

CITY OF INDIANOLA

General and Statistical Information

**Financial Statements and Supplemental Information
(With Independent Auditor's Report Thereon)**

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

Schedule of Findings

Year Ended June 30, 2006

TABLE OF CONTENTS

		<u>Page</u>
City Clerk's Report		1-4
Officials		5-8
Operational Review		9-17
Statistical Section		18-28
Independent Auditor's Report		29-30
Management's Discussion and Analysis		31-39
Basic Financial Statements:	<u>Exhibit</u>	
Government-wide Financial Statement:		
Statement of Activities and Net Assets – Cash Basis	A	41-44
Governmental Fund Financial statements:		
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	B	45-48
Reconciliation of the Statement of Cash Receipts, Disbursements and Changes in Cash Balances to the Statement of Activities and Net Assets	C	49
Proprietary Fund Financial statements:		
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	D	50
Reconciliation of the Statement of Cash Receipts, Disbursements and Changes in Cash Balances to the Statement of Activities and Net Assets	E	51
Notes to Financial Statements		52-61

Required Supplementary Information:

Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances – Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Funds	63-64
Notes to Required Supplementary Information – Budgetary Reporting	65

Other Supplementary Information:

Schedule

Statement of Cash Receipts, Disbursements and Changes in Cash Balances – Nonmajor Governmental Funds	1	67-68
Statement of Cash Receipts, Disbursements and Changes in Cash Balances – Nonmajor Proprietary Funds	2	69
Schedule of Indebtedness	3	70-71
Bond and Note Maturities	4	72-75
Schedule of Receipts by Source and Disbursements by Function – All Governmental Funds	5	76
Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting		77-78
Schedule of Findings and Questioned Costs		79-80

City Clerk's Report

March 1, 2007

To the Honorable Mayor, Members of the Council, and Citizens of the City of Indianola,

This comprehensive annual financial report consists of management's representations concerning the finances of the City of Indianola. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, management of the City of Indianola has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the City of Indianola's financial statements. Because the cost of internal controls should not outweigh their benefits, the City of Indianola's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The City of Indianola's financial statements have been audited by Shull & Co., a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City of Indianola for the fiscal year ended June 30, 2006 are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the City of Indianola's financial statements for the fiscal year ended June 30, 2006 are fairly presented. The independent auditor's report is presented as the first component of the financial section of this report.

Rules promulgated by the Iowa State Auditor's office require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statement in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The City of Indianola's MD&A can be found immediately following the statistical section of this report.

Profile of the Government

The City of Indianola, incorporated in 1864 and the county seat of Warren County, is located in the central part of the state approximately 17 miles south of the state capital, Des Moines. Indianola is considered part of the Des Moines MSA, one of the top growth areas in the state. The City of Indianola encompasses an area of approximately nine square miles and a population of 14,156. The City of Indianola is empowered to levy a property tax on real properties located within its boundaries. It is also empowered by state statute to extend its corporate limits by annexation, which occurs periodically when deemed appropriate by the governing council.

City council. The City of Indianola operates under a mayor-council form of government. Policy-making and legislative authority are vested in a governing council consisting of the mayor and six other members. The city council is responsible, among other things, for passing ordinances, adopting the budget, appointing commissions and committees, and hiring the government's manager. The government's manager, whose duties are set by local ordinance, is responsible for carrying out the policies of the city council, oversees day-to-day operations, and appoints the employees of the various departments for the governmental functions under the management control of the governing council. The council is elected on a non-partisan basis. Council members serve four-year staggered terms, with three of the members elected every two years. The mayor is elected to serve a four-year term. Four of the council members are elected by districts, or wards, while the mayor and the two remaining council members are elected at large.

The City of Indianola provides a full range of services, including police and fire protection; ambulance service; the construction and maintenance of highways, streets, and other infrastructure; recycling and organic material removal; and recreational activities and cultural events. The City of Indianola also operates a water pollution control (sewer) department as a utility under the management and control of the city council. The city participates in several non-related jointly governed organizations that provide goods or services including the South Central Iowa Landfill Agency, the Central Iowa Regional Transportation Alliance, the Marion/Warren County Drug Task Force, and the Community Athletic Facility.

Board of trustees. The City of Indianola provides electric, water, and telecommunications services as a discretely reported component unit under the management and control of a board of trustees. The board operates these three utilities as Indianola Municipal Utilities (IMU). The authority for management and control of each utility was established by a majority vote of the electorate as provided in the Iowa Code. The trustees are vested with the authorities of the city in relation to these utilities, with the exceptions that the board may not certify taxes to be levied, pass ordinances or amendments, or issue general obligation or special assessment bonds. Real property is held in the name of the city, but the utility board has all the powers and authorities of the city with respect to the acquisition by purchase, condemnation, or otherwise, lease, sale, or other disposition of such property, and the management, control, and operation of the same, subject to provisions of any outstanding obligations which are payable from the revenues of the city utility. Separate funds are maintained for each utility and operating budgets are subject to final approval by the city council. Utility fund balances deemed by the board of trustees to be in excess of the needs of a utility may be transferred to the city's general fund, or other city funds as approved by the city council.

The five trustees are appointed by the mayor and approved by the city council, each serving staggered six-year terms. The board of trustees appoints a general manager to oversee the day-to-day management of the electric, water, and telecommunications utilities. The general manager appoints the employees of each of these utilities, carries out the policies of the board of trustees, and performs other duties as determined by resolution of the board.

Other officials. A director of administrative & community services serves as the chief accounting officer for all city services and submits budget and year-end financial reports required of the city. The position also serves as the appointed city clerk and as such has other custodial and financial duties prescribed in Iowa Code, local ordinances, board resolutions, and by management discretion. An appointed treasurer serves as custodian for all funds. An attorney is also appointed to represent the city, its boards, and its commissions and performs certain functions prescribed in local ordinances and in the Iowa Code.

