

CITY OF OSCEOLA

**INDEPENDENT AUDITORS' REPORTS
BASIC FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION**

SCHEDULE OF FINDINGS

June 30, 2006

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CITY OF OSCEOLA

OFFICIALS

ELECTED OFFICIALS

Fred Diehl	Mayor	December 2007
Glenn Schaff	Council Member & Mayor Pro Tem	December 2009
Peggy Mateer	Council Member	December 2009
Ed Davis	Council Member	December 2007
George Fotiadis	Council Member	December 2007
Dr. James Kimball	Council Member	December 2007

APPOINTED OFFICIALS

Ralph Lesko	City Administrator	Indefinite
Nancy Carmichael	Treasurer/Clerk	Indefinite
Richard Murphy	Attorney	Indefinite
Judy Coe	Librarian	Indefinite

Officials - Osceola Municipal Waterworks

Robert Horton	Chairperson/Trustee	December 2010
Paul Winship	Trustee	December 2009
Fred Wood	Trustee	December 2009
Brian Crawford	Trustee	December 2011
Larry Kjellsen	Trustee	December 2011

INDEPENDENT AUDITORS' 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 Osceola, 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 Osceola's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards of 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 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 generally accepted accounting principles of 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 Osceola 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 our report dated May 16, 2007, on our consideration of the City of Osceola's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 5 through 11 and 35 through 37 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 performed for the purpose of forming an opinion on the financial statements that collectively comprise the City of Osceola's basic financial statements. Other auditors previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the year ended June 30, 2004 (none of which are presented herein) and expressed an unqualified opinion on those financial statements. Other supplementary information included in Schedules 1 through 5, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

May 16, 2007

CITY OF OSCEOLA

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

2006 FINANCIAL HIGHLIGHTS

Revenues of the City's governmental activities increased 33%, or approximately \$3,000,000 from fiscal 2005 to fiscal 2006. Investments earnings increased approximately \$182,000 and capital grants increased approximately \$872,000. The City also received bond proceeds of approximately \$5,800,000.

Disbursements increased 75%, or approximately \$4,365,000, in fiscal 2006 from fiscal 2005. Public works, culture and recreation, and capital projects disbursements increased approximately \$210,000, 55,000 and 2,708,000, respectively. Debt service disbursements increased approximately \$1,600,000 due mainly to refunding 2001 general obligation notes.

The City's total cash basis net assets increased 43%, or approximately \$1,370,000, from June 30, 2005 to June 30, 2006. Of this amount, the assets of the governmental activities and the business type activities increased by approximately \$1,825,000 and 45,000, respectively. The assets of the Water municipal utility component unit increased approximately \$420,000.

USING THIS ANNUAL REPORT

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

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

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

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

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

CITY OF OSCEOLA

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

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

Other Supplementary Information provides detailed information about the nonmajor governmental funds.

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 have effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

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

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

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

Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.

Business Type Activities include the waterworks, the sanitary sewer system, solid waste disposal and the storm water drainage system. These activities are financed primarily by user charges.

CITY OF OSCEOLA

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Fund Financial Statements

The City has two kinds of funds:

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

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

2. Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains one Enterprise Fund to provide separate information for the sewer fund.

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased sharply from a year ago, increasing from \$4,453,844 to \$6,287,811. The analysis that follows focuses on the changes in cash balances for governmental activities.

CITY OF OSCEOLA

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

	Changes in Cash Basis Net Assets of Governmental Activities	
	Year ended June 30,	
	2006	2005
Receipts and transfers		
Program receipts		
Charges for service	\$ 463,227	413,283
Operating grants, contributions and restricted interest	523,746	725,762
Capital grants, contributions and restricted interest	1,193,427	321,195
General receipts		
Property tax	2,196,588	2,152,624
Local option sales tax	278,868	375,346
Hotel/motel tax	234,934	204,211
Utility tax replacement excise tax	38,818	41,338
Bank franchise tax	-	16,123
Unrestricted interest on investments	221,228	38,831
Bond proceeds	5,775,970	-
Gaming receipts	976,354	1,003,097
Other general receipts	38,681	3,322,688
Transfers, net	46,385	378,504
Total receipts and transfers	<u>11,988,226</u>	<u>8,993,002</u>
Disbursements		
Public safety	748,843	776,541
Public works	1,528,242	1,317,761
Culture and recreation	726,759	671,715
Community and economic development	165,339	322,661
General government	745,378	753,168
Debt service	2,087,209	502,784
Capital projects	4,152,489	1,444,726
Total disbursements	<u>10,154,259</u>	<u>5,789,356</u>
Increase in cash basis net assets	1,833,967	3,203,646
Cash basis net assets beginning of year	<u>4,453,844</u>	<u>1,250,198</u>
Cash basis net assets end of year	<u>\$ 6,287,811</u>	<u>4,453,844</u>

The City's total receipts for governmental activities increased by 33%, or \$2,995,224. The total cost of all programs and services increased by \$4,364,903, or 75%, with no new programs added this year. The significant increase in receipts was primarily the result of the \$5,775,970 of bond proceeds received.

CITY OF OSCEOLA

MANAGEMENT’S DISCUSSION AND ANALYSIS (Continued)

The cost of all governmental activities this year was \$10,154,259 compared to \$5,789,356 last year. However, as shown in the Statement of Activities and Net Assets on pages 13-16, the amount taxpayers ultimately financed for these activities was only \$7,973,859 because some of the cost was paid by those directly benefited from the programs (\$463,227), or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest (\$1,717,173). The City paid for the remaining “public benefit” portion of governmental activities with approximately \$7,974,000 in tax (some of which could only be used for certain programs) and with other receipts, such as interest and general entitlements.

Changes in Cash Basis Net Assets of Business Type Activities

	Year ended June 30,	
	2006	2005
Receipts and transfers		
Program receipts		
Charges for service		
Sewer	\$ 1,045,136	924,964
Operating grants, contributions and restricted interest	-	-
Capital grants, contributions and restricted interest	154,454	-
General receipts		
Unrestricted interest on investment	-	1,937
Bond proceeds	1,491	994,149
Other general receipts	-	10,266
Total receipts	<u>1,201,081</u>	<u>1,931,316</u>
Disbursements		
Sewer	1,155,324	1,063,722
Transfers	<u>-</u>	<u>-</u>
Total disbursements and transfers	<u>1,155,324</u>	<u>1,063,722</u>
Increase in cash balance	45,757	867,594
Cash basis net assets beginning of year	<u>817,240</u>	<u>(50,354)</u>
Cash basis net assets end of year	<u>\$ 862,997</u>	<u>817,240</u>

CITY OF OSCEOLA

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Total business type activities receipts for the fiscal year were \$1,201,081 compared to \$1,931,316 last year. This increase was due primarily to the receipt of \$994,149 in water and sewer construction SRF proceeds in the prior year. The cash balance decreased by \$821,837 from the prior year because most of the proceeds received were previously spent for the approved water and sewer construction projects.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As City of Osceola, Iowa completed the year, its governmental funds reported a combined fund balance of \$6,287,811, an increase of more than \$1,834,000 above last year's total of \$4,453,844. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

The General Fund cash balance increased \$1,561,256 from the prior year to \$1,829,102.

