets of the governmental activities increased approximately \$36,153 and the assets of the business type activities increased by approximately \$22,602.

USING THIS ANNUAL REPORT

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

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

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

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

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

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

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

Basis of Accounting

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

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

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

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

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

- Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government and debt service. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the waterworks, sanitary sewer system, and solid waste disposal. 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 services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax, Employee Benefits, Local Option Sales Tax and Services Tax and 3) the Debt Service 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 statements for governmental funds include a statement of cash receipts, disbursements and changes in cash balances.

- 2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains three Enterprise Funds to provide separate information for the water, sewer and solid waste funds. Water, Sewer and Solid Waste are considered to be major funds of the City.

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

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 is \$243,876. The analysis that follows focuses on the changes in cash balances for governmental activities.

Cash Basis Net Assets of Governmental Activities (Expressed in Thousands)		Year Ended June 30, 2007
Receipts and Transfers		
Program Receipts		
Charges for Service		\$ 22
Operating Grants, Contributions and Restricted Interest		51
General Receipts		
Property Tax		110
Local Option Sales Tax		34
Unrestricted Investment Earnings		3
Note Proceeds		50
Other General Receipts		12
Total Receipts		<u>282</u>
Disbursements		
Public Safety		27
Public Works		119
Culture and Recreation		34
Community and Economic Development		1
General Government		40
Debt Service		25
Total Disbursements		<u>246</u>
Increase in Cash Basis Net Assets		36
Cash Basis Net Assets Beginning of Year		<u>208</u>
Cash Basis Net Assets End of Year		<u><u>\$244</u></u>

The City's total receipts for governmental activities were \$282,828. The total disbursements were \$246,675.

The City property tax rates for 2007 decreased by \$1.35. There were no significant increases in assessed valuations in the budget year.

The cost of all governmental activities this year was \$246,675. However, as shown in the Statement of Activities and Net Assets on pages 9 and 10, the amount taxpayers ultimately financed for these activities was \$173,267 because some of the cost was paid by those directly benefiting from the programs (\$22,432) or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest (\$50,976). The City paid for the remaining "public benefit" portion of governmental activities with approximately \$122,029 in tax (some of which could only be used for certain programs) and with other receipts, such as interest and general entitlements.

Cash Basis Net Assets of Business Type Activities
(Expressed in Thousands)

	Year Ended June 30, 2007
Receipts	
Program Receipts	
Charges for Service	
Water	\$51.0
Sewer	45.0
Solid Waste	49.0
General Receipts	
Use of Property	0.5
	<u>145.5</u>
Disbursements and Transfers	
Water	40.0
Sewer	29.0
Solid Waste	45.0
Debt Service	9.0
Total Disbursements and Transfers	<u>123.0</u>
Increase in Cash Balance	22.5
Cash Basis Net Assets - Beginning of Year	<u>20.0</u>
Cash Basis Net Assets - End of Year	<u><u>\$42.5</u></u>

Total business type activities receipts for the fiscal year were \$145,877.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Arlington completed the year, its governmental funds reported a combined fund balance of \$243,876, an increase of more than \$36,153 from last year's total of \$207,723. 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 \$13,255 from the prior year to \$180,941. However, \$4,543 is allocated to Streets, \$45,981 to the Library, \$44,542 to the Fire Fund and \$1,981 to the Ambulance Fund.
- The Road Use Tax Fund cash balance increased by \$1,984 to \$6,110 during the fiscal year. The City intends to use this money to upgrade the condition of all City roads.
- The Employee Benefits Fund increased by \$14,319 to \$28,087, to be used for benefits for employees.
- The Local Option Sales and Services Tax Fund increased by \$10,711 to \$25,085, to be used for any lawful purpose.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance increased by \$11,677 to \$26,464.
- The Sewer Fund cash balance increased by \$6,920 to \$7,391.
- The Solid Waste Fund increased by \$4,005 to \$8,846.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget. The amendment was approved on April 10, 2007 and resulted in an increase in miscellaneous revenues, an increase in operating disbursements related to public works and business type activities.

