

CITY OF LAUREL, IOWA

Independent Auditors' Reports
Basic Financial Statements and
Supplemental Information
and Findings

June 30, 2007

Table of Contents

	<u>Page</u>
Officials	1
Independent Auditors' Report	2
Management's Discussion and Analysis	3-7
Basic Financial Statements	
	<u>Exhibit</u>
Government-wide Financial Statement Statement of Activities and Net Assets – Cash Basis	A 8-9
Governmental Fund Financial Statement Statement of Cash Receipts, Disbursements and Changes in Cash Balances	B 10
Proprietary Fund Financial Statement Statement of Cash Receipts, Disbursements and Changes in Cash Balances	C 11
Notes to Financial Statements	12-15
Required Supplementary Information	
Budgetary Comparison Schedule of Receipts, Disbursements, and Changes in Balances – Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Funds	16
Notes to Required Supplementary Information – Budgetary Reporting	17
Independent Auditors' Report on Compliance and on Internal Control	18-19
Schedule of Findings	20-23

City of Laurel, Iowa
Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Michael Dixon	Mayor	January, 2008
Michelle Sawyer	Council Member	Resigned May, 2007
Robert Baker	Council Member	January, 2008
Harold Bollhoefer	Council Member	January, 2009
Steven R. Eibs	Council Member	January, 2009
Carolyn Vavra	Council Member	January, 2009
Roger Wilkens	Council Member	January, 2008
Geraldine Reichlinger	City Clerk/Treasurer	Indefinite
William Lorenz	City Attorney	Indefinite

POLLARD AND COMPANY P.C.

CERTIFIED PUBLIC ACCOUNTANTS

JAMES R. ZIRCHER, CPA
NEAL R. SMITH, CPA
DEBRA J. NABITY, CPA

5650 JOHNSTON DRIVE, SUITE A
P.O. BOX 1098
JOHNSTON, IOWA 50131
TELEPHONE (515) 251-8520
FAX (515) 251-3177
CPAs@POLLARDCPA.COM

MEMBERS
AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS
PRIVATE COMPANIES PRACTICE SECTION
IOWA SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

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

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

Except as discussed in the following paragraph, 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 and provisions 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 opinion.

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 many years. Accordingly, we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2006.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2006, as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, and each major fund of the City of Laurel 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 reports as dated below on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. Those reports are an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

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

February 18, 2008

Pollard and Company P.C.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Laurel 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.

FY 2007 FINANCIAL HIGHLIGHTS

- Revenues of the City's governmental activities decreased by \$3,524 from FY 2006 to FY 2007.
- Public safety, Public works, and General government disbursements increased \$10,693, \$9,269, and \$1,282 respectively.
- The City's total cash basis net assets decreased \$15,628 from June 30, 2006 to June 30, 2007. Of this amount, the assets of the governmental activities decreased \$1,946 and the assets of the business type activities decreased \$13,682.

USING THIS REPORT

The 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.
- Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.
- Other Supplementary Information provides detailed information about the non-major governmental funds.

Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information

and discussion within this 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 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, health and social services, culture and recreation, and general government. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include water distribution, sewer collection, garbage/recycling, and lagoon system. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

- 1) Governmental funds account for most of the City's basic 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 major governmental funds include: 1) the General Fund and 2) The Special Revenue Funds, such as Road Use Tax and Local Option Tax. 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 four Enterprise Funds to provide separate information for the water, sewer collection, garbage/recycling, and lagoon funds, considered to be major funds.

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 analysis that follows focuses on the changes in cash balances for governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities
Year ended June 30, 2007

RECEIPTS

Program receipts:

Charges for service	\$ 1,173.
Operating grants, contributions, and restricted interest	19,195.

General receipts:

Property tax – general purpose	30,882.
Local Option tax	24,935.
Unrestricted interest on investments	2,876.
Miscellaneous	8,038.

