

CITY OF SAC CITY, IOWA

**INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS**

AS OF AND FOR THE YEAR ENDED JUNE 30, 2006

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City of Sac City, Iowa

Officials

(Before January 2006)

| <u>Name</u> | <u>Title</u> | <u>Term Expires</u> |
|---------------------|--------------------------|---------------------|
| Lonnie Rubendall | Mayor | Jan 2008 |
| Jerry Volkert | Mayor Pro Tem | Jan 2008 |
| Jim Johnston | Council Member | Jan 2006 |
| Gary Hansen | Council Member | Jan 2006 |
| Bryan Buckley | Council Member | Resigned |
| Roger Jensen | Council Member | Jan 2008 |
| Gary Mahannah | City Administrator/Clerk | Resigned |
| Sandy Tellinghuisen | Treasurer | Jan 2006 |
| Colin McCullough | Attorney | Jan 2006 |
| Earl Zimmerman | Airport Commission | Jan 2008 |
| Matt Wallace | Airport Commission | Jan 2009 |
| Ken Pap | Airport Commission | Jan 2010 |
| Louis Carnine | Airport Commission | Jan 2010 |

(After January 2006)

| | | |
|---------------------|----------------------|----------|
| Lonnie Rubendall | Mayor | Jan 2008 |
| Jerry Volkert | Mayor Pro Tem | Jan 2008 |
| Jim Johnston | Council Member | Jan 2010 |
| Gary Hansen | Council Member | Jan 2010 |
| Cary Conger | Council Member | Jan 2008 |
| Roger Jensen | Council Member | Jan 2008 |
| Jeff Fiegenschuh | City Administrator | Jan 2008 |
| Sandy Tellinghuisen | City Clerk/Treasurer | Jan 2008 |
| Colin McCullough | Attorney | Jan 2008 |
| Earl Zimmerman | Airport Commission | Jan 2008 |
| Matt Wallace | Airport Commission | Jan 2009 |
| Sonny Cornelius | Airport Commission | Jan 2010 |
| Louis Carnine | Airport Commission | Jan 2010 |

Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

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

We conducted our audit in accordance with U.S. generally accepted auditing standards and 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 our audit provides a reasonable basis for our opinions.

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

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, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Sac 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 report dated March 15, 2006 on our consideration of the City of Sac City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 10 and 32 through 34 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have 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 conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Sac City's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2005 (which are not presented herein) and expressed unqualified opinions on those financial statements which were prepared in conformity with an other comprehensive basis of accounting. Other supplementary information included in Schedules 1 through 6, 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.

Cornwell, Frideres, Maher & Associates, P.L.C.
Certified Public Accountants

March 15, 2007

City of Sac City
Management's Discussion and Analysis
June 30, 2006

This discussion and analysis is intended to be an easily readable analysis of the City of Sac City's financial activities based on current conditions. This analysis focuses on activities for the year ended June 30, and should be read in conjunction with the attached financial statements.

2006 FINANCIAL HIGHLIGHTS

- Total governmental funds cash balances decreased approximately \$7,720 from fiscal year 2005 to 2006.
- Disbursements of the City's governmental activities increased 2% or approximately \$21,628 in fiscal year 2006 from 2005. This increase in disbursements was due to demolition of nuisance properties throughout town. Public safety and public works disbursements increased from 2005 to 2006 due to increased operation and maintenance costs and capital purchases.
- Revenues of the City's governmental activities increased 11% or approximately \$121,000 from fiscal year 2005 to 2006. Much of this increase is attributed to increases in fees and intergovernmental transfers. Property taxes increased approximately \$50,998.

USING THIS ANNUAL REPORT

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

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

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

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

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

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

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

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 readers 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 help 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, and municipal gas utilities. 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, 3) the Debt Service Fund, 4) the Capital Projects Funds and 5) the Permanent Funds. The governmental fund financial statements provide a detailed, short-term view of the City's general governmental operations and the basic services it provides. Government 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 statement for governmental funds include a statement of cash receipts, disbursements and changes in cash balances.

2) Proprietary funds accounts for the City's Enterprise Funds and for the Internal Service Fund, Enterprise funds are used to report business type activities. The City maintains four enterprise funds to provide separate information for the water, sewer, gas and garbage funds, of which water and gas are determined to be major funds of the City. Internal Service Funds are an accounting device used to accumulate and allocate costs internally among the City's various functions.

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

Reconciliations between the government-wide statement and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

Changes in Cash Basis Net Assets of Governmental Activities

| | <u>2005-2006</u> | <u>2004-2005</u> |
|---|-------------------|------------------|
| Receipts and transfers: | | |
| Program receipts: | | |
| Charges for service | \$ 91,561 | 81,519 |
| Operating grants | 264,985 | 260,056 |
| Capital grants | 50,745 | 846,838 |
| General receipts: | | |
| Property tax | 860,301 | 846,046 |
| Local option sales tax | 34,130 | 0 |
| Miscellaneous | 45,329 | 31,325 |
| Transfers, net | <u>9,492</u> | <u>(1,916)</u> |
| Total receipts and transfers | <u>1,356,543</u> | <u>2,063,868</u> |
| | | |
| Disbursements: | | |
| Public safety | 315,358 | 295,179 |
| Public works | 280,860 | 263,854 |
| Culture and recreation | 225,204 | 226,173 |
| General government | 181,677 | 152,891 |
| Debt service | 278,800 | 320,740 |
| Capital projects | <u>82,364</u> | <u>918,598</u> |
| Total disbursements | <u>1,364,263</u> | <u>2,177,435</u> |
| | | |
| Change in net assets | (7,720) | (113,567) |
| Cash basis net assets beginning of the year | <u>259,119</u> | <u>372,686</u> |
| Cash basis net assets end of the year | \$ <u>251,399</u> | <u>259,119</u> |
| | ===== | ===== |

The City's total receipts for government activities decreased 52%. This significant decrease was due to the completion of an airport improvement project.