Budgeting process. The annual budget serves as the foundation for the City of Indianola's financial planning and control. The budget process, in general, is as follows:

- The city council sets its budget objectives and reviews major known factors.
- The city manager and the general manager each submit 5-year capital improvement project budgets to the respective managing authority for review and adoption.

- Departments submit operating budget requests to the city manager or general manager as appropriate.
- The city manager and the general manager compile their respective annual budgets for review. Budgets are prepared by fund (e.g. general), function (e.g. public safety), and department (e.g. police).
- The board of trustees adopts budgets for the electric, water, and telecommunications utilities. These are compiled with governmental services' budgets and that of the sewer utility for presentation to the public in publication form.
- The city council sets and conducts a public hearing on the budget.
- The city council adopts the budget and the budget is filed with the county auditor and the State of Iowa no later than March 15 of each year.

The state of Iowa limits expenditures to the total amount budgeted by function. Expenditures for individual departments or services may exceed those budgeted as long as total expenditures by function are not exceeded. Budget amendments are permitted under provisions similar to the adoption of the original budget. Budget-to-actual comparisons are provided in this report for each individual governmental fund for which an appropriated annual budget has been adopted.

Cash management policies and practices. The city annually reviews and adopts an investment policy outlining the roles and responsibilities in making investments using available cash balances. The clerk and treasurer are jointly responsible for the investment of funds, with oversight by the council and board of trustees.

Cash temporarily idle during the year was invested in bank deposits or money market funds, repurchase agreements, and the Iowa Public Agency Investment Trust. These temporary cash deposits were maintained in stable value investments with a rate of return of 5.25%.

The city invests reserve funds (those not intended to be expended within 365 days) in a portfolio with the assistance of an investment advisement firm. The investment portfolio includes mortgage-backed securities, preferred stock, obligations of the U.S. Treasury or its agencies, and cash held in a public entity money market fund. At fiscal year end, the effective duration of the portfolio is 2.17 years with a current yield of 5.46%. Reported returns may include changes in fair value during the year but do not necessarily represent continuing returns; nor is it always possible to realize changes in fair value, especially in the case of temporary changes for securities the city intends to hold until maturity.

Additional information on the City of Indianola's cash management can be found in notes to the financial statements.

Risk management. The City of Indianola participates in the Iowa Communities Assurance Pool (ICAP), a local government risk-sharing pool with over 500 members throughout the state of Iowa. The city makes annual contributions to ICAP recorded as disbursements from its operating funds for automobile, property, casualty, and liability coverage. The city maintains reserve funds to meet deductibles as they occur. The city also participates as a member of the Iowa Municipal Workers' Compensation Association (IMWCA) and pays premiums to the association on an annual basis from its operating funds. The city purchases boiler and machinery insurance from a private carrier. In addition, the city has an ongoing safety program to monitor its facilities and employees to maintain a safe environment for employees and the public. Additional information on the City of Indianola's risk management activity can be found in notes to the financial statements.

Pension and other post-employment benefits. The City of Indianola provides pension benefits for its employees. With the exception of Police officers, these benefits are provided through a statewide plan managed by the Iowa Public Employees Retirement System. Benefits for police officers are provided through a statewide plan managed by the Municipal Fire & Police Retirement System of Iowa. The City of Indianola has no obligation in connection with employee benefits offered through this plan beyond its periodic payments based

on earned compensation by active employees.

The City of Indianola also provides post-retirement access to its medical insurance plan until age 65 as required under Iowa Code. Retirees contribute an amount equal to the premium amount charged to city departments and active employees on a pay-as-you-go basis.

The City of Indianola maintains a health reimbursement arrangement (HRA) for the benefit of employees. The City of Indianola makes a fixed annual commitment that employees may use to offset premium contributions or cash payments for any medical expense allowed under IRS Code. If the employee does not utilize the full amount provided in the fiscal year, the balance is carried forward to the following year and is available in any future period, including after retirement. Disbursements are paid out of operating funds and not held in trust. They are, however, accounted for in a sub-fund that is separate from other operating funds for budgetary control. Unpaid HRA balances totaled \$79,928 as of June 30, 2006.

Additional information on the City of Indianola's pension arrangements and other post-employment benefits can be found in notes to the financial statements.

Closing

State law requires that all general-purpose local governments publish within nine months of the close of each fiscal year a complete set of financial statements that are audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. As allowed under Iowa Code and administrative rules, the City of Indianola issues its financial statements on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than generally accepted accounting principles (GAAP). Pursuant to these requirements, I hereby issue the comprehensive annual financial report of the City of Indianola for the fiscal year ended June 30, 2006.

Todd Kielkopf
Director of Administrative & Community Services

Acknowledgment to the following staff for their valued assistance in the preparation of this report:

Diana Bowlin, Deputy City Clerk

Staff: Mary Zimmerman, Lola Clatt, Jennifer Dittmer, Vicki Herold, and Lindsey Offenburger

**CITY OF INDIANOLA
CITY OFFICIALS AND BOARD OF TRUSTEES
JUNE 30, 2006**

<u>Name of Official</u>	<u>Official Title</u>	<u>Term Expires December 31</u>	<u>Amount Of Bond</u>
Jerry Kelley	Mayor	2009	50,000
Randy Gathers	Councilperson First Ward	2007	50,000
Shirley Clark	Councilperson Third Ward	2007	50,000
Mark Vickroy	Councilperson At-Large	2007	50,000
Steve Richardson	Councilperson At Large	2009	50,000
Pete Berry	Councilperson Fourth Ward	2009	50,000
Bob Kreamer	Councilperson Second Ward	2009	50,000
Timothy A. Zisoff	City Manager		50,000
Todd Kielkopf	Director of Administrative & Community Services		50,000
RoxAnne Hunerdosse	Human Resource Director		50,000
Diana Bowlin	Deputy City Clerk		50,000
Doug Shull	City Treasurer		50,000
John Hoyman	City Solicitor		50,000

Indianola Municipal Utilities Board of Trustees
Authority: Indianola Code of Ordinances Section 25.02

Bradley K. Butler		2006	50,000
Chris Boone		2007	50,000
David P. Zwanziger	Chairperson	2008	50,000
Gary Ruble		2009	50,000
Pat Reding		2011	50,000
Mark Ramthun	General Manager of Utilities		50,000

All other city employees are bonded under the Allied Insurance Co., "Faithful Performance Blanket Position Bond," #33961 in the amount of \$50,000.

