

CITY OF TIPTON, IOWA
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS
June 30, 2006

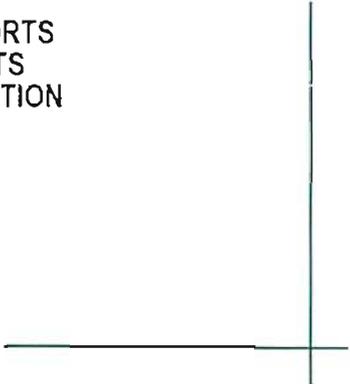


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CITY OF TIPTON

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Donald Young	Mayor	December 2007
Shirley Kepford	1 st Ward Council Person	December 2007
Dean Anderson	2 nd Ward Council Person	December 2009
Klay Johnson	3 rd Ward Council Person	December 2007
Donald McGlaughlin	At Large Council Person	December 2007
Warren Wethington	At Large Council Person	December 2009
Doug Boldt	City Manager	
John Foley	Clerk, Collector	
Lorna Fletcher	Finance Officer/ Assistant City Clerk	
Steve Nash	Director of Public Works/ Zoning Administrator	
Virgil Penrod	Gas Superintendent	
John Packwood	Electric Superintendent	
Roger Hakeman	Chief of Police	
L.E. Dendinger	City Attorney	Indefinite

CITY OF TIPTON

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 Tipton, 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 Tipton's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

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 of the City of Tipton 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.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 15, 2006 on our consideration of the City of Tipton'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 read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 8 through 19 and 41 through 43 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming an opinion on the aforementioned financial statements taken as a whole. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the previous three years (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. The other supplemental information included in Schedules 1 through 13, 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 aforementioned financial statements and, in our opinion, is fairly stated in all material respects in relation to the aforementioned financial statements taken as a whole.

Clifton Henderson LLP

Cedar Rapids, Iowa
September 15, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Tipton provides this Management's Discussion and Analysis of its financial statements as a narrative overview of the financial activities for the fiscal year ended June 30, 2006. Readers are encouraged to consider this information in conjunction with the City's Financial Statements which follow.

2006 FINANCIAL HIGHLIGHTS

- The City's total cash basis net assets decreased by 7% at the close of fiscal year 2006 or \$672,080. Governmental Activities cash basis net assets decreased by \$793,195 due largely to no new debt being added in the public safety function and the cultural and recreational functions.
- City Governmental Activities revenues decreased \$6,883,502 or 226% when compared to fiscal year 2005. Significant changes were due to the fact the city did not issue any new debt during the current year end.
- General Government Activities expenditures decreased \$4,149,620 or 108% during this same period. The decrease results from the proceeds from the Family Aquatic Center already being receipted in the prior fiscal year.
- Business-type activities (the City's enterprise funds) operating revenues increased by \$1,263,353 or 21% and direct operating expenses increased \$875,688 or 11% when compared to the prior year.
- The City has \$7,986,018 in long term debt compared to \$9,019,373 at the close of FY 2005. There was no new debt issued during the current fiscal year. The change between years is the required debt service payments.

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 Cash Basis Net Assets (Exhibit A). This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.
- The Government Fund Financial Statements (Exhibits B & C) 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.

- The Proprietary Fund Financial Statements (Exhibit D) tell how business-type activities were financed in the short term as well as what remains for future spending.
- Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.
- Required Supplementary Information provides budgetary comparison schedules of receipts, disbursements, and changes in balances for all Governmental and Proprietary Funds.
- Other Supplementary Information provides detailed information about the non-major governmental funds.

Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting procedures. 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 more important questions asked about the City's finances is: "Is the City as a whole better or worse off as a result of the fiscal year's activities?" The Statement of Activities and Net Assets reports information which helps answer this question. The Statement 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 different kinds of activities:

- Governmental Activities including public safety, public works, culture and recreation, community and economic development, general government, debt service, and capital projects. Property tax and state and federal grants and disbursements finance most of these activities.
- Business Type Activities include the utilities such as electric, natural gas, water, sewer, and garbage collection. These activities are primarily financed by user charges.

Fund Financial Statements

The City has two types 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 in the following year. 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 balance.
- Proprietary funds account for the City's Enterprise Funds and for the Internal Service Fund. Enterprise Funds are used to report business type activities. The City maintains a number of enterprise funds to provide separate information for electric and gas funds, considered to be major funds of the City. Internal Service Funds are an accounting device used to accumulate and allocate costs internally among the City's various functions.
 - The required financial statements for proprietary funds include a statement of cash receipts, disbursements and changes in cash balances.
 - Reconciliations between the government-wide statement and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

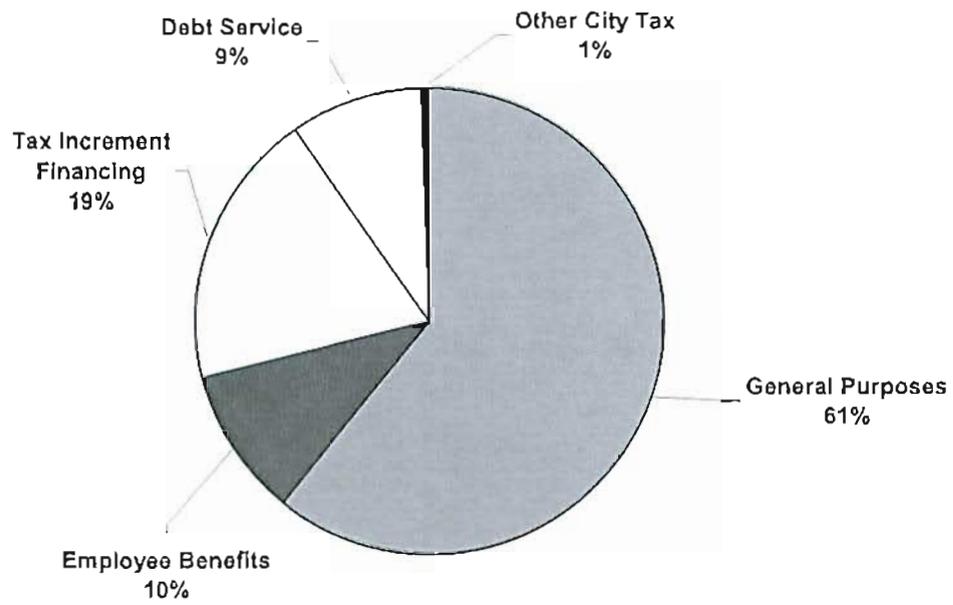
Net assets may serve, over time, as a useful indicator of financial position. The City's cash balance for governmental activities decreased from a year ago from \$3,664,730 to \$2,725,702. The analysis following focuses on the changes in cash balances for governmental activities:

STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS

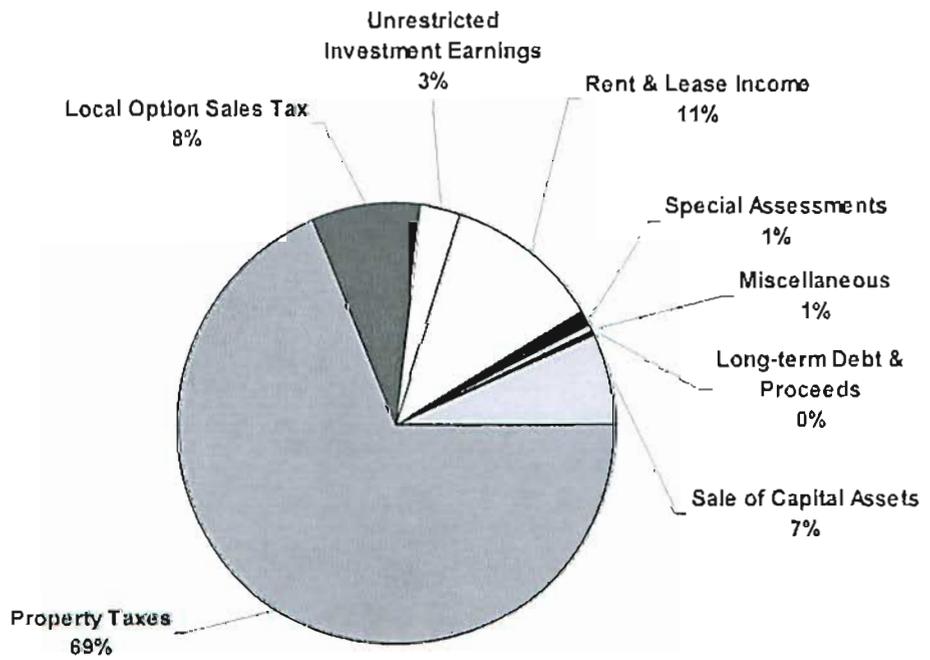
GOVERNMENTAL ACTIVITIES

	<u>June 30,</u> <u>2006</u>	<u>June 30,</u> <u>2005</u>
Receipts and Transfers:		
Program receipts:		
Charges for service	\$ 484,796	\$ 203,802
Operating grants, contributions and restricted interest	446,170	603,370
Capital grants, contributions and restricted interest	391,756	2,796,245
General receipts:		
Property tax	993,242	939,870
Other city tax	6,595	-
Local Option Sales Tax	116,183	173,920
Unrestricted investment earnings	46,261	30,985
Rent and lease income	162,792	151,600
Special assessments	14,012	26,228
Miscellaneous	11,390	164,953
Long term debt proceeds	1,666	4,344,334
Sale of capital assets	96,638	2,535
Interfund loans	(7,379)	47,350
Transfers, net	<u>277,407</u>	<u>439,839</u>
Total receipts and transfers	<u>3,041,529</u>	<u>9,925,031</u>
Disbursements:		
General government:		
Public safety	782,320	586,004
Public works	324,841	434,109
Culture and recreation	587,171	373,104
Community and economic development	-	51,291
General government	733,941	676,354
Debt service	416,710	266,375
Capital projects	<u>1,135,574</u>	<u>5,597,107</u>
Total general government disbursements	<u>3,980,557</u>	<u>7,984,344</u>
 Change in Cash Basis Net Assets	 (939,028)	 1,940,687
 Cash Basis Net Assets, Beginning of Year	 <u>3,664,730</u>	 <u>1,724,043</u>
 Cash Basis Net Assets, End of Year	 <u>\$2,725,702</u>	 <u>\$3,664,730</u>

Property Tax Levies



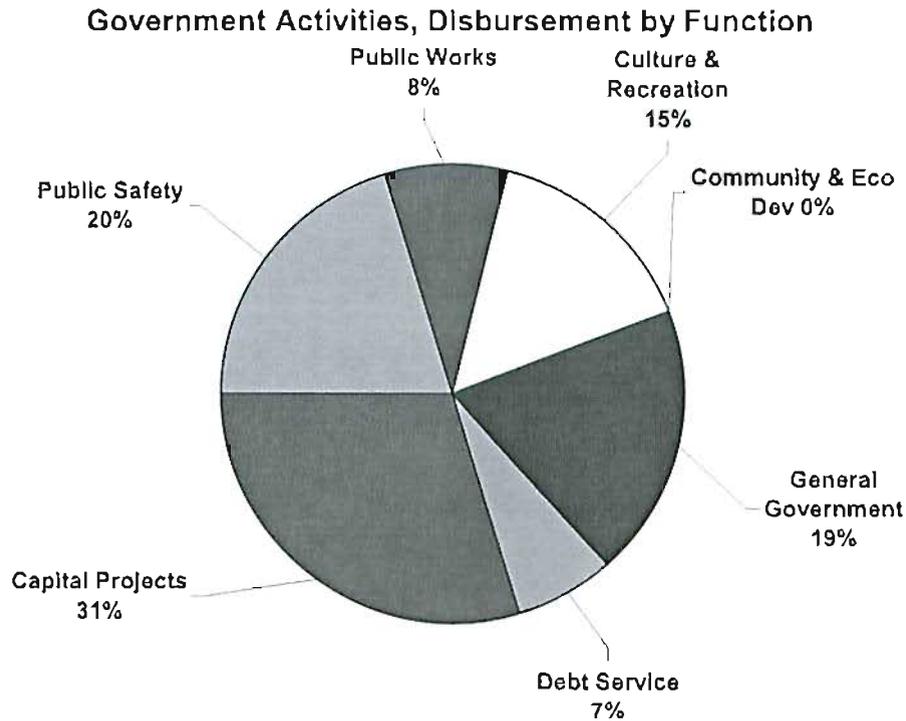
Receipts by Source



The City's total receipts for governmental activities decreased by \$6,883,502 from the previous year, due largely to the receipt of bond and loan proceeds for the Family Aquatic Center in the prior year. The total cost of all programs decreased by \$4,149,620 with no new programs added during the year. The majority of disbursement decrease was due to significant capital costs incurred for street improvements and the wastewater treatment plant in the prior year.