The cost of all governmental activities this year was \$1,364,263 compared to \$2,177,435 the previous year.

Changes in Cash Basis Net Assets of Business Type Activities

| | <u>2005-2006</u> | <u>2004-2005</u> |
|---|------------------|------------------|
| Receipts: | | |
| Program receipts: | | |
| Charges for service: | | |
| Water | \$ 409,971 | 375,578 |
| Sewer | 221,909 | 196,220 |
| Gas | 1,709,595 | 1,404,778 |
| Garbage | 201,724 | 175,656 |
| General receipts: | | |
| Miscellaneous | 2,982 | 2,448 |
| Transfers, net | <u>22,127</u> | <u>38,179</u> |
| Total receipts and transfers | <u>2,568,308</u> | <u>2,192,859</u> |
| Disbursements: | | |
| Water | 385,369 | 458,197 |
| Sewer | 219,467 | 228,292 |
| Gas | 1,768,221 | 1,518,982 |
| Garbage | <u>230,347</u> | <u>217,036</u> |
| Total disbursements | <u>2,603,404</u> | <u>2,422,507</u> |
| Increase (decrease) in cash basis | (35,096) | (229,648) |
| Cash basis net assets beginning of year | <u>204,077</u> | <u>433,725</u> |
| Cash basis net assets end of year | \$ 168,981 | 204,077 |
| | ===== | ===== |

Total business type activities receipts for the fiscal year were \$2.5 million compared to \$22 million last year. The cash balance decreased approximately \$35,096 from the prior year because of higher gas prices and increased solid waste collection expenses. Total disbursements for the fiscal year were \$2.603 million.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As Sac City completed the year, its governmental funds reported a combined fund balance of \$250,522, a decrease of \$7,441 below last year's total of \$250,522. The balances in the major funds stayed fairly constant.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance decreased from \$18,356 to \$17,735.
- The Gas Fund cash balance decreased from \$177,953 to \$150,156 due primarily to increases in gas prices.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget once for \$156,000 due to the increase in gas prices.

DEBT ADMINISTRATION

At June 30, 2006, the City had approximately \$1,010,000 in bonds and other long-term debt, compared to approximately \$1,230,000 last year, as shown below.

Outstanding Debt at Year-End

| | <u>2005</u> | <u>2006</u> |
|--------------------------|-----------------------|--------------------|
| General Obligation Bonds | \$ <u>1,230,000</u> | <u>1,010,000</u> |
| Total | \$ 1,230,000 ===== | 1,010,000 ===== |

Debt decreased as a result of paying down general obligation bonds.

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 of \$1,010,000 is significantly below its constitutional debt limit of \$3 million.

ECONOMIC FACTORS AND NEXT YEAR’S BUDGET AND RATES

Several factors were considered and affected the preparation of the City’s 2006-2007 budget, as follows:

- The local economy has remained consistent with the outlook for 2006 to remain constant.
- The local unemployment rate has remained lower than the state average.
- The rate lids and the property tax rollback imposed by the state of Iowa
- Newly increased water, sewer, storm sewer and garbage rates
- Grant revenues
- The City decreased property tax rates for fiscal year 2006-2007 by 5%.

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 information, contact Jeff Fiegenschuh, City Administrator, 302 E. Main Street, Sac City, Iowa.

Basic Financial Statements

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

| | | Program Receipts | | |
|---|---------------|------------------------|---|--|
| | Disbursements | Charges for Service | Operating Grants, Contributions, and Restricted Interest | Capital Grants, Contributions and Restricted Interest |
| Functions/Programs: | | | | |
| Primary Government: | | | | |
| Governmental activities: | | | | |
| Public safety | \$ 315,358 | 6,084 | 52,367 | - |
| Public works | 280,860 | 1,689 | 198,352 | - |
| Culture and recreation | 225,204 | 81,186 | 14,266 | - |
| General government | 181,677 | - | - | - |
| Debt service | 278,800 | - | - | - |
| Capital projects | 82,364 | 2,602 | - | 50,745 |
| Total governmental activities | 1,364,263 | 91,561 | 264,985 | 50,745 |
| Business type activities: | | | | |
| Water | 385,369 | 409,971 | - | - |
| Gas | 1,768,221 | 1,698,399 | 11,196 | - |
| Nonmajor | 449,814 | 423,633 | - | - |
| Total business type activities | 2,603,404 | 2,532,003 | 11,196 | - |
| Total | 3,967,667 | 2,623,564 | 276,181 | 50,745 |
| Component unit: | | | | |
| Airport | \$ 49,133 | 19,569 | 8,259 | - |
| General Receipts: | | | | |
| Property tax levied for: | | | | |
| General purposes | | | | |
| Debt service | | | | |
| Local option sales tax | | | | |
| Unrestricted interest on investments | | | | |
| Miscellaneous | | | | |
| Transfers | | | | |
| Total general receipts and transfers | | | | |
| Change in cash basis net assets | | | | |
| Cash basis net assets beginning of year | | | | |
| Cash basis net assets end of year | | | | |
| Cash Basis Net Assets | | | | |
| Restricted: | | | | |
| Streets | | | | |
| Debt service | | | | |
| Other purposes | | | | |
| Unrestricted | | | | |
| Total cash basis net assets | | | | |

See notes to financial statements.