DEBT ADMINISTRATION

At June 30, 2007, the City had approximately \$264,240 in bonds and other long-term debt, compared to approximately \$250,131 last year, as shown below. 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 \$167,741 is below its constitutional debt limit of \$548,670.

Outstanding Debt at Year-End (Expressed in Thousands)	
	June 30, 2007
Revenue Bonds	\$96
Bank loans	168
Total	<u>\$264</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Many factors were considered by the elected and appointed officials when setting the 2008 fiscal year budget. The valuation used for 2008 showed a slight increase over the 2007 valuation. The state "Rollback" has continued to be a concern each year as this is an unknown factor.

Arlington does not have a TIF program, we have a three year Urban Revitalization Tax Exemption Plan. Residents are encouraged to apply for tax exemption under the plan. This has resulted in approximately a new home per year.

The water and sewage rates were adjusted a year ago and have helped to keep a balance in these programs, along with cutting expenses.

If budget revenues and expenditures for 2008 are realized as expected the cash balance will remain similar 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 Virginia Mitchell, City Clerk/Treasurer, 755 Main Street, Arlington, IA 50606.

Basic Financial Statements

CITY OF ARLINGTON

STATEMENT OF ACTIVITIES AND NET ASSETS – CASH BASIS
As of and for the Year Ended June 30, 2007

	Disbursements	Program Receipts
		Charges for Service
Functions/Programs:		
Governmental Activities:		
Public Safety	\$26,944	\$21,040
Public Works	105,958	0
Culture & Recreation	33,648	209
Community & Economic Development	830	0
General Government	40,708	1,183
Debt Service	38,587	0
Total Governmental Activities	<u>246,675</u>	<u>22,432</u>
Business Type Activities:		
Water	39,630	51,130
Sewer Rental	38,736	45,343
Solid Waste	44,909	48,914
Total Business Type Activities	<u>123,275</u>	<u>145,387</u>
Total	<u>\$369,950</u>	<u>\$167,819</u>
General Receipts:		
Property and Other County Tax Levied For:		
General Purposes		
Debt Service		
Local Option Sales Tax		
Unrestricted Interest on Investments		
Bond Proceeds		
Miscellaneous		
Sale of Assets		
Total General Receipts & Transfers		
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		
Library		
Fire		
Ambulance		
Debt Service		
Unrestricted		
Total Cash Basis Net Assets		

See Notes to Financial Statements

Program Receipts	Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
Operating Grants, Contributions, and Restricted Interest	Governmental Activities	Business Type Activities	Total
\$266	\$(5,638)	\$ 0	\$(5,638)
40,806	(65,152)	0	(65,152)
6,000	(27,439)	0	(27,439)
0	(830)	0	(830)
3,904	(35,621)	0	(35,621)
0	(38,587)	0	(38,587)
<u>50,976</u>	<u>(173,267)</u>	<u>0</u>	<u>(173,267)</u>
0	0	11,500	11,500
0	0	6,607	6,607
0	0	4,005	4,005
0	0	22,112	22,112
<u>\$50,976</u>	<u>(173,267)</u>	<u>\$22,112</u>	<u>(151,155)</u>
	\$98,760	\$ 0	\$98,760
	11,245	0	11,245
	34,131	0	34,131
	2,799	490	3,289
	50,461	0	50,461
	5,039	0	5,039
	6,985	0	6,985
	<u>209,420</u>	<u>490</u>	<u>209,910</u>
	36,153	22,602	58,755
	207,723	20,099	227,822
	<u>\$243,876</u>	<u>\$42,701</u>	<u>\$286,577</u>
	\$4,543	\$ 0	\$4,543
	45,981	0	45,981
	44,542	0	44,542
	1,981	0	1,981
	3,653	0	3,653
	143,176	42,701	185,877
	<u>\$243,876</u>	<u>\$42,701</u>	<u>\$286,577</u>

