

ITEM # 9  
DATE 01-08-2008

## COUNCIL ACTION FORM

**SUBJECT: COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

### **BACKGROUND:**

Eide Bailly LLP, Certified Public Accountants, have audited the financial statements of the City of Ames as of and for the year ended June 30, 2007, and expressed their opinion on these statements based on their audit.

The auditors' opinion is included in the Comprehensive Annual Financial Report (CAFR) of the City of Ames. The CAFR also contains the financial statements as prepared by City staff and management. In the auditors' opinion, the information, as presented, is accurate in all material respects and presents in a fair manner the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City.

Also included with the report is the management letter that further explains the audit process and provides management with information on pending accounting pronouncements.

### **ALTERNATIVES:**

1. Accept the Comprehensive Annual Financial Report as presented.
2. Request further information.

### **MANAGER'S RECOMMENDED ACTION:**

The City is required by state law to have an annual audit of its financial statements. The Council needs to accept the audited financial statements so they can be submitted to the State and other users of the CAFR.

Therefore, it is the recommendation of the City Manager that the City Council adopt Alternative No. 1, thereby accepting the Comprehensive Annual Financial Report as presented.



CPA & BUSINESS ADVISORS

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

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We have audited the financial statements of the City of Ames, Iowa, for the year ended June 30, 2007, and have issued our report thereon dated December 6, 2007. Professional standards require that we provide you with the following information related to our audit.

### **Our Responsibility under Auditing Standards Generally Accepted in the United States of America and OMB Circular A-133**

As stated in our engagement letter dated June 25, 2007, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute, assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about the City's compliance with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* applicable to each of its major federal programs for the purpose of expressing an opinion on the City's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the City's compliance with those requirements.

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## **Significant Accounting Policies**

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the City of Ames, Iowa, are described in Note 1 to the financial statements. No new accounting policies were adopted, and the application of existing policies was not changed during the year ended June 30, 2007. We noted no transactions entered into by the City during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

## **Accounting Estimates**

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

## **Audit Adjustments**

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the City's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the City, either individually or in the aggregate, indicate matters that could have a significant effect on the City's financial reporting process.

## **Disagreements with Management**

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

## **Consultations with Other Independent Accountants**

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the City's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

To the Honorable Mayor and  
Members of the City Council  
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### **Issues Discussed Prior to Retention of Independent Auditors**

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City's auditors. However, these discussions occurred in the normal course of our professional relationship, and our responses were not a condition to our retention.

### **Difficulties Encountered in Performing the Audit**

We encountered no significant difficulties in dealing with management in performing and completing our audit.

### **Other Comments**

We have included additional comments regarding the financial statements and operations. These comments are not a result of in-depth study of any specific areas but are based on observations made during the course of our audit. Our observations indicate that overall financial operations of the City continue to be conducted in an efficient and effective manner.

This information, a public record by law, is intended solely for the use of the officials, employees, and citizens of the City of Ames, Iowa, and other parties to whom the City of Ames, Iowa, may report, including federal awarding agencies and pass-through entities. It is not intended to be and should not be used by anyone other than these specified parties.

As always, we will be happy to discuss these or any other topics at your convenience. We would like to take this opportunity to express our appreciation to you and your staff for the fine cooperation that we received during the course of the audit. We look forward to many years of continued service to the City of Ames, Iowa.

A handwritten signature in cursive script that reads "Eide Bailly LLP". The signature is written in dark ink and is positioned above the typed name and date.

Dubuque, Iowa  
December 6, 2007

# CITY OF AMES, IOWA

YEAR ENDED JUNE 30, 2007

## OTHER COMMENTS

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### **New Accounting Pronouncements**

The Governmental Accounting Standards Board (GASB) has issued three statements not yet implemented by the City of Ames. The statements, which might impact the City of Ames, are as follows:

Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, issued June 2004, will be effective for the City for the fiscal year ending June 30, 2009. This statement establishes standards for the measurement, recognition, and display of OPEB expense/expenditures and related liabilities (assets), note disclosures and, if applicable, required supplementary information in the financial reports of state and local governmental employers.

Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, issued September 2006, will be effective for the fiscal year ending June 30, 2008. This statement establishes standards for transactions in which a government receives, or is entitled to, resources in exchange for future cash flows generated by collecting specific receivables or specific future revenues. It also establishes standards that apply to all intra-entity transfers of assets and future revenues.

Statement No. 50, *Pension Disclosures*, issued May 2007, will be effective for the fiscal year ending June 30, 2008. This statement more closely aligns the financial reporting requirements for pensions with those for other postemployment benefits.

The City's management has not yet determined the effect these statements will have on the City's financial statements.

### **Risk Assessment Audit Standards**

The Auditing Standards Board of the American Institute of Certified Public Accountants has issued a suite of new auditing standards (Statements of Auditing Standards Nos. 104-111) related to the consideration of audit risk.

These Statements establish standards and provide guidance concerning the auditor's assessment of the risks of material misstatement (whether caused by error or fraud) in a financial statement audit. They also provide guidance on designing and performing audit procedures that are responsive to those assessed risks. Additionally, the Statements establish standards and provide guidance on planning and supervision (determining audit risk and materiality), the nature of audit evidence, and evaluating whether the audit evidence obtained affords a reasonable basis for an opinion on the financial statements under audit.

The primary objective of these standards is to enhance the auditor's consideration of audit risk by specifying, among other things:

- A more in-depth understanding of the entity and its environment, including its internal control, to identify the risks of material misstatement in the financial statements and what the entity is doing to mitigate those risks.
- Based upon the understanding obtained, a more rigorous assessment of the risks of where and how financial statements could be materially misstated.

## **CITY OF AMES, IOWA**

**YEAR ENDED JUNE 30, 2007**

### **OTHER COMMENTS**

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- Improved linkage between the auditor's assessment of risks and the nature, timing, and extent of audit procedures performed in response to those risks.

Auditors will be required to implement these standards for all audit engagements for periods beginning on or after December 15, 2006. As a result, these standards will be in effect for the audit of your financial statements for the year ending June 30, 2008. These standards may have an impact on the City's audit.