

CITY OF POLK CITY, IOWA
INDEPENDENT AUDITORS' REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTAL INFORMATION
AND FINDINGS

JUNE 30, 2006

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City of Polk City, Iowa

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Gary Heuertz	Mayor	January, 2010
Ronald Anderson	Mayor Pro Tem	January, 2008
Dan Lane	Council Member	January, 2010
Robert Mordin	Council Member	January, 2010
Rosemary Taylor	Council Member	January, 2008
Tim Rhoades	Council Member	January, 2008
Gary Mahannah	City Administrator	Indefinite
Colin Adams	Finance Officer	Indefinite
Sharon Nickles	Clerk/Treasurer	Indefinite
Brick Gentry, et al, P.C.	City Attorney	Indefinite

POLLARD AND COMPANY P.C.

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CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and Members of the City Council
City of Polk City

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 Polk City, 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's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. Those standards 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 U.S. generally accepted accounting principles.

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 Polk City 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 reports as dated below on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. Those reports are 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.

The Management's Discussion and Analysis and the budgetary comparison information 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 opinions on the financial statements that collectively comprise the City's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the year ended June 30, 2005 (none of which is presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 3 is presented for purposes of additional analysis and are 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.

August 8, 2006

Pollard and Company P.C.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Polk City 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 decreased by 8.40%, or \$234,293 from fiscal 2005 to fiscal 2006. Property and Tax Incremental Financing Tax receipts increased by \$149,467.
- Disbursements decreased 1.81%, or \$79,989, in fiscal 2006 from fiscal 2005. Public safety disbursements decreased \$53,650. Debt service was eliminated in fiscal 2005 and capital projects disbursements decreased by \$942,343.
- The City's total cash basis net assets decreased 43.95%, or \$1,692,911, from June 30, 2005 to June 30, 2006. Of this amount, the assets of the governmental activities decreased \$1,779,723; the assets of the business type activities increased by \$86,812.

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

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

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

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

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

Basis of Accounting

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

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

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

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

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

- Governmental Activities include public safety, public works, health and social services, 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 and the sanitary sewer system. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

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

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

- 2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains two Enterprise Funds to provide separate information for the Water and Sewer funds..

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 decreased from a year ago, decreasing from \$2,978,953 to \$1,199,230. The analysis that follows focuses on the changes in cash balances for governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities

	<u>Year ended June 30,</u>	
	<u>2006</u>	<u>2005</u>
Receipts and transfers:		
Program receipts:		
Charges for service	433,696	278,616
Operating grants, contributions and restricted interest	83,431	332,844
Capital Grants & Contributions		315,000
General receipts:		
Property tax	652,778	541,190
Tax Increment Financing	38,898	1,019
Local option sales tax	886,977	1,161,315
Debt service		
Unrestricted investment earnings	163,269	95,870
Miscellaneous	<u>296,692</u>	<u>64,180</u>
Total receipts and transfers	<u>2,555,741</u>	<u>2,790,034</u>
Disbursements:		
Public Safety	641,447	695,097
Public Works	542,564	376,903
Health and Social Services	12,081	6,519
Culture and Recreation	276,196	296,841
Community and Economic Development	41,466	15,436
General Government	792,342	342,946
Debt Service		375,000
Capital Projects	1,364,368	2,306,711
Intra Fund Loans	665,000	
Total disbursements	<u>4,335,464</u>	<u>4,415,453</u>
Increase (Decrease) in cash basis net assets	(1,779,723)	(1,625,419)
Cash basis net assets beginning of year	<u>2,978,953</u>	<u>4,604,372</u>
Cash basis net assets end of year	<u>1,199,230</u>	<u>2,978,953</u>

RECEIPTS BY SOURCE

Unrestricted investment earnings	6.39%
Miscellaneous	11.61%
Operating grants, contributions and restricted interest	3.26%
Tax increment financing	1.52%
Charges for service	16.97%
Property tax	25.54%
Local Option Sales Tax	34.71%

DISBURSEMENTS BY FUNCTION

Community and Econ..Development	1.13%
Health & Social Services	0.33%
Culture and Recreation	7.52%
General government	21.58%
Public Works	14.78%
Public Safety	17.48%
Capital Projects	37.18%

The City's total receipts for governmental activities decreased by 8.40% or \$234,293. The total cost of all programs and services decreased by \$79,989 or 1.81% which included the continuation of a capital projects program. The significant decrease in receipts was primarily the result of local option sales tax receipts continuing to fall.

