



**OFFICE OF AUDITOR OF STATE**  
**STATE OF IOWA**

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**NEWS RELEASE**

FOR RELEASE

November 8, 2007

Contact: Andy Nielsen  
515/281-5834

Auditor of State David A. Vaudt today released an audit report on the City of Ely, Iowa.

The City has implemented new reporting standards for the year ended June 30, 2007, with significant changes in content and structure of the financial statements. The new financial statements now include a Statement of Activities and Net Assets which provides information about the activities of the City as a whole. Also included is Management's Discussion and Analysis of the City's financial statements.

The City's receipts totaled \$2,092,424 for the year ended June 30, 2007. The receipts included \$564,379 in property tax, \$465,005 from charges for service, \$151,637 from operating and capital grants, contributions and restricted interest, \$872,162 from note proceeds, \$24,656 from unrestricted interest on investments and \$14,585 from other general receipts.

Disbursements for the year totaled \$1,796,836, and included \$204,639 for debt service, \$157,747 for culture and recreation and \$125,370 for general government. Also, disbursements for business type activities totaled \$1,145,400.

A copy of the audit report is available for review in the City Clerk's Office, in the Office of Auditor of State and on the Auditor of State's web site at <http://auditor.iowa.gov/reports/reports.htm>.

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

**JUNE 30, 2007**

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**City of Ely**

**Officials**

| <u>Name</u>       | <u>Title</u>        | <u>Term Expires</u> |
|-------------------|---------------------|---------------------|
| Dale Stanek       | Mayor               | Jan 2008            |
| Mark Banowetz     | Mayor Pro tem       | Jan 2010            |
| Kevin Meskimen    | Council Member      | Jan 2008            |
| John Smith        | Council Member      | Jan 2008            |
| Robert Ballantyne | Council Member      | Jan 2008            |
| Tom Winkowski     | Council Member      | Jan 2010            |
| Aaron Anderson    | Clerk/Administrator | Indefinite          |
| Teri Billick      | Deputy Clerk        | Indefinite          |
| Robert S. Hatala  | Attorney            | Indefinite          |

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Independent Auditor's Report

To the Honorable Mayor and  
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Ely, 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 Ely's management. Our responsibility is to express opinions 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 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

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

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, each major fund and the aggregate remaining fund information of the City of Ely 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.

As described in Note 11, during the year ended June 30, 2007, the City adopted 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 – and Management's Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences.

In accordance with Government Auditing Standards, we have also issued our report dated October 23, 2007 on our consideration of the City of Ely's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 12 and 26 through 28 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 Ely's basic financial statements. Other supplementary information included in Schedules 1 and 2 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, 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 third paragraph, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

DAVID A. VAUDT, CPA  
Auditor of State

WARREN G. JENKINS, CPA  
Chief Deputy Auditor of State

October 23, 2007

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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The City of Ely 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.

Because the City is implementing new reporting standards for this fiscal year with significant changes in content and structure, and since the City is not required to be audited annually, much of the information is not easily comparable to prior years. Comparative data has been provided if available.

### 2007 FINANCIAL HIGHLIGHTS

- The cash basis net assets of the City's governmental activities increased by 15%, or approximately \$118,000, due primarily to fewer disbursements during fiscal year 2007 for Capital Projects than during fiscal year 2006 and an overall decrease in disbursements.
- The cash basis net assets of the City's business type activities increased by 54%, or approximately \$178,000, due primarily to replacement of old ineffective water meters and an increase in sewer revenues due to new sewer rates effective on January 8, 2007.

### 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 to the City's budget for the year.

Other Supplementary Information provides detailed information about the City's outstanding indebtedness.

## **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 operational results of funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, readers should keep in mind the limitations resulting from the use of the cash basis of accounting.

## **REPORTING THE CITY'S FINANCIAL ACTIVITIES**

### *Government-wide Financial Statement*

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information that 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, community and economic development and general government. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the water, sewer and sanitation systems. 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 and Tax Increment Financing, 3) the Debt Service Fund and 4) the Capital Projects Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

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

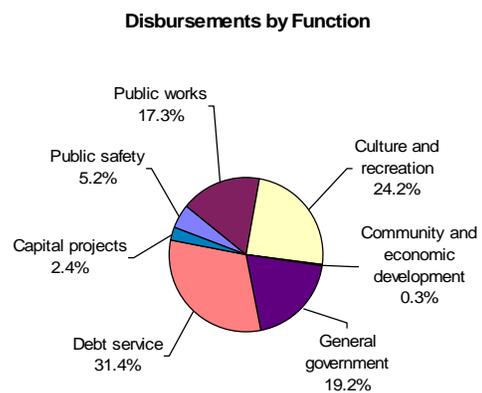
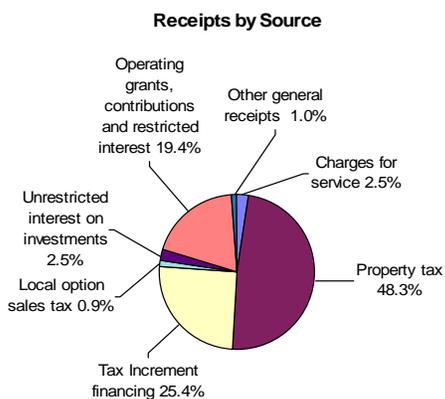
2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains three Enterprise Funds to provide separate information for water and sewer funds, considered to be major funds of the City, and a sanitation fund.