The City reduced the property tax rates for 2006 by 1.7%. The decrease was due to the passage of the 1% Local Option Sales and Service Tax. There was no increase in the general government levy of \$8.10 per \$1,000 of assessed taxable valuation. The overall increase in levy proceeds is due to increased total assessed valuation, even though the residential rollback rate continues to erode the primary base of property tax base in the city.

The cost of all governmental activities this year was \$3,834,724 compared to \$7,984,344 last year. The amount financed by property taxpayers was \$993,242. The remainder was financed by charges for services for those directly benefiting from the programs (\$484,796) or by other governments or organizations that subsidized certain programs with grants, contributions, and restricted interest (\$1,563,491) as well as other general receipts.



STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS

BUSINESS TYPE ACTIVITIES

	<u>June 30,</u> <u>2006</u>	<u>June 30,</u> <u>2005</u>
Receipts:		
Program receipts:		
Charges for service	\$7,011,058	\$6,005,376
Operating grants, contributions and restricted interest	63,084	22,662
General receipts:		
Unrestricted investment earnings	140,953	1,000
Rent and lease income	7,200	-
Long term debt proceeds	58,096	
Sale of capital assets	<u>12,000</u>	<u>-</u>
Total receipts and transfers	<u>7,292,391</u>	<u>6,029,038</u>
Disbursements and transfers:		
Electric	3,173,475	2,841,763
Water	589,075	509,078
Gas	2,033,865	1,683,137
Wastewater	427,314	358,311
Communications	1,460	1,223
Airport	60,792	46,243
Garbage	388,760	359,192
Cemetery	<u>42,579</u>	<u>42,685</u>
Total disbursements	6,717,320	5,841,632
Interfund loans net	30,717	47,350
Transfers, net	<u>277,406</u>	<u>439,839</u>
Total disbursements and transfers	<u>7,025,443</u>	<u>6,328,821</u>
 Change In Cash Basis Net Assets	 266,948	 (222,066)
 Cash Basis Net Assets, Beginning of Year	 <u>3,835,013</u>	 <u>4,057,079</u>
 Cash Basis Net Assets, End of Year	 <u>\$4,101,961</u>	 <u>\$3,835,013</u>

Total business-type activities receipts for the fiscal year were \$7,292,391 compared to \$6,029,038 last year. This change was due primarily to slightly increased fees for electric and natural gas rates and due to higher consumption levels for all services. Total disbursements and transfers for the fiscal year were \$6,717,320 compared to \$5,841,632 last year. The higher level of disbursements were due to increases in energy and supply costs.

INDIVIDUAL NONMAJOR GOVERNMENTAL FUND ANALYSIS

As the city completed this year, its governmental funds reported a combined fund balance of \$2,725,702, a decrease over last year's total of \$3,664,730. The following are the major reasons for the changes of fund balances of the governmental funds from the prior year.

1. The General Fund cash balance decreased \$310,203 from the prior year to \$72,716. This was due largely to the increased expenses for the Family Aquatic Center being placed in to operation.
2. The GO Street Improvement 2003 Fund cash balance decreased \$753,804 from the prior year mainly due to expenses for the capital project.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget one time which resulted in an increase in budgeted receipts and disbursements by \$1,403,433 to provide for additional disbursements in certain City departments. The City had sufficient cash balances to absorb these additional costs.

DEBT ADMINISTRATION

On June 30, 2006, the City had \$7,986,018 in bonds and other long-term debt, compared to \$9,019,373 at the beginning of the year.

Outstanding Debt at June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
General Obligation Notes:		
Street improvements	\$ 165,000	\$ 245,000
Water improvements	195,000	385,000
Street improvements	<u>1,095,000</u>	<u>1,235,000</u>
Total	<u>1,455,000</u>	<u>1,865,000</u>
Revenue Bonds:		
Sewer revenue	<u>2,889,000</u>	<u>3,009,000</u>
Revenue Notes:		
Electric revenue	1,200,000	1,570,000
Water revenue	1,305,000	1,305,000
FAC anticipatory note	<u>1,125,000</u>	<u>1,250,000</u>
Total	<u>3,630,000</u>	<u>4,125,000</u>
Capital Lease Obligation:		
Copier and related equipment	<u>12,018</u>	<u>20,373</u>
Total indebtedness	<u>\$ 7,986,018</u>	<u>\$ 9,019,373</u>

Debt decreased as a result of the regular debt service requirements. 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 \$1,455,000 is well below the constitutional debt limit. Although secured as general obligation debt, only the \$165,000 street improvement debt remaining is serviced by property tax levy. The remainder of the general obligation notes are serviced by Road Use Tax Revenue or Water Revenue.

2006 GENERAL HIGHLIGHTS

- The City began the design for a new fire station with Solum Lang Architects. A special election for a bond referendum in the amount of \$2,300,000 is scheduled for May 15, 2007.
- The City completed an Airport Layout Plan with Snyder & Associates with the hope of becoming included in the National Plan of Integrated Airports. This certification would begin a major airport expansion for the City.
- The City began construction on a new 500,000 gallon elevated water tower. The project was bid in July 2006.
- As a result of a successful passage of the 1% Local Option Sales and Service Tax the City was able to lower the tax levy rate for FY 2006-2007.
- The City began construction of a new youth recreational complex which included three soccer/flag football fields.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Revenues

Economic Condition - which can reflect a declining, stable or growing economic environment and has a substantial impact on property, sales, gas and other tax revenue as well as public spending habits for building permits, elective user fees and volumes of consumption.

Increase/Decrease in Council approved rates - while certain tax rates are set by statutes, the City Council has significant authority to impose and periodically increase/decrease rates (electricity, natural gas, sanitation, recycling, water, wastewater, permitting, recreation user fees, and facility rental fees, etc.)

Changing Patterns in Intergovernmental and Grant Revenue (both recurring and non-recurring) - certain recurring revenues (state revenue sharing, block grants, etc.) may experience significant changes periodically while non-recurring (or one-time) grants are less predictable and often distorting in their impact on year-to-year comparisons. In addition, the state revenue sharing has diminished significantly during this fiscal year, and there are no signs that such sharing will return.

Contribution from the Utilities Funds - the City owns and operates the Water & Sewer, Electric, and Natural Gas utility system and provides administrative and support services for the utility. In return, the City receives payments from the utility. Therefore, the ongoing competitiveness and vitality of the utility is important to the City's well being.

Market Impacts on Investment Income - due to varying maturities on the City's investments and the varying nature of the market in general, City investment income may fluctuate from year to year.

Expenses

Introduction of New Programs - within the functional expense categories (General Government, Public Safety - Police and Fire, Cultural and Recreation, and Redevelopment, etc.) individual programs may be added or deleted to meet changing community needs.

Increase/Decrease in Authorized Personnel - changes in service demand may cause the Council to increase/decrease authorized staffing. Staffing costs (salary and related benefits) represent 32% of the City's total budget and 64% of the General Fund budget.

Salary Increases (cost of living, merit and market adjustment) - the ability to attract and retain human and intellectual resources requires the City to strive to approach a competitive salary range position in the marketplace.

Inflation - while overall inflation appears to be reasonably modest, the City is a major consumer of certain commodities such as chemicals and supplies, fuel and parts. Some functions may experience unusual commodity specific increases (for example fuel prices).

FUTURE FACTORS & BUDGET

Tipton's elected and appointed officials considered the above factors when establishing the FY 2006 budget, tax rates, and fees that will be charged for various City activities. The City and surrounding county has seen a decrease in the last year in the unemployment rate which also dipped slightly below the state average (3.3% versus 3.7%) and the median household income still remains above the state average of \$42,198 versus \$39,469 which is unchanged from last year.

Inflation in the State continues to be somewhat lower than the national Consumer Price Index increase. The State's CPI increase was 2.5% for FY2006 compared to 2.9% nationally. Locally, stable housing and energy prices have helped keep the index low. Energy prices are, however, predicted to show a steady rise, especially in electric purchases.

These indicators were taken into account when adopting the budget for FY2007.

Revenues, 2006-2007

The City's property tax grew based on a 1.02% taxable value increase. The City's Regular General Levy remains at \$8.10/\$1,000 of assessed value while debt service permissible levies decreased from \$1.18403/\$1,000 to \$0.51629 of assessed value in part because of the local option sales and service tax. Overall tax based revenues are expected to show a modest increase of \$49,061 to \$883,194.

A 1% annual increase in electric rates is anticipated to take effect in April. The City has modified its natural gas rates and the procedure by which commodity price adjustments are included in billings to customers.

Expenses, 2006-2007

No new programs are planned for the coming year. The City did participate in the hiring of a Community Development Director. The position is funded by the revenue from a 1% Local Option Sales and Service Tax plus the City will provide office space, logistical support and pay for the benefits package with other financial help from the Tipton Chamber of Commerce and the Tipton Economic Development Corporation. The position was filled in August 2006.

Expenses Anticipated, 2007 +

The City continues with its plans to construct a new fire station. Additional reserve funds for property acquisition were not included in the next budget year as at the time of the report all the necessary property has been acquired. However, the City Council is currently in negotiations to acquire a final piece of property for the project. The Fire Station Project will be a voted referendum general obligation issue and is scheduled for a Special Election on May 15, 2007. The design firm of Solum Lang Architects have been retained to design the facility.

The City has begun construction on a new 500,000 gallon elevated water tower. The project will be financed with a \$600,000 Community Development Block Grant and a revenue bond issue or water reserves will be used to make up the difference. Maguire Iron, Inc. was the low bidder (\$909,000) and, therefore, awarded the project.

The City still faces proportional costs based upon its .5% ownership of the Louisa Generation Plant (LGP) for installation of emissions controls. Tipton's share is estimated to be over \$750,000. Tipton's expense began in FY 2006-2007.

