

CITY OF ADEL

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

JUNE 30, 2006

Table of Contents

		<u>Page</u>
Officials		3
Independent Auditors' Report		5-6
Management's Discussion and Analysis		7-15
Basic Financial Statements:	<u>Exhibit</u>	
Government-wide Financial Statement:		
Statement of Activities and Net Assets – Cash Basis	A	18-19
Governmental Fund Financial Statements:		
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	B	20-21
Proprietary Fund Financial Statements:		
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	C	22
Notes to Financial Statements		24-32
Required Supplementary Information:		
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances - Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Funds		34
Notes to Required Supplementary Information – Budgetary Reporting		35
Other Supplementary Information:	<u>Schedule</u>	
Statement of Cash Receipts, Disbursements and Changes in Cash Balances - Nonmajor Governmental Funds	1	37-40
Statement of Cash Receipts, Disbursements and Changes in Cash Balances – Nonmajor Proprietary Fund	2	41
Schedule of Indebtedness	3	42-43
Bond and Note Maturities	4	44-45
Schedule of Receipts by Source and Disbursements by Function – All Governmental Funds	5	46
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards		48-49
Schedule of Findings		50-53

City of Adel

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
James F. Peters	Mayor	Jan 2008
Jon McAvoy	Council Member	Jan 2010
Jeff Harsh	Council Member	Jan 2008
Steve Nichols	Council Member	Jan 2008
Dale Swanson	Council Member	Jan 2010
Angie Overton	Council Member	Jan 2008
Chad Bird	Administrator	At will
Pat Gilliland	Clerk	At will
John Reich	Attorney	At will

City of Adel

CLINE, DEVRIES & ALLEN, LLP

CERTIFIED PUBLIC ACCOUNTANTS

316 S. Duff Suite B – PO Box 187
Ames, Iowa 50010
Phone:515-233-4060 FAX:515-233-3703

13375 University Ave, Suite 203
Clive, Iowa 50325
Phone:515-252-7141 FAX:515-252-7073

Independent Auditors' Report

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying primary government financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Adel, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements listed in the table of contents. These primary government financial statements are the responsibility of the City of Adel's management. Our responsibility is to express opinions on these primary government financial statements based on our audit.

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

As described in Note 1, these primary government 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.

A primary government is a legal entity or body politic and includes all funds, organizations, institutions, agencies, departments and offices that are not legally separate. Such legally separate entities are referred to as component units.

In our opinion, the primary government 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 Adel as of June 30, 2006, 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.

However, the primary government financial statements, because they do not include the financial data of the component unit of the City of Adel do not purport to, and do not, present fairly the results of the cash transactions of the funds of the City of Adel as of and for the year ended June 30, 2006, and its indebtedness at June 30, 2006, on the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated August 2, 2006 on our consideration of the City of Adel'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 15 and 34 through 35 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the 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 primary government financial statements that collectively comprise the City of Adel's primary government financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the primary government financial statements for the three years ended June 30, 2005 (none of which are presented herein) and expressed unqualified opinions on those primary government financial statements which were prepared in conformity with an other comprehensive basis of accounting. Other supplementary information included in Schedules 1 through 5, is presented for purposes of additional analysis and is not a required part of the primary government financial statements. Such information has been subjected to the auditing procedures applied in our audit of the primary government financial statements and, in our opinion, is fairly stated in all material respects in relation to the primary government financial statements taken as a whole.

August 2, 2006
Ames, Iowa

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Adel provides this Management Discussion and Analysis of its financial statements. This narrative overview and analysis of financial activities focuses on current year activities and should be read in conjunction with the City's financial statements, which follow.

Because the City, as required by the State of Iowa, implemented new reporting standards three fiscal years ago so there are significant changes in content and structure from four years ago. Therefore, much of the information is not easily comparable to prior four years ago but should be comparable to the last three years.

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 overview of the City's financial activities.

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

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

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

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

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

Basis of Accounting

The City of Adel, along with many Iowa cities, maintains its financial records on the basis of cash receipts and disbursements. The financial statements of the City are prepared on that basis. The cash basis of accounting does not take into consideration 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 (GAAP). Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting. However, because the City of Adel has used the cash basis of accounting for many years, this report does show activities for a full 12 month period and can be easily compared to other 12 month reporting periods.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

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

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

It should be noted that when major projects take place, financing and expenditures may occur in different fiscal years. For example: The Adel Public Library Construction project was financed in FY04, dramatically increasing the cash balance. The majority of those funds were spent in FY05 reducing the cash balance "back to normal". Similarly, the 2006 Street & Utility Project was financed with short-term temporary bonds in FY07 and the majority of those funds were also spent in FY07, thereby inflating some of the cash balances beyond their normal levels. These types of conditions will be addressed when reporting the financial highlights.

The City has two kinds of funds:

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, which includes the Special Street Reserve Fund 2) the Special Revenue Funds, such as Road Use Tax and Urban Renewal Tax Increment, 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.

Proprietary funds account for the City's Enterprise Funds. These proprietary funds are used to report business type activities. The City maintains separate funds for water, sewer and garbage/recycling, considered to be major funds of the City.

GOVERNMENT FINANCIAL STATEMENTS

All receipts and disbursements for the City of Adel are categorized as either governmental activities or business-type activities. As a tool in understanding the Statement of Activities, an explanation of government accounting follows:

Governmental Funds – Most of the city's basic services are reported in governmental funds. These are categorized during the budgeting process and subsequently the annual report as general, special revenue, debt service and capital projects. The following funds further detail revenue and expenditures.

Public Safety: includes police operations, fire protection, building inspections and animal control.

Public Works: includes roads, bridges, sidewalks, street cleaning, equipment, street lighting, snow removal, some tree care and traffic control.

Culture and Recreation: includes library services, museum, parks, pool and cemetery.

Community and Economic Development: includes activities in the urban renewal area including the industrial park funded by tax increment financing.

General Government: includes mayor, council, elections, general legal services, city hall, and general liability insurance.

Debt Service: includes bond payments for general obligation and street and storm sewer construction.

Capital Projects: This fund is utilized in two different ways:

1. Expenditures for construction/reconstruction projects that are reimbursed with bond proceeds, tax increment financing or other funds. Some projects are financed as internal debts.

2. Capital Improvements set aside funds for vehicle/equipment replacement, building maintenance, office equipment, playground equipment, as well as water and sewer improvement funds which can also be classified as internal service funds. These accounts are funded annually through the budgeting process. By setting aside money for future purchases, the taxpayer realizes savings by eliminating bond and interest costs and the city is able to upgrade its equipment and facilities.

Business-type activities: The City charges customers for these services. They are self-sufficient proprietary funds. Expenditures from these funds include operations, transfers and debt payments. Fees for all the enterprise services are combined on monthly billing statements to individual customers.

Water-Revenues to support the operation and maintenance of the City's water plant and distribution system are derived from billings to customers based on individual usage as well as interest on investments and connection fees. Rates charged for services reflect cost of operations and maintenance, debt payments and funding for future improvements.

Sewer-Revenues to support the operation and maintenance of the City's sewer system are derived from billings to customers based on water usage as well as interest and connection fees. Rates charged for services reflect the cost of operations and maintenance, debt payments as well as funding for future improvements.