The required financial statement for proprietary funds is 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 increased from a year ago, increasing from \$808,193 at June 30, 2006 to \$925,961 at June 30, 2007. The analysis that follows focuses on the changes in cash basis net assets of governmental activities.

| Changes in Cash Basis Net Assets of Governmental Activities |                                |
|---|--------------------------------|
|   | Year ended<br>June 30,<br>2007 |
| Receipts:   |                                |
| Program receipts:   |                                |
| Charges for service   | \$ 19,332                      |
| Operating grants, contributions and restricted interest     | 148,477                        |
| Capital grants and contributions                            | 3,160                          |
| General receipts:   |                                |
| Property tax  | 370,184                        |
| Tax Increment financing                                     | 194,195                        |
| Local option sales tax                                      | 6,913                          |
| Unrestricted interest on investments                        | 19,271                         |
| Other general receipts                                      | 7,672                          |
| <b>Total receipts</b>                                       | <b>769,204</b>                 |
| Disbursements:  |                                |
| Public safety   | 33,649                         |
| Public works  | 112,531                        |
| Culture and recreation                                      | 157,747                        |
| Community and economic development                          | 2,086                          |
| General government  | 125,370                        |
| Debt service  | 204,639                        |
| Capital projects  | 15,414                         |
| <b>Total disbursements</b>                                  | <b>651,436</b>                 |
| Increase in cash basis net assets                           | 117,768                        |
| Cash basis net assets beginning of year                     | 808,193                        |
| Cash basis net assets end of year                           | <b>\$ 925,961</b>              |



| Changes in Cash Basis Net Assets of Business Type Activities |                                |
|--|--------------------------------|
|  | Year ended<br>June 30,<br>2007 |
| Receipts:  |                                |
| Program receipts:  |                                |
| Charges for service:   |                                |
| Water  | \$ 174,969                     |
| Sewer  | 205,930                        |
| Sanitation   | 64,774                         |
| General receipts:  |                                |
| Unrestricted interest on investments                         | 5,385                          |
| Note proceeds  | 872,162                        |
| Total receipts   | <u>1,323,220</u>               |
| Disbursements:   |                                |
| Water  | 64,891                         |
| Sewer  | 1,015,740                      |
| Sanitation   | 64,769                         |
| Total disbursements  | <u>1,145,400</u>               |
| Increase in cash basis net assets                            | 177,820                        |
| Cash basis net assets beginning of year                      | <u>329,106</u>                 |
| Cash basis net assets end of year                            | <u>\$ 506,926</u>              |

Total business type activities cash balance increased 54%, or \$177,820, increasing from \$329,106 at June 30, 2006 to \$506,926 at June 30, 2007. The increase is due to the replacement of old ineffective water meters and an increase in sewer rates that became effective January 8, 2007.

#### **INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS**

As the City of Ely completed the year, its governmental funds reported a combined fund balance of \$925,961, an increase of more than \$117,000 above last year's total of \$808,193 at June 30, 2006. 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 \$78,131 from June 30, 2006 to \$298,216 at June 30, 2007, which is primarily due to a decrease in disbursements from fiscal year 2006 to fiscal year 2007 due to the completion of the Library capital project.
- The Road Use Tax Fund cash balance increased \$5,008 from June 30, 2006 to \$10,049 at June 30, 2007. This increase is attributable to a decrease in disbursements during fiscal year 2007.
- The Tax Increment Financing Fund cash balance increased \$59,151 to \$336,427 at June 30, 2007. The increase was due to receiving more TIF proceeds than was paid out in fiscal year 2007.
- The Debt Service Fund cash balance increased \$7,962 to \$6,808 at June 30, 2007. The increase was due to an increase in property tax collections for fiscal year 2007.
- The Capital Project Fund cash balance decreased \$12,255 to \$116,147 at June 30, 2007.

## INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance increased \$112,110 to a June 30, 2007 year-end balance of \$248,527. This increase was due primarily to the replacement of old ineffective meters and an increase in water collections during fiscal year 2007. \$100,000 of the balance is ear-marked for future water tower improvements.
- The Sewer Fund cash balance increased \$65,563 to a year-end balance of \$199,618. The increase is due to an increase in sewer rates during fiscal year 2007 and a decrease in operating disbursements during fiscal year 2007.

## BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget one time. The amendment was approved on May 29, 2007 and resulted in an increase in budgeted disbursements of \$19,779 related to disbursements in the public works, culture and recreation and general government functions.

Even with the budget amendment, the City exceeded the budget by \$558 for the debt service function for the year ended June 30, 2007.

The City's receipts were \$225,720 less than budgeted receipts. Intergovernmental receipts were \$316,884 less than budgeted receipts primarily due to lower grant proceeds than expected.

Total disbursements were \$1,015,678 less than budgeted disbursements. This was primarily due to delays in the State Street Bridge project and the Sewer System improvements.

## DEBT ADMINISTRATION

At June 30, 2007, the City had \$1,792,162 in long-term debt outstanding, compared to \$1,045,000 last year. This represents an increase of 69 percent over last year.

|                          | Outstanding Debt at Year-End |           |
|--------------------------|------------------------------|-----------|
|                          | June 30,                     |           |
|                          | 2007                         | 2006      |
| General obligation notes | \$ 285,000                   | 365,000   |
| General obligation bonds | 605,000                      | 680,000   |
| Revenue notes            | 902,162                      | -         |
| Total                    | \$ 1,792,162                 | 1,045,000 |

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 \$890,000 is significantly below its constitutional debt limit of \$3,989,837.

## ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City of Ely's elected and appointed officials and citizens considered many factors when setting the fiscal year 2008 budget, tax rates and fees charged for various City activities. The City's FY2008 taxable valuation has increased approximately 4.32%, or \$1,753,594, over the FY2007 level.

The FY2008 budget contains total receipts of \$5,279,178 and disbursements of \$5,359,665. This budget is considerably higher than the FY2007 budget which contained total receipts of \$3,236,535 and disbursements of \$2,773,305. The FY2008 budget includes estimated added receipts and disbursements for completion of the Sewer and Rogers Creek Trunk projects and the State Street Bridge Replacement project.