The City is still considering additional standby generation especially after the recent ice storm in February. The City currently owns 4 Mega-Watt of dual-fuel (natural gas/diesel) generation dedicated to the wholesale energy supplier, Resale Power Group of Iowa (RPGI). Investigation is underway into whether the addition of 2 Mega-Watt of diesel generation for peak-shaving only would provide sufficient demand capacity cost reduction to justify an estimated \$500,000 expenditure.

Alliant Energy has indicated that it plans to upgrade the current 34.5 KV electric transmission lines serving Tipton to 69 KV. This project has been delayed now several times. The City has requested a meeting with Alliant hoping they will provide an accurate timeframe for the upgrade. When this project does occur, the City anticipates a revenue bond issuance.

Expenditures related to personnel costs and associated benefits continue to increase as a direct result of the increased cost of health insurance coverage. Although the City is an aggressive participant in partial self-funded health coverage, we have nonetheless faced premium cost increases around 15 -17% annually with no expectation that this will not continue in the short run.

CONTACT INFORMATION

The City's financial statements are designed to present users (citizens, taxpayers, customers, investors and creditors) with a general overview of the City's finances and to demonstrate the City's accountability. If you have any questions about the report or need additional financial information, contact the City Manager at City Hall at 407 Lynn Street, Tipton, Iowa 52772, telephone (563) 886-6187.

Respectfully submitted,

Doug Boldt
City Manager

BASIC FINANCIAL STATEMENTS

CITY OF TIPTON

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	Operating Grants, Contributions, and Restricted Interest	Capital Grants, Contributions, and Restricted Interest
Governmental activities:				
Public safety	\$ 782,320	\$ 149,724	\$ 62,457	\$ -
Public works	324,841	6,324	274,246	20,245
Culture and recreation	587,171	111,367	79,472	2,918
Community and economic development	-	-	11,909	-
General government	733,941	217,381	10,451	-
Debt service	416,710	-	-	-
Capital Projects	1,135,574	-	7,635	368,593
Total governmental activities	<u>3,980,557</u>	<u>484,796</u>	<u>446,170</u>	<u>391,756</u>
Business type activities:				
Electric	3,173,475	3,656,863	16,159	-
Water	589,075	538,585	65	-
Gas	2,033,865	1,966,466	33,584	-
Wastewater	427,314	493,016	119	-
Communications	1,460	18,452	-	-
Airport	60,792	27,589	11,763	-
Garbage	388,760	294,907	5	-
Cemetery	42,579	15,180	1,389	-
Total business type activities	<u>6,717,320</u>	<u>7,011,058</u>	<u>63,084</u>	<u>-</u>
Total	<u>10,697,877</u>	<u>7,495,854</u>	<u>509,254</u>	<u>391,756</u>
GENERAL RECEIPTS:				
Property Taxes levied for:				
General purposes				
Employee benefits				
Tax increment financing				
Debt service				
Other city tax				
Local option sales tax				
Unrestricted interest on investments				
Rent and lease income				
Special assessments				
Miscellaneous				
Long term debt proceeds				
Sale of Fixed Assets				

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

<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
\$ (570,139)	\$ -	\$ (570,139)
(24,026)	-	(24,026)
(393,414)	-	(393,414)
11,909	-	11,909
(506,109)	-	(506,109)
(416,710)	-	(416,710)
<u>(759,346)</u>	<u>-</u>	<u>(759,346)</u>
 <u>(2,657,835)</u>	 <u>-</u>	 <u>(2,657,835)</u>
 -	499,547	499,547
-	(50,425)	(50,425)
-	(33,815)	(33,815)
-	65,821	65,821
-	16,992	16,992
-	(21,440)	(21,440)
-	(93,848)	(93,848)
<u>-</u>	<u>(26,010)</u>	<u>(26,010)</u>
 <u>-</u>	 <u>356,822</u>	 <u>356,822</u>
 <u>(2,657,835)</u>	 <u>356,822</u>	 <u>(2,301,013)</u>
 607,149	-	607,149
104,864	-	104,864
190,052	-	190,052
91,177	-	91,177
6,595	-	6,595
116,183	-	116,183
46,261	140,953	187,214
162,792	7,200	169,992
14,012	-	14,012
11,390	-	11,390
1,666	58,096	59,762
96,638	12,000	108,638

(continued)

CITY OF TIPTON

Statement of Activities and Net Assets - Cash Basis

As of and for the year ended June 30, 2006

	Program Receipts		
	Charges for Services	Operating Grants, Contributions, and Restricted Interest	Capital Grants, Contributions, and Restricted Interest
	<u>Disbursements</u>		
Interfund loan proceeds			
Transfers in			
Interfund loan advances			
Transfers			
Total general receipts and transfers			
CHANGE IN CASH BASIS NET ASSETS			
CASH BASIS NET ASSETS, BEGINNING			
CASH BASIS NET ASSETS, ENDING			
CASH BASIS NET ASSETS:			
Restricted:			
Deposits			
Debt service			
Other purposes			
Unrestricted			
TOTAL CASH BASIS NET ASSETS			

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

<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
30,717	-	30,717
775,084	1,034,418	1,809,502
(38,096)	(30,717)	(68,813)
<u>(497,677)</u>	<u>(1,311,824)</u>	<u>(1,809,501)</u>
<u>1,718,807</u>	<u>(89,874)</u>	<u>1,628,933</u>
(939,028)	266,948	(672,080)
<u>3,664,730</u>	<u>3,835,013</u>	<u>7,499,743</u>
<u>\$ 2,725,702</u>	<u>\$ 4,101,961</u>	<u>\$ 6,827,663</u>
\$ -	\$ 29,012	\$ 29,012
241,611	648,185	889,796
490,314	1,176,417	1,666,731
<u>1,993,777</u>	<u>2,248,347</u>	<u>4,242,124</u>
<u>\$ 2,725,702</u>	<u>\$ 4,101,961</u>	<u>\$ 6,827,663</u>

The accompanying notes are an integral part of the financial statements.

CITY OF TIPTON

Statement of Cash Receipts, Disbursements and Changes
In Cash Balances - Governmental Funds

As of and for the year ended June 30, 2006

	Capital Projects			
	General	GO Street Improvement	Aquatic Center Project	GO Street Improvement 03
RECEIPTS:				
Property tax	\$ 607,149	\$ -	\$ -	\$ -
Tax increment financing collections	-	-	-	-
Other city tax	6,595	-	-	-
Licenses and permits	3,284	-	-	-
Use of money and property	23,268	20,245	-	2,789
Intergovernmental	33,259	-	95,000	-
Charges for services	246,374	-	-	-
Special assessments	14,012	-	-	-
Miscellaneous	95,458	-	7,636	-
	<u>1,029,399</u>	<u>20,245</u>	<u>102,636</u>	<u>2,789</u>
Total receipts				
DISBURSEMENTS:				
Operating:				
Public safety	659,765	-	-	-
Public works	324,841	-	-	-
Culture and recreation	566,853	-	-	-
General government	155,593	-	-	-
Debt service	-	-	-	-
Capital Projects	-	9,076	275,312	842,503
	<u>1,707,052</u>	<u>9,076</u>	<u>275,312</u>	<u>842,503</u>
Total disbursements				
Excess (deficiency) of receipts over (under) disbursements	<u>(677,653)</u>	<u>11,169</u>	<u>(172,676)</u>	<u>(839,714)</u>
OTHER FINANCING SOURCES (USES):				
Debt Proceeds	-	-	-	-
Sale of fixed assets	4,000	-	-	-
Interfund loan proceeds	800	-	-	-
Operating transfers in	397,239	-	41,242	85,910
Interfund loan advances	-	-	-	-
Operating transfers out	(34,589)	-	-	-
	<u>367,450</u>	<u>-</u>	<u>41,242</u>	<u>85,910</u>
Net other financing sources (uses)				

Total Nonmajor Governmental			
<u>Funds</u>		<u>Totals</u>	
\$ 196,041	\$	803,190	
190,052		190,052	
116,183		122,778	
-		3,284	
48,798		95,100	
357,412		485,671	
1,470		247,844	
-		14,012	
<u>236,216</u>		<u>339,310</u>	
<u>1,146,172</u>		<u>2,301,241</u>	
122,555		782,320	
-		324,841	
20,318		587,171	
156,249		311,842	
416,710		416,710	
<u>8,683</u>		<u>1,135,574</u>	
<u>724,515</u>		<u>3,558,458</u>	
<u>421,657</u>		<u>(1,257,217)</u>	
1,666		1,666	
92,638		96,638	
29,917		30,717	
248,892		773,283	
(38,096)		(38,096)	
<u>(463,088)</u>		<u>(497,677)</u>	
<u>(128,071)</u>		<u>366,531</u>	

(continued)

CITY OF TIPTON

Statement of Cash Receipts, Disbursements and Changes
In Cash Balances - Governmental Funds

As of and for the year ended June 30, 2006

	<u>Capital Projects</u>			
	<u>General</u>	<u>GO Street Improvement</u>	<u>Aquatic Center Project</u>	<u>GO Street Improvement 03</u>
NET CHANGE IN CASH BALANCE	(310,203)	11,169	(131,434)	(753,804)
CASH BALANCE, BEGINNING	<u>382,919</u>	<u>746,964</u>	<u>(141,291)</u>	<u>501,839</u>
CASH BALANCE, ENDING	<u>\$ 72,716</u>	<u>\$ 758,133</u>	<u>\$ (272,725)</u>	<u>\$ (251,965)</u>
CASH BASIS FUND BALANCE:				
Reserved:				
Debt service	\$ -	\$ -	\$ -	\$ -
Unreserved:				
General	72,716	-	-	-
Special revenue funds	-	-	-	-
Permanent				
Capital project funds	<u>-</u>	<u>758,133</u>	<u>(272,725)</u>	<u>(251,965)</u>
Total cash basis fund balance	<u>\$ 72,716</u>	<u>\$ 758,133</u>	<u>\$ (272,725)</u>	<u>\$ (251,965)</u>

Total Nonmajor Governmental Funds	Totals
293,586	(890,686)
<u>1,736,263</u>	<u>3,226,694</u>
<u>\$ 2,029,849</u>	<u>\$ 2,336,008</u>
\$ 241,611	\$ 241,611
-	72,716
1,162,347	1,162,347
100,620	100,620
<u>525,271</u>	<u>758,714</u>
<u>\$ 2,029,849</u>	<u>\$ 2,336,008</u>

The accompanying notes are an integral part of the financial statements.

CITY OF TIPTON
 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	\$ 2,336,008
--	--------------

Amounts reported for governmental activities in the Statement of Activities and Net Assets are different because:

The Internal Revenue Service Funds are utilized to account for the financing of goods or services provided by one department or agency to other departments or agencies of a government on a cost reimbursement basis.

389,694

Cash basis net assets of governmental activities	\$ <u>2,725,702</u>
--	---------------------

Net change in cash balances	\$ (890,686)
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Amounts reported for governmental activities in the Statement of Activities and Net Assets are different because:

The Internal Revenue Service Funds are utilized to account for the financing of goods or services provided by one department or agency to other departments or agencies of a government on a cost reimbursement basis.