Exhibit A

| Net (Disbursements) Receipts and Changes in Cash Basis Net Assets | | | Component Unit |
|--|-----------------------------|--------------------|-------------------|
| Governmental Activities | Business Type Activities | Total | Airport |
| (256,907) | - | (256,907) | - |
| (80,819) | - | (80,819) | - |
| (129,752) | - | (129,752) | - |
| (181,677) | - | (181,677) | - |
| (278,800) | - | (278,800) | - |
| (29,017) | - | (29,017) | - |
| <u>(956,972)</u> | <u>-</u> | <u>(956,972)</u> | <u>-</u> |
| - | 24,602 | 24,602 | - |
| - | (58,626) | (58,626) | - |
| - | (26,181) | (26,181) | - |
| - | (60,205) | (60,205) | - |
| <u>(956,972)</u> | <u>(60,205)</u> | <u>(1,017,177)</u> | <u>-</u> |
| - | - | - | (21,305) |
| 590,083 | - | 590,083 | - |
| 270,218 | - | 270,218 | - |
| 34,130 | - | 34,130 | - |
| 232 | 2,982 | 3,214 | 849 |
| 45,097 | - | 45,097 | 40,322 |
| 9,492 | 22,127 | 31,619 | (31,619) |
| <u>949,252</u> | <u>25,109</u> | <u>974,361</u> | <u>9,552</u> |
| (7,720) | (35,096) | (42,816) | (11,753) |
| <u>259,119</u> | <u>204,077</u> | <u>463,196</u> | <u>54,984</u> |
| <u>\$ 251,399</u> | <u>168,981</u> | <u>420,380</u> | <u>43,231</u> |
| \$ 52,323 | - | 52,323 | - |
| 2,219 | - | 2,219 | - |
| 171,890 | 2,274 | 174,164 | - |
| <u>24,967</u> | <u>166,707</u> | <u>191,674</u> | <u>43,231</u> |
| <u>\$ 251,399</u> | <u>168,981</u> | <u>420,380</u> | <u>43,231</u> |

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

| | | Special Revenue | |
|--|------------|--------------------|----------------------|
| | General | Road Use Tax | Employee Benefits |
| Receipts: | | | |
| Property tax | \$ 352,845 | - | 209,923 |
| Other city tax | 51,328 | - | 10,117 |
| Licenses and permits | 5,532 | - | - |
| Use of money and property | 1,243 | - | - |
| Intergovernmental | 50,230 | 198,262 | - |
| Charges for service | 82,927 | - | - |
| Special assessments | - | - | - |
| Miscellaneous | 9,772 | - | - |
| Total receipts | 553,877 | 198,262 | 220,040 |
| Disbursements: | | | |
| Operating: | | | |
| Public safety | 315,358 | - | - |
| Public works | 75,796 | 205,064 | - |
| Culture and recreation | 225,204 | - | - |
| General government | 181,399 | - | - |
| Debt service | - | - | - |
| Capital projects | - | - | - |
| Total disbursements | 797,757 | 205,064 | - |
| Excess (deficiency) of receipts over (under) disbursements | (243,880) | (6,802) | 220,040 |
| Other financing sources (uses): | | | |
| Operating transfers in | 246,040 | - | - |
| Operating transfers out | (9,487) | - | (220,040) |
| Total other financing sources (uses) | 236,553 | - | (220,040) |
| Net change in cash balances | (7,327) | (6,802) | - |
| Cash balances beginning of year | 31,416 | 17,358 | - |
| Cash balances end of year | \$ 24,089 | 10,556 | - |
| Cash Basis Fund Balances | | | |
| Reserved: | | | |
| Debt service | \$ - | - | - |
| Unreserved: | | | |
| General fund | 24,089 | - | - |
| Special revenue funds | - | 10,556 | - |
| Capital projects funds | - | - | - |
| Permanent fund | - | - | - |
| Total cash basis fund balances | \$ 24,089 | 10,556 | - |

See notes to financial statements.

Exhibit B

| Debt Service | Other Nonmajor Governmental Funds | Total |
|-----------------|--|------------------|
| 257,806 | - | 820,574 |
| 12,412 | - | 73,857 |
| - | - | 5,532 |
| - | - | 1,243 |
| - | 58,579 | 307,071 |
| - | - | 82,927 |
| - | 2,602 | 2,602 |
| - | 43,474 | 53,246 |
| <u>270,218</u> | <u>104,655</u> | <u>1,347,052</u> |
| - | - | 315,358 |
| - | - | 280,860 |
| - | - | 225,204 |
| - | - | 181,399 |
| 278,800 | - | 278,800 |
| - | 82,364 | 82,364 |
| <u>278,800</u> | <u>82,364</u> | <u>1,363,985</u> |
| <u>(8,582)</u> | <u>22,291</u> | <u>(16,933)</u> |
| 10,296 | 140,408 | 396,744 |
| - | (157,725) | (387,252) |
| <u>10,296</u> | <u>(17,317)</u> | <u>9,492</u> |
| 1,714 | 4,974 | (7,441) |
| <u>505</u> | <u>208,684</u> | <u>257,963</u> |
| <u>2,219</u> | <u>213,658</u> | <u>250,522</u> |
| 2,219 | - | 2,219 |
| - | - | 24,089 |
| - | 89,192 | 99,748 |
| - | 41,768 | 41,768 |
| - | 82,698 | 82,698 |
| <u>2,219</u> | <u>213,658</u> | <u>250,522</u> |