The Casino Special Projects special revenue fund cash balance increased by \$112,628 from \$3,178,087 during the fiscal year. The City intends to use this money for the mutual benefit of the citizens of Clarke County.

The Debt Service Fund cash balance was \$(193,025), a decrease of \$191,753 from the previous year.

The Capital Paving Project capital projects fund increased \$318,443.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

The Sewer Fund cash balance increased by \$45,757 to \$862,997, from the prior year.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget one time. The amendment was approved on June 20, 2006 and resulted in a net increase of \$718,870 in revenues. The increase was due primarily to debt proceeds less the cost of capital projects and bond refunding.

CITY OF OSCEOLA

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

DEBT ADMINISTRATION

At June 30, 2006, the City had \$10,505,731 in bonds and other long-term debt, compared to \$6,764,721 last year, as show below.

	Outstanding Debt at Year-End	
	June 30,	
	2006	2005
General obligation bonds	\$ 6,295,000	785,000
General obligation notes	632,966	2,054,022
Special Obligation Loan Agreement Anticipation note	-	97,200
Urban Renewal Tax Increment Financing Revenue bonds	16,264	31,193
Revenue bonds	3,541,000	3,767,001
Other Long-term Debt	20,501	30,305
Total	<u>\$ 10,505,731</u>	<u>6,764,721</u>

Debt increased as a result of receiving general corporate purpose and refunding bond proceeds.

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 \$6,928,000 is significantly below its constitutional debt limit of \$10 million.

More detailed information about the City's long-term debt is presented in Note 3 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

City of Osceola, Iowa's elected and appointed officials and citizens considered many factors when setting the fiscal year 2007 budget, tax rates, and fees that will be charged for various City activities. One of those factors is the economy. The City's total assessed valuations have increased slightly. However, funding from the State has decreased due to budget constraints.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Ralph Lesko, City Administrator, 115 North Fillmore Street, Osceola, Iowa.

BASIC FINANCIAL STATEMENTS

CITY OF OSCEOLA

Statement of Activities and Net Assets – Cash Basis
As of and for the year ended June 30, 2006

	<u>Disbursements</u>	<u>Program</u> Charges for Service
Functions / Programs		
Governmental activities		
Public safety	\$ 748,843	-
Public works	1,528,242	258,426
Culture and recreation	726,759	187,209
Community and economic development	165,339	-
General government	745,378	17,592
Debt service	2,087,209	-
Capital projects	4,152,489	-
Total governmental activities	<u>10,154,259</u>	<u>463,227</u>
Business type activities		
Sewer	<u>1,155,324</u>	<u>1,045,136</u>
Component Unit		
Water	<u>1,684,328</u>	<u>1,264,220</u>
Total	<u>\$ 12,993,911</u>	<u>2,772,583</u>
General Receipts		
Property tax levied for		
General purposes		
Tax increment financing		
Employee benefits		
Debt service		
Local option sales tax		
Hotel/motel tax		
Utility tax replacement excise tax		
Bank franchise tax		
Unrestricted interest on investments		
Bond proceeds		
Gaming receipts		
Miscellaneous		
Transfers		
Total general receipts and transfers		

Receipts		Net (Disbursements) Receipts and Changes in Cash Basis Net Assets			
Operating Grants, Contributions, and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	Total	Major Discretely Presented Component Unit
40,897	-	(707,946)	-	(707,946)	-
422,849	34,481	(812,486)	-	(812,486)	-
-	779,910	240,360	-	240,360	-
60,000	-	(105,339)	-	(105,339)	-
-	-	(727,786)	-	(727,786)	-
-	-	(2,087,209)	-	(2,087,209)	-
-	379,036	(3,773,453)	-	(3,773,453)	-
<u>523,746</u>	<u>1,193,427</u>	<u>(7,973,859)</u>	<u>-</u>	<u>(7,973,859)</u>	<u>-</u>
-	154,454	-	44,266	44,266	-
<u>159,493</u>	<u>680,398</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>419,783</u>
<u>683,239</u>	<u>1,873,825</u>	<u>(7,973,859)</u>	<u>44,266</u>	<u>(7,929,593)</u>	<u>419,783</u>
		990,516	-	990,516	-
		603,982	-	603,982	-
		338,425	-	338,425	-
		263,665	-	263,665	-
		278,868	-	278,868	-
		234,934	-	234,934	-
		38,818	-	38,818	-
		-	-	-	-
		221,228	-	221,228	24,182
		5,775,970	-	5,775,970	-
		976,354	-	976,354	-
		38,681	1,491	40,172	13,353
		46,385	-	46,385	(46,385)
		<u>9,807,826</u>	<u>1,491</u>	<u>9,809,317</u>	<u>(8,850)</u>

CITY OF OSCEOLA

Statement of Activities and Net Assets – Cash Basis
As of and for the year ended June 30, 2006

Change in cash basis net assets

Cash basis net assets beginning of year

Cash basis net assets end of year

Cash Basis Net Assets

 Restricted

 Streets

 Urban renewal purposes

 Debt service

 Reservoir construction

 Other purposes

 Unrestricted

 Total cash basis net assets

Exhibit A
(Continued)

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets			
Governmental Activities	Business Type Activities	Total	Major Discretely Presented Component Unit
1,833,967	45,757	1,879,724	410,933
4,453,844	817,240	5,271,084	679,699
6,287,811	862,997	7,150,808	1,090,632
(27,426)	-	(27,426)	-
301,282	-	301,282	-
(193,025)	-	(193,025)	-
3,290,715	251,800	3,542,515	112,497
259,086	-	259,086	-
2,657,179	611,197	3,268,376	978,135
6,287,811	862,997	7,150,808	1,090,632