The FY2008 levy is \$10.44361 per \$1,000 of taxable valuation, a decrease from \$10.44518 per \$1,000 of taxable valuation for FY2007.

These parameters were taken into account when adopting the budget for FY2008.

#### **CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Aaron Anderson, City Administrator/Clerk, 1570 Rowley Street, P.O. Box 248, Ely, Iowa 52227.

## **Basic Financial Statements**

City of Ely

Statement of Activities and Net Assets – Cash Basis

As of and for the year ended June 30, 2007

|                                    | Disbursements | Program Receipts    |   |   |
|------------------------------------|---------------|---------------------|---|---|
|                                    |               | Charges for Service | Operating Grants, Contributions and Restricted Interest | Capital Grants, Contributions and Restricted Interest |
| <b>Functions/Programs:</b>         |               |                     |   |   |
| Governmental activities:           |               |                     |   |   |
| Public safety                      | \$ 33,649     | 13,555              | -   | -   |
| Public works                       | 112,531       | 2,516               | 97,351  | -   |
| Culture and recreation             | 157,747       | 2,646               | 50,871  | -   |
| Community and economic development | 2,086         | -                   | -   | -   |
| General government                 | 125,370       | 615                 | -   | -   |
| Debt service                       | 204,639       | -                   | -   | -   |
| Capital projects                   | 15,414        | -                   | 255   | 3,160   |
| Total governmental activities      | 651,436       | 19,332              | 148,477   | 3,160   |
| Business type activities:          |               |                     |   |   |
| Water                              | 64,891        | 174,969             | -   | -   |
| Sewer                              | 1,015,740     | 205,930             | -   | -   |
| Sanitation                         | 64,769        | 64,774              | -   | -   |
| Total business type activities     | 1,145,400     | 445,673             | -   | -   |
| Total                              | \$ 1,796,836  | 465,005             | 148,477   | 3,160   |

**General Receipts:**

Property tax levied for:  
 General purposes  
 Tax increment financing  
 Debt service  
 Local option sales tax  
 Unrestricted interest on investments  
 Note proceeds  
 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:  
 Streets  
 Tax increment financing  
 Debt service  
 Library  
 Capital projects  
 Unrestricted

**Total cash basis net assets**

See notes to financial statements.

| Net (Disbursements) Receipts and<br>Changes in Cash Basis Net Assets |                             |             |
|--|-----------------------------|-------------|
| Governmental<br>Activities   | Business Type<br>Activities | Total       |
| (20,094)   | -                           | (20,094)    |
| (12,664)   | -                           | (12,664)    |
| (104,230)  | -                           | (104,230)   |
| (2,086)  | -                           | (2,086)     |
| (124,755)  | -                           | (124,755)   |
| (204,639)  | -                           | (204,639)   |
| (11,999)   | -                           | (11,999)    |
| (480,467)  | -                           | (480,467)   |
| -  | 110,078                     | 110,078     |
| -  | (809,810)                   | (809,810)   |
| -  | 5                           | 5           |
| -  | (699,727)                   | (699,727)   |
| (480,467)  | (699,727)                   | (1,180,194) |
| 292,627  | -                           | 292,627     |
| 194,195  | -                           | 194,195     |
| 77,557   | -                           | 77,557      |
| 6,913  | -                           | 6,913       |
| 19,271   | 5,385                       | 24,656      |
| -  | 872,162                     | 872,162     |
| 7,672  | -                           | 7,672       |
| 598,235  | 877,547                     | 1,475,782   |
| 117,768  | 177,820                     | 295,588     |
| 808,193  | 329,106                     | 1,137,299   |
| \$ 925,961   | 506,926                     | 1,432,887   |
| \$ 10,049  | -                           | 10,049      |
| 336,427  | -                           | 336,427     |
| 6,808  | 14,989                      | 21,797      |
| 158,314  | -                           | 158,314     |
| 116,147  | -                           | 116,147     |
| 298,216  | 491,937                     | 790,153     |
| \$ 925,961   | 506,926                     | 1,432,887   |

City of Ely

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

As of and for the year ended June 30, 2007

|   | Special Revenue |                    |                               |   |
|---|-----------------|--------------------|-------------------------------|---|
|   | General         | Road<br>Use<br>Tax | Tax<br>Increment<br>Financing | Friends of<br>the Ely Public<br>Library |
| <b>Receipts:</b>  |                 |                    |                               |   |
| Property tax  | \$ 292,627      | -                  | -                             | -                                       |
| Other city tax  | 11,255          | -                  | 194,195                       | -                                       |
| Licenses and permits  | 13,870          | -                  | -                             | -                                       |
| Use of money and property                                     | 19,265          | -                  | -                             | 1,207                                   |
| Intergovernmental   | 33,378          | 95,763             | -                             | -                                       |
| Charges for service   | 2,346           | -                  | -                             | -                                       |
| Special assessments   | -               | -                  | -                             | -                                       |
| Miscellaneous   | 6,809           | -                  | -                             | 17,773                                  |
| Total receipts  | 379,550         | 95,763             | 194,195                       | 18,980                                  |
| <b>Disbursements:</b>   |                 |                    |                               |   |
| Operating:  |                 |                    |                               |   |
| Public safety   | 33,649          | -                  | -                             | -                                       |
| Public works  | 21,776          | 90,755             | -                             | -                                       |
| Culture and recreation  | 118,538         | -                  | -                             | 39,209                                  |
| Community and economic development                            | 2,086           | -                  | -                             | -                                       |
| General government  | 125,370         | -                  | -                             | -                                       |
| Capital projects  | -               | -                  | -                             | -                                       |
| Debt service  | -               | -                  | 1,444                         | -                                       |
| Total disbursements   | 301,419         | 90,755             | 1,444                         | 39,209                                  |
| Excess (deficiency) of receipts over<br>(under) disbursements | 78,131          | 5,008              | 192,751                       | (20,229)                                |
| <b>Other financing sources (uses):</b>                        |                 |                    |                               |   |
| Operating transfers in  | -               | -                  | -                             | -                                       |
| Operating transfers out                                       | -               | -                  | (133,600)                     | -                                       |
| Total other financing sources (uses)                          | -               | -                  | (133,600)                     | -                                       |
| Net change in cash balances                                   | 78,131          | 5,008              | 59,151                        | (20,229)                                |
| Cash balances beginning of year                               | 220,085         | 5,041              | 277,276                       | 178,543                                 |
| Cash balances end of year                                     | \$ 298,216      | 10,049             | 336,427                       | 158,314                                 |
| <b>Cash Basis Fund Balances</b>                               |                 |                    |                               |   |
| Reserved for debt service                                     | \$ -            | -                  | -                             | -                                       |
| Unreserved:   |                 |                    |                               |   |
| General fund  | 298,216         | -                  | -                             | -                                       |
| Special revenue funds   | -               | 10,049             | 336,427                       | 158,314                                 |
| Capital projects fund   | -               | -                  | -                             | -                                       |
| Total cash basis fund balances                                | \$ 298,216      | 10,049             | 336,427                       | 158,314                                 |