Garbage/Recycling-The City contracts for collection of residential garbage and recycling service. Recycling contracts for residential customers include curbside recycling for cardboard, paper, plastic, glass, and metal in containers provided by the City. Yard waste collection is also provided by contract. Residential customers are billed based on that contract with the addition of the per capita landfill fee. The City also contracts for commercial collection of cardboard and paper in the business district and bills those customers accordingly. Revenues are used to pay contracts, purchase recycle containers and pay for services provided by city staff.

2006 FINANCIAL HIGHLIGHTS

- Revenues of the City's governmental activities increased by 12%, from fiscal 2005 to fiscal 2006. TIF, Debt Service and general property tax receipts were generally the same or higher than in FY05.

Property tax revenue increased 1% or approximately \$14,000 and the City's valuation increased 2%. The City's property tax levy increased from \$15.29 to \$15.70 per thousand (2.5%).

- General fund disbursements increased from fiscal year 2005 to 2006 by \$55,012 or 5.3%, and total disbursements decreased \$1,046,032 or 24%. The majority of the increase in disbursements in the general fund can be attributed to the new fire truck purchase and new equipment and lawnmower purchases in parks and recreation.
- The City's total cash basis net assets increased by \$1,888,865 over 2005. Of this amount, the assets of the governmental activities increased approximately \$1,801,437 due to bond proceeds for the 2006 Street Project and the assets of the business type activities increased by approximately \$87,428.

PROPERTY TAX DISTRIBUTION - Another important question asked of City finances is, "What services are provided by property tax dollars?" Property taxes accounted for 57.0% of the funding for governmental activities in FY06. The following table shows how property taxes are distributed to each fund, the % of your total tax that is allocated to each fund as well as other revenues used to support each fund.

FUND	PROPERTY TAXES	% of TOTAL TAXES	OTHER REVENUE	TOTAL
Public Safety	521,248	33.6%	28,871	550,119
Public Works	291,767	18.8%	311,760	603,527
Culture & Recreation	435,096	28%	442,101	877,197
Economic Development	94,326	6.1%	-0-	-0-
General Government	83,572	5.4%	131,884	215,456
Debt Service	-0-	0%	16,609	16,609
Capital Projects	-0-	0%	70,005	70,005
Unallocated funds*	126,163	8.1%	153,298	279,461
Total (including TIF)	1,552,172	100.0%	1,154,528	2,706,700

GOVERNMENT - WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The analysis that follows focuses on the changes in cash balances for governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities	
	Year ended June 30, 2006
Receipts and transfers:	
Program receipts:	
Charges for service	\$ 258,783
Intergovernmental (Operating grants, contributions, and restricted interest.)	395,928
Capital grants, contributions, and restricted interest	346,519
General receipts:	
Property tax	1,214,167
Tax increment financing	338,005
Other taxes	54,502
Unrestricted grants and contributions	-0-
Note proceeds	1,886,057
Unrestricted investment earnings and rent	98,828
Other general receipts	487,888
Other financing sources	106,100
Total receipts and transfers	<u>5,186,777</u>
Disbursements:	
Public safety	550,119
Public works	291,767
Health and social services	-0-
Culture and recreation	435,096
Community and economic development	94,236
General government	215,456
Debt service	821,609
Capital projects	977,057
Non-Program	-0-
Total disbursements	<u>3,385,340</u>
Increase in cash basis net assets	1,801,437
Cash basis net assets beginning of year	<u>2,035,897</u>
Cash basis net assets end of year	<u>\$ 3,837,334</u>

Changes in Cash Basis Net Assets of Business Type Activities

	Year ended June 30,
	2006
Receipts:	
Program receipts:	
Charges for service:	
Water	508,427
Sewer	410,154
Garbage/Recycling	182,405
Capital grants, contributions & restricted interest	-
General receipts:	
Unrestricted interest on investments	5,161
Bond proceeds	-
Other general receipts	-
Total receipts	1,106,147
Disbursements and transfers:	
Water	357,947
Sewer	376,945
Garbage/Recycling	177,727
Transfers	106,100
Total disbursements and transfers	1,018,719
Increase (decrease) in cash balance	87,428
Cash basis net assets beginning of year	405,116
Cash basis net assets end of year	\$ 492,544

Total business type activities receipts for the fiscal year FY06 were \$1,106,147 compared to \$1,033,953 last year. Total disbursements and transfers for the fiscal year decreased by \$263,515 to total of \$1,018,719 mainly due to reduced debt service payments and fiscal prudence.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As The City of Adel completed the year, its governmental funds reported a combined fund balance of \$3,837,334. This balance then reflects an increase of \$1,801,437 from last year's total of \$2,035,897. 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 \$101,786 from the prior year to \$308,173. This increase is attributable to sound fiscal responsibility and better control of expenses.
- The Road Use Tax Fund cash balance increased by \$1,503 during the fiscal year. The City uses this money to undertake various major street projects such as crack sealing on all asphalt surfaces this year and two blocks on Riverside Drive in Kinnick – Feller Park.
- The Urban Renewal Tax Increment Fund cash balance of \$46,205 increased from the previous year as this account did not have much special or new activity.
- The Capital Projects Fund:

This fund split into two areas this year; construction of the library and the 2006 Street & Utility Improvement Project. The library project fund cash balances decreased significantly due to the completion of construction. The street construction project received the temporary note proceeds so cash funds increased significantly.

Internal Debt projects (Brickyard Road (\$20,000) and Public Safety Building (\$20,000) were reduced drastically due to two major funds (industrial park and city hall) being retired. These debts will continue to be reduced by transfers from The TIF fund.

Capital Improvements fund balances had a net decrease of \$41,220 due to major purchases of vehicles and equipment. Some notable FY06 purchases include: park mower, air compressor and a sewer jet machine. Funds continue to be transferred from Water and Sewer funds for future utility improvements.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance increased by \$117,456 to \$271,472, due to a scheduled CPI rate increase and no major projects or improvements scheduled for the year. Substantial transfers were made to the Water Department for future system improvements and debt service.
- The Sewer Fund cash balance decreased by \$29,706 to \$155,077 due to some relining of main lines and other repairs. Substantial transfers were made to the Sewer Department for future system improvements and debt service.
- Garbage/Recycling Fund decreased by \$322 to \$65,995. The city will continue to improve services throughout the community.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget once. The amendment was approved on May 9th, 2006 and provided for changes in the revenue and disbursements in various city funds.

DEBT ADMINISTRATION

At June 30, 2006, the City had approximately \$9,319,470 in bonds and other long-term debt, compared to approximately \$7,805,470 last year, as shown below.

Outstanding Debt at Year-End		
	June 30,	
	2006	2005
General obligation capital loan notes	\$ 8,364,000	7,039,000
Tax Increment Financing bonds	30,000	45,000
Revenue bonds and notes	850,470	646,470
Special assessment bonds	75,000	75,000
Bank Notes	-	-
Lease purchase agreement	-	-
Total	<u>\$ 9,319,470</u>	<u>7,805,470</u>

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. This also includes Tax Increment Revenue Bonds. FY06 debt is \$6,459,000. This debt, however, remains below the constitutional debt limit of \$8,203,018. The City of Adel is currently utilizing 84.94% of its debt limit.

TIF REBATES

The City has a 10-year decreasing tax rebate agreement with United Brick and Tile Company for its expansion at the brick plant, which increased their property values by \$1.75 million. The third rebate was paid in FY06 in the amount of \$48,185.54 which represented 80% of the increased taxes paid by the company as a result of the expansion. Next year's rebate will be in the amount of \$42,826.37 or 70% of the increased taxes. Rebates will continue to be paid, reducing by 10% each year until 2013.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City of Adel considered many factors when setting the fiscal year 2006 budget, tax rates, and fees that will be charged for various City activities. Park user fees were continued to fund the playground equipment capital projects.