(48,342)

Change in cash balance of governmental activities	\$ <u>(939,028)</u>
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CITY OF TIPTON

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

As of and for the year ended June 30, 2006

	Electric Operating	Gas Operating	Total Nonmajor Proprietary Funds	Totals	Internal Service Funds
OPERATING RECEIPTS:					
Licenses and permits	\$ 330	\$ 31	\$ 200	\$ 561	\$ -
Intergovernmental	-	-	11,889	11,889	-
Charges for services	3,638,454	1,956,140	1,358,553	6,953,147	-
Miscellaneous	26,943	33,884	55,167	115,994	201,892
Total operating receipts	3,665,727	1,990,055	1,425,809	7,081,591	201,892
OPERATING DISBURSEMENTS:					
General government	-	-	-	-	422,099
Business type activities:					
Electric	2,733,345	-	10,345	2,743,690	-
Water	-	-	318,315	318,315	-
Gas	-	2,011,901	21,964	2,033,865	-
Wastewater	-	-	209,325	209,325	-
Communications	-	-	1,460	1,460	-
Airport	-	-	60,792	60,792	-
Garbage	-	-	388,760	388,760	-
Cemetery	-	-	42,579	42,579	-
Total operating disbursements	2,733,345	2,011,901	1,053,540	5,798,786	422,099
Excess (deficiency) of operating receipts over (under) operating disbursements	932,382	(21,846)	372,269	1,282,805	(220,207)
NONOPERATING RECEIPTS (DISBURSEMENTS):					
Interest on investments	52,396	692	87,614	140,702	18,903
Rents	-	-	-	-	151,161
Debt service	-	-	(918,534)	(918,534)	-
Net nonoperating receipts (disbursements)	52,396	692	(830,920)	(777,832)	170,064
Excess (deficiency) of receipts over (under) disbursements	984,778	(21,154)	(458,651)	504,973	(50,143)
OTHER FINANCING SOURCES (USES):					
Debt proceeds	-	-	58,096	58,096	-
Operating transfers in	19,432	1,135	1,013,851	1,034,418	1,801
Sale of Fixed Assets	12,000	-	-	12,000	-
Interfund loan advances	-	-	(30,717)	(30,717)	-
Operating transfers out	(776,902)	(11,788)	(523,134)	(1,311,824)	-
Net other financing sources (uses)	(745,470)	(10,653)	518,096	(238,027)	1,801

	Electric Operating	Gas Operating	Total Nonmajor Proprietary Funds	Totals	Internal Service Funds
NET CHANGE IN CASH BALANCE	239,308	(31,807)	59,445	266,946	(48,342)
CASH BALANCE, BEGINNING	<u>1,479,556</u>	<u>55,309</u>	<u>2,300,150</u>	<u>3,835,015</u>	<u>438,036</u>
CASH BALANCE, ENDING	<u>\$ 1,718,864</u>	<u>\$ 23,502</u>	<u>\$ 2,359,595</u>	<u>\$ 4,101,961</u>	<u>\$ 389,694</u>
CASH BASIS FUND BALANCE:					
Reserved:					
Deposits	\$ -	\$ -	\$ 29,012	\$ 29,012	\$ -
Debt service	-	-	648,185	648,185	-
Other purposes	-	-	1,176,417	1,176,417	389,694
Unreserved	<u>1,718,864</u>	<u>23,502</u>	<u>505,981</u>	<u>2,248,347</u>	<u>-</u>
Total cash basis fund balance	<u>\$ 1,718,864</u>	<u>\$ 23,502</u>	<u>\$ 2,359,595</u>	<u>\$ 4,101,961</u>	<u>\$ 389,694</u>

The accompanying notes are an integral part of the financial statements.

CITY OF TIPTON
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

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

The City of Tipton is a political subdivision of the State of Iowa located in Cedar County. It was first incorporated in 1840 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Manager-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, culture and recreation, community and economic development and general government services. City also provides utility service to the citizens of Tipton including electricity, water, solid waste, sewer and gas.

A. Reporting Entity

For financial reporting purposes, the City of Tipton 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.

Jointly Governed Organizations

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

In addition to the jointly governed organizations identified above, the City has an agreement with the cities of Wilton and Durant for joint operation of a street sweeper.

B. Basis of Presentation

Governmental-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.

CITY OF TIPTON
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

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

B. Basis of Presentation (continued)

Governmental-wide Financial Statements (continued)

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

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

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

The Statement of Activities and Net Assets demonstrates the degree to which 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.

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.

CITY OF TIPTON
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

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

B. Basis of Presentation (continued)

Fund Financial Statements (continued)

Capital Projects:

The GO Street Improvement Fund is used to account for a street improvement project.

The Aquatic Center Project Fund is used to account for the aquatic center capital project.

The 2003 GO Street Improvement Project Fund is used to account for the 2003 street improvement project.

The City reports the following major proprietary funds:

The Electric Operating Fund accounts for the operation and maintenance of the City's electric system.

The Gas Operating Fund accounts for the operation and maintenance of the City's gas system.

C. Measurement Focus and Basis of Accounting

The City of Tipton 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, or accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with accounting principles generally accepted in the United States of America.

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.

CITY OF TIPTON
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

(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.

The City had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3, as amended by Statement No. 40.

(3) Bonds, Notes and Warrants Payable

The annual debt service requirements to maturity of general obligation bonds and notes and revenue bonds and notes are as follows:

	General Obligation Bonds and Notes		Revenue and Anticipatory Bonds and Notes		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2007	\$ 420,000	\$ 52,095	\$ 808,000	\$ 194,376	\$1,228,000	\$ 291,471
2008	230,000	36,599	827,000	173,906	1,057,000	243,505
2009	150,000	28,611	926,000	150,238	1,076,000	199,849
2010	155,000	23,886	495,000	132,630	650,000	166,516
2011	160,000	18,694	254,000	123,544	414,000	142,238
2012	165,000	13,013	263,000	113,938	428,000	126,951
2013	175,000	6,825	272,000	103,796	447,000	110,621
2014	-	-	282,000	93,105	282,000	93,105
2015	-	-	296,000	81,725	296,000	81,725
2016	-	-	306,000	69,705	306,000	69,705
2017	-	-	321,000	56,998	321,000	56,998
2018	-	-	331,000	43,590	331,000	43,590
2019	-	-	176,000	34,140	176,000	34,140
2020	-	-	181,000	28,860	181,000	28,860
2021	-	-	187,000	23,430	187,000	23,430
2022	-	-	192,000	17,820	192,000	17,820
2023	-	-	198,000	12,060	198,000	12,060
2024	-	-	204,000	6,120	204,000	6,120
	<u>\$1,455,000</u>	<u>\$ 179,723</u>	<u>\$6,519,000</u>	<u>\$1,568,979</u>	<u>\$7,974,000</u>	<u>\$1,748,702</u>

CITY OF TIPTON
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

(3) Bonds, Notes and Warrants Payable (continued)

General obligation notes were issued on May 1, 2003 to provide funds to pay for the cost of street construction and reconstruction. These notes are callable on June 1, 2009.

The resolution providing for the issuance of the electric revenue notes includes the following provisions:

- a) The City shall generate net revenues from electric operations equal to at least 125% of the average annual installments on all bonds and notes outstanding.
- b) An amount equal to 1/12th of the next principal due and 1/6th of the next interest due shall be set aside in an electric sinking fund on a monthly basis.
- c) A reserve fund is to be established with a required fund balance of \$474,000.
- d) A renewal and replacement fund is to be established with a required fund balance of \$100,000. If the balance in this fund is less than the required minimum amount, \$50,000 shall be deposited into the fund.

Water revenue notes were issued on July 1, 2002 to provide funds for water improvement projects. These notes are callable on July 1, 2012.

The resolution providing for the issuance of the water revenue notes includes the following provisions:

- a) The City shall generate net revenues from water operations equal to at least 125% of the average annual installments on the notes.
- b) An amount equal to 1/12th of the next principal due and 1/6th of the next interest due shall be set aside in a water sinking fund on a monthly basis.
- c) A reserve fund is to be established with a required fund balance of \$130,000.
- d) A surplus fund is to be established into which there shall be set apart and paid all the net revenues remaining after first making the required payments into the sinking and reserve funds and after the reserve fund contains the required minimum balance.

At June 30, 2006, the City was in compliance with all the provisions above, except for not having a reserve fund with a minimum balance of \$130,000 to pay principle and interest on the water revenue notes and maintaining a reserve fund balance of \$474,000 for the electric revenue notes.

CITY OF TIPTON
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

(4) Capital Lease Obligations

During the year ended June 30, 2003, the City entered into a capital lease agreement for a multi-use printer/copier and related equipment. Monthly installments of \$786.19, including interest at 6.5% per annum, are due through October 21, 2007. There is a purchase option of \$750 for the equipment at that date and a schedule of the future minimum lease payments is as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2007	\$ 9,434
2008	<u>3,144</u>
Total minimum lease payments	12,578
Less amount representing interest	<u>560</u>
Present value of net minimum lease payments	<u>\$ 12,018</u>

(5) Interfund Transfers

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

	Transfers In								<u>Totals</u>
	<u>General</u>	<u>GO Street Improve- ment</u>	<u>Aquatic Center Projects</u>	<u>GO Street Improve- ment 2003</u>	<u>Nonmajor Govern- mental Funds</u>	<u>Electric</u>	<u>Gas</u>	<u>Nonmajor Enterprise Funds</u>	
Transfers Out:									
General	\$ 18,089	\$ -	\$ -	\$ -	\$ 16,500	\$ -	\$ -	\$ -	\$ 34,589
Nonmajor:									
Special revenue	103,545	85,910	41,242	180,035	52,356	-	-	-	463,088
Electric	270,202	-	-	-	-	-	1,135	505,565	776,902
Gas	5,403	-	-	-	-	4,032	-	2,353	11,788
Nonmajor:									
Enterprise	-	-	-	-	-	15,400	-	507,734	523,134
	<u>\$ 397,239</u>	<u>\$ 85,910</u>	<u>\$ 41,242</u>	<u>\$ 180,035</u>	<u>\$ 68,656</u>	<u>\$ 19,432</u>	<u>\$ 1,135</u>	<u>\$ 1,015,652</u>	<u>\$ 1,809,501</u>

Transfers are used to move resources from the fund that will be providing the resources to the fund in which certain expenditures/expenses are being accounted for. Transfers are generally used to fund the cost of administration, debt services or capital projects.

CITY OF TIPTON
NOTES TO FINANCIAL STATEMENTS
 June 30, 2006

(6) 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 \$76,525, \$71,888 and \$66,518, respectively, equal to the required contributions for each year.

(7) Health Insurance

The City provides health insurance for its employees with partial self-funding provisions as follows:

	Out of Pocket Limits	
	Per Calendar Year	
	<u>Single</u>	<u>Family</u>
Employee	\$ 500	\$ 1,000
City	\$ 1,500	\$ 3,000

The City has established an internal service fund to account for and pay its share of this partial self-funding. As of June 30, 2006, there are unpaid claims for which the City is partially liable under the partial self-funding provision of the health insurance plan. This liability has not been determined. The balance on hand at the end of the year with the third party provider was \$1,474.

(8) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation and sick leave hours based on the length of employment. Sick leave is not a vested benefit. It is payable when used and may be accumulated to a maximum of 960 hours. Vacation is payable when used and is cumulative to a maximum of 240 hours. 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 is \$61,449.