TOTAL RECEIPTS	\$87,099.
-----------------------	------------------

DISBURSEMENTS

Public Safety	\$28,235.
Public Works	37,743.
Health and Social Services	250.
Culture and Recreation	7,172.
General Government	15,645.

TOTAL DISBURSEMENTS	\$89,045.
----------------------------	------------------

Decrease in cash basis net assets:	(\$1,946.)
Cash basis net assets beginning of year	\$68,904.
Cash basis net assets end of year	\$66,958.

The City's total receipts for governmental activities were \$87,099 total cost of all programs and services was \$89,045. This resulted in a decrease of cash-basis net assets of \$1946.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As City of Laurel completed the year, its governmental funds reported a combined fund balance of \$66,958, a decrease of \$1,946 from last year's total of \$68,904. The following are the major reasons for the changes in fund balances of the major funds form the prior year.

- General Fund balance decreased by \$1390 to \$47,892. This decrease is attributable to roll backs in property taxes and increased expenses in the cost of operations.
- The Road Use Tax Fund cash balance had an increase of \$887 from \$17,368 to \$18,255. The City intends to use this money to maintain the condition of the City roads and fund street lighting to offset budget cuts.

- The Local Option Tax Fund cash balance decreased by \$1443 to \$811. This decrease is attributable to the replacement of the roof at the Fire Station.

The analysis that follows focuses on the changes in cash balances for business type activities.

Changes in Cash Basis Net Assets of Business Type Activities
Year ended June 30, 2007

RECEIPTS	
Operating receipts:	
Restricted interest	\$ 3,754.
Water	27,126.
Sewer collection system	30,331.
Garbage/recycling	15,155.
Lagoon	15,502.
TOTAL RECEIPTS:	\$91,868.
DISBURSEMENTS	
Water	\$37,649.
Sewer collection system	22,379.
Garbage/recycling	15,552.
Lagoon	29,970.
TOTAL DISBURSEMENTS	\$105,550.
Decrease in cash balance	(\$13,682.)
Cash basis net assets beginning of year	\$101,067.
Cash basis net assets end of year	\$ 87,385.

The City's total receipts for business type activities were \$91,868. total cost of business operations was \$105,550. This resulted in a decrease of cash-basis net assets of \$13,682.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

As City of Laurel completed the year, its business type funds reported a combined fund balance of \$87,385, a decrease of \$13,682 from last year's total of \$101,067. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The Water Fund cash balance decreased by \$8,743 due primarily to a decrease in revenues from prior year and increases in operating costs. The City will control spending to lower operating costs and analyze increasing water consumption rates.
- The Sewer Fund cash balance had an increase of \$1885 from \$46,405 to \$48,290.
- The Tri-City Lagoon Fund has a net decrease of \$6,455 to a cash balance deficit of \$4,135. An increase in revenues will be proposed to the participating cities after a study, from inception of the

lagoon project to date, is complete. This study may result in the creation of separate funds for this proprietary fund.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City of Laurel's elected and appointed officials considered many factors when setting the current fiscal year 2008 budget, fiscal year 2009 budget, tax rates, and fees that will be charged for various City activities.

An increase in the student population at East Marshall School District's Laurel facility will boost revenues in the water and sewer funds. In turn, sewer collection costs will increase due primarily from added wastewater production.

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 information, contact Lynne C Gummert, City Clerk, 102 N. Main St. , Laurel, Iowa.