CITY OF ARLINGTON

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES – GOVERNMENTAL FUNDS

As of and for the Year Ended June 30, 2007

	General	Special Revenue Road Use Tax
Receipts:		
Property Tax	\$58,241	\$ 0
Other City Tax	0	0
Licenses & Permits	465	0
Use of Money & Property	4,022	0
Intergovernmental	26,857	31,140
Charges for Service	209	0
Miscellaneous	18,553	0
Total Receipts	108,347	31,140
Disbursements:		
Operating:		
Public Safety	22,271	0
Public Works	65,676	22,024
Culture & Recreation	33,159	0
Community & Economic Development	830	0
General Government	40,708	0
Debt Service	16,094	11,100
Total Disbursements	178,738	33,124
Excess (Deficiency) of Receipts Over (Under) Disbursements	(70,391)	(1,984)
Other Financing Sources (Uses):		
Note Proceeds	50,461	0
Sale of Capital Assets	6,985	0
Operating Transfers In	26,200	0
Operating Transfers Out	0	0
Total Other Financing Sources (Uses)	83,646	0
Net Change in Cash Balances	13,255	(1,984)
Cash Balances Beginning of Year	167,686	8,094
Cash Balances End of Year	\$180,941	\$6,110
Cash Basis Fund Balances		
Reserved :		
Debt Service	\$ 0	\$ 0
Unreserved:		
General Fund	180,941	0
Special Revenue Funds	0	6,110
Capital Projects Funds	0	0
Total Cash Basis Fund Balances	\$180,941	\$6,110

See Notes to Financial Statements

Exhibit B

Special Revenue		Other Nonmajor Governmental Funds	
Employee Benefits	Local Option Sales Tax	Funds	Total
\$40,519	\$ 0	\$11,245	\$110,005
0	34,131	0	34,131
0	0	0	465
0	0	0	4,022
0	0	0	57,997
0	0	0	209
0	0	0	18,553
40,519	34,131	11,245	225,382
0	4,673	0	26,944
0	18,258	0	105,958
0	489	0	33,648
0	0	0	830
0	0	0	40,708
0	0	11,393	38,587
0	23,420	11,393	246,675
40,519	10,711	(148)	(21,293)
0	0	0	50,461
0	0	0	6,985
0	0	0	26,200
(26,200)	0	0	(26,200)
(26,200)	0	0	57,446
14,319	10,711	(148)	36,153
13,768	14,374	3,801	207,723
\$28,087	\$25,085	\$3,653	\$243,876
\$ 0	\$ 0	\$3,653	\$3,653
0	0	0	180,941
28,087	25,085	0	59,282
0	0	0	0
\$28,087	\$25,085	\$3,653	\$243,876

CITY OF ARLINGTON

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS & CHANGES
 IN CASH BALANCES – PROPRIETARY FUNDS
 As of and for the Year Ended June 30, 2007

	Water	Sewer Rental	Solid Waste	Total
Operating Receipts:				
Charges for Service	\$51,130	\$45,343	\$48,914	\$145,387
Operating Disbursements:				
Business Type Activities	39,630	28,893	44,909	113,432
Excess (Deficiency) of Operating Receipts Over (Under) Operating Disbursements	11,500	16,450	4,005	31,955
Non-Operating Receipts (Disbursements):				
Interest on Investments	177	313	0	490
Debt Service	0	(9,843)	0	(9,843)
Total Non-Operating Receipts (Disbursements)	177	(9,530)	0	(9,353)
Net Change in Cash Balances	11,677	6,920	4,005	22,602
Cash Balances Beginning of Year	14,787	471	4,841	20,099
Cash Balances End of Year	\$26,464	\$7,391	\$8,846	\$42,701
Cash Basis Fund Balances				
Reserved for Debt Service	\$ 0	\$ 0	\$ 0	\$ 0
Unreserved	26,464	7,391	8,846	42,701
Total Cash Basis Fund Balances	\$26,464	\$7,391	\$8,846	\$42,701