When adopting the budget for fiscal year 2006, it was recommended that departments submit budget requests essentially the same as the previous year. In doing so, the City of Adel tax levy rate increased slightly, to \$15.72 from \$15.29 per thousand of taxable value. Taxable valuations throughout the city increased by \$1.34 million due to new construction and partial reassessments

by the Dallas County Assessor. This will generate an additional \$21,064 in property taxes which is just over a 2% increase in property tax revenue.

Property valuation serves as the basis for calculating property taxes. Since 1978, residential, commercial, industrial and agricultural classifications have been subject to an assessment limitation order, or rollback, that limits annual growth in property values to 4%. A further restriction is that the growth of residential property cannot exceed that of agricultural property. Residential property for FY06 was taxed at 48.45% of its value, a decrease of 1% from FY05. This puts an additional tax burden on commercial properties, raising economic development issues.

Revenues from road use tax will increase due to the DOT formula of payment for the per capita of the city.

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 Chad Bird, City Administrator or Pat Gilliland, City Clerk/Treasurer, 301 S. 10th Street, P.O. Box 248, Adel, Iowa.

City of Adel

Basic Financial Statements

City of Adel

Statement of Activities and Net Assets – Cash Basis

As of and for the year ended June 30, 2006

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions, and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions / Programs:				
Governmental activities:				
Public safety	\$ 550,119	28,127	744	-
Public works	291,767	17,036	294,724	-
Health and social services	-	-	-	-
Culture and recreation	435,096	52,606	42,976	346,519
Community and economic development	94,236	-	-	-
General government	215,456	93,962	37,922	-
Debt service	821,609	-	16,609	-
Capital projects	977,057	67,052	2,953	-
Total governmental activities	3,385,340	258,783	395,928	346,519
Business type activities:				
Water	357,947	508,427	-	-
Sewer	376,945	410,154	-	-
Garbage/Recycling	177,727	182,405	-	-
Total business type activities	912,619	1,100,986	-	-
Total	\$ 4,297,959	1,359,769	395,928	346,519
General Receipts:				
Property tax levied for:				
General purposes				
Tax increment financing				
Debt service				
Mobile home tax				
Franchise taxes				
Grants and contributions not restricted to specific purpose				
Unrestricted interest on investments				
Rent				
Anticipatory notes, net of discount				
Miscellaneous				
Sale of assets				
Transfers				
Total general receipts and transfers				
Change in cash basis net assets				
Cash basis net assets beginning of year				
Cash basis net assets end of year				
Cash Basis Net Assets				
Restricted:				
Streets				
Urban renewal purposes				
Debt service				
Other purposes				
Unrestricted				
Total cash basis net assets				

See notes to financial statements.

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
Governmental Activities	Business Type Activities	Total
(521,248)	-	(521,248)
19,993	-	19,993
-	-	-
7,005	-	7,005
(94,236)	-	(94,236)
(83,572)	-	(83,572)
(805,000)	-	(805,000)
(907,052)	-	(907,052)
(2,384,110)	-	(2,384,110)
-	150,480	150,480
-	33,209	33,209
-	4,678	4,678
-	188,367	188,367
(2,384,110)	188,367	(2,195,743)
898,217	-	898,217
338,005	-	338,005
315,950	-	315,950
2,804	-	2,804
51,698	-	51,698
-	-	-
58,386	5,161	63,547
40,442	-	40,442
1,886,057	-	1,886,057
-	-	-
487,888	-	487,888
106,100	(106,100)	-
4,185,547	(100,939)	4,084,608
1,801,437	87,428	1,888,865
2,035,897	405,116	2,441,013
\$ 3,837,334	492,544	4,329,878
\$ 19,132	-	19,132
46,205	-	46,205
1,674,136	345,606	2,019,742
-	-	-
2,097,861	146,938	2,244,799
\$ 3,837,334	492,544	4,329,878

City of Adel

Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Governmental Funds
As of and for the year ended June 30, 2006

	Special Revenue			Debt Service	
	General	Urban Renewal Tax Increment	Road Use Tax	General Obligation Bonds	Refunded Bond Trust Fund
Receipts:					
Property tax	\$ 664,077	-	-	315,950	-
Tax increment financing collections	-	338,005	-	-	-
Other city tax	31,883	-	-	10,781	-
Licenses and permits	84,249	-	-	-	-
Use of money and property	49,143	-	-	-	49,685
Intergovernmental	31,133	-	294,724	-	-
Charges for service	88,402	-	-	-	-
Special assessments	-	-	-	-	-
Miscellaneous	36,975	-	-	15,909	700
Total receipts	985,862	338,005	294,724	342,640	50,385
Disbursements:					
Operating:					
Public safety	426,287	-	-	-	-
Public works	59,846	-	231,921	-	-
Culture and recreation	338,151	-	-	-	-
Community and economic development	-	52,026	-	-	-
General government	211,031	-	-	-	-
Debt service	-	18,330	-	533,589	68,101
Capital projects	-	-	-	-	-
Total disbursements	1,035,315	70,356	231,921	533,589	68,101
Excess (deficiency) of receipts over (under) disbursements	(49,453)	267,649	62,803	(190,949)	(17,716)
Other financing sources (uses):					
Note proceeds	-	-	-	-	-
Sale of fixed assets	122,935	-	-	-	-
Operating transfers in	39,465	-	-	202,628	-
Operating transfers out	(11,161)	(240,000)	(61,300)	-	-
Total other financing sources (uses)	151,239	(240,000)	(61,300)	202,628	-
Net change in cash balances	101,786	27,649	1,503	11,679	(17,716)
Cash balances beginning of year	206,387	18,556	17,629	(42,195)	1,584,160
Cash balances end of year	\$ 308,173	46,205	19,132	(30,516)	1,566,444
Cash Basis Fund Balances					
Reserved:					
Debt service	\$ -	-	-	(30,516)	1,566,444
Unreserved:					
General fund	308,173	-	-	-	-
Special revenue funds	-	46,205	19,132	-	-
Debt service funds	-	-	-	-	-
Capital projects funds	-	-	-	-	-
Total cash basis fund balances	\$ 308,173	46,205	19,132	(30,516)	1,566,444

See notes to financial statements.