Council Committee
Authority: Indianola Code of Ordinances Section 17.04(6)

Council Study Committee

Pete Berry
Shirley Clark
Randy Gathers
Bob Kreamer
Steve Richardson
Mark Vickroy

CITY BOARD AND COMMISSIONS
JUNE 30, 2006

LIBRARY BOARD

Authority: Indianola Ordinance Chapter 17.3

Term - 6 Years

Meeting: 2nd Tuesday of every month

<u>Name</u>	<u>Term Expires</u>
Dr. Joe Walt	July 1, 2008
Marge Thomas	July 1, 2008
Carolyn Langenwalter	July 1, 2008
Dick Kerr	July 1, 2010
John Liepa	July 1, 2010
Dan Hoffa	July 1, 2010
Mary Jane Cassady	July 1, 2012

PARK AND RECREATION COMMISSION

Authority: Indianola Ordinance No. 520

Term - 3 Years

Meeting: 1st Wednesday of every month

Jim Rundle	January 1, 2007
Nancy Wood	January 1, 2007
Clark Raney	January 1, 2008
Jerry Anderson	January 1, 2008
Eric VanderLinden	January 1, 2009
Tom Schmidt	January 1, 2009

PLANNING AND ZONING COMMISSION

Authority: Indianola Ordinance Chapter 16.2

Term - 5 Years

Meeting: 2nd Tuesday of every month

Dan Wood	February 1, 2007
Keith Welling	February 1, 2007
Pam Pepper	February 1, 2008
Duane Dixon	February 1, 2008
Jeff Jensen	February 1, 2009
Mike Coppess	February 1, 2009
Jennifer Croat	February 1, 2010
Jim Curlee	February 1, 2010
Chad Alley	February 1, 2011
Mary Donaghy	February 1, 2011

**CITY BOARDS AND COMMISSIONS
JUNE 30, 2006**

BOARD OF ADJUSTMENT

Authority: Indianola Ordinance No. 341 - Code of Iowa 414.7

Term - 5 Years

Meeting: 1st Wednesday of month on call

<u>Name</u>	<u>Term Expires</u>
Dennis Parker	December 31, 2006
Doug Dowie	December 31, 2007
Jim Garrett	December 31, 2008
Marty Miller	December 31, 2009
Dan Vanderpool	December 31, 2010

MEMORIAL BUILDING COMMISSION

Authority: Code of Iowa Chapter 37.9

Term - 3 Years - Meeting: On Call

Kurt Lickiss	July 1, 2006
Ron Werling	July 1, 2006
Robert Guilford	July 1, 2007
Bob Sandy	July 1, 2007
Bob Evans	July 1, 2008

CIVIL SERVICE COMMISSION

Authority: Indianola Ordinance No. 378

Term - 4 Years

Meeting: On Call

Wayne Petersen	First Monday in April, 2007
Fred Jones	First Monday in April, 2008
Ken Bendon	First Monday in April, 2010

FINE ARTS & COMMUNITY BEAUTIFICATION COMMISSION

Authority: Indianola Ordinance No. 423

Term - 3 Years

Meeting: 1st Tuesday of every month

Grant Dyer	January 1, 2008
Mary Jones	January 1, 2008
John Benoit	January 1, 2008
Jon Vernon	January 1, 2008
Pat Bunnell Kelley	January 1, 2008
Aaron Tinder	January 1, 2008
Kim Dryer	January 1, 2008
David Richmond	January 1, 2008
Nancy Byrd	January 1, 2009

**CITY BOARDS AND COMMISSIONS
JUNE 30, 2006**

SUBSTANCE ABUSE/RISK BEHAVIOR

Authority: Indianola City Ordinance No. 424

Term - 3 Years

Meeting: 2nd Monday of every month

Peggy Fillio	January 1, 2008
Chris Boone	January 1, 2008
Betsy Raney	January 1, 2008
Mary Donaghy	January 1, 2008
Cindy Baldwin	January 1, 2008
John Monroe	January 1, 2008
Father Palmer	January 1, 2008
John Sirianni	January 1, 2008
Mike Teigland	January 1, 2008
Sheila Schuster	January 1, 2008

YOUTH COMMISSION

Authority: Indianola City Ordinance No. 841

Term - 2 Years

Meeting:

CITY OF INDIANOLA Operational Review

Our City operations are divided into many departments and offices, all of which work toward the common goal of providing superior services to the citizens of Indianola. While the functions of each department may be varied, it is a cooperative effort on everyone's part that enables us to reach this goal. It's not uncommon to see two or more departments working together to solve some problem or complete a project. The Mayor, Council, boards and administrative staff encourage teamwork, and it results in an enhanced quality of life for the citizens of Indianola.

The following summary provides a brief review of the various Departmental operations during the 2005-06 fiscal year.

Public Safety. The major Public Safety activities are police, fire, ambulance services, and building & zoning.

- **Police.** The Police Department answered 6,935 Calls for Service in 2005. This is 1,037 more than calendar year 2004. It appears that 2006 is on a similar pace.