See Notes to Financial Statements

City of Arlington

Notes to Financial Statements

June 30, 2007

(1) Summary of Significant Accounting Policies

The City of Arlington is a political subdivision of the State of Iowa located in Fayette County. It was first incorporated in 1856 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, culture and recreation, community and economic development, and general government services. The City also provides water, sewer and solid waste utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Arlington has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the City. The City of Arlington has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations

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

B. Basis of Presentation

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

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

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

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

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

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

The City reports the following major governmental funds:

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

Special Revenue:

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

The Employee Benefits Fund is used to account for taxes received for benefits for employees.

The Local Option Sales and Services Tax Fund is used to account for receipts of local option tax and disbursements for budgeted projects.

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 wastewater treatment and sanitary sewer system.

The Solid Waste Fund accounts for collections and payments to vendors for landfill and garbage operations.

C. Measurement Focus and Basis of Accounting

The City of Arlington 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.

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 Debt Service function.

(2) Cash and Pooled Investments

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

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

The City's investments are categorized to give an indication of the level of risk assumed by the City at year-end. The City's investments are all Category 1, which means that the investments are insured or registered or the securities are held by the City or its agent in the City's name.

(3) Bonds and Notes Payable

Annual debt service requirements to maturity for bank loans and revenue bonds are as follows:

Year Ending June 30,	Governmental Activities		Business-Type Activities		Total	
	Bank Loans		Sewer Revenue Bonds			
	Principal	Interest	Principal	Interest	Principal	Interest
2008	\$15,429	\$6,950	\$5,018	\$4,825	\$20,447	\$11,775
2009	16,340	6,038	5,269	4,574	21,609	10,613
2010	16,994	5,385	5,532	4,311	22,526	9,696
2011	17,674	4,705	5,809	4,034	23,483	8,739
2012	18,378	4,000	6,099	3,744	24,478	7,744
2013-2017	82,926	6,758	35,389	13,826	118,315	20,584
2018-2021	0	0	33,383	4,142	33,383	4,142
	<u>\$167,741</u>	<u>\$33,836</u>	<u>\$96,499</u>	<u>\$39,455</u>	<u>\$264,240</u>	<u>\$73,291</u>

The Sewer Revenue bonds were issued to for the purpose of defraying a portion of the cost of a lagoon project for the City of Arlington in 1981. The bonds are payable solely from the income and proceeds of the Enterprise Fund, Sewer Operations. The bonds are not a general obligation of the City, and are not subject to the constitutional debt limit of the City. Interest and principal payments are due each July 1, with the final installment, if not paid sooner, paid on June 30, 2021.

The City is in compliance with the Bond resolution.

(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, PO Box 9117, Des Moines, IA 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. The City's contributions to IPERS for the year ended June 30, 2007, were \$4,052, equal to the required contribution for the year.

(5) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation 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 termination payments payable to employees at June 30, 2007, primarily relating to the Enterprise Funds, is as follows:

Type of Benefit	Amount
Vacation	\$3,827

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

(6) Interfund Transfers

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

Transfer To	Transfer From	Amount
General	Special Revenue: Employee Benefits	\$26,200

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

(7) Related Party Transactions

The City had business transactions between the City and City officials totaling \$1,936 during the year ended June 30, 2007.

(8) Fayette County Solid Waste Management Commission

The City is a member of Fayette County Solid Waste Management Commission. The Commission was established for the primary purpose of providing for the collection and disposal of solid waste produced or generated by each participant. The Commission is composed of an elected or appointed representative of each participating governmental jurisdiction.

The City is assessed annually for membership in the 28E agreement. During the year ended June 30, 2007, the City of Arlington paid the Commission assessments totaling \$21,853. Completed financial statements for the Commission can be obtained from the Fayette County Solid Waste Management Commission.