The cost of all governmental activities this year was \$4,335,464 compared to \$4,415,453 last year. However, as shown in the Statement of Activities and Net Assets, the amount taxpayers ultimately financed for these activities was only \$3,818,337, because some of the cost was paid by those directly benefited from the programs (\$433,696) or by other governments and organizations with contributions and other restricted interest (\$83,431). Overall, the City's governmental activities receipts, including intergovernmental aid and fees for service, decreased in 2006 from \$926,460 to \$517,127. The City paid for the remaining "public benefit" portion of governmental activities with \$691,676 in property taxes (some of which could only be used for certain programs) local option sales tax and with other receipts, such as interest and miscellaneous income.

Changes in Cash Basis Net Assets of Business Type Activities

	<u>Year ended June 30</u>	
	<u>2006</u>	<u>2005</u>
Receipts:		
Program receipts:		
Charges for service:		
Water	\$333,134	\$293,209
Sewer	\$224,959	\$221,989
General receipts:		
Unrestricted interest on investments	\$ 8,789	\$3,582
Intra Fund Loan	\$665,000	
Total receipts	<u>\$1,231,882</u>	<u>\$518,780</u>
Disbursements:		
Water	\$926,551	\$274,483
Sewer	\$218,519	\$152,793
Debt service		\$ 50,000
Total disbursements	<u>\$1,145,070</u>	<u>\$477,276</u>
Increase in cash balance	\$86,812	\$ 41,504
Cash basis net assets beginning of year	<u>\$873,082</u>	<u>\$831,578</u>
Cash basis net assets end of year	<u>\$959,894</u>	<u>\$873,082</u>

Total business type activities receipts for the fiscal year were \$1,231,882 compared to \$518,780 last year. This significant increase was due primarily to the intra fund loan. However, the cash balance increased by only \$86,812 from the prior year because of the price buy-down of water (\$665,000) from the City's external water supplier. Total disbursements for the year increased by 139.92% to a total of \$1,145,070.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As Polk City completed the year, its governmental funds reported a combined fund balance of \$1,199,230, a decrease of \$1,779,723. Of that decrease, \$665,000 is attributable to intra fund loans: the balance is expenditures on Capital Projects less increased revenue.

- The General Fund cash balance decreased by \$81,577 from the prior year total of \$2,127,860. All of this decrease is attributable to transfers from the General Fund to the Water Proprietary Fund.
- The Capital Projects Fund was established in year ended June 2004 to isolate from the General Fund items of a capital nature. At the end of the year the balance of this fund was (\$684,632). This deficit, plus 2006/07 expenditure will be funded by intra fund transfers from the General Fund.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance increased by \$74,881 to \$388,493. This balance increase was generated by cost control and purchase efficiency.. There was no increase in the unit cost to consumers.
- The Sewer Fund cash balance increased by \$11,931 to \$571,401, Again, this balance increase was generated by cost control and purchase efficiency. Again, there were no unit cost increases charged to consumers.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget two times. The first amendment was approved in March 2006 and resulted in an increase in disbursements and a decrease in receipts. The second amendment was approved in May 2006 for additional disbursements and receipts in certain City departments. The City had sufficient cash balances to absorb these additional costs.

DEBT ADMINISTRATION

At June 30, 2006 the City had no debt.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Polk City's elected and appointed officials and citizens will consider many factors when setting the fiscal year 2007 budget, tax rates, and fees that will be charged for various City activities. A major factor in any Budget deliberations will be the stability of the City's Local Option Sales Tax Receipts.