CITY OF TIPTON
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

(10) Risk Management

The City of Tipton 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.

(11) Construction Project Commitments

The City of Tipton owns .5% of the Louisa Generation Plant and receives 3.5 megawatts of base load generation from this ownership. The Louisa Plant is planning on EPA mandated installation of particulate scrubbers on its stacks to comply with clean air standards. The City's share of this project is estimated to be \$743,000 with current projections placing the majority of construction costs between 2008 and 2009. The City intends to finance this project through the creation of a reserve fund financed by existing user rates.

The City of Tipton has a commitment under a construction contract for work that has been completed on the Family Aquatic Center for the year ended June 30, 2006 in the amount of \$181,302.

(12) Deficit Fund Balance

The Capital Project, Aquatic Center Project Fund had a deficit balance of \$272,725 at June 30, 2006. The Capital Project, GO Street Improvement 2003 had a deficit balance of \$251,965 at June 30, 2006. The deficit balances were the result of project costs incurred prior to availability of funds. The deficit will be eliminated upon receipt of campaign donations and the sale of bonds.

This information is an integral part of the accompanying financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF TIPTON

**Budgetary Comparison Schedule of Receipts, Disbursements, and
Changes in Balances - Budget to Actual (Cash Basis)-
All Governmental Funds and Proprietary Funds
Required Supplementary Information**

Year Ended June 30, 2006

	Governmental Funds <u>Actual</u>	Proprietary Funds <u>Actual</u>	<u>Total</u>
RECEIPTS:			
Property tax	\$ 803,190	\$ -	\$ 803,190
Tax increment financing	190,052	-	190,052
Other city tax	122,778	-	122,778
Licenses and permits	3,284	561	3,845
Use of money and property	95,100	140,702	235,802
Intergovernmental	485,671	11,889	497,560
Charges for services	247,844	6,953,147	7,200,991
Special assessments	14,012	-	14,012
Miscellaneous	<u>339,310</u>	<u>115,994</u>	<u>455,304</u>
Total receipts	<u>2,301,241</u>	<u>7,222,293</u>	<u>9,523,534</u>
DISBURSEMENTS:			
Public safety	782,320	-	782,320
Public works	324,841	-	324,841
Culture and recreation	587,171	-	587,171
Community and economic development	-	-	-
General government	311,842	-	311,842
Debt service	416,710	918,534	1,335,244
Capital projects	1,135,574	-	1,135,574
Business-type activities	<u>-</u>	<u>5,798,786</u>	<u>5,798,786</u>
Total disbursements	<u>3,558,458</u>	<u>6,717,320</u>	<u>10,275,778</u>
Excess (deficiency) of receipts over (under) disbursements	(1,257,217)	504,973	(752,244)
OTHER FINANCING SOURCES	<u>366,531</u>	<u>(238,027)</u>	<u>128,504</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(890,686)	266,946	(623,740)
BALANCES BEGINNING OF YEAR	<u>3,226,694</u>	<u>3,835,015</u>	<u>7,061,709</u>
BALANCES END OF YEAR	<u>\$ 2,336,008</u>	<u>\$ 4,101,961</u>	<u>\$ 6,437,969</u>

<u>Budgeted Amounts</u>		<u>Final to</u>
<u>Original</u>	<u>Final</u>	<u>Total</u>
		<u>Variance</u>
\$ 784,133	\$ 784,133	\$ 19,057
187,000	187,000	3,052
214,966	214,966	(92,188)
7,510	7,510	(3,665)
1,843,648	2,082,339	(1,846,537)
488,088	488,088	9,472
6,678,156	7,828,898	(627,907)
30,000	30,000	(15,988)
<u>727,779</u>	<u>741,779</u>	<u>(286,475)</u>
<u>10,961,280</u>	<u>12,364,713</u>	<u>(2,841,179)</u>
705,801	840,726	58,406
342,567	370,803	45,962
550,030	626,030	38,859
25,000	25,000	25,000
531,529	545,529	233,687
1,217,757	1,217,757	(117,487)
1,506,532	1,514,332	378,758
<u>6,082,064</u>	<u>7,255,253</u>	<u>1,456,467</u>
<u>10,961,280</u>	<u>12,395,430</u>	<u>2,119,652</u>
-	(30,717)	(721,527)
<u>-</u>	<u>30,717</u>	<u>97,787</u>
-	-	(623,740)
<u>7,061,709</u>	<u>7,061,709</u>	<u>-</u>
<u>\$ 7,061,709</u>	<u>\$ 7,061,709</u>	<u>\$ (623,740)</u>

See accompanying independent auditor's report.

CITY OF TIPTON

Notes to Required Supplementary Information- Budgetary Reporting

Year Ended June 30, 2006

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 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 functional areas are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities, and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds, and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budget receipts by \$1,403,433 and disbursements by \$1,434,150. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2006, disbursements did not exceed budgeted amounts.

OTHER SUPPLEMENTARY INFORMATION

CITY OF TIPTON

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances

Combining Nonmajor Governmental Funds

As of and for the year ended June 30, 2006

	Special Revenue	Debt Service	Capital Projects	Permanent	Total Nonmajor Governmental Funds
RECEIPTS:					
Property tax	\$ 104,864	\$ 91,177	\$ -	\$ -	\$ 196,041
Tax increment financing collections	190,052	-	-	-	190,052
Other city tax	116,183	-	-	-	116,183
Use of money and property	34,439	8,858	5,501	-	48,798
Intergovernmental	357,412	-	-	-	357,412
Charges for services	-	-	-	1,470	1,470
Miscellaneous	236,216	-	-	-	236,216
Total receipts	1,039,166	100,035	5,501	1,470	1,146,172
DISBURSEMENTS:					
Operating:					
Public safety	122,555	-	-	-	122,555
Culture and recreation	20,318	-	-	-	20,318
General government	156,249	-	-	-	156,249
Debt service	145,833	270,877	-	-	416,710
Capital Projects	-	-	8,683	-	8,683
Total disbursements	444,955	270,877	8,683	-	724,515
Excess (deficiency) of receipts over (under) disbursements	594,211	(170,842)	(3,182)	1,470	421,657
OTHER FINANCING SOURCES (USES):					
Interfund loan proceeds	29,917	-	-	-	29,917
Debt proceeds	-	-	1,666	-	1,666
Sale of fixed assets	92,638	-	-	-	92,638
Operating transfers in	16,500	180,035	52,357	-	248,892
Interfund loan advances	(38,096)	-	-	-	(38,096)
Operating transfers out	(463,088)	-	-	-	(463,088)
Net other financing sources (uses)	(362,129)	180,035	54,023	-	(128,071)

Schedule 1

	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Permanent</u>	<u>Total Nonmajor Governmental Funds</u>
NET CHANGE IN CASH BALANCE	232,082	9,193	50,841	1,470	293,586
CASH BALANCE, BEGINNING	<u>930,265</u>	<u>232,418</u>	<u>474,430</u>	<u>99,150</u>	<u>1,736,263</u>
CASH BALANCE, ENDING	<u>\$ 1,162,347</u>	<u>\$ 241,611</u>	<u>\$ 525,271</u>	<u>\$ 100,620</u>	<u>\$ 2,029,849</u>
CASH BASIS FUND BALANCE:					
Reserved:					
Debt service	\$ -	\$ 241,611	\$ -	\$ -	\$ 241,611
Unreserved:					
Special revenue funds	1,162,347	-	-	-	1,162,347
Permanent	-	-	-	100,620	100,620
Capital project funds	<u>-</u>	<u>-</u>	<u>525,271</u>	<u>-</u>	<u>525,271</u>
Total cash basis fund balance	<u>\$ 1,162,347</u>	<u>\$ 241,611</u>	<u>\$ 525,271</u>	<u>\$ 100,620</u>	<u>\$ 2,029,849</u>

CITY OF TIPTON

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances

Nonmajor Governmental Funds - Special Revenue

As of and for the year ended June 30, 2006

	Road Use Tax	Trust and Agency	Local Option Tax	TIF Capital Improvement	Economic/ Industrial Development
RECEIPTS:					
Property tax	\$ -	\$ 104,864	\$ -	\$ -	\$ -
Tax increment financing collections	-	-	-	190,052	-
Other city tax	-	-	116,183	-	-
Use of money and property	-	1,333	-	5,025	4,609
Intergovernmental	264,154	-	-	-	-
Miscellaneous	-	-	-	-	7,300
Total receipts	264,154	106,197	116,183	195,077	11,909
DISBURSEMENTS:					
Operating:					
Public safety	-	-	-	-	-
Culture and recreation	-	-	-	-	4,003
General government	-	-	116,183	38,150	-
Debt Service	-	-	-	-	-
Total disbursements	-	-	116,183	38,150	4,003
Excess (deficiency) of receipts over (under) disbursements	264,154	106,197	-	156,927	7,906
OTHER FINANCING SOURCES (USES):					
Interfund loan proceeds	-	-	-	-	-
Proceeds from sale of capital assets	-	-	-	-	-
Operating transfers in	-	-	-	-	-
Interfund loan advances	-	-	-	-	-
Operating transfers out	(265,945)	(103,545)	-	-	-
Net other financing sources (uses)	(265,945)	(103,545)	-	-	-
NET CHANGE IN CASH BALANCE	(1,791)	2,652	-	156,927	7,906
CASH BALANCE, BEGINNING	246,606	6,147	-	107,204	169,830
CASH BALANCE, ENDING	\$ 244,815	\$ 8,799	\$ -	\$ 264,131	\$ 177,736
CASH BASIS FUND BALANCE:					
Unreserved:					
Special revenue funds	\$ 244,815	\$ 8,799	\$ -	\$ 264,131	\$ 177,736

Schedule 2

<u>Aquatic Campaign</u>	<u>Unemployment Trust</u>	<u>Library Trust</u>	<u>PS Share Trust</u>	<u>Ambulance Trust</u>	<u>Fire Trust</u>	<u>CDBG Funds</u>	<u>Totals</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 104,864
-	-	-	-	-	-	-	190,052
-	-	-	-	-	-	-	116,183
3,209	1,630	2,832	26	7,462	317	7,996	34,439
-	-	-	-	6,767	42,131	44,360	357,412
<u>209,738</u>	<u>-</u>	<u>13,385</u>	<u>3,794</u>	<u>1,999</u>	<u>-</u>	<u>-</u>	<u>236,216</u>
<u>212,947</u>	<u>1,630</u>	<u>16,217</u>	<u>3,820</u>	<u>16,228</u>	<u>42,448</u>	<u>52,356</u>	<u>1,039,166</u>
-	-	-	-	-	122,555	-	122,555
-	-	16,315	-	-	-	-	20,318
-	-	-	1,916	-	-	-	156,249
<u>145,833</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>145,833</u>
<u>145,833</u>	<u>-</u>	<u>16,315</u>	<u>1,916</u>	<u>-</u>	<u>122,555</u>	<u>-</u>	<u>444,955</u>
<u>67,114</u>	<u>1,630</u>	<u>(98)</u>	<u>1,904</u>	<u>16,228</u>	<u>(80,107)</u>	<u>52,356</u>	<u>594,211</u>
-	-	-	-	-	29,917	-	29,917
-	-	-	-	-	92,638	-	92,638
-	-	-	-	16,500	-	-	16,500
-	-	-	-	-	(38,096)	-	(38,096)
<u>(41,242)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(52,356)</u>	<u>(463,088)</u>
<u>(41,242)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>16,500</u>	<u>84,459</u>	<u>(52,356)</u>	<u>(362,129)</u>
25,872	1,630	(98)	1,904	32,728	4,352	-	232,082
-	68,133	80,498	64	245,673	6,110	-	930,265
<u>\$ 25,872</u>	<u>\$ 69,763</u>	<u>\$ 80,400</u>	<u>\$ 1,968</u>	<u>\$ 278,401</u>	<u>\$ 10,462</u>	<u>\$ -</u>	<u>\$ 1,162,347</u>
<u>\$ 25,872</u>	<u>\$ 69,763</u>	<u>\$ 80,400</u>	<u>\$ 1,968</u>	<u>\$ 278,401</u>	<u>\$ 10,462</u>	<u>\$ -</u>	<u>\$ 1,162,347</u>