See notes to financial statements.

| Debt Service     | Capital Projects | Total          |
|------------------|------------------|----------------|
| 77,557           | -                | 370,184        |
| -                | -                | 205,450        |
| -                | -                | 13,870         |
| -                | 568              | 21,040         |
| -                | -                | 129,141        |
| -                | -                | 2,346          |
| -                | 2,591            | 2,591          |
| -                | -                | 24,582         |
| <u>77,557</u>    | <u>3,159</u>     | <u>769,204</u> |
| -                | -                | 33,649         |
| -                | -                | 112,531        |
| -                | -                | 157,747        |
| -                | -                | 2,086          |
| -                | -                | 125,370        |
| -                | 15,414           | 15,414         |
| <u>203,195</u>   | <u>-</u>         | <u>204,639</u> |
| <u>203,195</u>   | <u>15,414</u>    | <u>651,436</u> |
| <u>(125,638)</u> | <u>(12,255)</u>  | <u>117,768</u> |
| 133,600          | -                | 133,600        |
| -                | -                | (133,600)      |
| <u>133,600</u>   | <u>-</u>         | <u>-</u>       |
| <u>7,962</u>     | <u>(12,255)</u>  | <u>117,768</u> |
| <u>(1,154)</u>   | <u>128,402</u>   | <u>808,193</u> |
| <u>6,808</u>     | <u>116,147</u>   | <u>925,961</u> |
| 6,808            | -                | 6,808          |
| -                | -                | 298,216        |
| -                | -                | 504,790        |
| -                | 116,147          | 116,147        |
| <u>6,808</u>     | <u>116,147</u>   | <u>925,961</u> |

**Exhibit C**

## City of Ely

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

As of and for the year ended June 30, 2007

|   | Enterprise |           |                        | Total     |
|---|------------|-----------|------------------------|-----------|
|   | Water      | Sewer     | Nonmajor<br>Sanitation |           |
| Operating receipts:                                       |            |           |                        |           |
| Charges for service                                       | \$ 154,554 | 205,930   | 64,774                 | 425,258   |
| Miscellaneous   | 20,415     | -         | -                      | 20,415    |
| Total operating receipts                                  | 174,969    | 205,930   | 64,774                 | 445,673   |
| Operating disbursements:                                  |            |           |                        |           |
| Business type activities                                  | 64,891     | 75,132    | 64,769                 | 204,792   |
| Excess of operating receipts over operating disbursements | 110,078    | 130,798   | 5                      | 240,881   |
| Non-operating receipts (disbursements):                   |            |           |                        |           |
| Capital project   | -          | (940,608) | -                      | (940,608) |
| Interest on investments                                   | 2,032      | 3,211     | 142                    | 5,385     |
| Note proceeds   | -          | 872,162   | -                      | 872,162   |
| Total non-operating receipts                              | 2,032      | (65,235)  | 142                    | (63,061)  |
| Net change in cash balances                               | 112,110    | 65,563    | 147                    | 177,820   |
| Cash balances beginning of year                           | 136,417    | 134,055   | 58,634                 | 329,106   |
| Cash balances end of year                                 | \$ 248,527 | 199,618   | 58,781                 | 506,926   |
| <b>Cash Basis Fund Balances</b>                           |            |           |                        |           |
| Reserved for debt service                                 | \$ -       | 14,989    | -                      | 14,989    |
| Unreserved  | 248,527    | 184,629   | 58,781                 | 491,937   |
| Total cash basis fund balances                            | \$ 248,527 | 199,618   | 58,781                 | 506,926   |

See notes to financial statements.

City of Ely

Notes to Financial Statements

June 30, 2007

**(1) Summary of Significant Accounting Policies**

The City of Ely is a political subdivision of the State of Iowa located in Linn County. It was first incorporated in 1872 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, culture and recreation, community and economic development and general government services. The City also provides water, sewer and sanitation services for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Ely 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.

These financial statements present the City of Ely (the primary government) and its component unit. The component unit discussed below is included in the City's reporting entity because of the significance of its operational or financial relationship with the City.

Blended Component Unit

The Friends of the Ely Public Library is legally separate from the City but is so intertwined with the City that it is, in substance, the same as the City. Although the Friends of the Ely Public Library is legally separate from the City, its purpose is to benefit the City of Ely (the primary government) by soliciting contributions and managing those funds. The financial transactions have been reported as a Special Revenue Fund of the City.

Jointly Governed Organizations

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

B. Basis of Presentation

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

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 not meeting 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. The remaining proprietary fund is reported as a nonmajor proprietary fund.