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 Colin Adams, Finance Director, 112 3rd Street, Polk City, Iowa.

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

Functions/Programs	Program Receipts			
	Disbursements	Charges for Services	Operating Grants, Contributions, and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Governmental Activities				
Public safety	\$ 641,447	\$ 61,855	\$ 52,494	\$ -
Public works	542,564	340,124	-	-
Health and social services	12,081	-	-	-
Culture and recreation	276,196	29,248	8,082	-
Community and economic development	41,466	-	-	-
General government	792,342	2,469	22,855	-
Capital projects	1,364,368	-	-	-
Total governmental activities	3,670,464	433,696	83,431	-
Business type activities				
Water	926,551	336,432	-	-
Sewer	218,519	230,450	-	-
Total business type activities	1,145,070	566,882	-	-
Total	\$ 4,815,534	\$ 1,000,578	\$ 83,431	\$ -

General Receipts

- Property tax levied for
 - General purposes
 - Tax increment financing
- Local option sales tax
- Unrestricted interest on investments
- Miscellaneous
- Inter fund loan
- Total general receipts and transfers

Change in cash basis net assets

- Cash basis net assets beginning of year
- Cash basis net assets end of year

Cash basis net assets

- Restricted (deficit)
 - Streets
 - Urban renewal purposes
 - Capital Projects
- Unrestricted
- Total cash basis net assets

There were no reconciling items between the Governmental and Fiduciary Fund Statements of Cash Receipts, Disbursements and Changes in Cash Balances and the above Statement. See notes to financial statements.

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

Governmental Activities	Business Type Activities	Total
\$ (527,098)	\$ -	\$ (527,098)
(202,440)	-	(202,440)
(12,081)	-	(12,081)
(238,866)	-	(238,866)
(41,466)	-	(41,466)
(767,018)	-	(767,018)
(1,364,368)	-	(1,364,368)
(3,153,337)	-	(3,153,337)
-	(590,119)	(590,119)
-	11,931	11,931
-	(578,188)	(578,188)
\$ (3,153,337)	\$ (578,188)	\$ (3,731,525)

\$ 652,778	\$ -	\$ 652,778
38,898	-	38,898
886,977	-	886,977
163,269	-	163,269
296,692	-	296,692
(665,000)	665,000	-
1,373,614	665,000	2,038,614
(1,779,723)	86,812	(1,692,911)
2,978,953	873,082	3,852,035
\$ 1,199,230	\$ 959,894	\$ 2,159,124

\$ (203,514)	\$ -	\$ (203,514)
41,093	-	41,093
(684,632)	-	(684,632)
2,046,283	959,894	3,006,177
\$ 1,199,230	\$ 959,894	\$ 2,159,124

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

	General	Road Use Tax	Capital Project	Other Nonmajor Governmental	Total
Receipts					
Property Taxes	\$ 652,778	\$ -	\$ -	\$ -	\$ 652,778
Tax Increment Financing Collections	-	-	-	38,898	38,898
Other City Tax- Local Option Sales Tax	886,977	-	-	-	886,977
Licenses and Permits	336,109	-	-	-	336,109
Use of Money and Property	161,711	-	-	1,558	163,269
Intergovernmental	83,431	218,047	-	-	301,478
Charges for Services	97,588	-	-	-	97,588
Miscellaneous	53,285	-	25,359	-	78,644
Total Receipts	2,271,879	218,047	25,359	40,456	2,555,741
Disbursements					
Operating					
Public Safety	641,447	-	-	-	641,447
Public Works	282,146	260,418	-	-	542,564
Health and social services	12,081	-	-	-	12,081
Culture and Recreation	276,196	-	-	-	276,196
Community and Economic Development	41,466	-	-	-	41,466
General Government	425,389	-	-	366,953	792,342
Capital Projects	-	190,032	1,174,336	-	1,364,368
Total Disbursements	1,678,725	450,450	1,174,336	366,953	3,670,464
Excess (deficiency) of receipts over (under) disbursements	593,154	(232,403)	(1,148,977)	(326,497)	(1,114,723)
Other financing sources (uses)					
Inter fund loan	(665,000)	-	-	-	(665,000)
Operating transfers in	-	-	-	12,791	12,791
Operating transfers out	(9,731)	-	-	(3,060)	(12,791)
Total other financing sources (uses)	(674,731)	-	-	9,731	(665,000)
Net change in cash balances	(81,577)	(232,403)	(1,148,977)	(316,766)	(1,779,723)
Cash balance - beginning of year	2,127,860	28,889	464,345	357,859	2,978,953
Cash balance - end of year	\$ 2,046,283	\$ (203,514)	\$ (684,632)	\$ 41,093	\$ 1,199,230
Cash basis fund balances					
Unreserved					
General fund	\$ 2,046,283	\$ -	\$ -	\$ -	\$ 2,046,283
Special revenue funds	-	(203,514)	-	41,093	(162,421)
Capital projects fund	-	-	(684,632)	-	(684,632)
Total cash basis fund balances	\$ 2,046,283	\$ (203,514)	\$ (684,632)	\$ 41,093	\$ 1,199,230

