CITY OF WAUKON

FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

June 30, 2006

CITY OF WAUKON

TABLE OF CONTENTS

		Page No.
OFFICIALS		1
INDEPENDENT AUDITOR'S REPORT		2-3
MANAGEMENT'S DISCUSSION AND ANALYSIS		4-11
BASIC FINANCIAL STATEMENTS	Exhibit	
Government-wide Financial Statement:		
Statement of Activities and Net Assets – Cash Basis	A	12
Governmental Fund Financial Statement:		
Statement of Cash Receipts, Disbursements and Changes in Cash Balances – Governmental Funds	B	13-14
Reconciliation of the Statement of Cash Receipts, Disbursements and Changes in Cash Balances to the Statement of Activities and Net Assets – Governmental Funds	C	15
Proprietary Fund Financial Statements:		
Statement of Cash Receipts, Disbursements and Changes in Cash Balances – Proprietary Funds	D	16
Reconciliation of the Statement of Cash Receipts, Disbursements and Changes in Cash Balances to the Statement of Activities and Net Assets – Proprietary Funds	E	17
Notes to Financial Statements		18-26
REQUIRED SUPPLEMENTARY INFORMATION		
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances – Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Funds		27
Notes to Required Supplementary Information – Budgetary Reporting		28
OTHER SUPPLEMENTARY INFORMATION	Schedule	
Schedule of Cash Receipts, Disbursements and Changes in Cash Balances – Nonmajor Governmental Funds	1	29
Schedule of Indebtedness	2	30
Bond and Note Maturities	3	31
Schedule of Receipts by Source and Disbursements by Function - All Government Funds	4	32
INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS		33-34
SCHEDULE OF FINDINGS		35-36

CITY OF WAUKON

OFFICIALS

Name	Title	Term Expires
	(Before January 2006)	
Dwight Jones	Mayor	December 31, 2005
Duane DeWalle	Mayor Pro Tem	December 31, 2007
Al Lyon	Council Member	December 31, 2005 (Resigned 6-01-05)
Steve Wiedner	Council Member	December 31, 2005 (Appointed 6-20-05)
Adam Nevermann	Council Member	December 31, 2005 (Resigned 7-16-04)
Joe Cunningham	Council Member	December 31, 2005 (Special Election 11-30-04)
Rodney Peterson	Council Member	December 31, 2005
Drew Hager	Council Member	December 31, 2007
Diane Sweeney	Clerk/Treasurer	December 31, 2005
James Garrett	Attorney	December 31, 2005
Jeff Swartz	Assistant Attorney	December 31, 2005
	(After January 2006)	
Dwight Jones	Mayor	December 31, 2007
Duane DeWalle	Mayor Pro Tem	December 31, 2007
Drew Hager	Council Member	December 31, 2007
Joe Cunningham	Council Member	December 31, 2009
Rodney Peterson	Council Member	December 31, 2009
Steve Wiedner	Council Member	December 31, 2009
Diane Sweeney	Clerk/Treasurer	December 31, 2006
James Garrett	Attorney	December 31, 2006
Jeff Swartz	Assistant Attorney	December 31, 2006

Hagen & Kallevang PC
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Waukon, 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 financial statements are the responsibility of the City of Waukon's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

The financial statements referred to above include the primary government of the City of Waukon, which consists of all funds, organizations, institutions, agencies, departments and offices that comprise the City's legal entity. The financial statements do not include financial data for the City's legally separate component units, which U.S. generally accepted accounting principles require to be reported with the financial data of the City's primary government. As a result, the primary government financial statements do not purport to, and do not, present fairly the cash basis financial position of the reporting entity of the City of Waukon as of June 30, 2006, and the changes in its cash basis financial position for the year then ended in conformity with the basis of accounting described in note 1.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information for the primary government of the City of Waukon 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.

511 W. Water St. / Box 403 • Decorah, IA 52101 • 563-382-8471 • Fax 563-382-8473 • hagenkallevang2@netins.net

19 1st Ave. N.W. / Box 139 • Waukon, IA 52172 • 563-568-4567 • Fax 563-568-4569 • hagenkallevang@netins.net

In accordance with Government Auditing Standards, we have also issued our report dated November 21, 2006 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and 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 4 through 11 and 27 and 28 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2005 (none of which are presented herein) and expressed unqualified opinions on those financial statements which were prepared in conformity with an other comprehensive basis of accounting. Other supplementary information included in Schedules 1 through 4 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Hagen & Kalberg, P.C.

November 21, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Waukon provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2006. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2006 FINANCIAL HIGHLIGHTS

Receipts of the City's governmental activities decreased 35.8%, or approximately $1,497,000, from fiscal 2005 to fiscal 2006. The receipt sources with major changes from the prior year are as follows:

	Increase (Decrease)
Taxes	$ (182,000)
Miscellaneous	85,000
Loan proceeds *	(1,440,000)
Investment earnings	41,000
All others, net	(1,000)
	($1,497,000)

*The City of Waukon financed the construction of a new medical clinic facility leased to Gundersen Clinic Ltd. through loan proceeds from local banks in fiscal year 2005.

Disbursements increased, 12.2%, or $402,000, in fiscal 2006 from fiscal 2005. The disbursements with major changes from the prior year are as follows:

Public safety	$ 75,100
Culture and recreation	57,000
General government	25,000
Debt service	102,000
Capital projects	137,000
All others, net	5,900
	$ 402,000

The City's total cash basis net assets decreased 23.7%, or approximately $891,000, from June 30, 2005 to June 30, 2006. Of this amount, the assets of the governmental activities decreased approximately $1,008,000 and the assets of the business type activities increased by approximately $117,000.

USING THIS ANNUAL REPORT

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

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

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

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

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

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

Other Supplementary Information provides detailed information about the nonmajor governmental funds and the indebtedness of the City.