(9) Risk Management

The City 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) Budget Over Expenditure

Per the Code of Iowa, disbursements may not legally exceed budgeted appropriations at the functional level. During the year ended June 30, 2007, disbursements in the Debt Service function exceeded the amounts budgeted.

Required Supplementary Information

CITY OF ARLINGTON

BUDGETARY COMPARISON SCHEDULE OF RECEIPTS,
DISBURSEMENTS & CHANGES IN BALANCES – BUDGET AND
ACTUAL (CASH BASIS) – ALL GOVERNMENTAL FUNDS AND
PROPRIETARY FUNDS – REQUIRED SUPPLEMENTARY INFORMATION
Year Ended June 30, 2007

	Governmental Funds Actual	Proprietary Funds Actual
Receipts:		
Property Tax	\$110,005	\$ 0
Other City Tax	34,131	0
Licenses & Permits	465	0
Use of Money & Property	4,022	490
Intergovernmental	57,997	0
Charges for Service	209	145,387
Miscellaneous	18,553	0
Total Receipts	225,382	145,877
Disbursements:		
Public Safety	26,944	0
Public Works	105,958	0
Culture & Recreation	33,648	0
Community & Economic Development	830	0
General Government	40,708	0
Debt Service	38,587	9,843
Business Type Activities	0	113,432
Total Disbursements	246,675	123,275
Excess (Deficiency) of Receipts Over (Under) Disbursements	(21,293)	22,602
Other Financing Sources (Uses), Net	57,446	0
Excess of Receipts and Other Financing Sources Over Disbursements and Other Financing Uses	36,153	22,602
Balances Beginning of Year	207,723	20,099
Balances End of Year	\$243,876	\$42,701

See Accompanying Independent Auditors' Report

Total	Budgeted Amounts		Final to Total Variance
	Original	Final	
\$110,005	\$106,759	\$106,759	\$3,246
34,131	4,654	4,654	29,477
465	553	553	(88)
4,512	4,000	4,000	512
57,997	197,482	197,482	(139,485)
145,596	134,512	134,512	11,084
18,553	0	72,000	(53,447)
371,259	447,960	519,960	(148,701)
26,944	95,112	95,112	68,168
105,958	85,858	155,858	49,900
33,648	57,748	57,748	24,100
830	2,300	2,300	1,470
40,708	66,037	66,037	25,329
48,430	11,393	11,393	(37,037)
113,432	134,512	136,512	23,080
369,950	452,960	524,960	155,010
1,309	(5,000)	(5,000)	6,309
57,446	0	0	57,446
58,755	(5,000)	(5,000)	63,755
227,822	123,768	123,768	104,054
\$286,577	\$118,768	\$118,768	\$167,809

City of Arlington

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 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. 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 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, a budget amendment increased budgeted disbursements by \$72,000. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2007, disbursements exceeded the amounts budgeted in the Debt Service function.

Other Supplementary Information

CITY OF ARLINGTON

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS & CHANGES
IN CASH BALANCES – NON-MAJOR GOVERNMENTAL FUNDS

Year Ended June 30, 2007

	<u>Debt Service</u>
Receipts:	
Property Tax	<u>\$11,245</u>
Disbursements:	
Debt Service	<u>11,393</u>
Net Change in Cash Balances	(148)
Cash Balances Beginning of Year	<u>3,801</u>
Cash Balances End of Year	<u><u>\$3,653</u></u>
Cash Basis Fund Balances	
Reserved for:	
Debt Service	<u><u>\$3,653</u></u>

See Accompanying Independent Auditors' Report.

CITY OF ARLINGTON

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>
Bank Loans			
Farmers Savings Bank			
Endloader Note	04-25-07	4.10%	\$50,461
Endloader Note	03-23-04	3.13	42,969
Sewer Note	02-23-04	4.38	84,045
Fire Truck Note	03-23-04	3.38	39,069
Fire Truck Note	03-23-04	3.38	27,966
Revenue Bonds			
Sewer Revenue Bonds	12-01-81	5.00%	\$166,000

See Accompanying Independent Auditors' Report.