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

Functions/Programs	Program Receipts			
	Disbursements	Charges for Services	Operating Grants, Contributions, and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Governmental Activities				
Public safety	\$ 28,235	\$ 708	\$ -	\$ -
Public works	37,743	-	17,753	-
Health and social services	250	-	-	-
Culture and recreation	7,172	-	1,442	-
General government	15,645	465	-	-
Total governmental activities	<u>89,045</u>	<u>1,173</u>	<u>19,195</u>	<u>-</u>
Business Type Activities				
Water	37,649	28,906	-	-
Sewer	22,379	32,220	-	-
Sanitation	15,552	15,183	-	-
Lagoon	29,970	15,559	-	-
Total business type activities	<u>105,550</u>	<u>91,868</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 194,595</u>	<u>\$ 93,041</u>	<u>\$ 19,195</u>	<u>\$ -</u>

General Receipts

- Property tax levied for
 - General purposes
- Local option sales tax
- Unrestricted interest on investments
- Miscellaneous
- 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 (Deficit)
 - Streets
 - Other purposes
- Unrestricted
- Total cash basis net assets

There were no reconciling items between the Governmental and Fiduciary Fund Statements of Cash Receipts, Disbursements and Changes in Cash Balances and the above Statement. See notes to financial statements.

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

	Governmental Activities	Business Type Activities	Total
\$	(27,527)	\$ -	\$ (27,527)
	(19,990)	-	(19,990)
	(250)	-	(250)
	(5,730)	-	(5,730)
	(15,180)	-	(15,180)
	(68,677)	-	(68,677)
	-	(8,743)	(8,743)
	-	9,841	9,841
	-	(369)	(369)
	-	(14,411)	(14,411)
	-	(13,682)	(13,682)
\$	(68,677)	\$ (13,682)	\$ (82,359)
	30,882	-	30,882
	24,935	-	24,935
	2,876	-	2,876
	8,038	-	8,038
	66,731	-	66,731
	(1,946)	(13,682)	(15,628)
	68,904	101,067	169,971
\$	66,958	\$ 87,385	\$ 154,343
\$	18,255	\$ -	\$ 18,255
	811	-	811
	47,892	87,385	135,277
\$	66,958	\$ 87,385	\$ 154,343

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

	<u>Special Revenue</u>			Total
	General	Road Use Tax	Local Option SalesTax	
Receipts				
Property Taxes	\$ 30,882	\$ -	\$ -	\$ 30,882
Other City Tax	-	-	24,935	24,935
Licenses and Permits	465	-	-	465
Use of Money and Property	2,876	-	-	2,876
Intergovernmental	1,442	17,753	-	19,195
Special Assessments	1,899	-	-	1,899
Miscellaneous	6,847	-	-	6,847
Total Receipts	44,411	17,753	24,935	87,099
Disbursements				
Operating				
Public Safety	14,020	-	14,215	28,235
Public Works	8,714	16,866	12,163	37,743
Health and social services	250	-	-	250
Culture and Recreation	7,172	-	-	7,172
General Government	15,645	-	-	15,645
Total Disbursements	45,801	16,866	26,378	89,045
Excess (deficiency) of receipts over (under) disbursements	(1,390)	887	(1,443)	(1,946)
Cash balance - beginning of year	49,282	17,368	2,254	68,904
Cash balance - end of year	\$ 47,892	\$ 18,255	\$ 811	\$ 66,958
Cash basis fund balances (deficit)				
Unreserved				
General fund	\$ 47,892	\$ -	\$ -	\$ 47,892
Special revenue funds	-	18,255	811	19,066
Total cash basis fund balances (deficit)	\$ 47,892	\$ 18,255	\$ 811	\$ 66,958

The accompanying notes to financial statements are an integral part of this statement.