Basis of Accounting

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

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

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

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

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

- Governmental Activities include public safety, public works, health and social service, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax, state and federal grants, and debt proceeds finance most of these activities.
- Business-Type Activities include the waterworks and the sanitary sewer system. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Urban Renewal Tax Increment, 3) the Debt Service Fund, 4) the Capital Projects Fund and 5) the Permanent Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

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

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

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

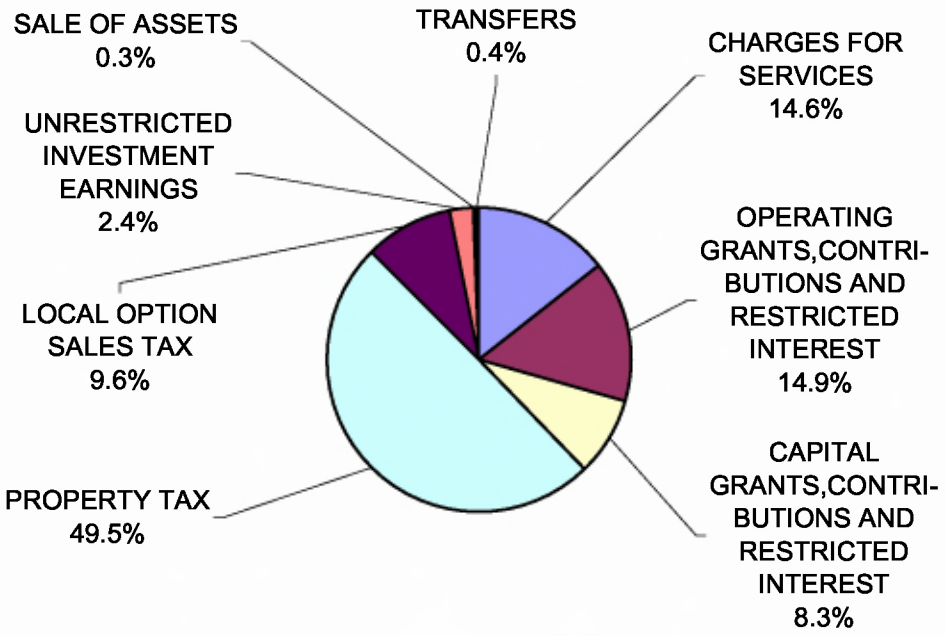
GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

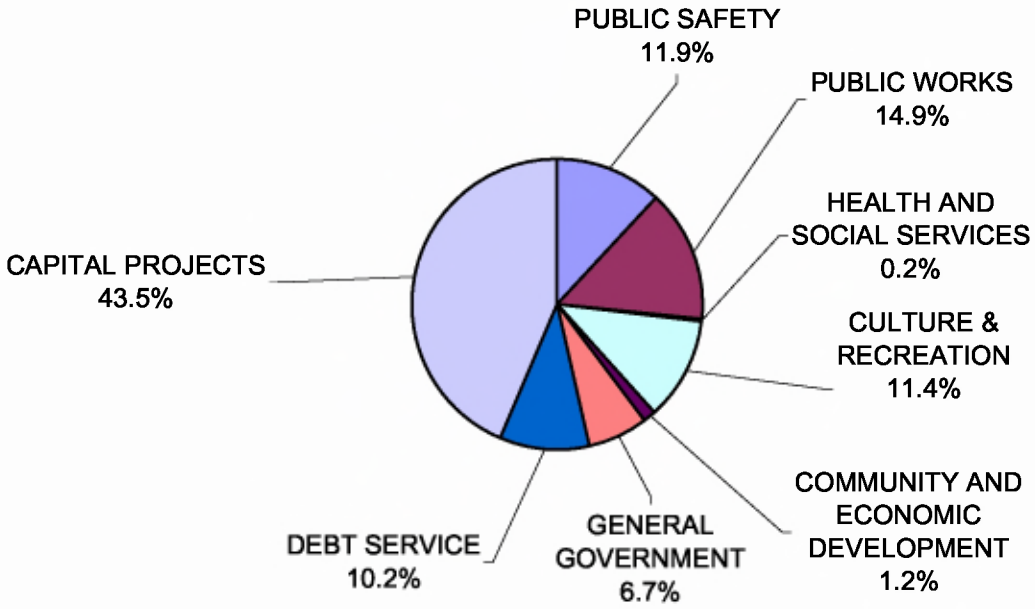
Changes in Cash Basis Net Assets of Governmental Activities

	Year ended June 30,			
	2006	2005	2004	2003
Receipts and transfers:				
Program receipts:				
Charges for service	$ 391,426	$ 400,066	$ 415,197	$ 394,822
Operating grants, contributions and restricted interest	402,493	407,980	411,106	541,856
Capital grants, contributions and restricted interest	223,318	115,085	77,153	325,474
General receipts:				
Property tax	1,332,066	1,474,831	1,437,836	1,435,409
Local option sales tax	257,002	295,868	264,650	242,809
Grants and contributions not restricted to specific purposes	-	-	-	-
Unrestricted investment earnings	64,305	32,978	21,996	35,024
Loan proceeds	-	1,420,000	500,000	-
Other general receipts	7,500	27,866	27,545	40,290
Transfers, net	10,890	11,676	9,861	31,825
Total receipts and transfers	2,689,000	4,186,350	3,165,344	3,047,509
Disbursements:				
Public safety	438,537	363,429	526,815	503,460
Public works	550,421	544,427	465,949	556,741
Health and social services	9,000	9,000	9,000	9,000
Culture and recreation	422,983	365,944	384,617	424,912
Community and economic development	44,269	44,704	60,595	1,065,701
General government	246,945	221,971	220,089	225,889
Debt service	377,036	275,081	737,950	198,097
Capital projects	1,607,830	1,470,751	709,056	416,616
Total disbursements	3,697,021	3,295,307	3,114,071	3,400,416
Increase (decrease) in cash basis net assets	(1,008,021)	891,043	51,273	(352,907)
Cash basis net assets beginning of year	2,657,433	1,766,390	1,715,117	2,068,024
Cash basis net assets end of year	$ 1,649,412	$ 2,657,433	$ 1,766,390	$ 1,715,117

Receipts by Source



Disbursements by Function



The City's total receipts for governmental activities decreased by $1,497,350, which reflects a decrease in loan proceeds of $1,420,000. The total cost of all programs and services increased by approximately $401,714 due to capital project costs.