The City reports the following major governmental funds:

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

Special Revenue:

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

The Tax Increment Financing Fund is used to account for urban renewal projects financed by tax increment financing.

Friends of the Ely Public Library is used to account for donations to the Ely Public Library.

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

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

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 waste water treatment and sanitary sewer system.

C. Measurement Focus and Basis of Accounting

The City of Ely 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.

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

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

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2007, disbursements exceeded the amount 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.

At June 30, 2007, the Friends of the Ely Public Library had the following investments:

| Type            | Carrying Value    | Fair Value     | Maturity |
|-----------------|-------------------|----------------|----------|
| Mutual Funds    | \$ 117,361        | 142,588        | N/A      |
| Money Market    | 27,145            | 27,145         | N/A      |
| Preferred Stock | <u>13,808</u>     | <u>15,512</u>  | N/A      |
| Total           | <u>\$ 158,314</u> | <u>185,245</u> |          |

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) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the City. Friends of the Ely Public Library, a blended component unit of the City, does not have a formal policy limiting investment maturities as a means of managing exposure to credit risk.

Credit risk – Investments by Friends of the Ely Public Library in mutual funds and money market funds are unrated.

Concentration of Credit Risk – The City and the Friends of the Ely Public Library place no limits on the amount that may be invested in any one issuer. However, the City’s policy does require the City to diversify its investments to eliminate the risk of loss resulting from the over concentration of assets in a specific maturity, issuer or class of securities.

**(3) Notes and Bonds Payable**

Annual debt service requirements to maturity for the City’s general obligation notes and bonds are as follows:

| Year<br>Ending<br>June 30, | General Obligation<br>Notes |          | General Obligation<br>Bonds |          | Total     |          |
|----------------------------|-----------------------------|----------|-----------------------------|----------|-----------|----------|
|                            | Principal                   | Interest | Principal                   | Interest | Principal | Interest |
| 2008                       | \$ 85,000                   | 13,474   | 75,000                      | 27,839   | 160,000   | 41,313   |
| 2009                       | 85,000                      | 9,529    | 80,000                      | 24,839   | 165,000   | 34,368   |
| 2010                       | 65,000                      | 5,530    | 85,000                      | 21,442   | 150,000   | 26,972   |
| 2011                       | 50,000                      | 2,325    | 90,000                      | 17,767   | 140,000   | 20,092   |
| 2012                       | -                           | -        | 90,000                      | 13,697   | 90,000    | 13,697   |
| 2013-2015                  | -                           | -        | 185,000                     | 17,297   | 185,000   | 17,297   |
| Total                      | \$ 285,000                  | 30,858   | 605,000                     | 122,881  | 890,000   | 153,739  |

Sewer Revenue Notes

On June 12, 2006, the City entered into a State Revolving Fund (SRF) loan and disbursement agreement with the Iowa Finance Authority for the issuance of a \$140,000 interest free Sewer Revenue Capital Loan Anticipation Project Note. The note was issued as an interim measure for engineering costs and will be repaid from proceeds of a \$3,000,000 SRF loan agreement. At June 30, 2007, the City had drawn \$108,739.

On April 5, 2007, the City entered into a State Revolving Fund loan and disbursement agreement with the Iowa Finance Authority, the Iowa Department of Natural Resources and Wells Fargo Bank, Iowa, N.A. for the issuance of \$3,000,000 Sewer Revenue Capital Loan Notes with interest at 3.00% annum. The notes were issued pursuant to the provisions of Chapter 384.24A of the Code of Iowa to pay the cost of constructing improvements and extensions to the City’s sewer system. The City will draw down funds from the Trustee upon request to reimburse the City for costs as they are incurred. At June 30, 2007, the City had drawn \$793,423 of the \$3,000,000 authorized. Wells Fargo Bank Iowa, N.A. has the remaining balance of \$2,206,577 held in trust, which the City will request as the project progresses. An initiation fee of 1% of the authorized borrowing for the sewer revenue capital loan notes was charged by Wells Fargo Bank, N.A. The total initiation fee of \$30,000 was withheld by the bank from the first proceeds of the sewer revenue capital loan notes. Since the City has not fully drawn funds on the sewer revenue capital loan notes, a final repayment schedule has not yet been adopted for the debt.

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

- a) The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the funds.
- b) Sufficient monthly transfers shall be made to a separate sewer revenue sinking fund for the purpose of making principal and interest payments when due. As of June 30, 2007, this account has not been established.
- c) User rates shall be established at a level which produce and maintain net revenues at a level not less than 110% of the amount of principal and interest on the notes falling due in the same year.

**(4) Pension and Retirement Benefits**

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

Most regular plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the year ended June 30, 2007 was \$9,451, equal to the required contribution for the year.

**(5) Compensated Absences**

City employees accumulate a limited amount of earned but unused vacation for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation payments payable to employees at June 30, 2007, primarily relating to the General Fund, was \$900. This liability has been computed based on rates of pay in effect at June 30, 2007.

**(6) Industrial Development Revenue Bonds**

The City has issued a total of \$4,640,000 of industrial development revenue bonds under the provisions of Chapter 419 of the Code of Iowa, of which \$3,775,871 is outstanding at June 30, 2007. The bonds and related interest are payable solely from the rents payable by the tenants of the properties constructed and the bond and interest do not constitute liabilities of the City.

**(7) 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 for the year ended June 30, 2007.

**(8) Interfund Transfers**

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

| Transfer to  | Transfer from                               | Amount            |
|--------------|---|-------------------|
| Debt Service | Special Revenue:<br>Tax Increment Financing | <u>\$ 133,600</u> |

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

**(9) Construction Commitments**

In May 2007, the City entered into a contract totaling \$481,005 for the construction of the State Street bridge replacement project. This project will be funded with 80 percent Iowa Department of Transportation, Highway and Planning funds and 20 percent local funds.