Reconciliation of the Statement of Cash
Receipts, Disbursements and Changes in Cash Balances
to the Statement of Activities and Net Assets -
Governmental Funds
As of and for the year ended June 30, 2006

| | |
|--|-------------------|
| Total governmental funds cash balances (page 14) | \$ 250,522 |
| <i>Amounts reported for governmental activities in the Statement of Activities and Net Assets are different because:</i> | |
| The Internal Service Fund is used by management to charge the costs of the City's payroll to individual funds. The assets of the Internal Service Fund are included in governmental activities in the Statement of Net Assets. | |
| | <u>877</u> |
| Cash basis net assets of governmental activities (page 12) | <u>\$ 251,399</u> |
| Net change in cash balances (page 14) | (7,441) |
| <i>Amounts reported for governmental activities in the Statement of Activities and Net Assets are different because:</i> | |
| The Internal Service Fund is used by management to charge the costs of the City's payroll to individual funds. The change in net assets of the Internal Service Fund is reported with governmental activities. | |
| | <u>(279)</u> |
| Change in cash balance of governmental activities (page 12) | <u>\$ (7,720)</u> |

See notes to financial statements.

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

| | Enterprise Funds | | | |
|--|------------------|------------------|-----------------|------------------|
| | <u>Water</u> | <u>Gas</u> | <u>Nonmajor</u> | <u>Total</u> |
| Operating receipts: | | | | |
| Charges for service | \$ 407,974 | 1,685,575 | 420,454 | 2,514,003 |
| Miscellaneous | 1,997 | 24,020 | 3,179 | 29,196 |
| Total operating receipts | <u>409,971</u> | <u>1,709,595</u> | <u>423,633</u> | <u>2,543,199</u> |
| Operating disbursements: | | | | |
| Governmental activities: | | | | |
| Public safety | - | - | - | - |
| Public works | - | - | - | - |
| Culture and recreation | - | - | - | - |
| General government | - | - | - | - |
| Business type activities | <u>385,369</u> | <u>1,767,868</u> | <u>449,814</u> | <u>2,603,051</u> |
| Total operating disbursements | <u>385,369</u> | <u>1,767,868</u> | <u>449,814</u> | <u>2,603,051</u> |
| Excess (deficiency) of operating receipts over (under) operating disbursements | <u>24,602</u> | <u>(58,273)</u> | <u>(26,181)</u> | <u>(59,852)</u> |
| Non-operating receipts: | | | | |
| Interest on investments | <u>561</u> | <u>1,862</u> | <u>559</u> | <u>2,982</u> |
| Total non-operating receipts | <u>561</u> | <u>1,862</u> | <u>559</u> | <u>2,982</u> |
| Excess (deficiency) of receipts over (under) disbursements | <u>25,163</u> | <u>(56,411)</u> | <u>(25,622)</u> | <u>(56,870)</u> |
| Other financing sources (uses): | | | | |
| Operating transfers in | 80,556 | 57,871 | 45,842 | 184,269 |
| Operating transfers out | <u>(106,340)</u> | <u>(29,257)</u> | <u>(26,545)</u> | <u>(162,142)</u> |
| Total other financing sources (uses) | <u>(25,784)</u> | <u>28,614</u> | <u>19,297</u> | <u>22,127</u> |
| Net change in cash balances | (621) | (27,797) | (6,325) | (34,743) |
| Cash balances beginning of year | <u>18,356</u> | <u>177,953</u> | <u>6,325</u> | <u>202,634</u> |
| Cash balances end of year | <u>\$ 17,735</u> | <u>150,156</u> | <u>-</u> | <u>167,891</u> |
| Cash Basis Fund Balances | | | | |
| Unreserved | <u>\$ 17,735</u> | <u>150,156</u> | <u>-</u> | <u>167,891</u> |
| Total cash basis fund balances | <u>\$ 17,735</u> | <u>150,156</u> | <u>-</u> | <u>167,891</u> |

See notes to financial statements.

Internal
Service Fund
Employee
Payroll

-
971,790
971,790

176,464
117,914
108,768
30,222
539,054
972,422

(632)

-
-

(632)

-
-
-

(632)
2,599
1,967

1,967

1,967

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

| | |
|---|--------------------|
| Total enterprise funds cash balances (page 16) | \$ 167,891 |
| <i>Amounts reported for business type activities in the Statement of Activities and Net Assets are different because:</i> | |
| The Internal Service Fund is used by management to charge the costs of the City's payroll to individual funds. The assets of the Internal Service Fund are included in business type activities in the Statement of Net Assets. | <u>1,090</u> |
| Cash basis net assets of business type activities (page 12) | <u>\$ 168,981</u> |
| Net change in cash balances (page 16) | (34,743) |
| <i>Amounts reported for business type activities in the Statement of Activities and Net Assets are different because:</i> | |
| The Internal Service Fund is used by management to charge the costs of the City's payroll to individual funds. The change in net assets of the Internal Service Fund is reported with business type activities. | <u>(353)</u> |
| Change in cash balance of business type activities (page 12) | <u>\$ (35,096)</u> |

See notes to financial statements.

Statement of Changes in Fiduciary Assets and Liabilities -
Agency Fund

Year ended June 30, 2006

| | <u>Balance Beginning of Year</u> | <u>Additions</u> | <u>Deductions</u> | <u>Balance End of Year</u> |
|--------------------------|--|------------------|-------------------|------------------------------------|
| Assets | | | | |
| Cash | \$ - | 86,806 | 86,806 | - |
| Total assets | <u>\$ -</u> | <u>86,806</u> | <u>86,806</u> | <u>-</u> |
| Liabilities | | | | |
| Accounts payable | \$ - | 86,806 | 86,806 | - |
| Total liabilities | <u>\$ -</u> | <u>86,806</u> | <u>86,806</u> | <u>-</u> |

See accompanying independent auditor's report.