Officer Kurt Kness resigned and Sergeant Keith Moore retired during FY 2005-06. Officer Tom Thompson recently retired as well. New officers are Randall Schultz, Jason Siemens, Richard Peters and Jason Catrenich. Schultz is currently in the law enforcement academy. The other three officers are scheduled to attend winter of 2006-07.

The city council authorized a 19th police officer in the last budget process. However, due to turnover, the position has not been filled. The hiring process is planned to begin January of 2007.

- **Fire & Ambulance.** The Indianola Fire Dept experienced a slight increase in the number of calls we responded to in calendar year 2005. There were four major fires in calendar year 2005 that were over \$15,000 with a total loss for the year at \$289,955. In addition to the regular activities that the full and part-time staff accomplish each day, staff responded to 1,444 fire and EMS alarms. Of the 1,444 alarms, 88 were fires, 45 Haz-mat, 23 public assists, 123 fire/smoke/CO alarms and 8 weather related calls. The remaining 1,157 were EMS calls.

As of January 1, 2006 the department had one full time chief, one full time technician, six full time firefighter/medics, eighteen part-time firefighter/medics, two medic only positions, sixteen paid on call staff (volunteers), two members on leave and six probationary members. Staff coverage continues with full time staff working 24/48 shifts and part-time staff covering Monday-Friday 8-5. The additional staffing through the weekday is due to the shortage of available paid on call (volunteers) and is also when we have a higher call volume.

Training is conducted every Monday night for all fire department staff this constitutes over 4,800 hours of training not including those individuals that attend EMT class. Our volunteers are still the bulk of our staff and put in several hours a week. Not only are they included in the training hours above they also have provided over 2,500 hours in call activities. This equates out to the average volunteer putting in over 160 hours a year in department training and calls.

CITY OF INDIANOLA
Operational Review (Continued)

Public Works. The street department staff members are dedicated to providing excellent service to the citizens of Indianola. The streets department has kept busy by performing its annual street repair, concrete, asphalt, cracksealing and snow plowing. These are the major functions which occupy a substantial amount of time for this department. In addition, several storm sewer intakes were replaced or repaired along with maintaining the hundreds of street and traffic signs throughout the city. Again, this year, we contracted for street sweeping with Speck Enterprises. However, the department will now do this function, as a new street sweeper was purchased in April of 2006.

Culture & Recreation. Parks and Recreation programs, events, parks and facilities continued to be very important to the majority of Indianola residents. Participation and use were at high levels and many opportunities and enhancements were provided to help keep the quality of life at a high level.

- **Recreation Division.** Over 150 classes, programs and events were offered with over 7600 registrations and aquatic center passes processed. Several activities had waiting lists and additional sessions were added to the Mighty Minnows and Daddy/Daughter Date Night. New recreation opportunities offered were Touch-a-Truck, Spring Funfest, Outdoor Big Screen Movies, Mad Science, Junior Police Academy, Tot Splash Swim Time at the aquatic center (over 700 participants), and a Skateboard Demo & Clinic. There were over 300 different senior citizens served at the center each month and they enjoyed many new activities including Chat 'N Chew, brain aerobics, oxygizing, yoga and 24 went on a week long trip to Mackinac Island. To help cover expenses, comprehensive sponsorship opportunities were offered which attracted 23 sponsors (\$8,465). There was also an increase in the number of volunteers who helped with the recreation programs and events. A new mini-van was purchased to haul both people and equipment and the 14 passenger van was re-painted.
- **Parks & Horticulture Division.** The parks and horticulture division had a busy year. The parks were all maintained at a high level, the seasonal horticulture position was extended and over 65 volunteers helped with maintenance, flower care, greenhouse operations and with improvement projects. The parks were again heavily used with over 200 shelter reservations, 9 gazebo uses and 16 weekend uses at the Pickard Park Ballfields in addition to fall and summer disc golf league, and Iowa and a National Disc Golf Pro Tour events, and an open horseshoe pitching tournament. Many improvements were completed including tree trimming and mulching at Buxton Park, South Park sign bed landscaping, 2 new signs with landscape beds at Buxton Park, a new flower bed at the street dept building, Tree Care Workshop with Indianola Community Tree Committee, new display cases at park shelters, portable restroom enclosures at South & Dayton Parks, Easton Park swale cleared (by street dept) graded and seeded, sewer installed at Pickard Park, repaired Moats basketball courts (by street dept), IMU installed 2 new lights at Memorial Park & relocated surveillance camera and picnic table repair and painting.
- **Administration Division.** Once again, there was a lot of staff activity with Kathy Kester being hired at our office operations assistant, JoAnn King hired as our part time receptionist/office assistant and Ava Swartslander hired as our part time adult activities coordinator – all replacing people who left due to retirement, relocation or family reasons.

CITY OF INDIANOLA
Operational Review (Continued)

Other activities were: a new website was re-designed and expanded by Kathy Kester, 24/7 on-line recreation program registrations were started in January, joint program partnerships were started with the Warren County Conservation Board and Indianola Public Library, a parks 100th Anniversary planning committee was formed to prepare for the celebration of 100 years of parks in Indianola and a dog park interest meeting was held. Also completed was a Moats Park Sign visibility and location study and plan and a Memorial Park Rotary Amphitheater renovation plan.

- **Veterans Memorial Aquatic Center.** Attendance was 47,158, up 9½ % over last year. The aquatic center was open 81 of 83 days however closed early 18 days. Concessions were expanded with grilled hamburgers & chicken grilled on site and fresh smoothies also offered. The circulation pump was repaired and a leak at the top of the blue slide. A new tot swim was added in the mornings for pre-schoolers, noon hour lap swim / water walking and swim lessons were well attended.