CITY OF OSCEOLA

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

	General	<u>Special Revenue</u> Casino Special Projects	Debt Service
Receipts			
Property tax	\$ 990,516	-	263,665
Tax increment financing collections	-	-	-
Other city tax	259,560	-	5,784
Licenses and permits	15,773	-	-
Use of money and property	1,055,187	112,628	-
Intergovernmental	270,037	-	-
Charges for service	435,661	-	-
Miscellaneous	820,135	-	-
Total receipts	<u>3,846,869</u>	<u>112,628</u>	<u>269,449</u>
Disbursements			
Operating			
Public safety	618,704	-	-
Public works	655,807	-	-
Culture and recreation	653,429	-	-
Community and economic development	-	-	-
General government	357,673	-	-
Debt service	-	-	2,076,495
Capital projects	-	-	-
Total disbursements	<u>2,285,613</u>	<u>-</u>	<u>2,076,495</u>
Excess of receipts over disbursements	<u>1,561,256</u>	<u>112,628</u>	<u>(1,807,046)</u>
Other financing sources (uses)			
Bond proceeds	-	-	1,515,814
Operating transfers in (out)	-	-	99,479
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>1,615,293</u>

<u>Capital Project</u> Capital Paving Project	<u>Other Nonmajor Governmental Funds</u>	<u>Total</u>
-	338,425	1,592,606
-	603,981	603,981
-	287,276	552,620
-	-	15,773
29,767	-	1,197,582
-	581,630	851,667
-	-	435,661
-	95,845	915,980
<u>29,767</u>	<u>1,907,157</u>	<u>6,165,870</u>
-	130,139	748,843
-	872,435	1,528,242
-	73,330	726,759
-	165,339	165,339
-	387,705	745,378
-	10,714	2,087,209
<u>3,971,481</u>	<u>181,008</u>	<u>4,152,489</u>
<u>3,971,481</u>	<u>1,820,670</u>	<u>10,154,259</u>
<u>(3,941,714)</u>	<u>86,487</u>	<u>(3,988,389)</u>
4,260,157	-	5,775,971
-	(53,094)	46,385
<u>4,260,157</u>	<u>(53,094)</u>	<u>5,822,356</u>

CITY OF OSCEOLA

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

	<u>General</u>	<u>Special Revenue Casino Special Projects</u>	<u>Debt Service</u>
Net change in cash balances	1,561,256	112,628	(191,753)
Cash balances beginning of year	<u>1,829,102</u>	<u>3,178,087</u>	<u>(1,272)</u>
Cash balances end of year	<u>\$ 3,390,358</u>	<u>3,290,715</u>	<u>(193,025)</u>
Cash Basis Fund Balances			
Reserved			
Debt service	\$ -	-	(193,025)
Unreserved			
General fund	3,390,358	-	-
Special revenue funds	-	3,290,715	-
Capital project funds	-	-	-
Permanent fund	<u>-</u>	<u>-</u>	<u>-</u>
Total cash basis fund balances	<u>\$ 3,390,358</u>	<u>3,290,715</u>	<u>(193,025)</u>

See notes to financial statements.

<u>Capital Project</u> Capital Paving Project	<u>Other Nonmajor Governmental Funds</u>	<u>Total</u>
318,443	33,393	1,833,967
<u>(694,051)</u>	<u>141,978</u>	<u>4,453,844</u>
<u><u>(375,608)</u></u>	<u><u>175,371</u></u>	<u><u>6,287,811</u></u>
-	-	(193,025)
-	-	3,390,358
-	339,272	3,629,987
(375,608)	(241,561)	(617,169)
<u>-</u>	<u>77,660</u>	<u>77,660</u>
<u><u>(375,608)</u></u>	<u><u>175,371</u></u>	<u><u>6,287,811</u></u>

CITY OF OSCEOLA

Exhibit C

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

	<u>Enterprise</u> <u>Sewer</u>
Operating receipts	
Use of money and property	\$ 154,454
Charges for service	1,001,095
Special assessments	23,786
Miscellaneous	<u>21,746</u>
Total operating receipts	<u>1,201,081</u>
 Operating disbursements	
Business type activities	<u>791,188</u>
 Excess (deficiency) of operating receipts over (under) operating disbursements	 <u>409,893</u>
 Non-operating receipts (disbursements)	
Debt service	<u>364,136</u>
 Excess (deficiency) of receipts over (under) disbursements	 45,757
 Other financing sources (uses)	
Bond proceeds	-
Operating transfers out	<u>-</u>
Total other financing sources (uses)	<u>-</u>
 Net change in cash balances	 45,757
Cash balances beginning of year	<u>817,240</u>
 Cash balances end of year	 <u>\$ 862,997</u>
 Cash Basis Fund Balances	
Reserved for debt service	\$ 251,800
Unreserved	<u>611,197</u>
Total cash basis fund balances	<u>\$ 862,997</u>

See notes to financial statements.

CITY OF OSCEOLA

Notes to Financial Statements June 30, 2006

1. Summary of Significant Accounting Policies

The City of Osceola is a political subdivision of the State of Iowa located in Clarke County. It was first incorporated in 1866 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, culture and recreation, community and economic development and general administrative services. The City also provides water and sewer utilities for its citizens.

A. Reporting Entity

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

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

Discretely Presented Component Unit

The Osceola Municipal Waterworks is presented in a separate column to emphasize that it is legally separate from the City, but is financially accountable to the City, or whose relationship with the City is such that exclusion would cause the City's financial statements to be misleading or incomplete. The Waterworks is governed by a five member board appointed by the Osceola City Council and the Waterworks' operating budget is subject to the approval of the City Council.

CITY OF OSCEOLA

Notes to Financial Statements - Continued
June 30, 2006

1. Summary of Significant Accounting Policies (Continued)

A. Reporting Entity (Continued)

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: Emergency Management Commission, Clarke County Development Corporation, the Main Street Board and the Southwest Iowa Coalition Board.

City officials are also members of the Clarke County Sanitary Landfill Commission (see Note 9) and the Clarke County Reservoir Commission (see Note 15).

B. Basis of Presentation

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

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

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

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

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

CITY OF OSCEOLA

Notes to Financial Statements - Continued
June 30, 2006

1. Summary of Significant Accounting Policies (Continued)

B. Basis of Presentation (Continued)

Fund Financial Statements – Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise fund 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.

The Casino Special Projects Special Revenue Fund is used to account for contributions and development activities for a new reservoir and regional recreational facility.

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

Capital Projects:

The Capital Paving Project Fund was established to account for the costs of major paving projects.

The City reports the following major proprietary fund:

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

CITY OF OSCEOLA

Notes to Financial Statements - Continued June 30, 2006

1. Summary of Significant Accounting Policies (Continued)

C. Measurement Focus and Basis of Accounting

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

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

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2006, disbursements exceeded the amounts budgeted in the public works, community and economic development, debt service and capital projects functions.