City of Sac City, Iowa

Notes to Financial Statements

June 30, 2006

(1) Summary of Significant Accounting Policies

The City of Sac City is a political subdivision of the State of Iowa located in Sac 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, health and social services, culture and recreation, community and economic development, and general government services. The City also provides water, sewer and gas utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Sac 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.

Discretely Presented Component Unit

These financial statements present the City of Sac City (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.

City of Sac City, Iowa

Notes to Financial Statements

June 30, 2006

The Sac City Municipal Airport Authority (Authority) was established pursuant to Chapter 330A of the Code of Iowa to operate the City's airport facility. The Authority is governed by a five member board appointed by the Sac City, City Council. The board members serve at the pleasure of the City. The City annually provides significant operating subsidies to the Authority. In accordance with criteria set by the Governmental Accounting Standards Board, the Authority meets the definition of a component unit which should be discretely presented. The Authority is accounted for as a Governmental Fund in these financial statements.

Jointly Governed Organizations

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

B. Basis of Presentation

Government-wide Financial Statement – 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.

City of Sac City, Iowa

Notes to Financial Statements

June 30, 2006

of *Unrestricted net assets* consist of net assets that do not meet the definition

the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

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

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

The City reports the following major governmental funds:

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

Special Revenue:

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

The Employee Benefits Fund is used to account for receipts to pay for the City's share of payroll taxes.

City of Sac City, Iowa

Notes to Financial Statements

June 30, 2006

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

The City reports the following major proprietary funds:

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

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

The City also reports the following additional proprietary fund:

An Internal Service Fund is utilized to account for the City's payroll, which is then allocated to the City's departments on a cost reimbursement basis.

City's

The City also reports fiduciary funds which focus on changes in net assets. The fiduciary funds include the following:

The Agency Fund is used to account for assets held by the City as an agent for individuals, private organizations and other governments.

C. Measurement Focus and Basis of Accounting

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

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net assets available to finance the program.

City of Sac City, Iowa

Notes to Financial Statements

June 30, 2006

It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

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

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2006, disbursements exceeded the amounts budgeted in the public safety, culture and recreation, and business type activities functions.

(2) **Cash**

The City and its component unit'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 and its component unit are 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 and its component unit had no investments at June 30, 2006. The City and its component unit invested its excess funds in savings accounts and certificates of deposit.

City of Sac City, Iowa

Notes to Financial Statements

June 30, 2006

(3) Notes Payable

Annual debt service requirements to maturity for general obligation notes are as follows:

| Year Ending <u>June 30,</u> | <u>General Obligation Notes</u> | |
|--------------------------------|---------------------------------|-----------------|
| | <u>Principal</u> | <u>Interest</u> |
| 2007 | \$ 230,000 | \$ 48,342 |
| 2008 | 245,000 | 37,893 |
| 2009 | 255,000 | 26,400 |
| 2010 | 155,000 | 14,010 |
| 2011 | 60,000 | 6,190 |
| 2012 | <u>65,000</u> | <u>3,250</u> |
| Total | \$ 1,010,000 | \$ 136,085 |
| | ===== | ===== |

(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.

Plan members are required to contribute 3.70% of their annual covered 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. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2006, 2005 and 2004 were \$58,472, \$57,166 and \$53,855, respectively, equal to the required contributions for each year.

City of Sac City, Iowa

Notes to Financial Statements

June 30, 2006

(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. Sick leave or personal leave is not payable upon termination, retirement, or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation payments payable to employees at June 30, 2006, primarily relating to the General Fund, is as follows:

| <u>Type of Benefit</u> | <u>Amount</u> |
|------------------------|---------------|
| Vacation | \$ 54,000 |
| | ===== |

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

City of Sac City, Iowa

Notes to Financial Statements

June 30, 2006

(6) 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> |
|--|--|----------------------------|
| General | Special Revenue: Employee Benefits | \$ 220,040 |
| | Enterprise: Gas | 26,000 |
| Debt Service | Enterprise: Gas | 3,257 |
| | General | 7,039 |
| Special Revenue: Long-term Capital Improvements | General | 2,448 |
| Enterprise: Gas | Special Revenue: Revolving Loan | 31,326 |
| Enterprise: Water | Capital Projects: Special Assessments | 80,556 |
| Sewer | Special Assessments | 23,808 |
| Garbage | Special Assessments | 22,035 |
| Enterprise: Sewer | Enterprise: Gas | 26,545 |
| Capital Projects: Airport Project | Component Unit: Airport | 31,619 |
| Special Assessments | Enterprise: Water | <u>106,340</u> |
| Total | | <u>\$ 581,013</u> ===== |

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

City of Sac City, Iowa

Notes to Financial Statements

June 30, 2006

(7) Risk Management

The City of Sac 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, boiler/machinery, and inland marine. 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. Capital contributions are made during the first six years of membership and are maintained to equal 300 percent of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

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's annual contributions to the Pool for the year ended June 30, 2006 were \$91,767.

City of Sac City, Iowa

Notes to Financial Statements

June 30, 2006

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 member's risk-sharing certificate, or in the event that a series of casualty claims exhausts total members' 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 also carries commercial insurance purchased from other insurers for coverage associated with worker's compensation. The City assumes liability for any deductibles, and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

City of Sac City, Iowa

Notes to Financial Statements

June 30, 2006

(8) Revolving Loan Fund

The City has funds available for businesses who wish to create additional jobs within the City. The business must exhaust all other means of raising capital, there must be a public purpose that benefits the City and the business must have collateral for the loan. A committee appointed by the City reviews the application and negotiates the interest rate and payment terms. At June 30, 2006 there was one outstanding loan owed to the City in the amount of \$1,554.