Capital Projects		Other	
Library Building Project	2006 Street Improvements	Nonmajor Governmental Funds	Total
-	-	234,140	1,214,167
-	-	-	338,005
-	-	9,034	51,698
-	-	-	84,249
1,330	-	1,415	101,573
-	-	3,591	329,448
-	-	16,761	105,163
-	-	50,291	50,291
345,542	-	32,980	432,106
346,872	-	348,212	2,706,700
-	-	123,832	550,119
-	-	-	291,767
-	-	96,945	435,096
-	-	42,210	94,236
-	-	4,425	215,456
-	-	201,589	821,609
710,837	263,665	2,555	977,057
710,837	263,665	471,556	3,385,340
(363,965)	(263,665)	(123,344)	(678,640)
-	1,886,057	-	1,886,057
-	-	364,985	487,920
-	-	253,921	496,014
-	-	(77,453)	(389,914)
-	1,886,057	541,453	2,480,077
(363,965)	1,622,392	418,109	1,801,437
326,911	-	(75,551)	2,035,897
(37,054)	1,622,392	342,558	3,837,334
-	-	138,208	1,674,136
-	-	-	308,173
-	-	165,814	231,151
-	-	-	-
(37,054)	1,622,392	38,536	1,623,874
(37,054)	1,622,392	342,558	3,837,334

City of Adel

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

As of and for the year ended June 30, 2006

	Enterprise Funds			Total
	Water	Sewer	Other Nonmajor Proprietary Funds	
Operating receipts:				
Charges for service	\$ 498,452	410,154	182,405	1,091,011
Miscellaneous	9,975	-	-	9,975
Total operating receipts	508,427	410,154	182,405	1,100,986
Operating disbursements:				
Business type activities	327,897	276,792	177,727	782,416
Excess (deficiency) of operating receipts over (under) operating disbursements	180,530	133,362	4,678	318,570
Non-operating receipts (disbursements):				
Interest on investments	2,576	2,585	-	5,161
Debt service	(30,050)	(100,153)	-	(130,203)
Total non-operating receipts (disbursements)	(27,474)	(97,568)	-	(125,042)
Excess (deficiency) of receipts over (under) disbursements	153,056	35,794	4,678	193,528
Other financing sources (uses):				
Operating transfers in	-	-	-	-
Operating transfers out	(35,600)	(65,500)	(5,000)	(106,100)
Total other financing sources (uses)	(35,600)	(65,500)	(5,000)	(106,100)
Net change in cash balances	117,456	(29,706)	(322)	87,428
Cash balances beginning of year	154,016	184,783	66,317	405,116
Cash balances end of year	\$ 271,472	155,077	65,995	492,544
Cash Basis Fund Balances				
Reserved for debt service	\$ 176,394	169,212	-	345,606
Unreserved	95,078	(14,135)	65,995	146,938
Total cash basis fund balances	\$ 271,472	155,077	65,995	492,544

See notes to financial statements.

City of Adel

City of Adel

Notes to Financial Statements

June 30, 2006

(1) Summary of Significant Accounting Policies

The City of Adel is a political subdivision of the State of Iowa located in Dallas County. It was first incorporated in 1848 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, health and social services, culture and recreation, community and economic development, and general government services. The City also provides water, sewer and garbage/recycling service for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Adel has included all funds, organizations, agencies, boards, commissions and authorities, except for its component unit, the South Dallas County Landfill Agency. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's primary government financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City.

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

Component Unit

The South Dallas County Landfill Agency is a component unit of the City of Adel and is not presented in these primary government financial statements. It is legally separate from the City, but is financially accountable to the City. The Landfill is governed by a one member Board appointed by the City Council and the Landfill's operating budget is subject to the approval of the City Council.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards

and commissions: Central Iowa Regional Transportation and Planning Alliance (CIRTPA) Board, West Metro Regional Airport Authority, CIRTPA Policy Committee, CIRTPA Technical Committee and the Greater Dallas County Development Alliance.

B. Basis of Presentation

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

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

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

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

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

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

The City reports the following major governmental funds:

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

Special Revenue:

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

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

Debt Service:

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

The Refunding Bond Trust Fund is used to account for the 2005 general obligation capital loan notes.

Capital Projects:

The Library Building Project is used to account for construction on the new Library being built next to the City Hall.

The 2006 Street Improvements Fund is used to account for street improvement projects.

The City reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the City's water system.

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

C. Measurement Focus and Basis of Accounting

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

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 paid, 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, 2006, disbursements exceeded the amounts budgeted in the culture and recreation and debt service functions.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2006 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, 2006, the City had the following investments:

Type	Carrying Amount	Fair Value	Maturity
US Treasury Note	1,565,372	1,565,372	June 2007

In addition, the City had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$230,079 pursuant to Rule 2a-7 under the Investment Company Act of 1940.

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

Credit risk – The City's investment in the Iowa Public Agency Investment Trust is unrated.

(3) Bonds and Notes Payable

Annual debt service requirements to maturity for general obligation notes, urban renewal tax increment financing bonds, revenue bonds and notes, special assessment notes, and state revolving loans are as follows:

Year Ending June 30,	General Obligation Notes		Revenue Bonds and Notes		Special Assessment Notes		Urban Renewal Tax Increment Financing Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
	2007	\$ 1,866,000	\$ 334,948	\$ 106,000	\$ 32,029	\$ -	\$ 5,565	\$ 15,000	\$ 2,235	\$ 1,987,000
2008	379,000	298,870	121,000	27,795	25,000	4,425	15,000	1,125	540,000	332,215
2009	401,000	284,105	127,000	23,787	25,000	2,975	-	-	553,000	310,867
2010	418,000	267,858	127,000	19,393	25,000	1,500	-	-	570,000	288,751
2011	480,000	250,308	138,000	14,827	-	-	-	-	618,000	265,135
2012-2016	2,670,000	919,631	216,000	24,470	-	-	-	-	2,886,000	944,101
2017-2021	1,635,000	312,821	15,470	627	-	-	-	-	1,650,470	313,448
2022-2024	515,000	54,697	-	-	-	-	-	-	515,000	54,697
Total	\$ 8,364,000	2,723,238	850,470	142,928	75,000	14,465	30,000	3,360	9,319,470	2,883,991

The urban renewal tax increment financing revenue bonds were issued for the purpose of defraying a portion of the costs of carrying out an urban renewal project of the City. The bonds are payable solely from the income and proceeds of the Urban Renewal Tax Increment Fund and the taxes to be paid into the fund in accordance with Chapter 403.19 of the Code of Iowa. The proceeds of the urban renewal tax increment financing revenue bonds shall be expended only for purposes which are consistent with the plans of the City's urban renewal area. The bonds are not a general obligation of the City, however the debt is subject to the constitutional debt limitation of the City.

The resolutions providing for the issuance of the water and sewer revenue bonds and notes include the following provisions:

- a) The bonds and notes will only be redeemed from the future earnings of the enterprise activity and the bond and note holders hold a lien on the future earnings of the funds.
- b) Sufficient monthly cash transfers shall first be made to an operation and maintenance fund in an amount equal to current expenses of the month plus an amount equal to one-twelfth of the expenses payable on an annual basis.
- c) Sufficient monthly cash transfers shall be made to separate water and sewer revenue bond sinking accounts for the purpose of making the bond and note principal and interest payments when due.
- d) Additional monthly cash transfers shall be made to separate water and sewer reserve accounts until specific monthly balances have been accumulated.
- e) Additional monthly cash transfers of \$750 shall be made to a water revenue bond improvement account until a minimum of \$45,000 is accumulated. This account is restricted for the purpose of paying the cost of capital improvements and extensions to the municipal waterworks plant and system provided that no deficiency exists in the amounts required to be paid into the water revenue bond sinking account, and to call and redeem such bonds issued hereunder or as may be thereafter issued when subject to redemption prior to maturity.

The resolution providing for the issuance of the \$190,000 Urban Renewal Tax Increment Revenue Bonds, Taxable Series 1993 includes the following provisions:

- a) The net revenues of the project shall be deposited as collected in the Urban Renewal Tax Increment Revenue Fund.
- b) A special fund from which interest and principal on the bonds shall be paid shall be established. The fund shall be known as the Urban Renewal Project Revenue Sinking Account. The amount to be deposited in the account is an amount equal to the interest and principal coming due on such bonds during the fiscal year. Moines shall be transferred from the Urban Renewal Tax Increment Revenue Fund.