**(10) Subsequent Events**

In July 2007, the City entered into a construction contract totaling \$381,464 for the Rogers Creek trunk project. This project will be funded through another State Revolving Fund loan agreement.

**(11) 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 – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures, and Statement No. 41, 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 a government-wide financial statement and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

Implementation of these standards had no effect on the beginning balances of the City.

**City of Ely**

City of Ely  
 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<br>Funds<br>Actual | Proprietary<br>Funds<br>Actual | Funds not<br>Required to<br>be Budgeted |
|---|---------------------------------|--------------------------------|---|
| Receipts:   |                                 |                                |   |
| Property tax  | \$ 370,184                      | -                              | -                                       |
| Other city tax  | 205,450                         | -                              | -                                       |
| Licenses and permits  | 13,870                          | -                              | -                                       |
| Use of money and property   | 21,040                          | 5,385                          | 1,207                                   |
| Intergovernmental   | 129,141                         | -                              | -                                       |
| Charges for service   | 2,346                           | 425,258                        | -                                       |
| Special assessments   | 2,591                           | -                              | -                                       |
| Miscellaneous   | 24,582                          | 20,415                         | 17,773                                  |
| Total receipts  | <u>769,204</u>                  | <u>451,058</u>                 | <u>18,980</u>                           |
| Disbursements:  |                                 |                                |   |
| Public safety   | 33,649                          | -                              | -                                       |
| Public works  | 112,531                         | -                              | -                                       |
| Culture and recreation  | 157,747                         | -                              | 39,209                                  |
| Community and economic development  | 2,086                           | -                              | -                                       |
| General government  | 125,370                         | -                              | -                                       |
| Capital projects  | 15,414                          | -                              | -                                       |
| Debt service  | 204,639                         | -                              | -                                       |
| Business type activities  | -                               | 1,145,400                      | -                                       |
| Total disbursements   | <u>651,436</u>                  | <u>1,145,400</u>               | <u>39,209</u>                           |
| Excess (deficiency) of receipts<br>over (under) disbursements   | 117,768                         | (694,342)                      | (20,229)                                |
| Other financing sources (uses)  | -                               | 872,162                        | -                                       |
| Excess (deficiency) of receipts and other financing<br>sources over (under) disbursements and other<br>financing uses | 117,768                         | 177,820                        | (20,229)                                |
| Balances beginning of year  | 808,193                         | 329,106                        | 178,543                                 |
| Balances end of year  | <u>\$ 925,961</u>               | <u>506,926</u>                 | <u>158,314</u>                          |

See accompanying independent auditor's report.

| Total     | Budgeted Amounts |             | Final to<br>Total<br>Variance |
|-----------|------------------|-------------|-------------------------------|
|           | Original         | Final       |                               |
| 370,184   | 359,620          | 359,620     | 10,564                        |
| 205,450   | 188,777          | 188,777     | 16,673                        |
| 13,870    | 1,050            | 1,050       | 12,820                        |
| 25,218    | 8,500            | 8,500       | 16,718                        |
| 129,141   | 436,051          | 446,025     | (316,884)                     |
| 427,604   | 413,850          | 413,850     | 13,754                        |
| 2,591     | 1,190            | 1,190       | 1,401                         |
| 27,224    | 7,990            | 7,990       | 19,234                        |
| 1,201,282 | 1,417,028        | 1,427,002   | (225,720)                     |
| 33,649    | 51,461           | 51,461      | 17,812                        |
| 112,531   | 115,028          | 124,333     | 11,802                        |
| 118,538   | 129,970          | 135,944     | 17,406                        |
| 2,086     | 2,200            | 2,200       | 114                           |
| 125,370   | 140,115          | 144,615     | 19,245                        |
| 15,414    | 400,500          | 400,500     | 385,086                       |
| 204,639   | 204,081          | 204,081     | (558)                         |
| 1,145,400 | 1,710,171        | 1,710,171   | 564,771                       |
| 1,757,627 | 2,753,526        | 2,773,305   | 1,015,678                     |
| (556,345) | (1,336,498)      | (1,346,303) | 789,958                       |
| -         |                  |             |                               |
| 872,162   | 1,809,533        | 1,809,533   | (937,371)                     |
| 315,817   | 473,035          | 463,230     | (147,413)                     |
| 958,756   | 880,481          | 880,481     | 78,275                        |
| 1,274,573 | 1,353,516        | 1,343,711   | 69,138                        |

City of Ely

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 the blended component unit. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Fund and the Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$19,779. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2007, disbursements exceeded the amount budgeted in the debt service function.

**Other Supplementary Information**

City of Ely  
Schedule of Indebtedness  
Year ended June 30, 2007

| Obligation                                   | Date of<br>Issue | Interest<br>Rates | Amount<br>Originally<br>Issued |
|--|------------------|-------------------|--------------------------------|
| General obligation notes:                    |                  |                   |                                |
| Storm and sanitary sewer system improvements | Sep 1, 1994      | 6.10 - 6.20%      | \$ 200,000                     |
| Street, sewer and water construction         | Mar 1, 1999      | 4.20 - 4.30       | 250,000                        |
| Fire station                                 | Jun 1, 2001      | 4.40 - 4.65       | 400,000                        |
| Total  |                  |                   |                                |
| General obligation bonds:                    |                  |                   |                                |
| Sewer and street improvements                | Aug 1, 2000      | 5.35 - 5.75%      | \$ 525,000                     |
| Urban renewal project                        | Sep 1, 2002      | 3.10 - 3.90       | 450,000                        |
| Total  |                  |                   |                                |
| Revenue notes:                               |                  |                   |                                |
| Sewer  | Jun 12, 2006     | 0.00%             | \$ 140,000                     |
| Sewer  | Apr 5, 2007      | 3.00 %            | 3,000,000                      |
| Total  |                  |                   |                                |