(9) Sac County Landfill Commission

The City, in conjunction with nine other municipalities, has created the Sac County 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. On dissolution of the Commission, the net assets of the Commission will be prorated among the municipalities. The Sac County Landfill Commission board consists of an elected representative of the governing body of each participating governmental jurisdiction. The Commission may not be accumulating sufficient financial resources, therefore, the City of Sac City has an ongoing financial responsibility. During the year ended June 30, 2006 the City paid \$69,291 to the Sac County Landfill Commission for landfill fees. Complete financial statements for the Commission can be obtained from the Sac County Landfill Commission. In fiscal year 1997-1998 a 28E organization was formed by nine participating municipalities in order to provide financial assurance mechanisms in the event of closure and postclosure costs associated with the landfill. No estimate of the closure or postclosure costs have been made to date.

(10) Early Childhood Development Project

A management agreement is in effect where Kid's World will repay the City the amount it advanced plus interest. The balance owing to the City at June 30, 2006, including interest, is \$271,235.48.

City of Sac City, Iowa

Notes to Financial Statements

June 30, 2006

(11) Construction Commitment

The City has committed to an airport construction project for approximately \$135,000 for airport improvements. This will be financed by a federal grant and local airport revenues.

The City has also committed to two water projects for new meters and storage tank maintenance. These projects will cost approximately \$528,000.

Required Supplemental Information

City of Sac 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

| | Governmental Funds <u>Actual</u> | Proprietary Funds <u>Actual</u> | Less Funds not Required to <u>be Budgeted</u> |
|--|--|---------------------------------------|--|
| Receipts: | | | |
| Property tax | \$ 820,574 | - | - |
| Other city tax | 73,857 | - | - |
| Licenses and permits | 5,532 | - | - |
| Use of money and property | 1,243 | 2,982 | - |
| Intergovernmental | 307,071 | - | - |
| Charges for service | 82,927 | 2,514,003 | - |
| Special assessments | 2,602 | - | - |
| Miscellaneous | 53,246 | 1,000,986 | 971,790 |
| Total receipts | <u>1,347,052</u> | <u>3,517,971</u> | <u>971,790</u> |
| Disbursements: | | | |
| Public safety | 315,358 | 176,464 | 176,464 |
| Public works | 280,860 | 117,914 | 117,914 |
| Culture and recreation | 225,204 | 108,768 | 108,768 |
| Community and economic development | - | - | - |
| General government | 181,399 | 30,222 | 30,222 |
| Debt service | 278,800 | - | - |
| Capital projects | 82,364 | - | - |
| Business type activities | - | 3,142,105 | 539,054 |
| Total disbursements | <u>1,363,985</u> | <u>3,575,473</u> | <u>972,422</u> |
| Excess (deficiency) of receipts over (under) disbursements | (16,933) | (57,502) | (632) |
| Other financing sources (uses), net | <u>9,492</u> | <u>22,127</u> | <u>-</u> |
| Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses | (7,441) | (35,375) | (632) |
| Balances beginning of year | <u>257,963</u> | <u>205,233</u> | <u>2,599</u> |
| Balances end of year | <u>\$ 250,522</u> | <u>169,858</u> | <u>1,967</u> |

See accompanying independent auditor's report.

| <u>Net</u> | <u>Budgeted Amounts</u> | | <u>Final to Net Variance</u> |
|------------------|-------------------------|------------------|--------------------------------------|
| | <u>Original</u> | <u>Final</u> | |
| 820,574 | 828,757 | 828,757 | (8,183) |
| 73,857 | 39,958 | 65,014 | 8,843 |
| 5,532 | 2,675 | 2,675 | 2,857 |
| 4,225 | 8,975 | 8,975 | (4,750) |
| 307,071 | 661,275 | 661,275 | (354,204) |
| 2,596,930 | 2,461,930 | 2,561,930 | 35,000 |
| 2,602 | - | - | 2,602 |
| 82,442 | 181,650 | 181,650 | (99,208) |
| <u>3,893,233</u> | <u>4,185,220</u> | <u>4,310,276</u> | <u>(417,043)</u> |
| 315,358 | 314,665 | 314,665 | (693) |
| 280,860 | 310,230 | 310,230 | 29,370 |
| 225,204 | 220,401 | 220,401 | (4,803) |
| - | 2,250 | 2,250 | 2,250 |
| 181,399 | 155,529 | 186,529 | 5,130 |
| 278,800 | 279,500 | 279,500 | 700 |
| 82,364 | 425,000 | 425,000 | 342,636 |
| 2,603,051 | 2,389,870 | 2,514,870 | (88,181) |
| <u>3,967,036</u> | <u>4,097,445</u> | <u>4,253,445</u> | <u>286,409</u> |
| (73,803) | 87,775 | 56,831 | (130,634) |
| <u>31,619</u> | <u>32,553</u> | <u>32,553</u> | <u>(934)</u> |
| (42,184) | 120,328 | 89,384 | (131,568) |
| <u>460,597</u> | <u>-</u> | <u>-</u> | <u>460,597</u> |
| <u>418,413</u> | <u>120,328</u> | <u>89,384</u> | <u>329,029</u> |

City of Sac City, Iowa

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. 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, the Permanent Fund and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted receipts by \$125,056 and budgeted disbursements by \$156,000. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2006, disbursements exceeded the amounts budgeted in the public safety, culture and recreation and business type activities functions.