Schedule 2

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
\$0	\$50,461	\$0	\$50,461	\$0	\$0
22,603	0	22,603	0	2,090	0
67,738	0	4,945	62,793	2,947	0
34,095	0	2,349	31,746	1,151	0
24,417	0	1,676	22,741	824	0
<u>\$148,853</u>	<u>\$50,461</u>	<u>\$31,573</u>	<u>\$167,741</u>	<u>\$7,012</u>	<u>\$0</u>
<u>\$101,278</u>	<u>\$0</u>	<u>\$4,779</u>	<u>\$96,499</u>	<u>\$5,064</u>	<u>\$0</u>

CITY OF ARLINGTON

**Bond and Note Maturities
June 30, 2007**

Year Ending June 30,	Bank Loans			
	Endloader Note Issued April 25, 2007		Sewer Note Issued February 23, 2004	
	Interest Rate	Amount	Interest Rate	Amount
2008	4.10%	\$6,122	4.38%	\$5,145
2009	4.10	6,668	4.38	5,370
2010	4.10	6,942	4.38	5,605
2011	4.10	7,226	4.38	5,851
2012	4.10	7,520	4.38	6,107
2013-2017	4.10	15,983	4.38	34,715
		<u>\$50,461</u>		<u>\$62,793</u>

Year Ending June 30,	Revenue Bonds	
	Sewer Revenue Bonds Issued December 1981	
	Interest Rate	Amount
2008	5.00%	\$5,018
2009	5.00	5,269
2010	5.00	5,532
2011	5.00	5,809
2012	5.00	6,099
2013-2017	5.00	35,389
2018-2021	5.00	33,383
		<u>\$96,499</u>

See Accompanying Independent Auditors' Report.

Bank Loans				
Fire Truck Issued March 23, 2004		Fire Truck Issued March 23, 2004		
Interest Rate	Amount	Interest Rate	Amount	Total
3.38%	\$2,429	3.38%	\$1,733	\$15,429
3.38	2,511	3.38	1,791	16,340
3.38	2,595	3.38	1,851	16,993
3.38	2,683	3.38	1,914	17,674
3.38	2,773	3.38	1,979	18,379
3.38	18,755	3.38	13,473	82,926
	<u>\$31,746</u>		<u>\$22,741</u>	<u>\$167,741</u>

CITY OF ARLINGTON

SCHEDULE OF RECEIPTS BY SOURCE AND DISBURSEMENTS
BY FUNCTION – ALL GOVERNMENTAL FUNDS
For the Last Year

	<u>2007</u>
Receipts:	
Property Tax	\$110,005
Other City Tax	34,131
Licenses & Permits	465
Use of Money & Property	4,022
Intergovernmental	57,997
Charges for Service	209
Miscellaneous	18,553
Total	<u>\$225,382</u>
Disbursements:	
Operating:	
Public Safety	\$26,944
Public Works	119,552
Culture & Recreation	33,648
Community and Economic Development	830
General Government	40,708
Debt Service	24,993
Total	<u>\$246,675</u>

See Accompanying Independent Auditors' Report.

City of Arlington



Gardiner Thomsen
Certified Public Accountants

**Independent Auditors' 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 Arlington, Iowa, as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements listed in the table of contents and have issued our report thereon dated October 8, 2007. Our report expressed an unqualified opinion 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 Arlington'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 Arlington's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of City of Arlington's internal control over financial reporting.

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

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects City of Arlington'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 Arlington's financial statements that is more than inconsequential will not be prevented or detected by City of Arlington's internal control. We consider the deficiencies in internal control described in the accompanying Schedule of Finding 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 Arlington's internal control.

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

Compliance and Other Matters

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

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

The City of Arlington's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the County's responses, we did not audit City of Arlington'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 Arlington and other parties to whom the City of Arlington may report. This report is not intended to be and should not be used by anyone other than these specified parties.