The accompanying notes to financial statements are an integral part of this statement.

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

	Water	Sewer	Total
Operating receipts			
Use of money and property	\$ 3,298	\$ 5,491	\$ 8,789
Charges for service	333,134	224,959	558,093
Total operating receipts	<u>336,432</u>	<u>230,450</u>	<u>566,882</u>
Operating disbursements			
Business type activities	<u>926,551</u>	<u>218,519</u>	<u>1,145,070</u>
Excess of operating receipts over operating disbursements	<u>(590,119)</u>	<u>11,931</u>	<u>(578,188)</u>
Non-operating receipts (disbursements)			
Inter fund loan	<u>665,000</u>		<u>665,000</u>
Net change in cash balances	74,881	11,931	86,812
Cash balances - beginning of year	<u>313,612</u>	<u>559,470</u>	<u>873,082</u>
Cash balances - end of year	<u>\$ 388,493</u>	<u>\$ 571,401</u>	<u>\$ 959,894</u>
Cash basis fund balances - Unreserved	<u>\$ 388,493</u>	<u>\$ 571,401</u>	<u>\$ 959,894</u>

See notes to financial statements.

City of Polk City, Iowa
Notes to Financial Statements
June 30, 2006

1/ Summary of Significant Accounting Policies

The City of Polk City is a political subdivision of the State of Iowa located in Polk County. It was first incorporated in 1875 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, recreation, public improvements and general administrative services.

A. Reporting Entity

For financial reporting purposes, the City of Polk City 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

In 1998, the City joined the Des Moines Area Metropolitan Planning Organization to plan and coordinate the transportation activities for the metropolitan area. The Organization's Board consists of a representative from each governing body. The members make contributions toward the budget of the organization. During the year ended June 30, 2006, no contribution was made.

In 1969, the City, in conjunction with seventeen other cities, created the Metro Waste Authority. The Authority board consists of an elected representative of the governing body of each participating governmental jurisdiction. The purpose of this joint public body is to provide for the economic disposal of all solid waste produced or generated by the jurisdictions and private contractors. During the year ended June 30, 2006, the City paid the Metro Waste Authority \$20,562 for the Curb It Program.

In addition, the City participates in other jointly governed organizations that provide 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 Joint County/Municipal Disaster Services and Emergency Planning Administration for Polk County, the Emergency Communications Services (911) Board and Central Iowa Regional Drinking Water Commission and League of Cities.

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.

B. Basis of Presentation (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 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.

The Capital Projects Fund is used to account for all resources used in the acquisition of capital facilities.

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

The City reports the following major proprietary funds:

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

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

C. Measurement Focus and Basis of Accounting

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

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.

2/ Cash and Pooled Investments

The City's deposits, 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 has no investments that are subject to risk categorization.