Other Supplementary Information

City of Sac 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

| | Special Revenue | | |
|---------------------------------------|------------------------------|--|-------------------|
| | Unemployment Compensation | Long-term Capital Improvements Fire Department | Revolving Loan |
| Receipts: | | | |
| Intergovernmental | \$ - | 15,944 | - |
| Special assessments | - | - | - |
| Miscellaneous | - | - | 31,326 |
| Total receipts | - | 15,944 | 31,326 |
| Disbursements | | | |
| Capital Projects | - | - | - |
| Excess of receipts over disbursements | - | 15,944 | 31,326 |
| Other financing sources (uses): | | | |
| Operating transfers in | - | 2,448 | - |
| Operating transfers out | - | - | (31,326) |
| Total other financing sources (uses) | - | 2,448 | (31,326) |
| Net change in cash balances | - | 18,392 | - |
| Cash balances beginning of year | 9,042 | 61,758 | - |
| Cash balances end of year | \$ 9,042 | 80,150 | - |
| Cash Basis Fund Balances | | | |
| Unreserved: | | | |
| Special revenue funds | \$ 9,042 | 80,150 | - |
| Capital project funds | - | - | - |
| Permanent fund | - | - | - |
| Total cash basis fund balances | \$ 9,042 | 80,150 | - |

See accompanying independent auditor's report.

Schedule 1

| <u>Capital Projects</u> | | <u>Permanent</u> | |
|---------------------------|-----------------------------|--------------------------------|-----------------|
| <u>Special Assessment</u> | <u>Airport Improvements</u> | <u>Cemetery Perpetual Care</u> | <u>Total</u> |
| - | 42,635 | - | 58,579 |
| 2,602 | - | - | 2,602 |
| - | 8,110 | 4,038 | 43,474 |
| <u>2,602</u> | <u>50,745</u> | <u>4,038</u> | <u>104,655</u> |
| - | 82,364 | - | 82,364 |
| <u>2,602</u> | <u>(31,619)</u> | <u>4,038</u> | <u>22,291</u> |
| 106,341 | 31,619 | - | 140,408 |
| (126,399) | - | - | (157,725) |
| <u>(20,058)</u> | <u>31,619</u> | <u>-</u> | <u>(17,317)</u> |
| (17,456) | - | 4,038 | 4,974 |
| <u>59,224</u> | <u>-</u> | <u>78,660</u> | <u>208,684</u> |
| <u>41,768</u> | <u>-</u> | <u>82,698</u> | <u>213,658</u> |
| - | - | - | 89,192 |
| 41,768 | - | - | 41,768 |
| - | - | 82,698 | 82,698 |
| <u>41,768</u> | <u>-</u> | <u>82,698</u> | <u>213,658</u> |

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

As of and for the year ended June 30, 2006

| | Enterprise Funds | | |
|--|------------------|-----------------|-----------------|
| | <u>Sewer</u> | <u>Garbage</u> | <u>Total</u> |
| Operating receipts: | | | |
| Charges for service | \$ 219,870 | 200,584 | 420,454 |
| Miscellaneous | 2,039 | 1,140 | 3,179 |
| Total operating receipts | <u>221,909</u> | <u>201,724</u> | <u>423,633</u> |
| Operating disbursements: | | | |
| Business type activities | <u>219,467</u> | <u>230,347</u> | <u>449,814</u> |
| Total operating disbursements | <u>219,467</u> | <u>230,347</u> | <u>449,814</u> |
| Deficiency of operating receipts under operating disbursements | <u>2,442</u> | <u>(28,623)</u> | <u>(26,181)</u> |
| Non-operating receipts: | | | |
| Interest on investments | <u>295</u> | <u>264</u> | <u>559</u> |
| Total non-operating receipts | <u>295</u> | <u>264</u> | <u>559</u> |
| Deficiency of receipts under disbursements | <u>2,737</u> | <u>(28,359)</u> | <u>(25,622)</u> |
| Other financing sources: | | | |
| Operating transfers in | 23,808 | 22,034 | 45,842 |
| Operating transfers out | <u>(26,545)</u> | <u>-</u> | <u>(26,545)</u> |
| Total other financing sources | <u>(2,737)</u> | <u>22,034</u> | <u>19,297</u> |
| Net change in cash balances | - | (6,325) | (6,325) |
| Cash balances beginning of year | <u>-</u> | <u>6,325</u> | <u>6,325</u> |
| Cash balances end of year | <u>\$ -</u> | <u>-</u> | <u>-</u> |
| Cash Basis Fund Balances | | | |
| Unreserved | <u>-</u> | <u>-</u> | <u>-</u> |
| Total cash basis fund balances | <u>\$ -</u> | <u>-</u> | <u>-</u> |

See accompanying independent auditor's report.

City of Sac City, Iowa

Schedule of Indebtedness

Year ended June 30, 2006

| <u>Obligation</u> | <u>Date of Issue</u> | <u>Interest Rates</u> | <u>Amount Originally Issued</u> |
|---------------------------|----------------------|-----------------------|---------------------------------|
| General obligation notes: | | | |
| Swimming pool | May 1, 2000 | 4.65-5.20% | 750,000 |
| Corporate purpose | April 2, 2002 | 3.00-5.00% | 1,195,000 |
| Total | | | |

See accompanying independent auditor's report.