As noted in the Schedule of Findings, the City is not in compliance with the provisions of the water or sewer revenue bonds.

General Obligation Refunding Capital Loan Notes

On April 15, 2005, the City issued \$1,610,000 of general obligation refunding capital loan notes, with interest rates ranging from 3.10% to 4.15%, for a crossover refunding of \$95,000 in principal on the GO Capital Loan Notes dated March 1, 2000, and \$1,470,000 in principal for the GO Capital Loan Notes dated November 1, 2000. The City entered into an escrow agreement whereby the proceeds from general obligation refunding notes were converted into U.S. Securities. These securities were placed in an escrow account for the purpose of paying \$95,000 in principal and \$1,470,000 in principal on the refunded general obligation capital loan notes on the crossover date of June 1, 2007 and the interest from April 15, 2005 to and including

June 1, 2007 on the refunding capital loan notes. After the principal and interest on all of the outstanding notes have been paid, any remaining funds in the escrow account, together with any interest thereon, shall be returned to the City. The transactions, balances and liabilities of the escrow account are recorded by the City since the refunded debt is not considered extinguished.

Annual debt service requirements to maturity of the general obligation refunding capital loan notes are as follows:

Year Ending June 30,	General Obligation Corporate Purpose and Refunding Notes	
	Issued April 15, 2005	
	Principal	Interest
2007	\$ -	\$ 60,385
2008	95,000	60,385
2009	100,000	57,440
2010	100,000	54,190
2011	145,000	50,790
2012-2016	800,000	171,175
2017-2018	370,000	23,150
Total	\$ 1,610,000	477,515

During the year ended June 30, 2006, none of the general obligation refunding capital loan notes were retired.

(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 years ended June 30, 2006, 2005 and 2004 were \$50,863, \$48,151 and \$50,654, respectively, equal to the required contributions for each 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 termination payments payable to employees at June 30, 2006, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Vacation	\$ 34,623

This liability has been computed based on rates of pay in effect at June 30, 2006.

(6) Settlement Agreement

On September 29, 1998, the Adel City Council approved a settlement agreement regarding the City of Adel's closure/post-closure costs which have been incurred in the past and those that are expected to be incurred in the future, based upon population and use of certain areas of the South Dallas County Landfill. Under the agreement, the City agreed to pay to the landfill the sum of \$39,592 per year for thirty years for future closure/post-closure costs, and \$27,553 per year for five years to reimburse the landfill agency for closure/post-closure costs already incurred. Also included in the settlement agreement is an indemnification provision. The other cities which execute the settlement agreement will have their annual contributions fixed at a "not to exceed" level.

(7) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2006 is as follows:

Transfer to	Transfer from	Amount
General	Special Revenue:	
	Urban Renewal Tax Increment	\$ 10,000
	Emergency Levy	20,470
	Capital Project:	
	Brick Improvement	3,995
	Enterprise:	
	Garbage	5,000
		<u>39,465</u>
Debt Service:	Special Revenue:	
General Obligation Bonds	Urban Renewal Tax Increment	190,000
General Obligation Bonds	Debt Service:	
	2002 Street Utility	12,628
		<u>202,628</u>
Capital Projects:	Special Revenue:	
Brickyard Road Project	Urban Renewal Tax Increment	20,000
Public Safety Building	Urban Renewal Tax Increment	20,000
Building Maintenance	Road Use Tax	1,300
Vehicle Replacement	Road Use Tax	60,000
Pool Improvement	Central Park Memorial	5,360
Playground Equipment	Capital Projects:	
	Industrial Park	35,000
Vehicle Replacement	Enterprise:	
Vehicle Replacement	Water	5,600
	Sewer	5,000
Water Upgrade	Enterprise:	
Capital Improvement Sewer	Water	30,000
Building Maintenance	Sewer	60,000
Fire Equipment Upgrade	Sewer	500
Building Maintenance	General	3,090
03-04 Asphalt Paving	General	5,550
	General	2,521
		<u>253,921</u>
Total		<u>\$ 496,014</u>

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

(8) Notes Receivable/Economic Development

The City of Adel is a member of the Dallas County Developers Organization. The Organization was developed to promote economic development within the community. Each year, the City contributes \$1 per capita. This year's contribution was \$6,870.

In April of 2000, the Iowa Department of Economic Development approved the City's application for funding from the Community Economic Betterment Account. The funding consists of a zero percent seven year loan in an amount not to exceed \$500,000. The City received the \$500,000 in the fiscal year ended June 30, 2001 and disbursed the money to United Brick and Tile, Inc. and the City's liability is limited to its good faith enforcement of the loan.

(9) Related Party Transactions

The City had business transactions between the City and the South Dallas County Landfill Agency totaling \$18,582.

(10) South Dallas County Landfill Agency

The City of Adel is currently the sole participant in the South Dallas County Landfill Agency. The Agency was established for the primary purpose of providing for the collection and disposal of solid waste produced or generated by each participant. The Agency is governed by a board composed of an elected representative of the governed body of the participating governmental jurisdiction.

The Agency may not be accumulating sufficient financial resources and the municipalities may be obligated for a proportionate share of the debt, therefore, the City may have an ongoing financial obligation.

Complete financial statements for the Agency can be obtained from the Agency.

(11) Risk Management

The City is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(12) Garbage Contract

On July 1, 1998, the City entered into a contract with Waste Management of Iowa to provide collection services for City residents. The contract runs thru June 30, 2009. The City pays the contractor \$12.60 per residential household unit from which solid waste is collected. During the year ended June 30, 2006, the City paid a total of \$156,124 to Waste Management of Iowa. These fees included garbage pickup, recycling, yard waste and per capita fees.

(13) Deficit Fund Balances

The City had the following deficit balances at June 30, 2006:

Debt Service Fund	General Obligation Bonds	\$30,516
Capital Projects Funds	Library Building	37,054
	Brickyard Road Project	80,000
	Public Safety Building	283,407
Special Revenue Funds	Fire	1,911
	Short Term Projects	725
	Police Academy	210

(14) Line of Credit

At June 30, 2006, the City has an unused revolving line of credit with a financial institution. The revolving line of credit is for \$450,000 and expires on November 15, 2006.