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

	Water	Sewer	Sanitation	Lagoon	Total
Operating receipts					
Use of money and property	\$ 1,780	\$ 1,889	\$ 28	\$ 57	\$ 3,754
Charges for service	27,126	30,331	15,155	15,502	88,114
Total operating receipts	<u>28,906</u>	<u>32,220</u>	<u>15,183</u>	<u>15,559</u>	<u>91,868</u>
Operating disbursements					
Business type activities	<u>37,649</u>	<u>22,379</u>	<u>15,552</u>	<u>29,970</u>	<u>105,550</u>
Excess of operating receipts over operating disbursements	<u>(8,743)</u>	<u>9,841</u>	<u>(369)</u>	<u>(14,411)</u>	<u>(13,682)</u>
Non-operating receipts (disbursements)					
Operating transfers in	-	-	-	7,956	7,956
Operating transfers out	-	(7,956)	-	-	(7,956)
Total non-operating receipts (disbursements)	<u>-</u>	<u>(7,956)</u>	<u>-</u>	<u>7,956</u>	<u>-</u>
Net change in cash balances	(8,743)	1,885	(369)	(6,455)	(13,682)
Cash balance - beginning of year	50,883	46,405	1,459	2,320	101,067
Cash balance (deficit) - end of year	<u>\$ 42,140</u>	<u>\$ 48,290</u>	<u>\$ 1,090</u>	<u>\$ (4,135)</u>	<u>\$ 87,385</u>
Cash basis fund balances (deficit)					
Unreserved	<u>\$ 42,140</u>	<u>\$ 48,290</u>	<u>\$ 1,090</u>	<u>\$ (4,135)</u>	<u>\$ 87,385</u>
Total cash basis fund balances	<u>\$ 42,140</u>	<u>\$ 48,290</u>	<u>\$ 1,090</u>	<u>\$ (4,135)</u>	<u>\$ 87,385</u>

See notes to financial statements.

LAUREL, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

1/ Summary of Significant Accounting Policies

The City of Laurel is a political subdivision of the State of Iowa located in Marshall County. It was first incorporated in 1881 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 nonpartisan basis. The City provides numerous services to citizens including public safety, public works, health and social services, culture and recreation, and general government services.

A. Reporting Entity

For financial reporting purposes, the City 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 board and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the City. The City has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the City's citizenry, but do not meet the criteria for 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: Marshall County Assessor's Conference Board, the Marshall County Emergency Management Agency and the Marshall County Solid Waste Commission.

The City has entered into a 28E Agreement with the Cities of Haverhill and Ferguson to share the cost of operating a sewage disposal lagoon. The City owns and operates the lagoon and the Cities of Haverhill and Ferguson will pay a portion of the costs.

The City has also entered into a 28E agreement with the Jefferson Township for fire protection. Under the agreement, the City provides a building, along with maintenance of such, and liability insurance for fire personnel, and the Township provides the fire equipment. The City also provides fire protection to Mariposa Township as part of the agreement.

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.

B. Basis of Presentation (continued)

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

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

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

The Statement of Activities and Net Assets demonstrates the degree to which 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. All individual governmental funds and all individual enterprise funds are reported as separate columns in the fund financial statements and are considered to be major funds as follows:

Governmental Funds:

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

Special Revenue:

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

The Local Option Sales Tax is used to account for the City's sales tax receipts and the disbursements financed by such.

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 waste water treatment and sanitary sewer system.

The Sanitation Fund accounts for the operation of the City's solid waste disposal system.

The Lagoon Fund accounts for the operation of the City's sewage disposal lagoon.

C. Measurement Focus and Basis of Accounting

The City of Laurel 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 General Government function.

2/ Cash and Pooled Investments

The City's deposits 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.

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

3/ Pension and Retirement Benefits

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

Most regular plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contribution to IPERS for the year ended June 30, 2007 was \$3,086.

5/ Related Party Transactions

The City had business transactions between the City and City officials totaling \$674 during the year ended June 30, 2007.

6/ Interfund Transfer

The details of the interfund transfer for the year ended June 30, 2007 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Lagoon Fund	Sewer Fund	\$ 7,956

6/ 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 has not exceeded commercial insurance coverage in the fiscal year ended June 30, 2007.

7/ Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that effect the reported amounts and disclosure of liabilities, contingent liabilities and commitments at the date of the financial statements, and the classification of receipts and disbursements during the reporting period. Actual results could differ from the estimates that were used.

8/ Deficit Fund Balances

At June 30, 2007 the Lagoon Fund had a deficit balance of \$4,135. The deficit will be reduced by increases in the operating revenues.