The City had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$504,365 pursuant to Rule 2a-7 under the Investment Company Act of 1940 and are not subject to risk categorization.

3/ Tax Increment Financing

The Urban Renewal Tax Increment – LMI fund contains the division of tax receipts as provided for in Chapter 403.19 of the Code of Iowa for the purpose of providing or aiding public improvements and residential development. That Chapter and Chapter 403.22 provides that the City must include assistance to low and moderate income family housing unless, within the guidelines of the Iowa Department of Economic Development, the City can show no low and moderate income housing needs. To date, the determination has not been made. If it is determined a need exists, the funds will be spent on family assistance. If not, the funds can be spent on public improvements in the economic development area.

4/ Pension and Retirement Benefits

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

Most regular plan members are required to contribute 3.70% of their annual salary and the City is required to contribute 5.75% of annual covered payroll. 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 \$46,357, \$47,395, and \$36,952, respectively, which are equal to the required contributions for each year.

5/ Compensated Absences

City employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned compensated absences for vacation hours payable to employees at June 30, 2006, primarily relating to the General Fund, is \$33,000.

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

6/ Related Party Transactions

The City had business transactions between the City and a City official totaling \$636 during the year ended June 30, 2006.

7/ Risk Management

The City is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk sharing pool whose 531 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Contributions are made during the first six years of membership and are maintained to equal 300 percent of the total current member's basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

7/ Risk Management (continued)

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The City's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The City of Polk City's annual contributions to the Pool for the year ended June 30, 2006 were \$38,220.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000 per claim and \$5,000,000 in aggregate per year. For members requiring specific coverage from \$2,000,000 to \$10,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$100,000 each occurrence, each location, with excess coverage reinsured on an individual-member basis.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the members' risk-sharing certificate or in the event a series of casualty claims exhausts total member's equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. As of June 30, 2006, settled claims have not exceeded the risk pool or reinsurance company coverage since the pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their capital contributions. If a member withdraws after the sixth year, the member is refunded 100 percent of its capital contributions; however, the refund is reduced by an amount equal to the annual operating contribution, which the withdrawing member would have made for the one-year period following withdrawal.

The City of Polk City also carries commercial insurance purchased from other insurers for coverage associated with workers' compensation and employee dishonesty. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

8/ Commitment

The City entered into a contract for the Parker Boulevard project. At June 30, 2006, the remaining commitment was \$2,000,294. The commitment will be funded with a RISE grant and property owner assessments.

9/ Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts and disclosure of liabilities, contingent liabilities, and commitments at the date of the financial statements, and the classification of receipts and disbursements during the reporting period. Actual results could differ from the estimates that were used.

10/ Interfund Transfers

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

	<u>Transfer To</u> Urban Renewal Tax Increment - L.M.I	<u>Total</u>
Transfer from General	\$ 9,731	\$ 9,731
Urban Renewal Tax Increment	3,060	3,060
	<u>\$ 12,791</u>	<u>\$ 12,791</u>

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

11/ Water Rates

During the year ended June 30, 2006, the City paid Des Moines Water Works \$665,000 for the right to pay lower water rates over forty years, based on a 350,000 gallon per day consumption. The rates will be based on annual cost studies conducted by the Des Moines Water Works. Initially such rates are \$.90 per 1,000 gallons.

12/ Interfund Loan

During the year ended June 30, 2006, the General Fund loaned \$665,000 with no interest to the Water Fund. There were no repayments on the obligation during the year ended June 30, 2006.

13/ Deficit Fund Balances

At June 30, 2006, the Road Use Tax and Capital Projects Funds had deficit balances of \$203,514 and \$684,632, respectively. The deficit in the Road Use Tax Fund will be eliminated by future receipts. The deficit in the Capital Projects Fund will be eliminated by the receipt of a RISE Grant and special assessments on the property owners.