CITY OF TIPTON

Schedule 3

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances

Nonmajor Governmental Funds - Other

As of and for the year ended June 30, 2006

	Debt Service			Total Debt Service Funds	Capital Projects	Permanent
	1994 Sewer/Water Debt Service	GO Street Improvement Debt Service	GO Street Improvement Debt Service 03		Wastewater Project	Cemetary Trust
RECEIPTS:						
Property tax	\$ -	\$ 91,177	\$ -	\$ 91,177	\$ -	\$ -
Use of money and property	6,121	1,042	1,695	8,858	5,501	-
Charges for services	-	-	-	-	-	1,470
Miscellaneous	-	-	-	-	-	-
Total receipts	6,121	92,219	1,695	100,035	5,501	1,470
DISBURSEMENTS:						
Debt Service	-	90,842	180,035	270,877	-	-
Capital Projects	-	-	-	-	8,683	-
Total disbursements	-	90,842	180,035	270,877	8,683	-
Excess (deficiency) of receipts over (under) disbursements	6,121	1,377	(178,340)	(170,842)	(3,182)	1,470
OTHER FINANCING SOURCES (USES):						
Debt proceeds	-	-	-	-	1,666	-
Operating transfers in	-	-	180,035	180,035	52,357	-
Net other financing sources (uses)	-	-	180,035	180,035	54,023	-
NET CHANGE IN CASH BALANCE	6,121	1,377	1,695	9,193	50,841	1,470
CASH BALANCE, BEGINNING	230,521	848	1,049	232,418	474,430	99,150
CASH BALANCE, ENDING	\$ 236,642	\$ 2,225	\$ 2,744	\$ 241,611	\$ 525,271	\$ 100,620
CASH BASIS FUND BALANCE:						
Reserved:						
Debt Service	\$ 236,642	\$ 2,225	\$ 2,744	\$ 241,611	\$ -	\$ -
Unreserved:						
Cemetary	-	-	-	-	-	100,620
Capital Projects	-	-	-	-	525,271	-
Total cash basis fund balance	\$ 236,642	\$ 2,225	\$ 2,744	\$ 241,611	\$ 525,271	\$ 100,620

CITY OF TIPTON

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances

Nonmajor Proprietary Funds

As of and For the Year Ended June 30, 2006

	<u>Electric</u>	<u>Water</u>	<u>Gas</u>	<u>Wastewater</u>
OPERATING RECEIPTS:				
Licenses and permits	\$ -	\$ 200	\$ -	\$ -
Intergovernmental	-	-	-	-
Charges for services	-	534,695	-	493,016
Miscellaneous	<u>9,290</u>	<u>5,458</u>	<u>10,295</u>	<u>515</u>
Total operating receipts	<u>9,290</u>	<u>540,353</u>	<u>10,295</u>	<u>493,531</u>
OPERATING DISBURSEMENTS:				
Business type activities:				
Electric	10,345	-	-	-
Water	-	318,315	-	-
Gas	-	-	21,964	-
Wastewater	-	-	-	209,325
Communications	-	-	-	-
Airport	-	-	-	-
Garbage	-	-	-	-
Cemetary	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total operating disbursements	<u>10,345</u>	<u>318,315</u>	<u>21,964</u>	<u>209,325</u>
Excess (deficiency) of operating receipts over (under) operating disbursements	<u>(1,055)</u>	<u>222,038</u>	<u>(11,669)</u>	<u>284,206</u>
NONOPERATING RECEIPTS (DISBURSEMENTS):				
Interest on investments	34,175	9,733	12,808	12,785
Debt service	<u>(429,785)</u>	<u>(270,760)</u>	<u>-</u>	<u>(217,989)</u>
Net nonoperating receipts (disbursements)	<u>(395,610)</u>	<u>(261,027)</u>	<u>12,808</u>	<u>(205,204)</u>
Excess (deficiency) of receipts over (under) disbursements	<u>(396,665)</u>	<u>(38,989)</u>	<u>1,139</u>	<u>79,002</u>

Schedule 4

<u>Other</u>	<u>Total</u>
\$ -	\$ 200
11,889	11,889
330,842	1,358,553
<u>29,609</u>	<u>55,167</u>
<u>372,340</u>	<u>1,425,809</u>
-	10,345
-	318,315
-	21,964
-	209,325
1,460	1,460
60,792	60,792
388,760	388,760
<u>42,579</u>	<u>42,579</u>
<u>493,591</u>	<u>1,053,540</u>
<u>(121,251)</u>	<u>372,269</u>
18,113	87,614
<u>-</u>	<u>(918,534)</u>
<u>18,113</u>	<u>(830,920)</u>
<u>(103,138)</u>	<u>(458,651)</u>

(continued)

CITY OF TIPTON

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances

Nonmajor Proprietary Funds

As of and For the Year Ended June 30, 2006

	<u>Electric</u>	<u>Water</u>	<u>Gas</u>	<u>Wastewater</u>
OTHER FINANCING SOURCES				
(USES):				
Debt proceeds	58,096	-	-	-
Operating transfers in	436,800	302,812	-	249,826
Interfund loan advances	(30,717)	-	-	-
Operating transfers out	-	(270,761)	-	(236,973)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Net other financing sources (uses)	464,179	32,051	-	12,853
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
NET CHANGE IN CASH BALANCE	67,514	(6,938)	1,139	91,855
CASH BALANCE, BEGINNING	<u>968,654</u>	<u>311,275</u>	<u>443,611</u>	<u>337,187</u>
CASH BALANCE, ENDING	<u>\$ 1,036,168</u>	<u>\$ 304,337</u>	<u>\$ 444,750</u>	<u>\$ 429,042</u>
CASH BASIS FUND BALANCE				
Reserved:				
Deposits	\$ 12,874	\$ 4,353	\$ 11,785	\$ -
Debt service	279,842	71,979	-	296,364
Other purposes	743,452	-	432,965	-
Unreserved	-	228,005	-	132,678
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total cash basis fund balance	<u>\$ 1,036,168</u>	<u>\$ 304,337</u>	<u>\$ 444,750</u>	<u>\$ 429,042</u>

<u>Other</u>	<u>Total</u>
-	58,096
24,413	1,013,851
-	(30,717)
<u>(15,400)</u>	<u>(523,134)</u>

<u>9,013</u>	<u>518,096</u>
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(94,125)	59,445
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<u>239,423</u>	<u>2,300,150</u>
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<u>\$ 145,298</u>	<u>\$ 2,359,595</u>
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\$ -	\$ 29,012
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-	648,185
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-	1,176,417
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<u>145,298</u>	<u>505,981</u>
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<u>\$ 145,298</u>	<u>\$ 2,359,595</u>
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CITY OF TIPTON

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Nonmajor Enterprise Funds - Electric

As of and For the Year Ended June 30, 2006

	Electric Revenue Bonds 98	Electric Revenue Bonds	Electric Development
OPERATING RECEIPTS:			
Miscellaneous	\$ -	\$ -	\$ -
OPERATING DISBURSEMENTS:			
Business type activities:			
Electric	-	-	23
Excess (deficiency) of operating receipts over (under) operating disbursements	-	-	(23)
NONOPERATING RECEIPTS (DISBURSEMENTS):			
Interest on investments	3,118	1,070	3,011
Debt service	(429,785)	-	-
Net nonoperating receipts (disbursements)	(426,667)	1,070	3,011
Excess (deficiency) of receipts over (under) disbursements	(426,667)	1,070	2,988
OTHER FINANCING SOURCES (USES):			
Debt proceeds	-	-	20,000
Operating transfers in	436,800	-	-
Interfund loan advance	-	-	-
Net other financing sources (uses)	436,800	-	20,000
NET CHANGE IN CASH BALANCE	10,133	1,070	22,988
CASH BALANCE, BEGINNING	228,335	40,304	1,900
CASH BALANCE, ENDING	\$ 238,468	\$ 41,374	\$ 24,888
CASH BASIS FUND BALANCE:			
Reserved:			
Deposits	\$ -	\$ -	\$ -
Debt service	238,468	41,374	-
Other purposes	-	-	24,888
Total cash basis fund balance	\$ 238,468	\$ 41,374	\$ 24,888

Schedule 5

<u>Electric Renewal/ Replacement</u>	<u>Electric Reserve</u>	<u>Electric Bond/Interest Reserve</u>	<u>Electric Meter Deposits</u>	<u>Totals</u>
\$ -	\$ -	\$ -	\$ 9,290	\$ 9,290
-	-	-	10,322	10,345
-	-	-	(1,032)	(1,055)
4,991	4,885	16,726	374	34,175
-	-	-	-	(429,785)
4,991	4,885	16,726	374	(395,610)
4,991	4,885	16,726	(658)	(396,665)
-	-	38,096	-	58,096
-	-	-	-	436,800
-	-	(30,717)	-	(30,717)
-	-	7,379	-	464,179
4,991	4,885	24,105	(658)	67,514
167,553	134,258	382,772	13,532	968,654
\$ 172,544	\$ 139,143	\$ 406,877	\$ 12,874	\$ 1,036,168
\$ -	\$ -	\$ -	\$ 12,874	\$ 12,874
-	-	-	-	279,842
172,544	139,143	406,877	-	743,452
\$ 172,544	\$ 139,143	\$ 406,877	\$ 12,874	\$ 1,036,168

CITY OF TIPTON

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Nonmajor Enterprise Funds - Water