Changes in Cash Basis Net Assets of Business Type Activities

	Year ended June 30,			
	2006	2005	2004	2003
Receipts:				
Program receipts:				
Charges for service				
Water	$ 394,801	$ 381,870	$ 387,429	$ 375,692
Sewer	390,595	355,316	346,257	350,885
General receipts:				
Unrestricted investment earnings	7,606	5,483	3,910	3,959
Other general receipts	-	46,165	67,154	1,297
Total receipts	793,002	788,834	804,750	731,833
Disbursements and transfers:				
Water	344,239	330,143	317,016	304,912
Sewer	320,619	393,527	274,449	335,903
Transfers, net	10,890	11,676	9,861	31,825
Total disbursements and transfers	675,748	735,346	601,326	672,640
Increase (decrease) in cash balance	117,254	53,488	203,424	59,193
Cash basis net assets beginning of year	1,098,532	1,045,044	841,620	782,427
Cash basis net assets end of year	$ 1,215,786	$ 1,098,532	$ 1,045,044	$ 841,620

Total business type activities receipts for the fiscal year were $793,002 compared to $788,834 last year. The increase was due primarily to an increase in rates. The cash balance increased $117,254. Total disbursements and transfers for the fiscal year decreased by 8.1% to a total of $675,748.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Waukon completed this year, its governmental funds reported a combined fund balance of $1,649,412, a decrease of $1,008,021 from last year's total of $2,657,433. 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 $38,676 in 2006 compared to the prior year of $360,608. The cash balance at year end was $399,284.
- The Road Use Tax Fund cash balance decreased $69,941 from the prior year to $261,380 due to purchase of capital equipment.
- The Urban Renewal Tax Increment Fund cash balance decreased by $608,622 from the prior year to $230,522. These funds were used for various projects within the urban renewal area district.
- The Local Option Sales Tax Fund was established upon approval of a referendum imposing a 1% local option sales and service tax for reconstruction/repair/replacement of existing streets and curbs, storm sewers, sanitary sewers, water mains and other structures that relate to streets. At the end of the fiscal year the cash balance was $347,558. The city uses proceeds from this fund for street improvements.

- The S.E. Urban Renewal Project Fund was established as a capital project fund for projects within the urban renewal area. Funds are transferred into this fund from the Urban Renewal Tax Increment Fund to pay the cost of the project.
- The Gundersen Clinic Fund was established as a capital project fund for the construction of a medical clinic facility. The final costs of the $485,118, were paid in this fiscal year to complete the project.
- The Wellness Center Fund was established as a capital project fund for the construction of a wellness and recreational facility and senior citizen center. The cash balance at year end was $93,226.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

The Water Fund cash balance increased by $50,385 to $562,325. Receipts totaling $398,782 for 2006 was more by $9,559 compared to last year's total.

The Sewer Fund cash balance increased by $66,869 to $653,461, due to an increase in receipts this fiscal year over the prior year. Receipts totaling $394,220 for 2006 was less by $5,391 compared to last years total.

BUDGETARY HIGHLIGHTS

The City of Waukon expenditures for capital projects for this fiscal year was $1,604,782. Projects included in these expenses were Gundersen Clinic, Wellness Center and various street improvements.

DEBT ADMINISTRATION

At June 30, 2006, the City had approximately $2,202,076 in bonds and other long term debt, compared to approximately $2,511,633 from last year.

Outstanding Debt at Year-End

	Year ended June 30,			
	2006	2005	2004	2003
General obligation bonds	$ 1,790,898	$ 1,890,000	$ 525,000	$ 575,000
Revenue notes	100,000	190,000	275,000	355,000
Urban renewal tax increment financing revenue bonds	311,178	431,633	548,401	70,835
Total	$ 2,202,076	$ 2,511,633	$ 1,348,401	$ 1,000,835

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of $2,102,076 is significantly below its constitutional debt limit of $7,200,343.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City of Waukon considered many factors when setting the fiscal year 2007 fiscal year budget. Amounts available for appropriation in the budget are $8,149,182. This is an increase of $3,223,624 over the 2006 budget.

The City of Waukon entered into a 28E Agreement with the Allamakee Community School District and Veterans Memorial Healthcare Foundation to construct and operate a wellness/recreational facility, which includes a senior citizen center and Northeast Iowa Community College (NICC) satellite center. The City is currently building this facility at a cost in excess of $4,000,000 which will be financed from tax increment revenue bonds, grants from federal, state and local government, private foundation grants and donations from the public.

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 Diane Sweeney, City Clerk, City of Waukon, 101 Allamakee Street, Waukon, IA 52172 (563-568-3492).

BASIC FINANCIAL STATEMENTS

CITY OF WAUKON

STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS

As of and for the year ended June 30, 2006

Functions/Programs	Disbursements	Program Receipts: Charges for Services	Program Receipts: Operating Grants, Contributions, and Restricted Interest	Program Receipts: Capital Grants, Contributions, and Restricted Interest	Net (Disbursements) Receipts and Changes in Cash Basis Net Assets: Governmental Activities	Net (Disbursements) Receipts and Changes in Cash Basis Net Assets: Business Type Activities	Net (Disbursements) Receipts and Changes in Cash Basis Net Assets: Total
Governmental activities							
Public safety	$ (438,537)	$ 11,089	$ 16,295	$ -	$ (411,153)	$ -	$ (411,153)
Public works	(550,421)	217,630	345,870	2,081	15,160	-	15,160
Health and social services	(9,000)	-	-	-	(9,000)	-	(9,000)
Culture and recreation	(422,983)	131,632	40,328	-	(251,023)	-	(251,023)
Community and economic development	(44,269)	-	-	-	(44,269)	-	(44,269)
General government	(246,945)	31,075	-	-	(215,870)	-	(215,870)
Debt service	(377,036)	-	-	-	(377,036)	-	(377,036)
Capital projects	(1,607,830)	-	-	221,237	(1,386,593)	-	(1,386,593)
Total governmental activities	(3,697,021)	391,426	402,493	223,318	(2,679,784)	-	(2,679,784)
Business type activities							
Water	(344,239)	394,801	-	-	-	50,562	50,562
Sewer	(320,619)	390,595	-	-	-	69,976	69,976
Total business type activities	(664,858)	785,396	-	-	-	120,538	120,538
Total	$ (4,361,879)	$ 1,176,822	$ 402,493	$ 223,318	(2,679,784)	120,538	(2,559,246)
General Receipts							
Property tax levied for							
General purposes					804,252	-	804,252
Tax increment financing					448,923	-	448,923
Debt service					78,891	-	78,891
Local option sales tax					257,002	-	257,002
Unrestricted interest on investments					64,305	7,606	71,911
Sale of assets					7,500	-	7,500
Transfers					10,890	(10,890)	-
Total general receipts and transfers					1,671,763	(3,284)	1,668,479
Change in cash basis net assets					(1,008,021)	117,254	(890,767)
Cash basis net assets beginning of year					2,657,433	1,098,532	3,755,965
Cash basis net assets end of year					$ 1,649,412	$ 1,215,786	$ 2,865,198
Cash Basis Net Assets							
Restricted							
Streets					$ 261,380	$ -	$ 261,380
Urban renewal purposes					230,522	-	230,522
Debt service					1,693	186,088	187,781
Other purposes					756,533	-	756,533
Unrestricted					399,284	1,029,698	1,428,982
Total cash basis net assets					$ 1,649,412	$ 1,215,786	$ 2,865,198