2. Cash and Pooled Investments

The City's deposits in banks at June 30, 2006 were entirely covered by federal depository insurance, or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

CITY OF OSCEOLA

Notes to Financial Statements - Continued
June 30, 2006

2. Cash and Pooled Investments (Continued)

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

Credit risk – The City had no investments at June 30, 2006.

3. Bonds Payable

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

Year Ending June 30,	General Obligation Bonds		General Obligation Notes		Tax Increment Financing (TIF) Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest
2007	\$ 535,000	238,938	\$ 103,347	24,560	16,264	1,074
2008	560,000	217,767	88,865	20,663	-	-
2009	485,000	195,535	90,754	17,418	-	-
2010	355,000	177,160	55,000	13,963	-	-
2011	370,000	164,291	55,000	12,037	-	-
2012	380,000	150,879	55,000	9,975	-	-
2013	395,000	137,103	60,000	7,775	-	-
2014	410,000	122,785	60,000	5,315	-	-
2015	425,000	107,923	65,000	2,795	-	-
2016	435,000	91,985	-	-	-	-
2017	460,000	75,673	-	-	-	-
2018	475,000	58,192	-	-	-	-
2019	495,000	39,905	-	-	-	-
2020	515,000	20,600	-	-	-	-
2021	-	-	-	-	-	-
2022	-	-	-	-	-	-
2023	-	-	-	-	-	-
Total	<u>\$ 6,295,000</u>	<u>1,798,736</u>	<u>632,966</u>	<u>114,501</u>	<u>16,264</u>	<u>1,074</u>

CITY OF OSCEOLA

Notes to Financial Statements - Continued
June 30, 2006

3. Bonds Payable (Continued)

Year Ending June 30,	Revenue Bonds		Other Long-term Debt		Primary Government Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2007	235,000	122,442	10,099	614	899,710	387,628
2008	244,000	113,666	10,402	311	903,267	352,407
2009	253,000	104,538	-	-	828,754	317,491
2010	263,000	95,057	-	-	673,000	286,180
2011	272,000	85,194	-	-	697,000	261,522
2012	282,000	74,979	-	-	717,000	235,833
2013	293,000	64,382	-	-	748,000	209,260
2014	304,000	53,359	-	-	774,000	181,459
2015	138,000	41,910	-	-	628,000	152,628
2016	142,000	37,770	-	-	577,000	129,755
2017	146,000	33,510	-	-	606,000	109,183
2018	150,000	29,130	-	-	625,000	87,322
2019	155,000	24,630	-	-	650,000	64,535
2020	159,000	19,980	-	-	674,000	40,580
2021	164,000	15,210	-	-	164,000	15,210
2022	169,000	10,290	-	-	169,000	10,290
2023	172,000	5,220	-	-	172,000	5,220
Total	<u>3,541,000</u>	<u>931,267</u>	<u>20,501</u>	<u>925</u>	<u>10,505,731</u>	<u>2,846,503</u>

CITY OF OSCEOLA

Notes to Financial Statements - Continued
June 30, 2006

3. Bonds Payable (Continued)

Component Unit – Annual debt service requirements to maturity for the water revenue bonds are as follows:

Year Ending June 30,	Component Unit Revenue Bonds	
	Principal	Interest
2007	205,000	107,940
2008	170,000	102,990
2009	175,000	97,890
2010	181,000	92,640
2011	186,000	87,210
2012	192,000	81,630
2013	197,000	75,870
2014	203,000	69,960
2015	210,000	63,870
2016	216,000	57,570
2017	222,000	51,090
2018	229,000	44,430
2019	236,000	37,560
2020	177,914	30,480
2021	-	-
2022	-	-
2023	-	-
Total	<u>2,799,914</u>	<u>1,001,130</u>

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

- (a) The bonds will only be redeemed from the future earnings of the enterprise activity and the bond holders hold a lien on the future earnings of the funds.
- (b) Sufficient monthly transfers shall be made to separate water sinking accounts for the purpose of making the bond principal and interest payments when due.
- (c) Additional monthly transfers shall be made to a water revenue bond reserve account, after first making the required payments to the sewer sinking account, until a specific minimum balance has been accumulated. The reserve account shall be used solely for the purpose of paying the principal and interest on the water revenue bonds outstanding, whenever the funds in the sinking account are insufficient to pay such principal and interest when due.

CITY OF OSCEOLA

Notes to Financial Statements - Continued June 30, 2006

3. Bonds Payable (Continued)

The resolution providing for the issuance of sewer revenue bonds do not require a separate sewer sinking or reserve fund, but the City elected to continue them.

The City was awarded a Revitalize Iowa's Sound Economy (R.I.S.E.) Grant/Loan on November 1, 1996 in the amount of \$309,000. The money was used for paving and traffic signals at a new intersection. The loan was approximately 24% of the total or \$75,205. It is payable in annual installments of \$10,713, including interest at 3% per annum, from January 2001 through 2008.

In May 2002 the Osceola Municipal Waterworks entered into a loan and disbursement agreement to borrow \$4,066,000 under the Iowa Drinking Water Facilities Financing Program. At June 30, 2006, \$2,960,914 is the outstanding balance under the agreement. Amounts borrowed are converted to a water revenue bond when the loan is closed and are payable solely from the future net revenues of the Waterworks.

In October 2003 the City entered into a loan and disbursement agreement to borrow \$2,670,000 under the Clean Water State Revolving Fund for wastewater treatment improvements. Amounts are advanced on the loan as construction costs incurred are submitted for reimbursement. As of June 30, 2006, \$1,574,852 is the outstanding balance under the loan agreement. Amounts borrowed are converted to a sewer revenue bond when the loan is closed and are payable solely from the future net revenues of the sewer utility.

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

In August 2005 the City issued general obligation corporate purpose and refunding bonds in the amount of \$5,800,000. The proceeds of the bonds will be used for constructing street, water, sanitary sewer and storm water improvements, and refunding 2001 general obligation notes.

CITY OF OSCEOLA

Notes to Financial Statements - Continued
June 30, 2006

4. Pension and Retirement Benefits

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

Most 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 contribution to IPERS for the years ended June 30, 2006, 2005 and 2004 were \$92,858, \$83,307, and \$83,439 respectively, equal to the required contributions for each year.

5. Compensated Absences

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

Vacation	\$	53,019
Compensatory and personal time		21,212
Sick leave		274,851
	\$	<u>349,082</u>

6. Risk Management

The City of Osceola 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.