See accompanying independent auditor's report.

| Balance<br>Beginning<br>of Year | Issued<br>During<br>Year | Redeemed<br>During<br>Year | Balance<br>End of<br>Year | Interest<br>Paid |
|---------------------------------|--------------------------|----------------------------|---------------------------|------------------|
| 60,000                          | -                        | 15,000                     | 45,000                    | 3,675            |
| 75,000                          | -                        | 25,000                     | 50,000                    | 3,150            |
| 230,000                         | -                        | 40,000                     | 190,000                   | 10,343           |
| <u>\$ 365,000</u>               | <u>-</u>                 | <u>80,000</u>              | <u>285,000</u>            | <u>17,168</u>    |
| 340,000                         | -                        | 30,000                     | 310,000                   | 18,883           |
| 340,000                         | -                        | 45,000                     | 295,000                   | 11,830           |
| <u>\$ 680,000</u>               | <u>-</u>                 | <u>75,000</u>              | <u>605,000</u>            | <u>30,713</u>    |
| -                               | 108,739                  | -                          | 108,739                   | -                |
| -                               | 793,423                  | -                          | 793,423                   | -                |
| <u>\$ -</u>                     | <u>902,162</u>           | <u>-</u>                   | <u>902,162</u>            | <u>-</u>         |

**Schedule 2**

City of Ely  
 Note and Bond Maturities  
 June 30, 2007

| Year<br>Ending<br>June 30, | General Obligation Notes |                  |                    |                  |                    |                   |                   |
|----------------------------|--------------------------|------------------|--------------------|------------------|--------------------|-------------------|-------------------|
|                            | Issued Sep 1, 1994       |                  | Issued Mar 1, 1999 |                  | Issued Jun 1, 2001 |                   | Total             |
|                            | Interest<br>Rates        | Amount           | Interest<br>Rates  | Amount           | Interest<br>Rates  | Amount            |                   |
| 2008                       | 6.10%                    | \$ 15,000        | 4.20%              | \$ 25,000        | 4.40%              | \$ 45,000         | \$ 85,000         |
| 2009                       | 6.15                     | 15,000           | 4.30               | 25,000           | 4.45               | 45,000            | 85,000            |
| 2010                       | 6.20                     | 15,000           |                    | -                | 4.55               | 50,000            | 65,000            |
| 2011                       |                          | -                |                    | -                | 4.65               | 50,000            | 50,000            |
| Total                      |                          | <u>\$ 45,000</u> |                    | <u>\$ 50,000</u> |                    | <u>\$ 190,000</u> | <u>\$ 285,000</u> |

| Year<br>Ending<br>June 30, | General Obligation Bonds |                   |                    |                   |                   |
|----------------------------|--------------------------|-------------------|--------------------|-------------------|-------------------|
|                            | Issued Aug 1, 2000       |                   | Issued Sep 1, 2002 |                   | Total             |
|                            | Interest<br>Rates        | Amount            | Interest<br>Rates  | Amount            |                   |
| 2008                       | 5.35%                    | \$ 30,000         | 3.10%              | \$ 45,000         | \$ 75,000         |
| 2009                       | 5.40                     | 35,000            | 3.35               | 45,000            | 80,000            |
| 2010                       | 5.50                     | 35,000            | 3.50               | 50,000            | 85,000            |
| 2011                       | 5.55                     | 40,000            | 3.70               | 50,000            | 90,000            |
| 2012                       | 5.60                     | 40,000            | 3.80               | 50,000            | 90,000            |
| 2013                       | 5.65                     | 40,000            | 3.90               | 55,000            | 95,000            |
| 2014                       | 5.70                     | 45,000            |                    | -                 | 45,000            |
| 2015                       | 5.75                     | 45,000            |                    | -                 | 45,000            |
|                            |                          | <u>\$ 310,000</u> |                    | <u>\$ 295,000</u> | <u>\$ 605,000</u> |

See accompanying independent auditor's report.



**OFFICE OF AUDITOR OF STATE**  
**STATE OF IOWA**

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

To the Honorable Mayor and  
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Ely, Iowa, as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated October 23, 2007. Our report on the financial statements, which were prepared in conformity with an other comprehensive basis of accounting, expressed qualified opinions 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 Ely's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the City of Ely'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 the City of Ely'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 the City of Ely's financial statements that is more than inconsequential will not be prevented or detected by the City of Ely's internal control. We consider the deficiencies in internal control described in the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by the City of Ely'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 and B are material weaknesses.

#### Compliance and Other Matters

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

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

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

DAVID A. VAUDT, CPA  
Auditor of State

WARREN G. JENKINS, CPA  
Chief Deputy Auditor of State

October 23, 2007

City of Ely

Schedule of Findings

Year ended June 30, 2007

**Findings Related to the Financial Statements:**

**SIGNIFICANT DEFICIENCIES:**

(A) Segregation of Duties – One important element in designing internal control to safeguard assets and reasonably ensure the reliability of the accounting records is the concept of segregation of duties. When duties are properly segregated, the activities of one employee act as a check on those of another. One person has control over each of the following areas:

- (1) Cash – preparing bank reconciliations, initiating cash receipts and disbursement transactions, handling and recording cash.
- (2) Receipts – collecting, depositing, recording and custody.
- (3) Utility receipts – billing, collecting, depositing, reconciling and posting.
- (4) Disbursements – purchasing, preparing checks and recording.
- (5) Payroll – preparing, approving and distributing.
- (6) Financial reporting – preparing, posting and reconciling.
- (7) Information system (computer usage) – performing all general accounting functions and controlling all data input and output.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the City should review its control activities to obtain the maximum internal control possible under the circumstances. Evidence of review of reconciliations should be indicated by initials of the independent reviewer and the date of the review.