See notes to financial statements.

CITY OF WAUKON

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

As of and for the year ended June 30, 2006

		Special Revenue			Capital Projects				
	General	Road Use Tax	Urban Renewal Tax Increment	Local Option Sales Tax	S.E. Urban Renewal Project	Gundersen Clinic	Wellness Center	Other Nonmajor Governmental Funds	Total
Receipts									
Property tax	$ 679,247	$ -	$ -	$ -	$ -	$ -	$ -	$ 174,446	$ 853,693
Tax increment financing collections	-	-	448,923	-	-	-	-	-	448,923
Other city tax	23,765	-	-	257,002	-	-	-	5,685	286,452
Licenses and permits	14,683	-	-	-	-	-	-	-	14,683
Use of money and property	77,923	-	-	-	-	34	-	4,746	82,703
Intergovernmental	45,194	345,870	-	-	-	-	3,071	-	394,135
Charges for service	289,470	-	-	-	-	-	-	-	289,470
Special assessments	957	-	-	-	-	-	-	4,507	5,464
Miscellaneous	72,028	-	12,741	-	-	21,165	93,226	95,927	295,087
Total receipts	1,203,267	345,870	461,664	257,002	-	21,199	96,297	285,311	2,670,610
Disbursements									
Operating									
Public safety	368,114	-	-	-	-	-	-	70,423	438,537
Public works	198,956	351,465	-	-	-	-	-	-	550,421
Health and social services	9,000	-	-	-	-	-	-	-	9,000
Culture and recreation	412,243	-	-	-	-	-	-	10,740	422,983
Community and economic development	43,739	-	-	-	-	-	-	530	44,269
General government	233,470	-	-	-	-	-	-	13,475	246,945
Debt service	-	-	189,641	-	-	-	-	187,395	377,036
Capital projects	-	-	3,048	-	703,137	485,118	120,056	296,471	1,607,830
Total disbursements	1,265,522	351,465	192,689	-	703,137	485,118	120,056	579,034	3,697,021
Excess of receipts over (under) disbursements	(62,255)	(5,595)	268,975	257,002	(703,137)	(463,919)	(23,759)	(293,723)	(1,026,411)
Other financing sources (uses)									
Sale of capital assets	-	-	7,500	-	-	-	-	-	7,500
Operating transfers in	133,355	-	-	-	703,137	47,957	116,985	274,020	1,275,454
Operating transfers out	(32,424)	(64,346)	(885,097)	(257,002)	-	-	-	(25,695)	(1,264,564)
Total other financing sources (uses)	100,931	(64,346)	(877,597)	(257,002)	703,137	47,957	116,985	248,325	18,390
Net change in cash balances	38,676	(69,941)	(608,622)	-	-	(415,962)	93,226	(45,398)	(1,008,021)
Cash balances beginning of year	360,608	331,321	839,144	347,558	-	415,962	-	362,840	2,657,433
Cash balances end of year	$ 399,284	$ 261,380	$ 230,522	$ 347,558	$ -	$ -	$ 93,226	$ 317,442	$ 1,649,412

CITY OF WAUKON

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

As of and for the year ended June 30, 2006

	General	Special Revenue: Road Use Tax	Special Revenue: Urban Renewal Tax Increment	Special Revenue: Local Option Sales Tax	Capital Projects: S.E. Urban Renewal Project	Capital Projects: Gundersen Clinic	Capital Projects: Wellness Center	Other Nonmajor Governmental Funds	Total
Cash Basis Fund Balances									
Reserved									
Debt service	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 1,693	$ 1,693
Unreserved									
General fund	399,284	-	-	-	-	-	-	-	399,284
Special revenue funds	-	261,380	230,522	347,558	-	-	-	199,026	1,038,486
Capital projects fund	-	-	-	-	-	-	93,226	116,723	209,949
Total cash basis fund balances	$ 399,284	$ 261,380	$ 230,522	$ 347,558	$ -	$ -	$ 93,226	$ 317,442	$ 1,649,412

See notes to financial statements.

CITY OF WAUKON

RECONCILIATION OF THE STATEMENT OF CASH
RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES
TO THE STATEMENT OF ACTIVITIES AND NET ASSETS -
GOVERNMENTAL FUNDS

As of and for the year ended June 30, 2006

Total governmental funds cash balances (page 13)	$ 1,649,412
Amounts reported for governmental activities in the Statement of Activities and Net Assets are different because:	
Not applicable	-
Cash basis net assets of governmental activities (page 12)	$ 1,649,412
Net change in cash balances (page 13)	$ (1,008,021)
Amounts reported for governmental activities in the Statement of Activities and Net Assets are different because:	
Not applicable	-
Change in cash balance of governmental activities (page 12)	$ (1,008,021)

See notes to financial statements.