As of and For the Year Ended June 30, 2006

	Water Revenue Bond Reserve	Water Operating	Water Meter Deposits	Totals
OPERATING RECEIPTS:				
Licenses and permits	\$ -	\$ 200	\$ -	\$ 200
Charges for services	-	534,695	-	534,695
Miscellaneous	-	1,768	3,690	5,458
	<u>-</u>	<u>536,663</u>	<u>3,690</u>	<u>540,353</u>
Total operating receipts	-	536,663	3,690	540,353
OPERATING DISBURSEMENTS:				
Business type activities:				
Water	-	313,976	4,339	318,315
	<u>-</u>	<u>313,976</u>	<u>4,339</u>	<u>318,315</u>
Excess (deficiency) of operating receipts over (under) operating disbursements	-	222,687	(649)	222,038
	<u>-</u>	<u>222,687</u>	<u>(649)</u>	<u>222,038</u>
NONOPERATING RECEIPTS (DISBURSEMENTS):				
Interest on investments	3,397	6,209	127	9,733
Debt service	(270,760)	-	-	(270,760)
	<u>3,397</u>	<u>6,209</u>	<u>127</u>	<u>9,733</u>
Net nonoperating receipts (disbursements)	(267,363)	6,209	127	(261,027)
	<u>(267,363)</u>	<u>6,209</u>	<u>127</u>	<u>(261,027)</u>
Excess (deficiency) of receipts over (under) disbursements	(267,363)	228,896	(522)	(38,989)
	<u>(267,363)</u>	<u>228,896</u>	<u>(522)</u>	<u>(38,989)</u>
OTHER FINANCING SOURCES (USES):				
Operating transfers in	270,761	32,051	-	302,812
Operating transfers out	-	(270,761)	-	(270,761)
	<u>270,761</u>	<u>(270,761)</u>	<u>-</u>	<u>302,812</u>
Net other financing sources (uses)	270,761	(238,710)	-	32,051
	<u>270,761</u>	<u>(238,710)</u>	<u>-</u>	<u>32,051</u>
NET CHANGE IN CASH BALANCE	3,398	(9,814)	(522)	(6,938)
CASH BALANCE, BEGINNING	68,581	237,819	4,875	311,275
	<u>68,581</u>	<u>237,819</u>	<u>4,875</u>	<u>311,275</u>
CASH BALANCE, ENDING	\$ 71,979	\$ 228,005	\$ 4,353	\$ 304,337
	<u>\$ 71,979</u>	<u>\$ 228,005</u>	<u>\$ 4,353</u>	<u>\$ 304,337</u>

Schedule 6

	<u>Water Revenue Bond Reserve</u>	<u>Water Operating</u>	<u>Water Meter Deposits</u>	<u>Totals</u>
CASH BASIS FUND BALANCE:				
Reserved:				
Deposits	\$ -	\$ -	\$ 4,353	\$ 4,353
Debt service	71,979	-	-	71,979
Unreserved	<u>-</u>	<u>228,005</u>	<u>-</u>	<u>228,005</u>
Total cash basis fund balance	<u>\$ 71,979</u>	<u>\$ 228,005</u>	<u>\$ 4,353</u>	<u>\$ 304,337</u>

CITY OF TIPTON

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Nonmajor Enterprise Funds - Gas

As of and For the Year Ended June 30, 2006

	Gas D.E.I.	Gas Surplus	Gas Meter Deposits	Totals
OPERATING RECEIPTS:				
Miscellaneous	\$ -	\$ -	\$ 10,295	\$ 10,295
OPERATING DISBURSEMENTS:				
Business type activities:				
Gas	-	11,730	10,234	21,964
Excess (deficiency) of operating receipts over (under) operating disbursements	-	(11,730)	61	(11,669)
NONOPERATING RECEIPTS: (DISBURSEMENTS):				
Interest on investments	358	12,129	321	12,808
Excess (deficiency) of receipts over (under) disbursements	358	399	382	1,139
NET CHANGE IN CASH BALANCE	358	399	382	1,139
CASH BALANCE, BEGINNING	13,253	418,955	11,403	443,611
CASH BALANCE, ENDING	\$ 13,611	\$ 419,354	\$ 11,785	\$ 444,750
CASH BASIS FUND BALANCE:				
Reserved:				
Deposits	\$ -	\$ -	\$ 11,785	\$ 11,785
Other purposes	13,611	419,354	-	432,965
Total cash basis fund balance	\$ 13,611	\$ 419,354	\$ 11,785	\$ 444,750

CITY OF TIPTON

**Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Nonmajor Enterprise Funds - Wastewater**

As of and For the Year Ended June 30, 2006

	Wastewater Debt Service	Wastewater Treatment	Totals
OPERATING RECEIPTS:			
Charges for services	\$ -	\$ 493,016	\$ 493,016
Miscellaneous	-	515	515
	-	493,531	493,531
Total operating receipts			
OPERATING DISBURSEMENTS:			
Business type activities:			
Wastewater	-	209,325	209,325
	-	209,325	209,325
Excess (deficiency) of operating receipts over (under) operating disbursements	-	284,206	284,206
NONOPERATING RECEIPTS (DISBURSEMENTS):			
Interest on investments	9,064	3,721	12,785
Debt service	(217,989)	-	(217,989)
	(208,925)	3,721	(205,204)
Net nonoperating receipts (disbursements):			
	(208,925)	287,927	79,002
Excess (deficiency) of receipts over (under) disbursements			
OTHER FINANCING SOURCES (USES):			
Operating transfers in	236,973	12,853	249,826
Operating transfers out	-	(236,973)	(236,973)
	236,973	(224,120)	12,853
Net other financing sources (uses)			
NET CHANGES IN CASH BALANCE	28,048	63,807	91,855
CASH BALANCE, BEGINNING	268,316	68,871	337,187
CASH BALANCE, ENDING	\$ 296,364	\$ 132,678	\$ 429,042
CASH BASIS FUND BALANCE:			
Reserved:			
Debt Service	\$ 296,364	\$ -	\$ 296,364
Unreserved	-	132,678	132,678
	-	132,678	132,678
Total cash basis fund balance	\$ 296,364	\$ 132,678	\$ 429,042

CITY OF TIPTON

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Nonmajor Enterprise Funds - Other

As of and For the Year Ended June 30, 2006

	Communications		
	Local Access	Airport Operating	Garbage Collection
OPERATING RECEIPTS:			
Intergovernmental	\$ -	\$ 10,500	\$ -
Charges for services	18,451	6,425	296,666
Miscellaneous	-	21,802	1,927
Total operating receipts	<u>18,451</u>	<u>38,727</u>	<u>298,593</u>
OPERATING DISBURSEMENTS:			
Business type activities:			
Communications	1,460	-	-
Airport	-	60,792	-
Garbage	-	-	388,760
Cemetary	-	-	-
Total operating disbursements	<u>1,460</u>	<u>60,792</u>	<u>388,760</u>
Excess (deficiency) of operating receipts over (under) operating disbursements	<u>16,991</u>	<u>(22,065)</u>	<u>(90,167)</u>
NONOPERATING RECEIPTS (DISBURSEMENTS):			
Interest on investments	<u>449</u>	<u>4,404</u>	<u>8,949</u>
Net nonoperating receipts (disbursements)	<u>449</u>	<u>4,404</u>	<u>8,949</u>
Excess (deficiency) of receipts over (under) disbursements	<u>17,440</u>	<u>(17,661)</u>	<u>(81,218)</u>
OTHER FINANCING SOURCES (USES):			
Operating transfers in	-	5,829	693
Operating transfers out	<u>(15,400)</u>	<u>-</u>	<u>-</u>
Net other financing sources (uses)	<u>(15,400)</u>	<u>5,829</u>	<u>693</u>
NET CHANGE IN CASH BALANCE	<u>2,040</u>	<u>(11,832)</u>	<u>(80,525)</u>
CASH BALANCE, BEGINNING	<u>14,747</u>	<u>36,958</u>	<u>175,439</u>
CASH BALANCE, ENDING	<u>\$ 16,787</u>	<u>\$ 25,126</u>	<u>\$ 94,914</u>
CASH BASIS FUND BALANCE:			
Unreserved	<u>\$ 16,787</u>	<u>\$ 25,126</u>	<u>\$ 94,914</u>

Schedule 9

<u>Cemetary Enterprise</u>	<u>Totals</u>
\$ 1,389	\$ 11,889
9,300	330,842
<u>5,880</u>	<u>29,609</u>
<u>16,569</u>	<u>372,340</u>
-	1,460
-	60,792
-	388,760
<u>42,579</u>	<u>42,579</u>
<u>42,579</u>	<u>493,591</u>
<u>(26,010)</u>	<u>(121,251)</u>
<u>4,311</u>	<u>18,113</u>
<u>4,311</u>	<u>18,113</u>
<u>(21,699)</u>	<u>(103,138)</u>
17,891	24,413
<u>-</u>	<u>(15,400)</u>
<u>17,891</u>	<u>9,013</u>
(3,808)	(94,125)
<u>12,279</u>	<u>239,423</u>
<u>\$ 8,471</u>	<u>\$ 145,298</u>
<u>\$ 8,471</u>	<u>\$ 145,298</u>

CITY OF TIPTON

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

As of and For the Year Ended June 30, 2006

	<u>Central Garage</u>	<u>PSF Health Insurance</u>	<u>City Reserve</u>
OPERATING RECEIPTS:			
Miscellaneous	\$ 8,110	\$ 62,325	\$ -
OPERATING DISBURSEMENTS:			
General government	<u>266,778</u>	<u>57,168</u>	<u>-</u>
Excess (deficiency) of operating receipts over (under) operating disbursements	<u>(258,668)</u>	<u>5,157</u>	<u>-</u>
NONOPERATING RECEIPTS (DISBURSEMENTS):			
Interest on investments	7,855	19	11,027
Rents	<u>151,161</u>	<u>-</u>	<u>-</u>
Net nonoperating receipts (disbursements)	<u>159,016</u>	<u>19</u>	<u>11,027</u>
Excess (deficiency) of receipts over (under) disbursements	<u>(99,652)</u>	<u>5,176</u>	<u>11,027</u>
OTHER FINANCING SOURCES			
Operating transfers in	<u>1,801</u>	<u>-</u>	<u>-</u>
NET CHANGE IN CASH BALANCE	(97,851)	5,176	11,027
CASH BALANCE, BEGINNING	<u>252,515</u>	<u>(538)</u>	<u>196,039</u>
CASH BALANCE, ENDING	<u>\$ 154,664</u>	<u>\$ 4,638</u>	<u>\$ 207,066</u>
CASH BASIS FUND BALANCE:			
Reserved:			
Other purposes	<u>\$ 154,664</u>	<u>\$ 4,638</u>	<u>\$ 207,066</u>

<u>Adminstrative Services</u>	<u>Payroll Account</u>	<u>Totals</u>
\$ 108,132	\$ 23,325	\$ 201,892
<u>90,568</u>	<u>7,585</u>	<u>422,099</u>
<u>17,564</u>	<u>15,740</u>	<u>(220,207)</u>
2	-	18,903
<u>-</u>	<u>-</u>	<u>151,161</u>
<u>2</u>	<u>-</u>	<u>170,064</u>
<u>17,566</u>	<u>15,740</u>	<u>(50,143)</u>
<u>-</u>	<u>-</u>	<u>1,801</u>
17,566	15,740	(48,342)
<u>(14,126)</u>	<u>4,146</u>	<u>438,036</u>
\$ 3,440	\$ 19,886	\$ 389,694
<u>\$ 3,440</u>	<u>\$ 19,886</u>	<u>\$ 389,694</u>

CITY OF TIPTON
Schedule of Indebtedness
Year Ended June 30, 2006

<u>Obligation</u>	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount Originally Issued</u>
General obligation notes:			
Street improvement	February 1, 2002	3.50-4.45%	\$ 555,000
Water improvement	March 1, 2002	3.00-4.25%	900,000
Street improvement	May 1, 2003	1.50-3.90%	1,500,000
Total			
Revenue bonds:			
Sewer revenue	June 30, 2003	3.00%	3,200,000
Revenue notes:			
Electric revenue	November 1, 1998	4.10-4.35%	2,265,000
Water revenue	July 1, 2002	4.25-5.40%	1,305,000
Total			
Anticipatory obligation notes:			
Aquatic center construction loan	May 2, 2005	4.00%	1,250,000
Capital lease obligations:			
Copier and related equipment	November 1, 2002	6.50%	40,943
Total indebtedness			