CITY OF OSCEOLA

Notes to Financial Statements - Continued
June 30, 2006

7. Interfund Transfers

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

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Debt Service	Special Revenue:	
	Urban Renewal Tax Increment	34,502
	Midwest Home Construction	18,592
	Component Unit:	
	Water	46,385
		<u>99,479</u>
Capital Projects:		
2001 Paving Project	Urban Renewal Tax Increment	10,135
		<u>\$ 109,614</u>

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

8. Budget Overexpenditure

Per the Code of Iowa, disbursements may not legally exceed budgeted appropriations at the functional level. During the year ended June 30, 2006, disbursements in the public works, culture and recreation, community and economic development, debt service, capital projects and business type activities functions exceeded the amount budgeted.

9. Clarke County Sanitary Landfill Commission

The City, in conjunction with three other municipalities, has created the Clarke County Sanitary Landfill Commission. The Commission was established for the primary purpose of providing for the collection and disposal of solid waste produced or generated by each participant. The Commission is governed by a board composed of an appointed representative of the governing body of each participating governmental jurisdiction.

The Commission may not be accumulating sufficient financial resources and the municipalities may be obligated for a proportionate share of the debt, closure and post closure costs, therefore, the City has an ongoing financial obligation.

CITY OF OSCEOLA

Notes to Financial Statements - Continued June 30, 2006

10. Lease

The City and the Municipal Waterworks have entered into a renewable lease agreement with Southern Iowa Gaming Co. for the lease of certain real estate surrounding West Lake and the use of the lake in the operation of an excursion gambling boat. In September of 2004 the City and the Municipal Waterworks agreed to assign the lease agreement to Herbst Gaming Inc., as new operator of the casino.

In consideration for the assignment mentioned above Herbst Gaming Inc. paid an initial payment of \$3,200,000 and has agreed to pay 1% of the annual adjusted gross receipts of from the casino, commencing as of the eighth anniversary of the initial payment, to an escrow fund. The intended use of the escrow fund is primarily the establishment of a municipal and recreational reservoir in Clarke County, Iowa.

The Gaming Co. must pay to the Municipal Waterworks \$150,000 per year in equal monthly installments, which will increase each year by 1% until termination of the lease. The 1% increase each year can be offset by credits up to .5% based on the cost of improvements to the site, exclusive of items related to gaming improvements. In addition, 1.25% of the adjusted gross gambling receipts will be remitted to the City on a monthly basis. The amounts received under this agreement during the year ended June 30, 2006 were \$976,354 for the 1.25% of adjusted gross gambling receipts and \$159,493 for the real estate rent.

The City also leases hangers at the airport for a fee ranging from \$45 - \$100 per month per leased hangar. During the year ended June 30, 2006, the City received \$15,310 in hangar rent.

11. Workers' Compensation

The City is a member of the Iowa Municipalities Workers' Compensation Association (IMWCA) which provides workers' compensation coverage to its members. The Association is governed by a board of directors elected by representatives of the governing bodies of each participating governmental jurisdiction. The City has executed a Worker's Compensation coverage Agreement with the Association which extends through June 30, 2006 and has authorized the Association to issue general obligation bonds to provide funds with which to pay claims. During the year ended June 30, 2006, the City paid workers' compensation insurance premiums of \$44,574 to the Association.

CITY OF OSCEOLA

Notes to Financial Statements – Continued

June 30, 2006

12. Clarke County Reservoir Commission

The City and the Osceola Waterworks Board, along with four other entities, have created the Clarke County Reservoir Commission. The Commission was established for the primary purpose of designing, locating, and planning for a new reservoir and regional recreational facility in Clarke County. The governing body of the Commission shall consist of a representative of the governing body of each participating sponsor, or designated substitute, which substitute shall be approved by the body represented, and one person jointly selected by the representatives of the governing bodies.

13. Deficit Fund Balances

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

Special Revenue:	
Road Use Tax	\$ 27,426
Debt Service:	
General Obligation Bonds/Notes	193,025
Capital Projects Funds:	
2004 Housing Rehabilitation	29,909
Capital Paving Project	375,608
Recreation Complex	294,336

The deficits will be eliminated upon receipt of funds or transfers in the next fiscal year.

14. Construction and Other Commitments

The City has entered into engineering and construction contracts totaling \$5,553,308 for street improvements and other projects. At June 30, 2006, \$4,098,808 of the contracts were completed. The remaining amount of the contracts will be paid as work on the projects progress.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF OSCEOLA

Budgetary Comparison Schedule of Receipts, Disbursements
and Changes in Balances – Budget and Actual (Cash Basis) -
All Governmental Funds and Proprietary Funds
Required Supplementary Information
Year ended June 30, 2006

	Governmental Funds Actual	Proprietary Funds Actual
	<u>Actual</u>	<u>Actual</u>
Receipts		
Property tax	\$ 1,592,606	-
Tax increment financing collections	603,981	-
Other city tax	552,620	-
Licenses and permits	15,773	-
Use of money and property	1,197,582	154,454
Intergovernmental	851,667	-
Charges for service	435,661	1,001,095
Special assessments	-	23,786
Miscellaneous	915,980	21,746
Total receipts	<u>6,165,870</u>	<u>1,201,081</u>
Disbursements		
Public safety	748,843	-
Public works	1,528,242	-
Health and Social Services	-	-
Culture and recreation	726,759	-
Community and economic development	165,339	-
General government	745,378	-
Debt service	2,087,209	-
Capital projects	4,152,489	-
Business type activities	-	1,155,324
Total disbursements	<u>10,154,259</u>	<u>1,155,324</u>
Excess of receipts over disbursements	(3,988,389)	45,757
Other financing sources, net	<u>5,822,356</u>	<u>-</u>
Excess of receipts and other financing sources over disbursements and other financing uses	1,833,967	45,757
Balances beginning of year	<u>4,453,844</u>	<u>817,240</u>
Balances end of year	<u>\$ 6,287,811</u>	<u>862,997</u>