CITY OF WAUKON

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES
PROPRIETARY FUNDS

As of and for the year ended June 30, 2006

	Enterprise Funds		
	Water	Sewer	Total
Operating receipts:			
Charges for service	$ 394,035	$ 389,420	$ 783,455
Miscellaneous	766	1,175	1,941
Total operating receipts	394,801	390,595	785,396
Operating disbursements:			
Business type activities	241,889	320,619	562,508
Total operating disbursements	241,889	320,619	562,508
Excess of operating receipts over (under) operating disbursements	152,912	69,976	222,888
Non-operating receipts (disbursements):			
Interest on investments	3,981	3,625	7,606
Debt service	(102,350)	-	(102,350)
Total non-operating receipts (disbursements)	(98,369)	3,625	(94,744)
Excess of receipts over (under) disbursements	54,543	73,601	128,144
Transfers			
Operating transfers in	157,696	105,000	262,696
Operating transfers out	(161,854)	(111,732)	(273,586)
Total other financing sources (uses)	(4,158)	(6,732)	(10,890)
Net change in cash balances	50,385	66,869	117,254
Cash balances beginning of year	511,940	586,592	1,098,532
Cash balances end of year	$ 562,325	$ 653,461	$ 1,215,786
Cash Basis Fund Balances			
Reserved for debt service	$ 106,860	$ 79,228	$ 186,088
Unreserved	455,465	574,233	1,029,698
Total cash basis fund balances	$ 562,325	$ 653,461	$ 1,215,786

See notes to financial statements.

CITY OF WAUKON

RECONCILIATION OF THE STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
TO THE STATEMENT OF ACTIVITIES AND NET ASSETS -
PROPRIETARY FUNDS

As of and for the year ended June 30, 2006

Total enterprise funds cash balances (page 16)	$ 1,215,786
Amounts reported for business type activities in the Statement of Activities and Net Assets are different because:	
Not applicable	-
Cash basis net assets of business type activities (page 12)	$ 1,215,786
Net change in cash balances (page 16)	$ 117,254
Amounts reported for business type activities in the Statement of Activities and Net Assets are different because:	
Not applicable	-
Change in cash balance of business type activities (page 12)	$ 117,254

See notes to financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Waukon is a political subdivision of the State of Iowa located in Allamakee County. It was first incorporated in 1883 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a nonpartisan basis. The City provides numerous services to citizens including public safety, public works, health and social service, culture and recreation, community and economic development and general government. The City also provides water and sewer utilities for its citizens.

A. Reporting Entity

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

These financial statements present the City of Waukon (the primary government) and excludes all component units. The component units discussed below are not included in the City's reporting entity for various reasons although the operational or financial relationship with the City may or may not be significant.

Excluded Component Units:

The Veterans Memorial Hospital, which was established under Chapter 392 of the Code of Iowa. The Hospital has the potential to provide specific benefits to, or impose specific burdens on the City. The Hospital is governed by an elected five-member board of trustees. The Hospital has been audited separately and the report is filed under separate cover. The financial statements can be obtained from the Hospital's administrative office.

The Waukon Pioneer Fire Department collects donations which are used to purchase items which are not included in the City's budget for fire protection.

The Waukon Economic Development Corporation and Waukon Trees Forever, are non-profit corporations but have the potential to provide specific benefits to, or impose specific burdens on the City.

Allamakee DARE collects donations which are used to purchase items which are not included in the City's budget to educate children on the prevention of substance abuse.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

A. Reporting Entity (continued)

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: Allamakee County Economic Development and Tourism Commission, Allamakee County Assessor's Conference Board, Upper Explorerland Regional Housing Authority, Allamakee County Joint E911 Service Board, and Solid Waste 28E Commission

B. Basis of Presentation

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

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

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

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

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Basis of Presentation (continued)

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

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

The Local Option Sales Tax Fund is used to account for the City's share of local option sales tax collected and disbursed by the State of Iowa.

Capital Projects:

The S.E. Urban Renewal Project Fund is used to account for a revitalization project in the southeast urban renewal area of the City.

The Gundersen Clinic Fund is used to account for a medical clinic construction project.

The Wellness Center is used to account for a wellness construction project that will be operated under a 28E arrangement.

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

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are 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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Measurement Focus and Basis of Accounting (continued)

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 did not exceed the amounts budgeted.

NOTE 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.

Even though allowed by statute, the City's investment policy only allows the following: interest bearing savings, money market, and checking accounts at any bank, savings and loan association or credit union in the State of Iowa. Obligations of the United States government, its agencies and instrumentalities and certificates of deposit and other evidence of deposit at federally insured Iowa depository institutions are also eligible.

NOTE 3 – BONDS AND NOTES PAYABLE

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

Year Ending June 30,	General Obligation Bonds		Revenue Bonds	
	Principal	Interest	Principal	Interest
2007	106,198	$ 83,557	$ 100,000	$ 6,500
2008	108,392	78,423	-	-
2009	115,690	73,125	-	-
2010	123,098	67,434	-	-
2011	130,620	61,343	-	-
2012 - 2016	395,338	229,562	-	-
2017 - 2021	404,006	141,994	-	-
2022 - 2025	397,556	38,818	-	-
	$ 1,780,898	$ 774,256	$ 100,000	$ 6,500

Year Ending June 30,	Urban Renewal Tax Increment Financing (TIF) Revenue Bonds		Total	
	Principal	Interest	Principal	Interest
2007	$ 99,588	$ 12,758	$ 305,786	$ 102,815
2008	103,670	8,676	212,062	87,099
2009	107,920	4,424	223,610	77,549
2010	-	-	123,098	67,434
2011	-	-	130,620	61,343
2012 - 2016	-	-	395,338	229,562
2017 - 2021	-	-	404,006	141,994
2022 - 2025	-	-	397,556	38,818
	$ 311,178	$ 25,858	$ 2,192,076	$ 806,614

The Code of Iowa requires principal and interest on general obligation bonds be paid from the Debt Service Fund.

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 Special Revenue, 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.

NOTE 3 – BONDS AND NOTES PAYABLE (continued)

The resolutions providing for the issuance of the revenue notes include the following provisions:

(a) The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the funds.

(b) Sufficient monthly transfers shall be made to separate water and sewer revenue note sinking accounts within the Enterprise Funds for the purpose of making the note principal and interest payments when due.

One general obligation bearer bond issued in 1976 in the amount of $10,000 remains outstanding as of June 30, 2006. Efforts by the City to ascertain the identity of the bondholder have not been successful.