Response – The City will review control procedures and maximize internal control to the greatest extent possible under the circumstances.

Conclusion – Response accepted.

(B) Reconciliation of Utility Billings, Collections and Delinquencies – Utility billings, collections and delinquent accounts were not reconciled throughout the year.

Recommendation – Procedures should be established to reconcile utility billings, collections and delinquencies for each billing period and to reconcile collections to deposits. The Council or a Council-designated independent person should review the reconciliations and monitor delinquencies.

Response – The City will establish and implement procedures to reconcile utility billings, collections and delinquencies for each billing period and resolve any variances in a timely manner.

Conclusion – Response accepted.

City of Ely

Schedule of Findings

Year ended June 30, 2007

- (C) Electronic Data Processing Systems – During our review of internal control, the existing control activities in the City’s computer-based systems were evaluated in order to determine activities, from a control standpoint, were designed to provide reasonable assurance regarding the achievement of objectives in the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. The following weaknesses in the City’s computer-based systems were noted:

The City does not have written policies for:

- A disaster recovery plan to include all operations of the City.
- Requiring time out/log off or screen saver password to protect computer terminals when not in use.
- Requiring password changes because software does not require the user to change logins/passwords periodically.

Recommendation – The City should develop written policies addressing the above items in order to improve the City’s internal control over computer based systems.

Response – The City will establish and implement a written disaster recovery plan; and will implement policies to require time out/log off passwords and periodic changes of login/passwords.

Conclusion – Response accepted.

- (D) Accounting Records – A monthly bank to book reconciliation was not prepared to support month end balances.

Recommendation – The monthly financial reports should include a bank to book reconciliation to support the month end balances.

Response – The City has adopted a policy to include a bank to book reconciliation of month end balances, and will continue this policy.

Conclusion – Response accepted.

**INSTANCES OF NON-COMPLIANCE:**

No matters were reported.

City of Ely

Schedule of Findings

Year ended June 30, 2007

**Other Findings Related to Required Statutory Reporting:**

- (1) Certified Budget – Disbursements during the year ended June 30, 2007 exceeded the amount budgeted in the debt service function. Chapter 384.20 of the Code of Iowa states, in part, “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 – Future disbursements will not exceed budgeted amounts and any needed budget amendments will be sufficient to keep disbursements from exceeding budgeted amounts.

Conclusion – Response accepted.

- (2) Questionable Disbursements – No disbursements we believe may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 were noted.
- (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:

| <u>Name, Title, and<br/>Business Connection</u>    | <u>Transaction<br/>Description</u> | <u>Amount</u> |
|--|------------------------------------|---------------|
| Joe Varva, City employee,<br>Owner of Varva Lumber | Lumber and supplies                | \$ 647        |

In accordance with Chapter 362.5(11) of the Code of Iowa, these transactions do not appear to represent conflicts 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 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.

Although minutes of Council proceedings were published, they were not always published within fifteen days of the meeting as required by Chapter 372.12(6) of the Code of Iowa.

Approved interfund transfers should be made during the fiscal year they were approved. This has been resolved for audit purposes.

City of Ely

Schedule of Findings

Year ended June 30, 2007

Recommendation – The City should publish minutes as required. All interfund transfers should be made in a timely manner by the City.

Response – Timing of publication of Council minutes has improved, and will consistently meet the 15 day publication requirement in the future.

All future interfund transfers will be made during the appropriate fiscal year.

Conclusion – Response accepted.

- (7) Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City's investment policy were noted.
- (8) Revenue Bonds – Except that the sewer revenue sinking fund has not yet been established since the debt was entered into in April 2007, no instances of non-compliance with the provisions of the sewer revenue notes were noted.
- (9) Electronic Check Retention – Chapter 554D.114 of the Code of Iowa allows the City to retain cancelled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each cancelled check. The City retains cancelled checks through electronic image, but does not obtain an image of the back of each cancelled check as required.

Recommendation – The City should obtain and retain an image of both the front and back of each cancelled check as required.

Response – The City will work with Solon State Bank to have the images of cancelled checks stored electronically.

Conclusion – Response accepted.

- (10) Urban Renewal Tax Increment Fund – The Urban Renewal Tax Increment Fund balance at June 30, 2007 is \$336,427 and appears to be an excessive amount. The City includes the outstanding general obligation debt on their TIF Debt Certificate and transfers to the Debt Service fund annually to pay the debt.

Recommendation – The City should call the general obligation capital loan notes dated September 1, 1994 and March 1, 1999. In addition, the City should reduce future TIF Debt Certificate amounts to correct this overage.

Response – The City will implement a plan to reduce the cash balance of the TIF Fund on hand.

Conclusion – Response accepted.

City of Ely

Schedule of Findings

Year ended June 30, 2007

- (11) College-Ely-Putnam Volunteer Fire Department Agreement – The Constitution and by-laws of the College-Ely-Putnam Volunteer Fire Department, Article IV, Section IV, state the annual financial statements shall be presented and the books and records shall be audited. The books and records have not been audited by an independent auditing firm.

Recommendation – The City should take steps to ensure the required audits are performed as stipulated in the agreement, including consulting legal counsel to determine the disposition of this matter.

Response – The City will work with the College-Ely-Putnam Volunteer Fire Department to request an audit be performed, or recommend the bylaws of that organization be revised so the Volunteer Fire Department is able to conform with the audit requirements set out in the bylaws.

Conclusion – Response accepted.

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City of Ely

Staff

This audit was performed by:

Ernest H. Ruben, Jr., CPA, Manager  
Daniel L. Grady, Senior Auditor  
Curtis Nelson, Assistant Auditor

Andrew E. Nielsen, CPA  
Deputy Auditor of State