Required Supplementary Information

City of Adel
 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, 2006

	Governmental Funds Actual	Proprietary Funds Actual	Net	Budgeted Amounts		Final to Net Variance
				Original	Final	
Receipts:						
Property tax	\$ 1,214,167	-	1,214,167	1,204,086	1,204,086	10,081
Tax increment financing collections	338,005	-	338,005	320,000	320,000	18,005
Other city tax	51,698	-	51,698	49,392	49,392	2,306
Licenses and permits	84,249	-	84,249	54,400	89,400	(5,151)
Use of money and property	101,573	5,161	106,734	36,850	36,850	69,884
Intergovernmental	329,448	-	329,448	367,089	367,089	(37,641)
Charges for service	105,163	1,091,011	1,196,174	1,167,895	1,187,895	8,279
Special assessments	50,291	-	50,291	53,000	53,000	(2,709)
Miscellaneous	432,106	9,975	442,081	746,600	776,600	(334,519)
Total receipts	<u>2,706,700</u>	<u>1,106,147</u>	<u>3,812,847</u>	<u>3,999,312</u>	<u>4,084,312</u>	<u>(271,465)</u>
Disbursements:						
Public safety	550,119	-	550,119	600,598	602,598	52,479
Public works	291,767	-	291,767	361,953	365,253	73,486
Culture and recreation	435,096	-	435,096	356,525	403,525	(31,571)
Community and economic development	94,236	-	94,236	320,000	320,000	225,764
General government	215,456	-	215,456	201,104	291,104	75,648
Debt service	821,609	-	821,609	567,037	640,478	(181,131)
Capital projects	977,057	-	977,057	1,002,000	1,402,000	424,943
Business type activities	-	912,619	912,619	1,015,557	1,075,557	162,938
Total disbursements	<u>3,385,340</u>	<u>912,619</u>	<u>4,297,959</u>	<u>4,424,774</u>	<u>5,100,515</u>	<u>802,556</u>
Excess (deficiency) of receipts over (under) disbursements	(678,640)	193,528	(485,112)	(425,462)	(1,016,203)	531,091
Other financing sources, net	2,480,077	(106,100)	2,373,977	-	400,000	1,973,977
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	1,801,437	87,428	1,888,865	(425,462)	(616,203)	2,505,068
Balances beginning of year	<u>2,035,897</u>	<u>405,116</u>	<u>2,441,013</u>	<u>971,742</u>	<u>971,742</u>	<u>1,469,271</u>
Balances end of year	<u>\$ 3,837,334</u>	<u>492,544</u>	<u>4,329,878</u>	<u>546,280</u>	<u>355,539</u>	<u>3,974,339</u>

See accompanying independent auditors' report.

City of Adel

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2006

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

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Funds, Capital Projects Funds and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted receipts and disbursements by \$85,000 and \$675,741, respectively. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2006, disbursements exceeded the amounts budgeted in the culture and recreation and debt service functions.

Other Supplementary Information

City of Adel

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

As of and for the year ended June 30, 2006

	Special Revenue							
	Flex Plan	Employee Benefits	Library Memorial	Central Park Memorial	Fire	Police	Police DARE	Police Academy
Receipts:								
Property tax	\$ -	214,284	-	-	-	-	-	-
Use of money and property	-	-	-	-	-	-	-	-
Intergovernmental	-	-	3,591	-	-	-	-	-
Other city tax	-	8,267	-	-	-	-	-	-
Special assessments	-	-	-	-	-	-	-	-
Charges for service	-	-	-	-	-	-	-	-
Miscellaneous	9,740	-	5,484	1,999	566	-	101	-
Total receipts	9,740	222,551	9,075	1,999	566	-	101	-
Disbursements:								
Operating:								
Public safety	570	112,156	-	-	1,950	-	66	3,210
Public works	-	-	-	-	-	-	-	-
Culture and recreation	699	87,224	8,933	-	-	-	-	-
General government	7,366	34,844	-	-	-	-	-	-
Debt service	-	-	-	-	-	-	-	-
Capital projects	-	-	-	-	-	-	-	-
Business type	2,214	-	-	-	-	-	-	-
Total disbursements	10,849	234,224	8,933	-	1,950	-	66	3,210
Excess (deficiency) of receipts over (under) disbursements	(1,109)	(11,673)	142	1,999	(1,384)	-	35	(3,210)
Other financing sources (uses):								
Sale of fixed assets	-	-	-	-	-	-	-	-
Operating transfers in	-	-	-	-	-	-	-	-
Operating transfers out	-	-	-	(5,360)	-	-	-	-
Total other financing sources (uses):	-	-	-	(5,360)	-	-	-	-
Net change in cash balances	(1,109)	(11,673)	142	(3,361)	(1,384)	-	35	(3,210)
Cash balances beginning of year	12,857	108,084	13,088	5,198	(527)	16,510	70	3,000
Cash balances end of year	\$ 11,748	\$ 96,411	13,230	1,837	(1,911)	16,510	105	(210)
Cash Basis Fund Balances								
Reserved:								
Debt service funds	\$ -	-	-	-	-	-	-	-
Unreserved:								
Special revenue funds	11,748	96,411	13,230	1,837	(1,911)	16,510	105	(210)
Capital projects funds	-	-	-	-	-	-	-	-
Total cash basis fund balances	\$ 11,748	96,411	13,230	1,837	(1,911)	16,510	105	(210)

See accompanying independent auditors' report.

Special Revenue					
Police Equipment	Short Term Projects	Park Impact Fees	Emergency Levy	Historical Musuem	Refunds
-	-	-	19,856	-	-
-	-	-	-	-	-
-	-	-	767	-	-
-	-	-	-	-	-
-	-	-	-	-	-
77	2,953	2,080	-	769	8,234
77	2,953	2,080	20,623	769	8,234
5,880	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	89	-
-	-	-	-	-	-
-	-	-	-	-	-
-	3,068	-	-	-	-
-	-	-	-	-	341
5,880	3,068	-	-	89	341
(5,803)	(115)	2,080	20,623	680	7,893
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	(20,470)	-	-
-	-	-	(20,470)	-	-
(5,803)	(115)	2,080	153	680	7,893
10,542	(610)	11,049	-	-	2,225
4,739	(725)	13,129	153	680	10,118
-	-	-	-	-	-
4,739	(725)	13,129	153	680	10,118
-	-	-	-	-	-
4,739	(725)	13,129	153	680	10,118

Debt Service		Capital Projects		
1998 Paving	2002 Street Utility	Capital Improvement Sewer	Office Replacement	Vehicle Replacement
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
23,199	27,092	-	-	-
-	-	-	-	-
23,199	27,092	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
4,425	-	-	-	-
-	-	-	13,901	111,822
-	-	-	-	-
4,425	-	-	13,901	111,822
18,774	27,092	-	(13,901)	(111,822)
-	-	-	32	-
-	-	60,000	-	70,600
-	(12,628)	-	-	-
-	(12,628)	60,000	32	70,600
18,774	14,464	60,000	(13,869)	(41,222)
60,732	44,238	35,968	14,550	110,717
79,506	58,702	95,968	681	69,495
79,506	58,702	-	-	-
-	-	-	-	-
-	-	95,968	681	69,495
79,506	58,702	95,968	681	69,495

City of Adel

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

As of and for the year ended June 30, 2006

	Capital Projects						
	Building Maintenance	Brick Improvement	Water Upgrade	Industrial Park Project	Pool Improvement	Disc Golf	Brickyard Road Project
Receipts:							
Property tax	\$ -	-	-	-	-	-	-
Use of money and property	-	-	-	1,415	-	-	-
Intergovernmental	-	-	-	-	-	-	-
Other city tax	-	-	-	-	-	-	-
Special assessments	-	-	-	-	-	-	-
Charges for service	-	-	-	-	2,148	324	-
Miscellaneous	-	-	-	-	-	-	-
Total receipts	-	-	-	1,415	2,148	324	-
Disbursements:							
Operating:							
Public safety	-	-	-	-	-	-	-
Public works	-	-	-	-	-	-	-
Culture and recreation	-	-	-	-	-	-	-
General government	-	-	-	-	-	-	-
Debt service	-	-	-	-	-	-	-
Capital projects	-	-	-	18,255	-	-	-
Business type	-	-	-	-	-	-	-
Total disbursements	-	-	-	18,255	-	-	-
Excess (deficiency) of receipts over (under) disbursements	-	-	-	(16,840)	2,148	324	-
Other financing sources (uses):							
Sale of fixed assets	-	-	-	364,953	-	-	-
Operating transfers in	7,350	-	30,000	-	5,360	-	20,000
Operating transfers out	-	(3,995)	-	(35,000)	-	-	-
Total other financing sources (uses):	7,350	(3,995)	30,000	329,953	5,360	-	20,000
Net change in cash balances	7,350	(3,995)	30,000	313,113	7,508	324	20,000
Cash balances beginning of year	5,253	3,995	10,462	(145,150)	-	-	(100,000)
Cash balances end of year	\$ 12,603	-	40,462	167,963	7,508	324	(80,000)
Cash Basis Fund Balances							
Reserved:							
Debt service funds	\$ -	-	-	-	-	-	-
Unreserved:							
Special revenue funds	-	-	-	-	-	-	-
Capital projects funds	12,603	-	40,462	167,963	7,508	324	(80,000)
Total cash basis fund balances	\$ 12,603	-	40,462	167,963	7,508	324	(80,000)

See accompanying independent auditors' report.