The following table details the park system:

	<u>Acres</u>
McVay Trial	13.30
South Park	4.47
Barker	1.20
Buxton	5.43
Dayton	1.08
Moats	4.14
Memorial	13.72
Easton Park	2.39
McCord	16.85
Lions	.61
Veterans Memorial Pool	3.50
Willow Creek Totlot	.65
Pickard Park	160.00
Downey Memorial Park	10.62
 Total	 237.96

- **Indianola Public Library.** Circulation for FY 2005-06 was 147,615 items. June 2006 also marked the busiest single month in the Library's history, with 6,239 items checked out. Use of the Library's five public Internet computers continued to grow, with 11,679 people using them. Also popular was the Library's "hot spot", or wireless Internet connection. Counts are not available for this service but more and more people used them. Staff changes included the resignation of one long-time part-time employee, as well as both the Children's Services Librarian and Technical Services Assistant.

CITY OF INDIANOLA
Operational Review (Continued)

Business-type or proprietary. Indianola has four services that are classified as business-type services. The electric, water, and telecommunications departments are a discretely reported component unit. However, given their degree of importance to the overall services received by citizens, this operational review contains information pertaining to these activities in the next section of this report.

- **Water Pollution Control Department.** We have had a large turnover of staffing this year with a new Superintendent and 3 new operators apprentice. We have provided many hours of training and instruction on operation and maintenance of the plant, lift stations, cleaning, televising sanitary and storm sewers.

Pump repairs are the top maintenance issue at the plant and lift stations. We installed one new pump and repaired 5 pumps since April of this year. We still have one pump awaiting repairs. Staff has repaired an estimated 30 cubic yards of sidewalk and driveway concrete at the North Plant.

We ordered the new lift station modems. They will be installed as soon as they arrive.

I&I funding for sewer main and manhole repairs were focused on the street project this year. We are proceeding late this season with the residential I&I inspections due to the very dry summer weather. We have had a wet, late summer, which will allow us to continue testing.

Major projects: The Bio –Solids planning, South Trunk creek stabilization, force main and gravity lines for Highway 65/69 project, start planning a Storm Water Utility, Operator Certification of new employees.

Component Unit, Indianola Municipal Utilities (IMU).

Utility operations are divided into departments, all of which work toward the common goal of providing superior services to the citizens of Indianola. The following summary provides a brief review of the various departmental operations during the 2005-06 fiscal year.

- **Electric Utility.** The IMU electric department had another very busy and productive year with many important projects completed.

The underground conversion program was continued with the completion of the McCord subdivision area in June. Each year we get closer to our goal of a complete underground electric distribution system that will improve reliability, reduce maintenance and improve the overall aesthetics of Indianola. Of the total length of the IMU distribution system of over 95 miles, over 60 miles, or 63%, are currently underground.

Due to the steady and consistent growth patterns and demands for electricity, IMU completed the construction of a 69/13.2kV substation. Located on the west side of Indianola, this substation will provide needed electric service reliability that the citizens of Indianola have come to expect.

CITY OF INDIANOLA
Operational Review (Continued)

The Westside Substation provides three feeder routes to the community and IMU has a contract with MidAmerican Energy for an additional feeder that provides electricity to their customers. This contract therefore provides revenue to IMU which helps offset the cost of the substation and helps keep our rates as low as possible.

Other electric projects included the replacement of a breaker on the Black Start generating engine for turbine #7 and the purchase of air-handling equipment for the E. Iowa substation.

Economic development contributions were made to Soy Innovations, a division of Triple F who moved their business headquarters to the Industrial Park. An incentive package was also provided to Powdered Metal Products, a new business venture locating on Hillcrest Ave. IMU continues to provide assistance to the sanitary sewer utility in the form of lower rates resulting in annual savings of \$24,000. In-kind contributions were made to the Police Department in the form of the installation of a new communications antenna on the Simpson water tower, to Indianola Schools for assistance with their new parking area, to Indianola Buildings Trades Class by waiving building permit fees, to Simpson College for new softball and baseball field lighting and to the Community Athletic Facilities for expansion of the irrigation pond.

The conversion to radio-read meters continued in FY06 with the goal to have all electric meters converted by FY09. This change will improve the accuracy of billing invoices and will make the bills more timely.

The IMU rebate programs continued to increase in popularity with high participation in FY06. Administrative Assistant Chris Longer manages the programs and reports the most popular requests are for attic insulation rebates and central air conditioner rebates. IMU's use of Chamber Bucks as rebate compensation for the programs also helps improve the local economy.

IMU completed a contract for wholesale electricity beginning in January, 2007. The provider will be the Municipal Energy Agency of Nebraska (MEAN). The MEAN contract extends through 2016 and includes the sale of IMU generation capacity to MEAN. IMU joins 68 other municipal electric utilities in Iowa, Nebraska, Colorado, Wyoming and South Dakota in a joint action agency with our goal to provide excellent, reliable, low cost electric service to our citizens.

IMU received a Platinum Award as a Reliable Public Power Provider (RP3) from the American Public Power Association. Only four Iowa municipal utilities were awarded an RP3 designation. The RP3 recognizes the efforts of IMU in four areas, training programs, safety awareness, overall system improvements and service reliability. RP3 is a performance benchmark with other comparable municipal utilities and, as a Platinum designee, it also is a celebration of our success.

CITY OF INDIANOLA
Operational Review (Continued)

- **Water Utility.** The IMU water department had a very busy year, starting with the installation of a new 12” water main on Highway 65/69 south of Plainview to 17th Ave. This new main now provides a second pumping route for water to be transferred from the treatment plant to the storage towers. With the growing demand for water in Indianola, it is imperative that IMU also expand its water infrastructure to become more reliable and responsive to our citizens.

A second water main project was completed on Ashland Ave. from N. 1st St. to Buxton St. This new main replaced a 100-year-old main and provided increased water flows to the downtown business district.