Major Component Unit Included in the Budget	Net	Budgeted Amounts		Final to Net Variance
		Original	Final	
-	1,592,606	1,632,071	1,632,071	(39,465)
-	603,981	469,000	469,000	134,981
-	552,620	272,718	272,718	279,902
-	15,773	11,325	11,325	4,448
24,182	1,376,218	17,100	17,100	1,359,118
159,493	1,011,160	433,500	433,500	577,660
1,264,220	2,700,976	2,564,400	2,564,400	136,576
-	23,786	-	-	23,786
<u>693,751</u>	<u>1,631,477</u>	<u>1,462,879</u>	<u>1,462,879</u>	<u>168,598</u>
<u>2,141,646</u>	<u>9,508,597</u>	<u>6,862,993</u>	<u>6,862,993</u>	<u>2,645,604</u>
-	748,843	780,321	780,321	31,478
-	1,528,242	960,599	960,599	(567,643)
-	-	-	71,810	71,810
-	726,759	708,830	708,830	(17,929)
-	165,339	100	55,100	(110,239)
-	745,378	795,179	795,179	49,801
-	2,087,209	276,061	1,496,593	(590,616)
-	4,152,489	-	3,699,600	(452,889)
<u>1,684,328</u>	<u>2,839,652</u>	<u>2,544,513</u>	<u>2,550,488</u>	<u>(289,164)</u>
<u>1,684,328</u>	<u>12,993,911</u>	<u>6,065,603</u>	<u>11,118,520</u>	<u>(1,875,391)</u>
457,318	(3,485,314)	797,390	(4,255,527)	770,213
<u>(46,385)</u>	<u>5,775,971</u>	<u>-</u>	<u>5,771,787</u>	<u>4,184</u>
410,933	2,290,657	797,390	1,516,260	774,397
<u>679,699</u>	<u>5,950,783</u>	<u>6,344,194</u>	<u>6,344,194</u>	<u>(393,411)</u>
<u><u>1,090,632</u></u>	<u><u>8,241,440</u></u>	<u><u>7,141,584</u></u>	<u><u>7,860,454</u></u>	<u><u>380,986</u></u>

CITY OF OSCEOLA

Notes to Required Supplementary Information – Budgetary Reporting June 30, 2006

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds and Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$5,052,917. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2006, disbursements exceeded the amount budgeted in the public works, culture and recreation, community and economic development, debt service, capital projects and business type activities functions.

OTHER SUPPLEMENTARY INFORMATION

CITY OF OSCEOLA

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

	Special			
	Local Option Sales Tax	Road Use Tax	Employee Benefits	Urban Renewal Consolidated TIF
Receipts				
Property tax	\$ -	-	338,425	-
Tax increment financing collections	-	-	-	470,109
Other city tax	278,868	-	8,408	-
Use of money and property	-	-	-	-
Intergovernmental	-	422,849	-	-
Miscellaneous	-	4,146	-	-
Total receipts	<u>278,868</u>	<u>426,995</u>	<u>346,833</u>	<u>470,109</u>
Disbursements				
Operating				
Public safety	-	-	130,139	-
Public works	-	467,460	-	312,893
Culture and recreation	-	-	73,330	-
Community and economic development	-	-	-	-
General government	278,868	-	108,837	-
Debt service	-	-	-	10,714
Capital projects	-	-	-	-
Total disbursements	<u>278,868</u>	<u>467,460</u>	<u>312,306</u>	<u>323,607</u>
Excess (deficiency) of receipts over (under) disbursements	<u>-</u>	<u>(40,465)</u>	<u>34,527</u>	<u>146,502</u>
Other financing uses				
Operating transfers in (out)	<u>-</u>	<u>-</u>	<u>-</u>	<u>(44,637)</u>
Net change in cash balances	-	(40,465)	34,527	101,865
Cash balances beginning of year	<u>30,889</u>	<u>13,039</u>	<u>-</u>	<u>138,857</u>
Cash balances end of year	<u>\$ 30,889</u>	<u>(27,426)</u>	<u>34,527</u>	<u>240,722</u>
Cash Basis Fund Balances				
Unreserved				
Special revenue funds	\$ 30,889	(27,426)	34,527	240,722
Capital project fund	-	-	-	-
Permanent fund	-	-	-	-
Total cash basis fund balances	<u>\$ 30,889</u>	<u>(27,426)</u>	<u>34,527</u>	<u>240,722</u>

See accompanying independent auditors' report.

Revenue			Capital Projects			
Residential TIF	Other TIF	Hormel CEBA Grant	2004 Housing Rehabilitation	2001 Paving Project	Burlington Northern Building	Recreation Complex
-	-	-	-	-	-	-
39,764	94,108	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	60,000	98,781	-	-	-
-	-	-	-	-	-	91,699
<u>39,764</u>	<u>94,108</u>	<u>60,000</u>	<u>98,781</u>	<u>-</u>	<u>-</u>	<u>91,699</u>
-	-	-	-	-	-	-
-	92,082	-	-	-	-	-
-	-	-	-	-	-	-
-	-	60,000	105,339	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	15,566	165,442
-	<u>92,082</u>	<u>60,000</u>	<u>105,339</u>	<u>-</u>	<u>15,566</u>	<u>165,442</u>
<u>39,764</u>	<u>2,026</u>	<u>-</u>	<u>(6,558)</u>	<u>-</u>	<u>(15,566)</u>	<u>(73,743)</u>
<u>(18,592)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>10,135</u>	<u>-</u>	<u>-</u>
21,172	2,026	-	(6,558)	10,135	(15,566)	(73,743)
<u>26,330</u>	<u>11,032</u>	<u>-</u>	<u>(23,351)</u>	<u>(10,135)</u>	<u>98,250</u>	<u>(220,593)</u>
<u>47,502</u>	<u>13,058</u>	<u>-</u>	<u>(29,909)</u>	<u>-</u>	<u>82,684</u>	<u>(294,336)</u>
47,502	13,058	-	-	-	-	-
-	-	-	(29,909)	-	82,684	(294,336)
-	-	-	-	-	-	-
<u>47,502</u>	<u>13,058</u>	<u>-</u>	<u>(29,909)</u>	<u>-</u>	<u>82,684</u>	<u>(294,336)</u>

Schedule 1

<u>Permanent Cemetery Perpetual Care</u>	<u>Total</u>
-	338,425
-	603,981
-	287,276
-	-
-	581,630
-	95,845
<u>-</u>	<u>1,907,157</u>
-	130,139
-	872,435
-	73,330
-	165,339
-	387,705
-	10,714
-	181,008
<u>-</u>	<u>1,820,670</u>
-	86,487
<u>-</u>	<u>(53,094)</u>
-	33,393
<u>77,660</u>	<u>141,978</u>
<u>77,660</u>	<u>175,371</u>
-	339,272
-	(241,561)
<u>77,660</u>	<u>77,660</u>
<u>77,660</u>	<u>175,371</u>