City of Polk City, Iowa
 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

	<u>Governmental Funds Actual</u>	<u>Enterprise Funds Actual</u>
Receipts		
Property Taxes	\$ 652,778	\$ -
Tax increment financing collections	38,898	-
Other city tax	886,977	-
Licenses and permits	336,109	-
Use of money and property	163,269	8,789
Intergovernmental	301,478	-
Charges for Service	97,588	558,093
Miscellaneous	78,644	-
	<hr/>	<hr/>
Total Receipts	2,555,741	566,882
	<hr/>	<hr/>
Disbursements		
Public safety	641,447	-
Public works	542,564	-
Health and social services	12,081	-
Culture and recreation	276,196	-
Community and economic development	41,466	-
General government	792,342	-
Capital projects	1,364,368	-
Business type activities	-	1,145,070
	<hr/>	<hr/>
Total Disbursements	3,670,464	1,145,070
	<hr/>	<hr/>
Excess (deficit) of receipts over disbursements	(1,114,723)	(578,188)
	<hr/>	<hr/>
Other financing sources, net	(665,000)	665,000
	<hr/>	<hr/>
Excess (deficit) of receipts and other sources over disbursements	(1,779,723)	86,812
	<hr/>	<hr/>
Balance - beginning of year	2,978,953	873,082
Balance - end of year	<u>\$ 1,199,230</u>	<u>\$ 959,894</u>

See accompanying independent auditors' report.

Budgeted Amounts			
Net	Original	Final	Final to Net Variance
\$ 652,778	\$ 592,046	\$ 592,046	\$ 60,732
38,898	-	-	38,898
886,977	1,519,981	894,373	(7,396)
336,109	65,750	59,325	276,784
172,058	92,300	166,733	5,325
301,478	244,400	282,800	18,678
655,681	702,350	911,550	(255,869)
78,644	31,000	47,574	31,070
3,122,623	3,247,827	2,954,401	168,222
641,447	756,947	883,445	241,998
542,564	462,470	551,230	8,666
12,081	9,000	12,100	19
276,196	257,275	297,910	21,714
41,466	-	356,360	314,894
792,342	370,365	480,330	(312,012)
1,364,368	2,025,000	1,279,300	(85,068)
1,145,070	476,500	1,099,475	(45,595)
4,815,534	4,357,557	4,960,150	144,616
(1,692,911)	(1,109,730)	(2,005,749)	312,838
-	-	-	-
(1,692,911)	(1,109,730)	(2,005,749)	(312,838)
3,852,035	3,852,035	3,852,035	-
\$ 2,159,124	\$ 2,742,305	\$ 1,846,286	\$ 312,838

City of Polk City, Iowa
Notes to Required Supplementary Information – Budgetary Reporting
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 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, two budget amendments increased budgeted disbursements by \$602,593. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2006, disbursements exceeded the amounts budgeted in the General Government and Capital Projects, and Business Type activities.

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

	<u>Special Revenue</u>		
	Urban Renewal Tax Increment - L.M.I	Urban Renewal Tax Increment	Total
Receipts			
Use of money and property	\$ -	\$ 1,558	\$ 1,558
Tax increment financing collections	38,898	-	38,898
Total Receipts	<u>38,898</u>	<u>1,558</u>	<u>40,456</u>
Disbursements			
Operating			
General Government	10,596	356,357	366,953
Total Disbursements	<u>10,596</u>	<u>356,357</u>	<u>366,953</u>
Excess (deficiency) of receipts over disbursements	<u>28,302</u>	<u>(354,799)</u>	<u>(326,497)</u>
Other financing (uses)			
Operating transfers in	12,791	-	12,791
Operating transfers out	-	(3,060)	(3,060)
Total other financing sources (uses)	<u>12,791</u>	<u>(3,060)</u>	<u>9,731</u>
Net changes in cash balances	41,093	(357,859)	(316,766)
Cash balance - beginning of year	-	357,859	357,859
Cash balance - end of year	<u>\$ 41,093</u>	<u>\$ -</u>	<u>\$ 41,093</u>
Cash basis fund balances			
Unreserved			
Special revenue funds	\$ 41,093	\$ -	\$ 41,093
Total cash basis fund balances	<u>\$ 41,093</u>	<u>\$ -</u>	<u>\$ 41,093</u>

See accompanying independent auditors' report.