The City has agreed to guarantee payments on a contract to purchase land by Waukon Economic Development Corporation within the City's urban renewal area. The contract is for ten years beginning December 1, 1997. The City has advanced $306,235. The City's guarantee is up to $360,000.

NOTE 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 $49,640, $45,973, and $45,519 respectively, equal to the required contributions for each year.

NOTE 5 - COMPENSATED ABSENCES

City employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation and sick leave termination payments payable to employees at June 30, 2006, primarily relating to the General Fund, is as follows:

Vacation	$ 33,195
Sick Leave	90,422
Total	$ 123,617

Sick leave is forfeited if not used by the employee before termination. Upon retirement an employee is eligible for payment of 50% of the unused sick leave. This liability has been computed based on rates of pay in effect at June 30, 2006.

NOTE 6 - INTERFUND TRANSFERS

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

	Transfer In		Transfer Out
General		General	
General	$ 25,695	General	$ (6,924)
Self Insurance	6,924	General	(5,500)
Ambulance	5,500	General	(20,000)
Capital Equipment	80,000		$ (32,424)
	118,119	Special Revenue:	
		Road Use Tax	$ (60,000)
Self Insurance	4,346	Road Use Tax	(4,346)
			$ (64,346)
		Enterprise	
Self Insurance	4,158	Water	$ (4,158)
Self Insurance	6,732	Sewer	(6,732)
	10,890		$ (10,890)
	$ 133,355		
Capital Project		Special Revenue	
S.E. Urban Renewal Project	$ 703,137	Urban Renewal Increment	$ (703,137)
Gundersen Project	$ 47,957	Urban Renewal Increment	(47,957)
Wellness Center	$ 116,985	Urban Renewal Increment	(116,985)
Debt Service	$ 17,018	Urban Renewal Increment	(17,018)
			$ (885,097)
Capital Projects-non major			
Street Improvements		Special Revenue	
Projects	$ 257,002	Local Option Sales Tax	$ (257,002)

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

NOTE 7 - RELATED PARTY TRANSACTIONS

The City had business transactions between the City and City officials or employees totaling $1,442 during the year ended June 30, 2006.

NOTE 8 - LEASES

The City leases space for equipment for wireless communication on top of City Hall for $120 per year. The City received $120 during the year ended June 30, 2006.

The City in October 2002 entered into a 25 year agreement to allow a Company the right to maintain an antenna on the City's water tower and other equipment on City property. In exchange the City would receive free high speed internet connection e-mail for a certain number of computers located at City Hall.

NOTE 9 - SELF FUNDING

The City has established a partially self funded group medical plan. The plan allows the City lower monthly premiums for coverage in exchange for the potential of claims actually filed. If all the covered individuals submitted the maximum claim to be paid by the City, the total would be estimated at $30,073.

NOTE 10 - 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.

NOTE 11 - LITIGATION

The City has been named on several claims concerning worker's compensation and falls on City property. The City attorney is of the opinion insurance coverage will cover the claims if needed except the deductible which would not materially affect the City.

Since the local hospital is City owned, the City has been named as one of the parties to two medical malpractice lawsuits. The City attorney is of the opinion insurance coverage will cover the claim if needed on one of these. However, the City may have some liability exposure beyond the insurance coverage for the other one. The trial for the lawsuit is scheduled for August 2007.

NOTE 12 - SUBSEQUENT EVENTS AND COMMITMENTS

The City has committed $7,300 to a regional revolving loan fund. Cities and counties in the area and the federal government have committed a total of $500,000. The funds will be used for economic development. After approval of an application the various governmental units will then submit their committed funds. As of June 30, 2006 no funds have been requested of the City.

The City has outstanding construction contracts of $301,581 at June 30, 2006. The costs will be paid from various revenue sources available to the City.

NOTE 13 - JOINT USE AGREEMENT

The City has an agreement with the Waukon Rural Fire District (the District) to allow the City to use fire-fighting equipment owned by the District. The agreement ends on June 30, 2008 and $10,000 is due by January 1 of each year during the term of the agreement. As of June 30, 2005, a total of $20,000 is expected to be paid by the City.

The City had entered into another agreement dated April 4, 2003 with the District to purchase a rescue truck for a total cost of $237,116. The City will have a one half interest in the vehicle as well as operating costs to maintain it.

NOTE 14 - CONTINGENCIES

The City participates in state and federal assisted grant programs. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreement and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the City at June 30, 2006.

NOTE 15 - GENERAL FUND BALANCE

The City has designated $126,104 of the $399,284 General Fund balance to be available for equipment replacement.

Required Supplementary Information

CITY OF WAUKON

BUDGETARY COMPARISON SCHEDULE
OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN BALANCES -
BUDGET AND ACTUAL (CASH BASIS) -
ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUNDS

REQUIRED SUPPLEMENTARY INFORMATION

As of and for the year ended June 30, 2006

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds Not Required to be Budgeted	Net	Budgeted Amounts Original	Budgeted Amounts Final	Final to Net Variance
Receipts							
Property tax	$ 853,693	$ -	$ -	$ 853,693	$ 854,433	$ 854,433	$ (740)
Tax increment financing collections	448,923	-	-	448,923	441,000	441,000	7,923
Other city tax	286,452	-	-	286,452	300,979	300,979	(14,527)
Licenses and permits	14,683	-	-	14,683	10,740	10,740	3,943
Use of money and property	82,703	7,606	-	90,309	30,345	30,345	59,964
Intergovernmental	394,135	-	-	394,135	590,530	590,530	(196,395)
Charges for service	289,470	783,455	-	1,072,925	921,350	921,350	151,575
Special assessments	5,464	-	-	5,464	12,000	12,000	(6,536)
Miscellaneous	295,087	1,941	-	297,028	192,475	192,475	104,553
Total receipts	2,670,610	793,002	-	3,463,612	3,353,852	3,353,852	109,760
Disbursements							
Public safety	438,537	-	-	438,537	464,343	464,343	(25,806)
Public works	550,421	-	-	550,421	670,492	670,492	(120,071)
Health and social services	9,000	-	-	9,000	9,000	9,000	-
Culture and recreation	422,983	-	-	422,983	461,709	461,709	(38,726)
Community and economic development	44,269	-	-	44,269	51,840	51,840	(7,571)
General government	246,945	-	-	246,945	280,665	280,665	(33,720)
Debt service	377,036	-	-	377,036	407,229	407,229	(30,193)
Capital projects	1,607,830	-	-	1,607,830	1,745,841	1,745,841	(138,011)
Business type activities	-	664,858	-	664,858	834,439	834,439	(169,581)
Total disbursements	3,697,021	664,858	-	4,361,879	4,925,558	4,925,558	(563,679)
Excess of receipts over (under) disbursements	(1,026,411)	128,144	-	(898,267)	(1,571,706)	(1,571,706)	673,439
Other financing sources, net	18,390	(10,890)	-	7,500	481,673	481,673	(474,173)
Excess of receipts and other financing sources over (under) disbursements and other financing uses	(1,008,021)	117,254	-	(890,767)	(1,090,033)	(1,090,033)	199,266
Balances beginning of year	2,657,433	1,098,532	-	3,755,965	3,510,159	3,510,159	245,806
Balances end of year	$ 1,649,412	$ 1,215,786	$ -	$ 2,865,198	$ 2,420,126	$ 2,420,126	$ 445,072