The water department removed a long-standing community fixture, the 75-year-old downtown water tower. This tower was in need of extensive repair and it was decided it would be more efficient to replace it. The property that the tower stood on for all those years will now be home to a new Family Video business.

The water department employees constructed a new altitude valve building at the Simpson tower site. This new structure will house equipment designed to better manage and control the water level in the towers. All five employees were presented with Merit Awards for this project.

Security improvements to the treatment plant, well sites and water towers continue to be a high priority. This effort will continue until we are satisfied we have done all we can to protect this precious resource.

The conversion to radio-read meters continued in FY06 with the goal to have all water meters converted by FY09. This change will improve the accuracy of billing invoices and will make the bills more timely.

The water department donated over 4.4 million gallons of water to the Community Athletic Facilities irrigation, helping improve the facilities of little league baseball, parks & recreation programs, the soccer tribe and the lower grades football program.

The annual Water Quality Report was again distributed to all residents of Indianola to provide information related to our water source, water quality and treatment methods. The IMU water department is again pleased to report there were no monitoring violations to EPA guidelines.

- **Communications Utility.** The IMU communications department had an exciting and productive year. IMU completed a partnership with the Mahaska Communications Group (MCG) and a group of local investors (ICG) to improve and enhance the capability of the existing fiber system so every Indianola citizen can have access to advanced communications.

The focus in FY06 was to work with MCG in Phase I to bring a bundled package of high-speed Internet and telephone services to businesses adjacent to the existing IMU fiber network. Over 30 businesses are currently MCG customers via the IMU fiber.

CITY OF INDIANOLA
Operational Review (Continued)

Phase II is planned to begin in 2009 by bringing a bundled package of high-speed Internet, cable television service and telephone services to each home and business through an expanded fiber optic network. The end result would be significant saving opportunities to Indianola citizens and businesses. And long term, we expect the new partnership to greatly enhance economic development options by being able to offer fiber-to-the-premise (FTTP) technology.

Finally, IMU will continue to explore the option of providing an Internet service to the rest of Warren County. With possible connections to other fiber optic trunk lines, we will be able to reach many more potential customers, including Norwalk and Carlisle, who may have limited Internet options in the rural areas. The Mahaska Community Development Group was awarded a \$75,000 grant from the Iowa Department of Economic Development to develop a partnership between Mahaska Communications Group, the Indianola Communications Agency, and economic development efforts in Pella.

The long-term goal is to develop a three-county coalition that directly links Indianola to Knoxville, Pella, and Oskaloosa via a privately owned fiber optic trunk line. This would also lead to cooperative venture capital funding and technology marketing efforts. The grant was awarded under a program that is designed to spur regional economic development initiatives. The next steps will be for all parties to determine how the coalition will function. The \$75,000 will help build the Oskaloosa to Pella trunk line, but the ICA will be involved in the future direction of the group.

- **Administration.** The IMU Board of Trustees continues to be very supportive of their employees, encouraging involvement in community service and economic development activities. The Board is active in the legislative process that involves decisions that could affect municipal utilities. Board member Dave Zwanziger and General Manager Mark Ramthun traveled to Washington, D.C. in February to participate in the APPA Legislative Rally and meet with members of the Iowa legislative delegation to discuss these important issues, including transmission access, environmental regulations and power supply options.

The IMU Board of Trustees and all employees of IMU participated in and completed training in the National Incident Management System (NIMS). NIMS training was provided by Fire Chief Brian Seymour and is designed to make Indianola more capable and efficient when responding to an emergency situation.

Local participation in FY06 ranged from sponsoring musical events to providing free electric and water services to community parks. IMU also actively participates in the work of the Warren County Economic Development Corp., the Indianola Alliance and the Greater Des Moines Partnership. New participation efforts included support to Habitat for Humanities for the construction of a new home, to the Downtown Lighting Commission by installing Christmas lights around the tops of the downtown square buildings and participation in the United Way Day of Caring by IMU employees.

CITY OF INDIANOLA
Operational Review (Continued)

IMU welcomed new Board members Patrick Reding and Chris Boone in January, 2006. Pat replaces Shelley Lucas who completed her six-year term and Chris fills the unexpired term of Ray Walton who took a new job in Chicago. Staff changes saw Mike Metcalf hired as the new Technical Services Supervisor. Mike moves from his Electric Crew Chief to this position and will work to improve the safety training programs and meter reading/maintenance department.

Finally, through the efforts of the IMU employees, the Labor/Management Committee continued to improve the working conditions between both union and management employees and to build a more trusting relationship. Initiatives included meetings between Board members and employees, employee attendance at Board meetings and monthly staff meetings with all employees.

General Government. The City of Indianola supports a proactive stance towards economic development, enhancing the local economy, and promoting efficiency. Major programs and events are:

- Continuation of a citywide residential urban revitalization (tax abatement) program that began in February 1998 has encouraged development and continues to strengthen the tax base.
- An aggressive schedule of improvements to infrastructure and facilities including sewer main extensions along highway corridors.
- Purchase and sale of real estate for redevelopment under the Dangerous & Dilapidated building program.
- Removal of storm water from entering the sanitary sewer system (I&I program). The council began the process of identifying areas where problems exist. Property owners are given 3 years to remedy the situation. The entire community will benefit through decreased operation & maintenance expenses, decreased capital expenses, and increased sewer plant capacity.
- Completion of a Comprehensive Plan Update in 2003. This document helps guide city zoning, annexation, and infrastructure planning.
- Financial support for Warren County Economic Development Corporation and the Indianola Alliance.
- Creation of an Action Community Team, comprised of community leaders and city staff, to facilitate economic activity at sites that are poised to develop.