City of Polk City, Iowa
 Schedule of Receipts by Source and Disbursements by Function
 All Government Funds
 As of and for the year ended June 30, 2006

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Receipts			
Property taxes	\$ 652,778	\$ 541,190	\$ 399,019
Tax increment financing collections	38,898	1,019	354,939
Other city tax	886,977	1,161,315	2,658,926
Licenses and permits	336,109	84,345	198,532
Use of money and property	163,269	142,737	75,437
Intergovernmental	301,478	332,843	278,574
Charges for service	97,588	148,896	194,980
Miscellaneous	78,644	377,689	39,571
Total	<u>\$ 2,555,741</u>	<u>\$ 2,790,034</u>	<u>\$ 4,199,978</u>
Disbursements			
Operating			
Public safety	\$ 641,447	\$ 695,097	\$ 462,316
Public works	542,564	376,903	448,439
Health and human services	12,081	6,519	8,188
Culture and recreation	276,196	296,841	267,846
Community and economic development	41,466	15,436	61,973
General government	792,342	342,946	342,691
Debt service	-	375,000	75,517
Capital projects	1,364,368	2,306,711	994,416
Total	<u>\$ 3,670,464</u>	<u>\$ 4,415,453</u>	<u>\$ 2,661,386</u>

See accompanying independent auditors' report.

POLLARD AND COMPANY P.C.

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING

To the Honorable Mayor and
Members of the City Council

We have audited the financial statements of the City of Polk City, Iowa as of and for the year ended June 30, 2006, and have issued our report thereon as dated below. 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 U.S. generally accepted auditing standards, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City of Polk City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, 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 noncompliance that are required to be reported under Government Auditing Standards.

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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Polk City'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 certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of Polk City's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in 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 all of the reportable conditions described in the Part I of the Schedule of Findings are material weaknesses. Prior year reportable conditions have been resolved except for item 06-I-A.

This report, a matter of public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Polk City and other parties to whom the City of Polk City may report. This report is not intended to be and should not be used by any one other than these specified parties.

August 8, 2006

Pollard and Company P.C.

City of Polk City, Iowa
Schedule of Findings
Year Ended June 30, 2006

PART I Findings Related to the Financial Statements

Instances Of Noncompliance - No matters were noted.

Reportable Conditions

06-I-A Segregation of Duties

One important aspect of internal accounting control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that generally one person has control over each of the following areas:

- (1) Cash receipts, journalizing and posting.
- (2) Disbursements, check writing, journalizing and posting.

Recommendation

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

Response

We will continue to review the internal control procedures and segregate duties to the extent possible with existing personnel and the new finance officer hired during the year.

Conclusion

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

PART II Other Findings Related to Statutory Reporting

06-II-A Certified Budget

Disbursements during the year ended June 30, 2006 exceeded the amount budgeted in the General Government, Capital Projects, and Business Type activities. 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 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.

06-II-B Questionable Disbursements

We noted no disbursements for parties, banquets or other entertainment expenses that do not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

06-II-C Travel Expense

No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

06-II-D Business Transactions

Business transactions between the City and City officials or employees are detailed as follows:

<u>Name, Title, and Business Connection</u>	<u>Transaction</u>	<u>Amount</u>
Rosemary Taylor, Council Member	Publishing quarterly newsletter	\$636.00

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

06-II-E Bond Coverage

Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

06-II-F Council Minutes

No transactions were found that we believe should have been approved in the Council minutes but were not.

06-II-G 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.

06-II-H Financial Condition

The Road Use Tax and Capital Projects Funds had deficit balances at June 30, 2006 of \$203,514, and \$684,632, respectively.

Recommendation

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

Response

Note 13 of the financial statements indicates the City's plans to eliminate the deficits.

Conclusion

Response accepted.