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

October 8, 2007

Gardiner Thomson, P.C.

City of Arlington

Schedule of Findings

Year Ended June 30, 2007

Findings Related to the Financial Statements

SIGNIFICANT DEFICIENCIES:

- A. Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The cash receipts listing, bank deposits and posting of cash receipts to the cash receipts journal are done by the same person. In addition, that same person records disbursements, prepares checks, signs checks and reconciles the bank accounts.

Recommendation – We realize that with only one person in the office, segregation of duties is difficult. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response – We will review the procedures as suggested.

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 transaction and reports. Someone other than the clerk should sign checks.

- B. Credit Cards – The Library has a credit card for use by Library employees. The Library has not adopted a formal policy to regulate the use of credit cards and to establish procedures for the proper accounting of credit card charges.

It was noted the credit card was paid in advance at the end of June, 2007 for products for which there were no charges until after the end of the fiscal year.

Recommendation – The Library should adopt a formal written policy regulating the use of a credit card. The policy at a minimum, should address who controls the credit card, who is authorized to use the credit card and for what purpose, as well as restricting advance payments to the credit card company.

Response – We presently have unwritten guidelines. However, we have not established a written policy. We will review procedures and guidelines and establish a written policy.

Conclusion – Response accepted.

- C. Separately Maintained Accounts – Separate bank accounts are maintained for the Library, Building Fund and volunteer fire department. The collections and disbursements were not reflected in the City’s accounting system, and have not been included in the City’s annual budget or financial report. Adjustments were made to the City’s financial information to include all Library activity; however the Building Fund and volunteer fire department were not included.

Recommendation – All collections and disbursements for the Library, Building Fund and volunteer fire department should be included in the City’s accounting system, annual budget and financial report.

Response – We will consider including these accounts in the City’s accounting system, budget and annual report.

Conclusion – Response acknowledged.

- D. Financial Reporting – During the audit, we identified a material amount of Debt Service expenditures misposted to other functions. Adjustments were subsequently made by the City to properly report the amounts in the City’s financial statements.

Recommendation – The City should implement procedures to ensure debt service expenditures are properly recorded in the City’s financial statements.

Response – We will double-check this in the future to avoid posting errors.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE

No matters were noted.

Other Findings Related to Required Statutory Reporting:

1. Certified Budget – Disbursements during the year ended June 30, 2007, exceeded the amounts budgeted in the Debt Service function. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

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

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

Conclusion – Response accepted.

2. Questionable Disbursements – No disbursements were noted that do not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 since the public benefits to be derived have not been clearly documented.
3. Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
4. Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

Name, Title & Business Connection	Transaction Description	Amount
Don Handel, Mayor Owner Handel Electric	Rent, Repairs	\$1,017
Allen Wescott, Council Member Owner Al’s Service and Repair	Repairs	\$580
Denise Palas, Council Member Husband owns Ron’s Welding	Repairs	\$339

In accordance with Chapter 362.5(10) of the Code of Iowa, the transactions with Don Handel, Allen Wescott and Denise Palas do not appear to represent a conflict of interest since total transactions were less than \$2,500 during the fiscal year.

5. Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
6. Council Minutes – No transactions were found that we believe should have been approved in the council minutes but were not.
7. Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City’s investment policy were noted.
8. Revenue Bonds – The City has complied with the revenue bond resolutions.

NEWS RELEASE

Gardiner Thomsen, Certified Public Accountants, today released an audit report on the City of Arlington.

The City's receipts totaled \$378,244 for the year ended June 30, 2007. The receipts included \$110,005 in property tax, \$167,819 from charges for service, \$50,976 from operating grants, contributions and restricted interest, \$34,131 from local option sales tax, \$2,799 from unrestricted investment earnings and \$12,024 from other general receipts.

Disbursements for the year totaled \$369,950 and included \$105,958 for Public Works, \$40,708 for General Government, and \$38,587 for Debt Service. Also, disbursements for business type activities totaled \$123,275.

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