Capital Projects							
Public Safety Building	2003-2004 Asphalt Paving Project	Sewer Refund Project	Fire Equipment Upgrade	Playground Equipment	Ball Diamond	Total	
-	-	-	-	-	-	-	234,140
-	-	-	-	-	-	-	1,415
-	-	-	-	-	-	-	3,591
-	-	-	-	-	-	-	9,034
-	-	-	-	-	-	-	50,291
-	-	-	-	14,289	-	-	16,761
-	-	-	-	700	277	-	32,980
-	-	-	-	14,989	277	-	348,212
-	-	-	-	-	-	-	123,832
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	96,945
-	-	-	-	-	-	-	42,210
-	-	-	-	-	-	-	4,425
-	-	-	1,532	52,734	277	-	201,589
-	-	-	-	-	-	-	2,555
-	-	-	1,532	52,734	277	-	471,556
-	-	-	(1,532)	(37,745)	-	-	(123,344)
-	-	-	-	-	-	-	364,985
20,000	2,521	-	3,090	35,000	-	-	253,921
-	-	-	-	-	-	-	(77,453)
20,000	2,521	-	3,090	35,000	-	-	541,453
20,000	2,521	-	1,558	(2,745)	-	-	418,109
(303,407)	(2,521)	678	2,359	3,767	1,322	-	(75,551)
(283,407)	-	678	3,917	1,022	1,322	-	342,558
-	-	-	-	-	-	-	138,208
-	-	-	-	-	-	-	165,814
(283,407)	-	678	3,917	1,022	1,322	-	38,536
(283,407)	-	678	3,917	1,022	1,322	-	342,558

City of Adel
Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Nonmajor Proprietary Fund
As of and for the year ended June 30, 2006

	<u>Garbage/ Recycling</u>
Operating Receipts:	
Charges for service	\$ 182,405
Operating Disbursements:	
Business type activities	<u>177,727</u>
Excess (deficiency) of receipts over (under) disbursements	4,678
Other financing uses:	
Operating transfers out	<u>(5,000)</u>
Net change in cash balance	(322)
Cash balance beginning of year	<u>66,317</u>
Cash balance end of year	<u><u>\$ 65,995</u></u>
Cash Basis Fund Balance	
Unreserved	<u>\$ 65,995</u>
Total cash basis fund balance	<u><u>\$ 65,995</u></u>

See accompanying independent auditors' report.

City of Adel
Schedule of Indebtedness
Year ended June 30, 2006

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation notes:			
Capital loan notes	Mar 1, 2000	4.90-5.50%	\$ 270,000
Capital loan notes	Jan 14, 2000	4.75-5.35%	300,000
Capital loan notes	Nov 1, 2000	4.80-5.80%	1,655,000
Capital loan notes	Oct 1, 2002	3.00-5.00%	1,000,000
Capital loan notes	Jun 1, 2004	2.25-5.30%	2,600,000
Capital loan notes	Apr 15, 2005	3.10-4.15%	1,610,000
Capital loan anticipation notes	Jun 29, 2006	3.75%	1,590,000
Total			
Revenue notes:			
Water	May 1, 1989	10.00-10.10%	\$ 275,000
Sewer revenue capital loan notes	May 1, 2003	1.50-3.50%	575,000
1997 State revolving sewer revenue loan	Jun 26, 1997	3.92.%	309,000
Water	Jun 15, 2006	3.95-4.40%	310,000
Total			
Special assessment notes:			
Street improvement capital loan notes	Mar 1, 2000	5.20-6.00%	\$ 215,000
Urban renewal tax increment financing (TIF) revenue bonds:			
1993 Series	Aug 1, 1993	4.50-7.50%	\$ 190,000

See accompanying independent auditors' report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
150,000	-	25,000	125,000	8,128	-
169,000	-	30,000	139,000	9,042	-
1,570,000	-	50,000	1,520,000	87,468	-
940,000	-	60,000	880,000	41,273	-
2,600,000	-	100,000	2,500,000	113,215	-
1,610,000	-	-	1,610,000	68,101	-
-	1,590,000	-	1,590,000	-	-
\$ 7,039,000	1,590,000	265,000	8,364,000	327,227	-
\$ 50,000	-	25,000	25,000	5,050	-
440,000	-	70,000	370,000	12,920	-
156,470	-	11,000	145,470	6,154	-
-	310,000	-	310,000	-	-
\$ 646,470	310,000	106,000	850,470	24,124	-
\$ 75,000	-	-	75,000	4,425	-
\$ 45,000	-	15,000	30,000	3,330	-

City of Adel
Bond and Note Maturities

June 30, 2006

General						
Year Ending June 30,	Capital Loan Notes Issued Jan 14, 2000		Capital Loan Notes Issued Mar 1, 2000		Capital Loan Notes Issued Nov 1, 2000	
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount
2007	5.35%	\$ 31,000	5.35%	\$ 30,000	5.20%	\$ 50,000
2008	5.35	34,000	5.40	30,000	5.25	50,000
2009	5.35	36,000	5.45	30,000	5.30	55,000
2010	5.35	38,000	5.50	35,000	5.35	55,000
2011	-	-	-	-	5.40	135,000
2012	-	-	-	-	5.50	140,000
2013	-	-	-	-	5.55	150,000
2014	-	-	-	-	5.60	160,000
2015	-	-	-	-	5.65	165,000
2016	-	-	-	-	5.70	175,000
2017	-	-	-	-	5.75	185,000
2018	-	-	-	-	5.80	200,000
2019	-	-	-	-	-	-
2020	-	-	-	-	-	-
2021	-	-	-	-	-	-
2022	-	-	-	-	-	-
2023	-	-	-	-	-	-
2024	-	-	-	-	-	-
Total		<u>\$ 139,000</u>		<u>\$ 125,000</u>		<u>\$ 1,520,000</u>

Revenue Bonds and Notes									
Year Ending June 30,	Water Issued May 1, 1989		Water Issued Jun 15, 2006		Sewer Revenue Capital Loan Notes Issued May 1, 2003		State Revolving Loan Issued Jun 26, 1997		Total
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	
2007	10.10%	\$ 25,000	-	\$ -	2.55%	\$ 70,000	3.92%	\$ 11,000	\$ 106,000
2008	-	-	3.95%	40,000	2.85	70,000	3.92	11,000	121,000
2009	-	-	4.00	40,000	3.10	75,000	3.92	12,000	127,000
2010	-	-	4.05	40,000	3.30	75,000	3.92	12,000	127,000
2011	-	-	4.15	45,000	3.50	80,000	3.92	13,000	138,000
2012	-	-	4.20	45,000	-	-	3.92	13,000	58,000
2013	-	-	4.30	50,000	-	-	3.92	14,000	64,000
2014	-	-	4.40	50,000	-	-	3.92	14,000	64,000
2015	-	-	-	-	-	-	3.92	15,000	15,000
2016	-	-	-	-	-	-	3.92	15,000	15,000
2017	-	-	-	-	-	-	3.92	15,470	15,470
Total		<u>\$ 25,000</u>		<u>\$ 310,000</u>		<u>\$ 370,000</u>		<u>\$ 145,470</u>	<u>\$ 850,470</u>

See accompanying independent auditors' report.