City staff takes a proactive role in communicating community events with staff and citizens. The Government Access Channel, established in January, 1995, provides agendas, schedules, public safety and promotional information for government sponsored programs. Meetings are broadcast to cable subscribers and re-broadcast throughout the week. The City of Indianola also regularly invests resources to enhance communications through its web sites. Programming information, links to other community resources, and minutes of meetings are available to interested citizens. Utility payments, parking tickets, and certain fees are payable online.

Departments have learned to utilize electronic information systems to improve services. Each building is connected by a high-speed data network over fiber optic lines. Internet access and e-mail systems are also shared. In addition, the City Clerk's Office has a document imaging system to improve the retrieval of information.

CITY OF INDIANOLA
Operational Review (Continued)

The following table summarizes the activities of the Clerk's Office (calendar years):

Permits/ Licenses

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Water	88	51	75	93	81	152	82
Plumbing	106	88	34	127	133	118	93
Electric	128	145	124	174	147	150	118
Mechanical	102	94	89	135	136	135	102
Sewer	88	51	75	93	80	157	84
Warrants Written	8,898	6,981	7,117	7,973	8,812	9,041	9,145
Ordinance Adopted	22	25	32	22	31	36	39
Cigarette	22	24	24	23	22	23	20
Bicycle	47	79	99	25	20	54	19
Beer	16	15	15	15	16	16	14
Beer- Liquor	13	16	16	16	15	15	15
Sunday Beer & Liquor	28	31	31	31	29	30	29
Beer-Wine	3	3	3	3	2	2	2

Internal Service. The City of Indianola maintains a fund for employees' health insurance with premiums paid from each departmental fund. Premiums are targeted at 75% of maximum cost exposure. Reserves are targeted at 25% of annual claims plus 2 times the difference between expected claims and maximum costs.

CITY OF INDIANOLA
Statistical Section

To compliment the financial review of the City of Indianola, the following statistical tables are attached. Below you will find a list of tables with some explanatory information:

Government-wide expenditures. These are the cash-based expenditures for the past 10 fiscal years. The State of Iowa City Finance Committee adopted new functional group classifications in FY 2003. The historical expenses are not a formal restatement, but they do approximate the “best fit” as determined by management. Capital projects are expensed in the function in which they occur, not solely in capital projects funds.

Government revenues by source. These are the sources of revenue for the non-proprietary activities of the City of Indianola.

Tax collection trend. This table shows how effective Warren County collects the property taxes levied by the City of Indianola.

Overlapping rates. This table lists the property tax rates of the taxing authorities that govern the citizens within the City of Indianola. Agricultural land within cities is taxed at a different rate than other types of property.

100% valuations. These are the approximate market values of the different types of property within the City of Indianola. The Operating Levy Total and Debt Levy Total do not contain Agricultural property values, since these values are taxed at a different rate. The Debt Capacity Total does contain the Agricultural property value.

Taxable valuations. These are the property values that are subject to the property tax levies.

Debt margin. Iowa Code limits cities’ General Obligation debt to 5% of the total valuation of property. This table shows the amount of debt outstanding subject to this limitation and the capacity of the City of Indianola to assume more debt.

Overlapping debt. This calculation shows the debt burden for the citizens of the City of Indianola from all issuers of debt.

Building permits. This table shows the trend of new construction in the City of Indianola, the number of new housing units, and the amount of commercial or industrial construction.

Demographics. This is an attempt to show the growth of the community, its level of prosperity, and economic conditions over various historical periods.

CITY OF INDIANOLA
Statistical Section (Continued)

History of Government-Wide Expenditures

Fiscal Year	Public Safety	Public Works	Health & Social Services	Culture & Recreation	Community Economic Development	General Government (Adm.)	Debt Service	Capital Projects	(Business-type) Enterprises	Total
1997	1,896,240	1,347,257	-	2,783,478	16,605	959,370	713,276	51,816	10,973,261	18,741,303
1998	1,746,987	1,310,066	-	1,354,744	15,823	921,845	633,663	31,638	8,579,825	14,594,591
1999	1,944,577	1,586,263	-	1,304,959	212,500	998,672	643,565	29,434	8,860,345	15,580,315
2000	2,431,959	1,848,147	-	1,980,578	18,166	1,058,922	636,068	37,359	15,666,478	23,677,677
2001	2,116,202	3,081,981	-	1,440,579	270,202	1,050,084	1,187,310	501,406	14,021,293	23,669,057
2002	2,113,988	1,143,680	-	1,646,318	50,452	1,130,305	1,780,166	778,955	12,187,645	20,831,509
2003 *	2,424,530	1,205,650	-	1,810,745	121,353	789,787	1,547,691	224,080	9,045,729	17,169,565
2004	2,575,157	1,236,314	-	1,681,481	109,684	838,593	1,412,173	194,328	12,433,507	20,481,237
2005	3,064,420	1,159,047	-	1,661,909	90,030	931,371	1,538,643	1,790,458	12,716,343	22,952,221
2006	3,098,730	1,338,627	-	1,937,224	65,386	972,894	1,623,792	958,781	16,858,260	26,853,694

Notes:

Transfers not included as expenditures.

*Change in functional classifications by the State of Iowa City Finance Committee beginning FY 2003. Prior years are grouped into the new functional classifications in a consistent manner, but are not intended to be a complete restatement of prior periods.