CITY OF OSCEOLA

Schedule of Indebtedness
Year ended June 30, 2006

OBLIGATION	DATE OF ISSUE	INTEREST RATES	AMOUNT ORIGINALLY ISSUED
<u>Primary Government</u>			
General Obligation Bonds:			
General Corporate Purpose	June 1, 1993	4.875-5.50%	\$ 925,000
General Corporate Purpose	Aug 1, 1998	4.00-4.50%	1,235,000
General Corporate Purpose and Refunding	Sept 1, 2005	3.50-4.00%	5,800,000
General Obligation Notes:			
Economic Development Note	Sept 3, 1997	8.00%	100,000
Fire Truck	Dec 10, 1999	4.49%	280,000
Aquatic Facility	Feb 15, 2001	5.95%	1,550,000
General Corporate Purpose	Sept 12, 2003	2.50-4.30%	500,000
Special Obligation Loan Agreement			
Anticipation (Project) Note:			
Clarke County Recreation Complex	Dec 3, 2002	3.00%	290,000
Urban Renewal Tax Increment			
Financing (TIF) Revenue Bonds	July 18, 1995	8.75%	114,000
Revenue Bonds:			
State Revolving Fund (SRF) Loan	May 2, 1994	4.37%	1,880,000
State Revolving Fund (SRF) Loan	Oct 27, 2003	3.00%	2,670,000
Other Long-term Debt:			
RISE Loan	Nov 1, 1996	3.00%	75,205
Total City of Osceola			
<u>Component Unit</u>			
Revenue Bonds:			
Water	Nov 1, 1996	4.25-5.10%	485,000
Water	May 14, 2002	3.00%	4,066,000

See accompanying independent auditors' report.

BALANCE BEGINNING OF YEAR	ISSUED DURING YEAR	REDEEMED DURING YEAR	BALANCE END OF YEAR	INTEREST PAID
\$ 255,000	-	80,000	175,000	12,770
530,000	-	125,000	405,000	23,465
-	5,800,000	85,000	5,715,000	161,351
<u>785,000</u>	<u>5,800,000</u>	<u>290,000</u>	<u>6,295,000</u>	<u>197,586</u>
31,186	-	15,034	16,152	2,130
152,421	-	35,607	116,814	6,826
1,370,415	-	1,370,415	-	22,150
500,000	-	-	500,000	18,592
<u>2,054,022</u>	<u>-</u>	<u>1,421,056</u>	<u>632,966</u>	<u>49,698</u>
97,200	-	97,200	-	2,916
31,193	-	14,929	16,264	2,410
1,300,000	-	121,000	1,179,000	57,954
2,467,000	-	105,000	2,362,000	80,182
3,767,000	-	226,000	3,541,000	138,136
30,305	-	9,804	20,501	909
<u>\$ 6,764,720</u>	<u>5,800,000</u>	<u>2,058,989</u>	<u>10,505,731</u>	<u>391,655</u>
75,000	-	35,000	40,000	4,190
2,960,914	-	161,000	2,799,914	88,827
<u>\$ 3,035,914</u>	<u>-</u>	<u>196,000</u>	<u>2,839,914</u>	<u>93,017</u>

CITY OF OSCEOLA

Bond and Note Maturities
June 30, 2006

GENERAL OBLIGATION NOTES

Year Ending June 30,	Economic Development Issued Sept 3, 1997		Fire Equipment Issued Dec 10,1999		General Corporate Purpose Issued Sept 12, 2003	
	Interest		Interest		Interest	
	Rate	Amount	Rate	Amount	Rate	Amount
2007	8.00	\$ 16,152	4.49	37,195	2.50	50,000
2008		-	4.49	38,865	3.00	50,000
2009		-	4.49	40,754	3.25	50,000
2010		-		-	3.50	55,000
2011		-		-	3.75	55,000
2012		-		-	4.00	55,000
2013		-		-	4.10	60,000
2014		-		-	4.20	60,000
2015		-		-	4.30	65,000
2016		-		-		-
2017		-		-		-
2018		-		-		-
2019		-		-		-
2020		-		-		-
		<u>\$ 16,152</u>		<u>116,814</u>		<u>500,000</u>

GENERAL OBLIGATION BONDS

Year Ending June 30,	General Corporate Purpose				General Corporate Purpose and Refunding	
	Issued June 1, 1993		Issued August 1, 1998		Issued Sept 1, 2005	
	Interest		Interest		Interest	
	Rate	Amount	Rate	Amount	Rate	Amount
2007	5.00	\$ 85,000	4.40	130,000	3.50	320,000
2008	5.00	90,000	4.45	135,000	3.50	335,000
2009		-	4.50	140,000	3.50	345,000
2010		-		-	3.63	355,000
2011		-		-	3.63	370,000
2012		-		-	3.63	380,000
2013		-		-	3.63	395,000
2014		-		-	3.63	410,000
2015		-		-	3.75	425,000
2016		-		-	3.75	435,000
2017		-		-	3.80	460,000
2018		-		-	3.85	475,000
2019		-		-	3.90	495,000
2020		-		-	4.00	515,000
		<u>\$ 175,000</u>		<u>405,000</u>		<u>5,715,000</u>

<u>Total</u>
103,347
88,865
90,754
55,000
55,000
55,000
60,000
60,000
65,000
-
-
-
-
-
-
<u>632,966</u>

<u>Total</u>
535,000
560,000
485,000
355,000
370,000
380,000
395,000
410,000
425,000
435,000
460,000
475,000
495,000
515,000
<u>6,295,000</u>

CITY OF OSCEOLA

Bond and Note Maturities
June 30, 2006

Year Ending June 30,	REVENUE BONDS					Total
	Sewer Revenue Bond		Sewer Revenue Bond			
	Issued May 2, 1994		Issued October 27, 2003			
	Interest Rate	Amount	Interest Rate	Amount		
2007	4.37	\$ 126,000	3.00	109,000	235,000	
2008	4.37	132,000	3.00	112,000	244,000	
2009	4.37	138,000	3.00	115,000	253,000	
2010	4.37	144,000	3.00	119,000	263,000	
2011	4.37	150,000	3.00	122,000	272,000	
2012	4.37	156,000	3.00	126,000	282,000	
2013	4.37	163,000	3.00	130,000	293,000	
2014	4.37	170,000	3.00	134,000	304,000	
2015		-	3.00	138,000	138,000	
2016		-	3.00	142,000	142,000	
2017		-	3.00	146,000	146,000	
2018		-	3.00	150,000	150,000	
2019		-	3.00	155,000	155,000	
2020		-	3.00	159,000	159,000	
2021		-	3.00	164,000	164,000	
2022		-	3.00	169,000	169,000	
2023		-	3.00	172,000	172,000	
		<u>\$ 1,179,000</u>		<u>2,362,000</u>	<u>3,541,000</u>	

Year Ending June 30,	REVENUE BONDS - COMPONENT UNIT					Total
	Water		Water			
	Issued Nov 1, 1996		Issued May 14, 2002			
	Interest Rate	Amount	Interest Rate	Amount		
2007	5.10	\$ 40,000	3.00	165,000	205,000	
2008		-	3.00	170,000	170,000	
2009		-	3.00	175,000	175,000	
2010		-	3.00	181,000	181,000	
2011		-	3.00	186,000	186,000	
2012		-	3.00	192,000	192,000	
2013		-	3.00	197,000	197,000	
2014		-	3.00	203,000	203,000	
2015		-	3.00	210,000	210,000	
2016		-	3.00	216,000	216,000	
2017		-	3.00	222,000	222,000	
2018		-	3.00	229,000	229,000	
2019		-	3.00	236,000	236,000	
2020		-	3.00	177,914	177,914	
		<u>\$ 40,000</u>		<u>2,759,914</u>	<u>2,799,914</u>	

See accompanying independent auditor's report.