See accompanying independent auditor's report.

CITY OF WAUKON

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 except Internal Service Funds and Fiduciary Funds. The City had no Internal Services or Fiduciary Funds for the year ended June 30, 2006. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. The City did not need to amend its budget during the year.

The City did not exceed amounts budgeted.

Other Supplementary Information

CITY OF WAUKON

SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
NONMAJOR GOVERNMENTAL FUNDS

As of and for the year ended June 30, 2006

	Special Revenue					
	Employee Benefits	Library Memorial	Park Memorial	Debt Service	Capital Projects	Total
Receipts						
Property tax	$ 97,809	$ -	$ -	$ 76,637	$ -	$ 174,446
Other city tax	3,431	-	-	2,254	-	5,685
Use of money and property	-	3,288	162	1,182	114	4,746
Special assessments	-	-	-	-	4,507	4,507
Miscellaneous	-	3,526	1,401	91,000	-	95,927
Total receipts	101,240	6,814	1,563	171,073	4,621	285,311
Disbursements						
Operating						
Public safety	70,423	-	-	-	-	70,423
Culture and recreation	9,840	900	-	-	-	10,740
Community and economic development	530	-	-	-	-	530
General government	13,475	-	-	-	-	13,475
Debt service	-	-	-	187,395	-	187,395
Capital projects	-	-	-	-	296,471	296,471
Total disbursements	94,268	900	-	187,395	296,471	579,034
Excess of receipts over (under) disbursements	6,972	5,914	1,563	(16,322)	(291,850)	(293,723)
Other financing uses						
Operating transfers in	-	-	-	17,018	257,002	274,020
Operating transfers out	-	(25,695)	-	-	-	(25,695)
Total other financing sources (uses)	-	(25,695)	-	17,018	257,002	248,325
Net change in cash balances	6,972	(19,781)	1,563	696	(34,848)	(45,398)
Cash balances beginning of year	17,783	184,890	7,599	997	151,571	362,840
Cash balances end of year	$ 24,755	$ 165,109	$ 9,162	$ 1,693	$ 116,723	$ 317,442
Cash Basis Fund Balances						
Reserved						
Debt service	$ -	$ -	$ -	$ 1,693	$ -	$ 1,693
Unreserved						
Special revenue funds	24,755	165,109	9,162	-	-	199,026
Capital projects fund	-	-	-	-	116,723	116,723
Total cash basis fund balances	$ 24,755	$ 165,109	$ 9,162	$ 1,693	$ 116,723	$ 317,442

See accompanying independent auditor's report.

CITY OF WAUKON

SCHEDULE OF INDEBTEDNESS

Year ended June 30, 2006

Obligation	Date of Issue	Interest Rates	Amount Originally Issued	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
General Obligation Bonds								
Hospital	Sept 1, 1976	5.00 - 6.25%	$ 800,000	$ 10,000	$ -	$ -	$ 10,000	$ -
Aquatic Center Bond	Dec 1, 1996	4.60 - 5.50	800,000	460,000	-	55,000	405,000	23,195
Medical Clinic	May 20,2005	4.65	710,000	710,000	-	22,051	687,949	32,549
Medical Clinic	May 20,2005	4.65	710,000	710,000	-	22,051	687,949	32,549
				$ 1,890,000	$ -	$ 99,102	$ 1,790,898	$ 88,293
Revenue Bonds								
Water	June 1, 1992	5.60 - 6.505%	$ 975,000	$ 190,000	$ -	$ 90,000	$ 100,000	$ 12,350
Urban Renewal Tax Increment Financing (TIF) Revenue Bonds								
Industrial Park	Dec 1,1998	5.25%	$ 150,000	$ 24,789	$ -	$ 24,789	$ -	$ 1,298
Series 2004	June 24,2004	4.1	250,000	203,422	-	47,833	155,589	8,340
Series 2004	June 24,2004	4.1	250,000	203,422	-	47,833	155,589	8,340
				$ 431,633	$ -	$ 120,455	$ 311,178	$ 17,978

See accompanying independent auditor's report.

CITY OF WAUKON

BOND AND NOTE MATURITIES

June 30, 2006

Year Ending June 30,	GENERAL OBLIGATION BONDS							REVENUE BONDS	
	Aquatic Center Issued Dec 1, 1996		Medical Clinic Issued May 20, 2005		Medical Clinic Issued May 20, 2005			Water Issued May 1, 1992	
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Total	Interest Rates	Amount
2007	4.90%	$ 60,000	4.62%	23,099	4.62%	23,099	$ 106,198	6.50%	$ 100,000
2008	5.00	60,000	4.62	24,196	4.62	24,196	108,392		-
2009	5.05	65,000	4.62	25,345	4.62	25,345	115,690		-
2010	5.10	70,000	4.62	26,549	4.62	26,549	123,098		-
2011	5.15	75,000	4.62	27,810	4.62	27,810	130,620		-
2012	5.20	75,000	4.62	29,132	4.62	29,132	133,264		-
2013		-	4.62	30,515	4.62	30,515	61,030		-
2014		-	4.62	31,965	4.62	31,965	63,930		-
2015		-	4.62	33,483	4.62	33,483	66,966		-
2016		-	4.62	35,074	4.62	35,074	70,148		-
2017		-	4.62	36,740	4.62	36,740	73,480		-
2018		-	4.62	38,485	4.62	38,485	76,970		-
2019		-	4.62	40,314	4.62	40,314	80,628		-
2020		-	4.62	42,229	4.62	42,229	84,458		-
2021		-	4.62	44,235	4.62	44,235	88,470		-
2022		-	4.62	46,336	4.62	46,336	92,672		-
2023		-	4.62	48,537	4.62	48,537	97,074		-
2024		-	4.62	50,843	4.62	50,843	101,686		-
2025		-	4.62	53,062	4.62	53,062	106,124		-
		$ 405,000		$ 687,949		$ 687,949	$ 1,780,898		$ 100,000