<u>Balance Beginning of Year</u>	<u>Issued During Year</u>	<u>Redeemed During Year</u>	<u>Balance End of Year</u>	<u>Interest Paid</u>	<u>Interest Due and Unpaid</u>
\$ 245,000	\$ -	\$ 80,000	\$ 165,000	\$ 10,543	\$ -
385,000	-	190,000	195,000	15,888	-
<u>1,235,000</u>	<u>-</u>	<u>140,000</u>	<u>1,095,000</u>	<u>39,735</u>	<u>-</u>
<u>1,865,000</u>	<u>-</u>	<u>410,000</u>	<u>1,455,000</u>	<u>66,166</u>	<u>-</u>
3,009,000	-	120,000	2,889,000	90,418	-
1,570,000	-	370,000	1,200,000	59,385	-
<u>1,305,000</u>	<u>-</u>	<u>-</u>	<u>1,305,000</u>	<u>64,273</u>	<u>-</u>
<u>5,884,000</u>	<u>-</u>	<u>490,000</u>	<u>5,394,000</u>	<u>214,076</u>	<u>-</u>
<u>1,250,000</u>	<u>-</u>	<u>125,000</u>	<u>1,125,000</u>	<u>20,833</u>	<u>-</u>
<u>20,373</u>	<u>-</u>	<u>8,355</u>	<u>12,018</u>	<u>1,078</u>	<u>-</u>
<u>\$9,019,373</u>	<u>\$ -</u>	<u>\$ 1,033,355</u>	<u>\$ 7,986,018</u>	<u>\$ 302,153</u>	<u>\$ -</u>

CITY OF TIPTON

Bond and Note Maturities

June 30, 2006

Year Ending <u>June 30,</u>	General Obligation Debt					
	<u>2002 Street Improvement</u> <u>Issued February 1, 2002</u>		<u>2002 Water Improvement</u> <u>Issued March 1, 2002</u>		<u>2003 Street Improvement</u> <u>Issued May 1, 2003</u>	
	Interest <u>Rates</u>	<u>Amount</u>	Interest <u>Rates</u>	<u>Amount</u>	Interest <u>Rates</u>	<u>Amount</u>
2007	4.30 %	\$ 80,000	4.25 %	\$ 195,000	2.60 %	\$ 145,000
2008	4.45 %	85,000		-	2.90 %	145,000
2009		-		-	3.15 %	150,000
2010		-		-	3.35 %	155,000
2011		-		-	3.55 %	160,000
2012		-		-	3.75 %	165,000
2013		-		-	3.90 %	175,000
Total		<u>\$ 165,000</u>		<u>\$ 195,000</u>		<u>\$1,095,000</u>

Year Ending <u>June 30,</u>	Revenue Debt					
	<u>Electric Revenue Note</u> <u>Issued April 1, 1999</u>		<u>Water Revenue Note</u> <u>Issued October 1, 2002</u>		<u>Sewer Revenue Note</u> <u>Issued June 30, 2003</u>	
	Interest <u>Rates</u>	<u>Amount</u>	Interest <u>Rates</u>	<u>Amount</u>	Interest <u>Rates</u>	<u>Amount</u>
2007	4.25 %	\$ 385,000		\$ -	3.00 %	\$ 123,000
2008	4.30 %	400,000		-	3.00 %	127,000
2009	4.35 %	415,000	4.25 %	105,000	3.00 %	131,000
2010		-	4.40 %	110,000	3.00 %	135,000
2011		-	4.55 %	115,000	3.00 %	139,000
2012		-	4.70 %	120,000	3.00 %	143,000
2013		-	4.85 %	125,000	3.00 %	147,000
2014		-	5.00 %	130,000	3.00 %	152,000
2015		-	5.10 %	140,000	3.00 %	156,000
2016		-	5.20 %	145,000	3.00 %	161,000
2017		-	5.30 %	155,000	3.00 %	166,000
2018		-	5.40 %	160,000	3.00 %	171,000
2019		-		-	3.00 %	176,000
2020		-		-	3.00 %	181,000
2021		-		-	3.00 %	187,000
2022		-		-	3.00 %	192,000
2023		-		-	3.00 %	198,000
2024		-		-		204,000
Total		<u>\$1,200,000</u>		<u>\$1,305,000</u>		<u>\$2,889,000</u>

Year Ending <u>June 30,</u>	<u>Capital Lease</u> <u>Copier & Other Equipment</u>	
	<u>Interest</u> <u>Rates</u>	<u>Amount</u>
2007	6.50 %	\$ 8,915
2008	6.50 %	<u>3,103</u>
Total		<u>\$ 12,018</u>

Year Ending <u>June 30,</u>	<u>Anticipatory Note</u>	
	<u>Interest</u> <u>Rates</u>	<u>Amount</u>
2007	4.00 %	\$300,000
2008	4.00 %	300,000
2009	4.00 %	275,000
2010	4.00 %	<u>250,000</u>
Total		<u>\$1,125,000</u>

CITY OF TIPTON

Comparison of Tax and Intergovernmental Receipts

	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Property Tax	\$ 803,190	\$ 743,605	\$ 709,903	\$ 679,521
Tax increment financing collections	<u>190,052</u>	<u>190,192</u>	<u>183,109</u>	<u>186,012</u>
Other city tax:				
Mobile home tax	6,595	6,073	6,034	3,621
Local option sales tax	<u>116,183</u>	<u>173,920</u>	<u>184,995</u>	<u>160,117</u>
	<u>122,778</u>	<u>179,993</u>	<u>191,029</u>	<u>163,738</u>
Intergovernmental:				
State allocation	-	-	-	27,336
Personal property tax replacement	-	-	-	11,776
Rural assistance	6,880	8,359	10,746	10,294
Bank franchise tax	-	6,682	9,379	5,537
Road use tax	264,154	262,325	262,772	257,242
Grants	149,860	7,463	263,445	93,320
Assessments	48,898	38,563	41,693	41,151
Other	<u>27,768</u>	<u>237</u>	<u>6,443</u>	<u>8,311</u>
	<u>497,560</u>	<u>323,629</u>	<u>594,478</u>	<u>454,967</u>
Total	<u>\$ 1,613,580</u>	<u>\$ 1,437,419</u>	<u>\$ 1,678,519</u>	<u>\$ 1,484,238</u>

See accompanying auditor's report.

**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 financial statements of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of the City of Tipton as of and for the year ended June 30, 2006, which collectively comprise the City of Tipton's basic financial statements and have issued our report thereon dated September 15, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 Tipton's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. 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 Tipton's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in Part I of the accompanying Schedule of Findings.

A material weakness is a 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 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, we believe item I-A-2006 is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Tipton'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 that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 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 findings 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 Mayor and City Council, employees and citizens of the City of Tipton and those parties to whom the City of Tipton 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 Tipton 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.

Clifton Gunderson LLP

Cedar Rapids, Iowa
September 15, 2006

CITY OF TIPTON
Schedule of Findings
Year ended June 30, 2006

SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: unqualified

Internal control over financial reporting:

- | | | | | |
|---|---------------|-----|---------------|----|
| • Material weakness(es) identified? | <u> x </u> | yes | <u> </u> | no |
| • Reportable condition(s) identified that are not considered to be material weaknesses? | <u> </u> | yes | <u> x </u> | no |
| • Noncompliance material to financial statements noted? | <u> </u> | yes | <u> x </u> | no |

PART I - FINANCIAL STATEMENT FINDINGS

I-A-2006 SEGREGATION OF DUTIES IN THE ACCOUNTING FUNCTION

Criteria: The City has a responsibility to establish and maintain effective internal controls over financial transactions and reporting, which includes adequate segregation of duties.

Condition: An employee of the City can open mail, list out cash receipts and make bank deposits. Also, the individual responsible for maintaining cash records performs the monthly bank reconciliations.

Questioned Costs: None.

Context: During our audit we noted that an employee can perform all of the cash receipts function.

Effect: Incompatible duties were not properly segregated.

Cause: Ideal separation of incompatible duties is difficult with the size of the City.

Recommendation: When this condition exists, management's close supervision and review of accounting information is the best means of preventing or detecting errors and irregularities.

We recommend the following:

1. The City review its operating procedures to obtain the maximum internal control possible given the size of the City Clerk's office.

Management Response and corrective action plan: We agree, and the City will continue to look for ways to realign and reassign duties where practical.

CITY OF TIPTON
Schedule of Findings
Year Ended June 30, 2006

Part II: Findings Related to Statutory Reporting

- II-A-2006 Certified Budget - Disbursements during the year ended June 30, 2006 did not exceed the amounts budgeted.
- II-B-2006 Questionable Disbursements - We noted the following no disbursement that failed to meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- II-C-2006 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- II-D-2006 Business Transactions - We noted no business transaction between the City and City officials or employees:
- II-E-2006 Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should continue to be reviewed annually to insure that the coverage is adequate for current operations.
- II-F-2006 Council Minutes - We noted the following transactions that we believe should have been approved in the council minutes and were not.

The City purchased a fire truck out of the Fire Trust fund. This purchase was not approved by the council in a public meeting.

Recommendation - The City approve all capital purchases over \$25,000 in a public meeting with closed bid opened at that time.

Response - In the future we will approve all capital purchases over \$25,000 in a public meeting with closed bids opened at that time.

Conclusion - Response accepted.

- II-G-2006 Revenue Notes - As of June 30, 2006, the City was not in compliance with the funding and payment provisions of the revenue note resolutions as follows:

The City did not deposit the minimum required balance of \$474,000 in the Electric Reserve Fund.

Recommendation - The .City should review net revenues from electric operations and deposit amounts in the reserve fund to bring up the minimum required balance.

Response - We will review the electric operations to meet this provision. The 1998 electric revenue bonds are now completely redeemed so this provision will not apply in the future.

Conclusion - Response accepted.

CITY OF TIPTON
Schedule of Findings
Year Ended June 30, 2006

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

II-H-2006 The City did not deposit the minimum required balance of \$130,000 in the Water Reserve Fund.

Recommendation - The City should review net revenues from water operations and deposit amounts in the reserve fund to bring up to the minimum required balance.

Response - We will fully fund the minimum required balance in the future.

Conclusion - Response accepted.

II-I-2006 Deposits and Investments - We noted the following instance 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.

We noted that the City had exceeded its approved depository resolution limits seven out of the twelve months during the fiscal year.

Recommendation - The City should review its depository resolution and set limits that will suit the cash needs of the City.

Response - We will review our depository resolution and make appropriate changes.

Conclusion - Response accepted.

II-J-2006 Financial Condition - The Capital Project Fund, Aquatic Center Capital Project Fund had a deficit balance at June 30, 2006 of \$272,725. The Capital Project Fund, GO Street Improvement 2003 Capital Project Fund had a deficit balance at June 30, 2006 of \$251,965.

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

Response - The deficit was due to construction costs incurred prior to receipt of a state grant. The deficit was subsequently eliminated.

Conclusion - Response accepted.

CITY OF TIPTON

Audit Staff

This audit was performed by:

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William Vincent, CPA

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Tonya Determan