9/ Accounting Change

Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – for Management’s Discussion and Analysis – for State and Local Governments; Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures and Statement No. 42, Budgetary Comparison Schedule – Perspective Differences were implemented for the year ended June 30, 2007. The statements create new basic financial statements for reporting the City’s financial activities. The financial statements now include government-wide financial statement and fund financial statements which present information for individual major funds rather than by fund type.

City of Laurel, Iowa
 Budgetary Comparison Schedule of Receipts, Disbursements, and Changes in Balances
 Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Funds
 Required Supplementary Information
 Year ended June 30, 2007

	Governmental Funds Actual	Proprietary Funds Actual	Net	Original Budget	Net Variance
Receipts					
Property Taxes	\$ 30,882	\$ -	\$ 30,882	\$ 29,827	\$ 1,055
Other city tax	24,935	-	24,935	24,923	12
Licenses and permits	465	-	465	540	(75)
Use of money and property	2,876	3,754	6,630	2,641	3,989
Intergovernmental	19,195	-	19,195	35,956	(16,761)
Charges for Service	-	88,114	88,114	85,053	3,061
Special assessments	1,899	-	1,899	1,138	761
Miscellaneous	6,847	-	6,847	8,000	(1,153)
Total Receipts	<u>87,099</u>	<u>91,868</u>	<u>178,967</u>	<u>188,078</u>	<u>(9,111)</u>
Disbursements					
Public safety	28,235	-	28,235	29,154	919
Public works	37,743	-	37,743	42,084	4,341
Health and social services	250	-	250	550	300
Culture and recreation	7,172	-	7,172	10,561	3,389
General government	15,645	-	15,645	15,525	(120)
Business type activities	-	105,550	105,550	113,107	7,557
Total Disbursements	<u>89,045</u>	<u>105,550</u>	<u>194,595</u>	<u>210,981</u>	<u>16,386</u>
Excess (deficiency) of receipts over (under) disbursements	<u>(1,946)</u>	<u>(13,682)</u>	<u>(15,628)</u>	<u>(22,903)</u>	<u>7,275</u>
Balance - beginning of year	68,904	101,067	169,971	156,609	13,362
Balance - end of year	<u>\$ 66,958</u>	<u>\$ 87,385</u>	<u>\$ 154,343</u>	<u>\$ 133,706</u>	<u>\$ 20,637</u>

See accompanying independent auditors' report.

City of Laurel, Iowa
Notes to Required Supplementary Information – Budgetary Reporting
June 30, 2007

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 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 ended June 30, 2007, disbursements exceeded the amounts budgeted in the General Government function.

POLLARD AND COMPANY P.C.

CERTIFIED PUBLIC ACCOUNTANTS

JAMES R. ZIRCHER, CPA
NEAL R. SMITH, CPA
DEBRA J. NABITY, CPA

5650 JOHNSTON DRIVE, SUITE A
P.O. BOX 1098
JOHNSTON, IOWA 50131
TELEPHONE (515) 251-8520
FAX (515) 251-3177
CPAs@POLLARDCPA.COM

MEMBERS
AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS
PRIVATE COMPANIES PRACTICE SECTION
IOWA SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS

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, and each major fund of the City of Laurel, 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 as dated below. Our report expressed a qualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting, since we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2006. Except as noted in the Independent Auditor's Report, we conducted our audit in accordance with U.S. generally accepted auditing standards, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Laurel's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

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 or material weaknesses. However, as discussed below, we identified a deficiency in internal control over financial reporting that we considered to be a significant deficiency and we considered to be a material weakness, and is identified as item I-A-07 in the Schedule of Findings.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned function, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control. We consider the deficiency in internal control described in Part I of the accompanying Schedule of Findings to be a significant deficiency in internal control over financial reporting.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Laurel's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, 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 noncompliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2007 are based exclusively on knowledge obtained from procedures performed during our audit 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 Laurel's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusion on the City's responses, we did not audit the City's responses and, accordingly, we express no opinion on them.