Year Ending June 30,	URBAN RENEWAL TAX INCREMENT FINANCING (TIF)				
	Series 2004 Issued June 24, 2004		Series 2004 Issued June 24, 2004		
	Interest Rates	Amount	Interest Rates	Amount	Total
2007	4.1%	$ 49,794	4.1%	$ 49,794	$ 99,588
2008	4.1	51,835	4.1	51,835	103,670
2009	4.1	53,960	4.1	53,960	107,920
		$ 155,589		$ 155,589	$ 311,178

See accompanying independent auditor's report.

CITY OF WAUKON

SCHEDULE OF RECEIPTS BY SOURCE AND DISBURSEMENTS BY FUNCTION -
ALL GOVERNMENTAL FUNDS

	Years ended June 30,			
	2006	2005	2004	2003
Receipts				
Property tax	$ 853,693	$ 617,949	$ 812,094	$ 843,054
Tax increment financing collections	448,923	653,627	589,101	555,498
Other city tax	286,452	326,091	301,291	279,666
Licenses and permits	14,683	8,126	19,143	10,336
Use of money and property	82,703	37,316	29,745	35,024
Intergovernmental	394,135	399,854	472,624	799,388
Charges for service	289,470	294,924	291,507	195,108
Special assessments	5,464	5,830	15,192	20,996
Miscellaneous	295,087	196,740	124,786	276,614
Total	$ 2,670,610	$ 2,540,457	$ 2,655,483	$ 3,015,684
Disbursements				
Operating				
Public safety	$ 438,537	$ 308,270	$ 526,815	$ 503,460
Public works	550,421	544,427	465,949	551,134
Health and social services	9,000	9,000	9,000	9,000
Culture and recreation	422,983	356,213	384,617	424,912
Community and economic development	44,269	43,574	60,595	1,065,701
General government	246,945	209,344	220,089	225,889
Debt service	377,036	189,716	737,950	198,097
Capital projects	1,607,830	1,470,751	709,056	416,616
Total	$ 3,697,021	$ 3,131,295	$ 3,114,071	$ 3,394,809

See accompanying independent auditor's report.

Hagen & Kallevang PC
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Honorable Mayor and
Members of the City Council

We have audited the accompanying financial statements of the governmental activities, business type activities, each major fund and the aggregate remaining fund information of the City of Waukon, 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 November 21, 2006. Our report expressed an unqualified opinion 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 Waukon'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 Waukon'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 condition described above, we believe item II-A-06 is a material weakness.

511 W. Water St. / Box 403 • Decorah, IA 52101 • 563-382-8471 • Fax 563-382-8473 • hagenkallevang2@netins.net

19 1st Ave. N.W. / Box 139 • Waukon, IA 52172 • 563-568-4567 • Fax 563-568-4569 • hagenkallevang@netins.net

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Waukon's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance 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 of Waukon. 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 Waukon, and other parties to whom the City of Waukon may report including federal awarding agencies and pass-through entities. 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 City of Waukon 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.

Hagen + Kallevang, P.C.

November 21, 2006

CITY OF WAUKON

SCHEDULE OF FINDINGS

Year ended June 30, 2006

Part I: Summary of the Independent Auditor's Results

a. An unqualified opinion was 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 a material weakness.

c. The audit did not disclose any non-compliance which is material to the financial statements.

d. A Single Audit was not necessary since Federal funds expended during the year were less than $500,000.

Part II: Findings Related to the Financial Statements

II-A-06

Segregation of Duties - The City is not large enough to permit an adequate segregation of duties for an effective system of internal control. The concentration of closely related duties and responsibilities such as the handling of cash receipts and disbursements, recording of the cash transactions and preparing various reports by a small staff makes it impossible to establish an adequate system of automatic checks for good internal control.

Recommendation - We realize this condition will be difficult to improve on. However, we do believe it is important that council be aware this condition does exist and make changes when appropriate.

Response - The Council is aware of this condition and continues to make changes when appropriate.

Conclusion - Response accepted.

II-B-06

Timely Deposits - Fees from use of camp grounds are not deposited timely. Also envelopes used are not prenumbered.

Recommendation - Envelopes used in the camp fee process should be prenumbered and accounted for. We also recommend for better accountability and financial control, deposits need to be done timely.

Response - The Park/Recreation Director will order prenumbered envelopes and all campground fees will be deposited as received on a timely basis.

Conclusion - Response accepted.

Instances of Non-Compliance

No matters were noted

Reportable conditions

CITY OF WAUKON

SCHEDULE OF FINDINGS

Year ended June 30, 2005

Part III: Other Findings Related to Statutory Reporting

III-A-06
Certified Budget - Disbursements during the year ended June 30, 2006 did not exceed the amounts budgeted.

III-B-06
Questionable Disbursements - No disbursements that we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.

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

III-D-06
Business Transactions - The following business transactions between the City and City officials or employees were noted:

Name, Title, and Business Connection	Transaction Description	Amount
Diane Sweeney, City Clerk Husband owns Sweeney Oil	Fuel & Oil	$ 1,442

In accordance with Chapter 362.5(10) of the Code of Iowa the transactions with the related party does not appear to represent a conflict of interest since total transactions were less than $1,500 during the fiscal year.

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 insure 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
Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.

III-H-06
Revenue Bonds - The City was in compliance with its bond resolutions.