CITY OF OSCEOLA

Schedule 3
(Continued)

Bond and Note Maturities
June 30, 2006

Year Ending June 30,	Urban Renewal Tax Increment Financing (TIF) Revenue Bonds Issued July 18, 1995		OTHER LONG-TERM DEBT Rise Loan Issued Nov 1, 1996	
	Interest Rate	Amount	Interest Rate	Amount
2007	8.75	\$ 16,264	3.00	\$ 10,099
2008		-	3.00	10,402
		<u>\$ 16,264</u>		<u>\$ 20,501</u>

CITY OF OSCEOLA

Schedule 4

Statement of Receipts By Source
and Disbursements By Function -
All Governmental Funds
For the Last Three Years

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Receipts			
Property tax	\$ 1,592,606	1,638,777	1,514,779
Tax increment financing collections	603,981	513,847	276,036
Other city tax	552,620	620,895	577,349
Licenses and permits	15,773	19,346	10,748
Use of money and property	1,197,582	1,041,928	1,083,534
Intergovernmental	851,667	1,003,840	508,568
Charges for service	435,661	393,136	412,591
Miscellaneous	<u>915,980</u>	<u>3,382,729</u>	<u>254,115</u>
 Total	 <u>\$ 6,165,870</u>	 <u>8,614,498</u>	 <u>4,637,720</u>
 Disbursements			
Operating			
Public safety	748,843	776,541	796,646
Public works	1,528,242	1,317,761	1,070,219
Culture and recreation	726,759	671,715	585,097
Community and economic development	165,339	322,661	374,608
General government	745,378	753,168	698,799
Debt service	2,087,209	502,784	832,239
Capital projects	<u>4,152,489</u>	<u>1,483,962</u>	<u>1,124,611</u>
 Total	 <u>\$ 10,154,259</u>	 <u>5,828,592</u>	 <u>5,482,219</u>

See accompanying independent auditor's report.

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

To the Honorable Mayor and
Members of the City Council

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Osceola, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements listed in the table of contents and have issued our report thereon dated May 16, 2007. Our report expressed an unqualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with generally accepted auditing standards of 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 Osceola'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.

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 caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance

As part of obtaining reasonable assurance about whether the City of Osceola'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 IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Osceola and other parties to whom the City of Osceola 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 Osceola 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.

May 16, 2007

CITY OF OSCEOLA

Schedule of Findings and Questioned Costs
Year ended June 30, 2006

Part I: Summary of the Independent Auditor's Results:

- (A) An unqualified opinion was issued on the financial statements, which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
- (B) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, including material weaknesses.
- (C) The audit did not disclose any noncompliance which is material to the financial statements.
- (D) There were no major federal programs.
- (E) The audit did not disclose any audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (F) The City of Osceola did not qualify as a low-risk auditee.

Part II: Findings Related to the Financial Statements:

Instances of Non-Compliance:

No matters are noted.

Reportable Conditions:

II-A-06 Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal are all done by the same person.

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

Response – We will consider this.

Conclusion – Response acknowledged

II-B-06 Signature of Checks – The City has a control procedure established that requires dual signatures on all checks issued. The City currently has two individuals authorized to sign their checks. Signatures are printed by the City's computer directly onto the check automatically. This defeats the purpose of requiring two signatures because it only takes one individual to access the computer to print both signatures.

Recommendation – If the computer software cannot be modified to prohibit one individual from accessing both signatures with their password, the City should go back to manual signatures on checks to ensure two separate individuals are approving the checks prior to issuance.

CITY OF OSCEOLA

Schedule of Findings and Questioned Costs - Continued
Year ended June 30, 2006

Part II: Findings Related to the Financial Statements (Continued):

- II-B-06 Signature of Checks (continued)
- Response – We will do so.
- Conclusion – Response acknowledged.

Part III: Findings and Questioned Costs for Federal Awards:

Not applicable

Part IV: Other Findings Related to Required Statutory Reporting:

- IV-A-06 Certified Budget - Disbursements during the year ended June 30, 2006 exceeded the amounts budgeted in the public works, community and economic development, debt service and capital projects functions. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.
- Recommendation-The budget should have been amended in sufficient amounts in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.
- Response-The budget will be amended in the future, if applicable.
- Conclusion-Response accepted.
- IV-B-06 Questionable Disbursements - No disbursements that we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.
- IV-C-06 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- IV-D-06 Business Transactions - No business transactions between the City and City officials or employees were noted.

CITY OF OSCEOLA

Schedule of Findings and Questioned Costs - Continued
Year ended June 30, 2006

Part IV: Other Findings Related to Required Statutory Reporting (Continued):

IV-E-06 Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that coverage is adequate for current operations.

IV-F-06 Council Minutes – The following instances of non-compliance were noted related to the City council minutes.

1. Minutes were not always signed in accordance with Chapter 380.7 of the Code of Iowa.
2. Minutes were not always published as required by Chapter 372.13(6) of the Code of Iowa.
3. The Council went into closed session several times throughout the fiscal year without documenting the specific exemption under Chapter 21.5 of the Code of Iowa.
4. Annual gross salaries were not published as required by Chapter 372.13 of the Code of Iowa and Attorney General's opinion dated April 12, 1978.

Recommendation – The city should comply with all applicable Code of Iowa chapters relating to council minutes and proper documentation.

Response – We will do so.

Conclusion – Response accepted.

IV-G-06 Revenue Bonds - No violations of provisions of revenue bond resolution requirements were noted.

IV-H-06 Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.

CITY OF OSCEOLA

Schedule of Findings and Questioned Costs - Continued
Year ended June 30, 2006

Part IV: Other Findings Related to Required Statutory Reporting (Continued):

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

Special Revenue:		
Road Use Tax	\$	27,426
Debt Service:		
General Obligation Bonds/Notes		193,025
Capital Projects Funds:		
2004 Housing Rehabilitation		29,909
Capital Paving Project		375,608
Recreation Complex		294,336

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

Response – We will do so.

Conclusion – Response accepted.