Obligation Notes

Capital Loan Notes Issued Oct 1, 2002		Capital Loan Notes Issued Jun 1, 2004		Capital Loan Notes Issued Apr 15, 2005		Capital Loan Anticipation Notes Issued Jun 29, 2006		Total
Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	
3.60%	\$ 65,000	2.70%	\$ 100,000		\$ -	3.75%	\$1,590,000	1,866,000
3.85	65,000	3.10	105,000	3.10	95,000		-	379,000
4.05	70,000	3.35	110,000	3.25	100,000		-	401,000
4.20	75,000	3.55	115,000	3.40	100,000		-	418,000
4.35	80,000	3.75	120,000	3.50	145,000		-	480,000
4.50	80,000	3.95	120,000	3.60	150,000		-	490,000
4.60	85,000	4.10	125,000	3.70	155,000		-	515,000
4.70	85,000	4.25	130,000	3.80	160,000		-	535,000
4.80	90,000	4.40	135,000	3.90	165,000		-	555,000
4.90	90,000	4.55	140,000	4.00	170,000		-	575,000
5.00	95,000	4.65	150,000	4.10	180,000		-	610,000
	-	4.75	160,000	4.15	190,000		-	550,000
	-	4.85	165,000		-		-	165,000
	-	4.95	150,000		-		-	150,000
	-	5.05	160,000		-		-	160,000
	-	5.15	165,000		-		-	165,000
	-	5.25	175,000		-		-	175,000
	-	5.30	175,000		-		-	175,000
	<u>\$ 880,000</u>		<u>\$ 2,500,000</u>		<u>\$ 1,610,000</u>		<u>\$ 1,590,000</u>	<u>\$8,364,000</u>

Year Ending June 30,	Special Assessment Notes Street Improvement Capital Loan Notes Issued Mar 1, 2000	
	Interest Rates	Amount
	2007	5.60%
2008	5.70	25,000
2009	5.80	50,000
Total		<u>\$ 75,000</u>

Year Ending June 30,	Urban Renewal Tax Increment Financing (TIF) Revenue Bonds 1993 Series Issued Aug 1, 1993	
	Interest Rates	Amount
	2007	
2008	7.40	15,000
2009	7.50	15,000
Total		<u>\$ 30,000</u>

City of Adel

Schedule of Receipts By Source and Disbursements By Function -
All Governmental Funds

For the Last Three Years

	2006	2005	2004
Receipts:			
Property tax	\$ 1,214,167	\$ 1,231,889	\$ 1,209,994
Tax increment financing collections	338,005	334,406	308,734
Other city tax	51,698	9,622	6,174
Licenses and permits	84,249	99,610	29,476
Use of money and property	101,573	58,328	26,892
Intergovernmental	329,448	345,590	341,249
Charges for service	105,163	164,373	119,810
Special assessments	50,291	22,553	47,615
Miscellaneous	432,106	151,494	740,112
Total	\$ 2,706,700	\$ 2,417,865	\$ 2,830,056
Disbursements:			
Operating:			
Public safety	\$ 550,119	\$ 527,147	\$ 602,796
Public works	291,767	338,276	382,280
Culture and recreation	435,096	345,241	359,094
Community and economic development	94,236	56,238	81,218
General government	215,456	255,105	187,818
Debt service	821,609	515,837	667,377
Capital projects	977,057	2,393,528	1,002,337
Total	\$ 3,385,340	\$ 4,431,372	\$ 3,282,920

See accompanying independent auditors' report.

City of Adel

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

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Adel, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements listed in the table of contents and have issued our report thereon dated August 2, 2006. Our report expressed unqualified opinions on the primary government financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Adel'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 an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of Adel's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part II of the accompanying Schedule of Findings.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item II-A-06 is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Adel's primary government 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 Part III of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2006 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.

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 Adel and other parties to whom the City of Adel 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 Adel 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.

August 2, 2006
Ames, Iowa

City of Adel

Schedule of Findings

Year Ended June 30, 2006

Part I: Summary of the Independent Auditors' Results:

- (a) Unqualified opinions were issued on the primary government financial statements which 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.
- (b) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, including two material weaknesses.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.

City of Adel

Schedule of Findings

Year Ended June 30, 2006

Part II: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

II-A-06 Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that certain functions are not entirely segregated.

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

Response – We will consider this.

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

City of Adel

Schedule of Findings

Year Ended June 30, 2006

Part III: Other Findings Related to Statutory Reporting:

III-A-06 Certified Budget – Disbursements during the year ended June 30, 2006 exceeded the amounts budgeted in the culture and recreation and debt service functions. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

Recommendation – Although the budget was amended, it should have been amended in amounts sufficient to prevent the budget from being exceeded.

Response – We will do so.

Conclusion – Response accepted.

III-B-06 Questionable Disbursements – No disbursements were noted that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 since the public benefits to be derived have not been clearly documented.

III-C-06 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

III-D-06 Business Transactions – We noted no business transactions between the City and City officials or employees .

III-E-06 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 ensure that the coverage is adequate for current operations.

III-F-06 Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.

III-G-06 Financial Condition – The City had the following deficit balances at June 30, 2006:

Debt Service Fund	General Obligation Bonds	\$30,516
Capital Projects Funds	Library Building	37,054
	Brickyard Road Project	80,000
	Public Safety Building	283,407
Special Revenue Funds	Fire	1,911
	Short Term Projects	725
	Police Academy	210

Recommendation – The City should investigate alternatives to eliminate these deficits in order to return these funds to a sound financial position.

Response - The deficits will be eliminated upon receipt of funds in the next fiscal year.

Conclusion – Response accepted.

III-H-06 Deposits and Investments – The City has not updated their investment policy to comply with the provisions of Ch. 12B.10B of the Code of Iowa.

Recommendation – The City should adopt a new investment policy that meets the provisions of the Code of Iowa.

Response – In August of 2006, the City passed a resolution to approve a new investment policy that complies with the Code of Iowa.

Conclusion – Response accepted.

III-I-06 Revenue Bonds and Notes – The resolutions providing for the issuance of the Water and Sewer Revenue Bonds require minimum balances to be maintained in the sinking and reserve funds. As of June 30, 2006, the City has not met the minimum required balance in the water reserve fund.

Recommendation – The City should make the necessary transfer to bring the fund to its required balance.

Response – We transferred \$31,000 to the reserve fund.

Conclusion – Response accepted.

III-J-06 Payroll Tax Calculations, IRS Filings – Payroll tax has not been computed correctly. Pre tax health insurance premiums should be deducted from gross pay before calculating social security, medicare and federal and state taxes. This has also caused the quarterly 941 reports to be filed incorrectly.

Also, Form 1099s were not filed for the 2005 year.

Recommendation – The City should correct this in their payroll records immediately for future transactions and determine what should be done for prior periods where withholdings were incorrectly calculated and reports were filed incorrectly. Also, 1099s should be filed now and in the future.

Response – We will do so.

Conclusion – Response accepted.