This report, a matter of public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Laurel and other parties to whom the City of Laurel may report. This report is not intended to be and should not be used by anyone other than these specified parties.

February 18, 2008

A handwritten signature in cursive script that reads "Pollen and Company P.C." The signature is written in black ink and is positioned in the lower-left quadrant of the page.

CITY OF LAUREL, IOWA
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2007

Part I: Findings Related to the Financial Statements

REPORTABLE CONDITIONS:

I-A-07 Segregation of Duties

One important aspect of internal accounting control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that generally one person has control over each of the following areas:

- (1) Cash receipts, journalizing and posting.
- (2) Disbursements, check writing, mailing, journalizing and posting.
- (3) Payroll preparation and distribution.

Recommendation

We realize that with a limited number of office employees, segregation of duties is difficult. The City should continue to review its operating procedures to obtain the maximum internal control possible under the circumstances.

Response

We will consider this.

Conclusion

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

Part II: Other Findings Related to Statutory Reporting

II-A-07 Certified Budget

Disbursements during the year ended June 30, 2007 exceeded the amounts budgeted in the General Government 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 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.

Part II: Other Findings Related to Statutory Reporting (continued)

II-B-07 Questionable Disbursements
We noted no disbursements for parties, banquets or other entertainment expenses that do not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

II-C-07 Travel Expense
We noted no disbursements of City money for travel expenses of spouses of City officials or employees during the year.

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

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Harold Bollhoefer, Council Member	Tire Repair	\$ 89
Steve Eibs, Council Member	Mowing	\$585

In accordance with Chapter 362.5(10) of the Code of Iowa, these transactions do not appear to be a conflict of interest, since the duties of the function are not incompatible with duties as Council Members.

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

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

Although the minutes of the Council proceedings were posted, they did not contain a summary of all receipts in accordance with Chapter 372.13(6) of the Code of Iowa.

Recommendation
The City should comply with Chapter 372.13(6) of the Code of Iowa and post a summary of all receipts.

Response
We will post a summary of all receipts as required.

Conclusion
Response accepted.

- II-G-07 Deposits and Investments
The City has not adopted a depository resolution in accordance with Chapter 12C.2 of the Code of Iowa, or an investment policy in accordance with 12B.10B of the Code of Iowa.
- Recommendation
The City should adopt a depository resolution and an investment policy in accordance with the applicable sections of the Code of Iowa.
- Response
We will adopt the required resolution and policy as required.
- Conclusion
Response accepted.
- II-H-07 Financial Condition
The Lagoon Fund had deficit balance at June 30, 2007 of \$4,135.
- Recommendation
The City should investigate alternatives to eliminate these deficits in order to return these funds to a sound financial position.
- Response
Note 8 of the financial statements indicates the City's plans to eliminate the deficits. The increase in revenues will be proposed to the participating cities after a study, from inception of the project to date, is completed. The study may result in the creation of separate funds for this proprietary fund.
- Conclusion
Response accepted.
- II-H-07 Retention of Electronic Records
The City receives and retains an electronic copy of the canceled checks, but the electronic image does not include the back of the checks as required by Section 540D.114 of the Code of Iowa.
- Recommendation
The City should retain electronic images of the back of the canceled checks in accordance with Section 554D.114 of the Code of Iowa.
- Response
We have contacted our bank and will begin receiving and retaining the images of the backs of the checks.
- Conclusion
Response accepted.

II-J-07

Posting of Gross Salaries

The City did not post the gross salaries of the City's employees as required by Chapter 372.13 of the Code of Iowa.

Recommendation

The City should post the gross salaries of its employees as required by Chapter 372.13 of the Code of Iowa.

Response

We will post the salaries as required.

Conclusion

Response accepted.