Schedule 3

| <u>Balance Beginning of Year</u> | <u>Issued During Year</u> | <u>Redeemed During Year</u> | <u>Balance End of Year</u> | <u>Interest Paid</u> | <u>Interest Due and Unpaid</u> |
|--|-----------------------------------|-------------------------------------|------------------------------------|--------------------------|--|
| 425,000 | - | 75,000 | 350,000 | 21,580 | - |
| <u>805,000</u> | <u>-</u> | <u>145,000</u> | <u>660,000</u> | <u>36,420</u> | <u>-</u> |
| <u>\$ 1,230,000</u> | <u>-</u> | <u>220,000</u> | <u>1,010,000</u> | <u>58,000</u> | <u>-</u> |

Note Maturities

June 30, 2006

| Year Ending <u>June 30,</u> | General Obligation Notes | | | | |
|-----------------------------------|---|-------------------|-------------------------------------|-------------------|---------------------|
| | Corporate Purpose Issued April 2, 2002 | | Swimming Pool Issued May 1, 2001 | | <u>Total</u> |
| | <u>Interest Rates</u> | <u>Amount</u> | <u>Interest Rates</u> | <u>Amount</u> | |
| 2007 | 4.30 % | 150,000 | 5.00 % | 80,000 | 230,000 |
| 2008 | 4.50 | 160,000 | 5.05 | 85,000 | 245,000 |
| 2009 | 4.70 | 165,000 | 5.15 | 90,000 | 255,000 |
| 2010 | 4.80 | 60,000 | 5.20 | 95,000 | 155,000 |
| 2011 | 4.90 | 60,000 | | - | 60,000 |
| 2012 | 5.00 | 65,000 | | - | 65,000 |
| Total | | <u>\$ 660,000</u> | | <u>\$ 350,000</u> | <u>\$ 1,010,000</u> |

See accompanying independent auditor's report.

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

For the Last Four Years

| | <u>2006</u> | <u>2005</u> | <u>2004</u> | <u>2003</u> |
|----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| Receipts: | | | | |
| Property tax | 820,574 | 809,303 | 795,773 | 761,249 |
| Other city tax | 73,857 | 36,744 | 44,795 | 36,637 |
| Licenses and permits | 5,532 | 8,748 | 6,948 | 6,609 |
| Use of money and property | 1,243 | 602 | 724 | 312 |
| Intergovernmental | 307,071 | 259,114 | 254,058 | 366,492 |
| Charges for service | 82,927 | 59,870 | 69,455 | 58,460 |
| Special assessments | 2,602 | 14,049 | 23,349 | 95,880 |
| Miscellaneous | <u>53,246</u> | <u>30,516</u> | <u>15,493</u> | <u>160,142</u> |
| Total | <u><u>1,347,052</u></u> | <u><u>1,218,946</u></u> | <u><u>1,210,595</u></u> | <u><u>1,485,781</u></u> |
| Disbursements: | | | | |
| Operating | | | | |
| Public safety | 315,358 | 295,179 | 272,397 | 417,621 |
| Public works | 280,860 | 263,854 | 268,324 | 579,938 |
| Health and social services | - | - | - | 4,066 |
| Culture and recreation | 225,204 | 226,173 | 215,432 | 215,440 |
| General government | 181,399 | 154,047 | 140,806 | 141,353 |
| Debt service | 278,800 | 320,740 | 315,860 | 318,238 |
| Capital projects | <u>-</u> | <u>-</u> | <u>5,000</u> | <u>192,235</u> |
| Total | <u><u>1,281,621</u></u> | <u><u>1,259,993</u></u> | <u><u>1,217,819</u></u> | <u><u>1,868,891</u></u> |

See accompanying independent auditor's report.

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance
and Other Matters

Based on an Audit of Financial Statements Performed in Accordance with Government Auditing
Standards

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Sac 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 and have issued our report thereon dated March 15, 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 U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Sac City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of Sac 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 Part I of the accompanying Schedule of Findings.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the

normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item I-A-06 is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Sac City'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 or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the 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 Sac City and other parties to whom the City of Sac City may report including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Sac City 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.

Cornwell, Frideres, Maher & Associates, P.L.C.
Certified Public Accountants

March 15, 2007

City of Sac City, Iowa

Schedule of Findings

Year ended June 30, 2006

Part I: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

I-A-06 Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noticed that certain functions are not entirely segregated, such as preparing receipts and posting utility billing.

Recommendation – We realize that with four 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 feel we are doing the best we can and that no further segregation is possible without additional staff.

Conclusion – Response acknowledged.

Part II: Other Findings Related to Statutory Reporting:

II-A-06 Certified Budget – Disbursements during the year ended June 30, 2006 exceeded the amounts budgeted in the public safety, culture and recreation and business type activities 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.

City of Sac City, Iowa

Schedule of Findings

Year ended June 30, 2006

Response – The budget will be amended in sufficient amounts in the future, if applicable.

Conclusion – Response accepted.

- II-B-06 Questionable Disbursements – No disbursements were noted that may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979.
- II-C-06 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- II-D-06 Business Transactions – No business transactions between the City and City officials were noted.
- II-E-06 Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage is reviewed annually to insure that coverage is adequate for current operations.
- II-F-06 Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.
- II-G-06 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City’s investment policy were noted.
- II-H-06 Employee Benefit Fund – It was noted during the course of our audit that 100% of the revenues from the Employee Benefit Tax Levy is transferred to the General Fund to reimburse the General Fund for employee benefits.

Recommendation – The amount of the year end transfer should be the actual amount expended. This will help the City monitor employee benefit expenses properly.

Response – We will do this effective with the fiscal 06-07 budget.

Conclusion – Response accepted.

City of Sac City, Iowa

Schedule of Findings

Year ended June 30, 2006

II-I-06 Local Option Sales Tax Fund – It was noted during the course of our audit that a special revenue fund was not set up for the local option sales tax collected.

Recommendation – A special revenue fund should be set up for this tax collection.

Response – We will do this effective with the fiscal 06-07 budget.

Conclusion – Response accepted.