CITY OF INDIANOLA
Statistical Section (Continued)

Governmental Revenues by Source

Fiscal Year	Taxes	Licenses & Permits	Intergov.	Charges for Svcs.	Fines	Investment Earnings	Special Assess.	Misc.*	Total
1997	2,371,369	158,864	1,416,642	563,658	31,820	290,545	116,455	574,346	5,523,699
1998	2,364,714	74,723	1,712,399	652,652	39,439	199,447	110,958	560,827	5,715,159
1999	2,845,349	112,526	1,542,323	660,269	41,533	235,531	169,708	726,446	6,333,685
2000	2,917,226	146,916	1,417,969	739,341	31,437	231,978	156,277	394,700	6,035,844
2001	3,020,552	108,624	2,199,411	610,213	23,944	332,089	306,511	647,037	7,248,381
2002	3,148,521	146,721	1,580,449	749,041	16,837	261,776	198,685	604,544	6,706,574
2003	3,530,885	153,366	1,689,238	740,181	28,524	196,635	140,938	772,486	7,252,253
2004	3,880,373	209,890	1,540,566	720,225	78,004	160,430	101,884	1,002,420	7,693,792
2005	4,269,106	194,540	2,082,365	765,904	100,226	161,169	310,620	940,741	8,824,671
2006	4,549,048	163,875	1,366,839	897,130	115,328	163,875	148,054	1,226,974	8,631,123

* Excludes self-insurance pool (classified as business-type internal service fund beginning in 2003), proceeds from fixed asset sales, and issuance of debt. Includes transfers in for utility payment in lieu of taxes and administrative office cost allocations.

Tax Revenues By Source

Fiscal Year	Property	TIF	Franchise Fees	Hotel/Motel	Total
1997	2,312,046	2,978	17,095	39,250	2,371,369
1998	2,358,078	(47,349)	8,647	45,338	2,364,714
1999	2,690,422	86,603	20,650	47,674	2,845,349
2000	2,821,057	3,445	40,538	52,186	2,917,226
2001	2,779,424	145,087	44,407	51,634	3,020,552
2002	2,957,680	85,525	59,910	45,406	3,148,521
2003	3,337,492	101,614	46,272	45,507	3,530,885
2004	3,657,046	104,611	55,079	63,637	3,880,373
2005	3,953,157	188,396	55,505	72,048	4,269,106
2006	4,193,386	242,399	54,120	59,143	4,549,048

CITY OF INDIANOLA
Statistical Section (Continued)

Tax Collection Trend

(Collection) Fiscal Year	Total Levied	Amount Collected*	% Collected
1997	2,350,800	2,312,046	98.4%
1998	2,366,000	2,358,078	99.7%
1999	2,708,900	2,690,422	99.3%
2000	2,799,300	2,821,057	100.8%
2001	2,693,500	2,779,424	103.2%
2002	3,091,500	2,957,680	95.7%
2003	3,332,300	3,337,492	100.2%
2004	3,664,800	3,657,046	99.8%
2005	3,921,085	3,953,157	100.8%
2006	4,186,938	4,193,386	100.2%

*includes delinquent taxes, if any

**CITY OF INDIANOLA
Statistical Section (Continued)**

**Property Tax Rates
Direct & Overlapping Governments
Milliage Rate per \$1,000 Taxable Valuation**

Fiscal Year	City of Indianola				County			School District			Other	Total
	Operating	Benefits & Ins.	Debt Service	Total	Operating	Debt Service	Total	Operating	Debt Service	Total		
1997	8.06	-	2.83	10.89	n/a	n/a	6.21	\$ 17.53	\$ 3.88	21.41	0.41	38.92
1998	8.07	-	2.68	10.75	n/a	n/a	6.01	16.53	3.77	20.30	0.74	37.80
1999	8.10	1.16	2.10	11.36	n/a	n/a	6.25	16.14	3.55	19.69	1.27	38.57
2000	8.33	-	2.87	11.20	n/a	n/a	6.11	15.68	3.39	19.07	1.11	37.49
2001	8.10	0.54	2.86	11.50	5.35	0.46	5.81	15.83	3.25	19.08	1.26	37.65
2002	8.05	-	2.44	10.49	4.70	0.39	5.09	15.98	2.82	18.80	1.04	35.42
2003	8.10	0.93	2.02	11.05	4.86	0.37	5.23	14.94	3.86	18.80	1.13	36.21
2004	8.10	1.35	2.20	11.65	4.92	0.32	5.24	15.25	3.55	18.80	1.00	36.69
2005	8.10	1.38	2.17	11.65	5.66	0.36	6.02	15.02	3.38	18.40	1.06	37.13
2006	8.10	1.70	2.10	11.90	5.69	0.34	6.03	15.53	2.87	18.40	1.11	37.44

Ag Land

1997	3.00
1998	3.00
1999	3.00
2000	3.00
2001	3.00
2002	3.00
2003	3.00
2004	3.00
2005	3.00
2006	3.00

CITY OF INDIANOLA
Statistical Section (Continued)

100% Valuations

Fiscal Year	Residential	Ag/Bldgs	Commercial	Industrial	Personal Property	Rail & Utilities*	Gross Valuation	Exemptions	Total Valuation
1997	n/a	n/a	n/a	n/a	n/a	n/a	316,747,630	n/a	316,747,630
1998	n/a	n/a	n/a	n/a	n/a	n/a	325,737,282	n/a	325,737,282
1999	n/a	n/a	n/a	n/a	n/a	n/a	368,757,782	n/a	368,757,782
2000	n/a	n/a	n/a	n/a	n/a	n/a	376,538,776	n/a	376,538,776
2001	292,212,391	1,468,400	77,461,447	4,227,482	1,004,845	4,717,238	381,091,803	1,456,598	379,635,205
2002	342,298,806	1,419,226	92,184,406	5,323,634	582,416	4,706,240	446,514,728	1,438,078	445,076,650
2003	384,530,899	1,435,150	95,621,564	5,098,469	211,684	5,103,604	492,001,370	1,453,503	490,547,867
2004	395,938,322	1,534,675	100,904,039	5,109,575	-	5,508,783	508,995,394	1,476,970	507,518,424
2005	445,274,397	1,035,300	114,196,095	5,004,142	-	5,063,217	570,573,151	1,464,932	569,108,219
2006	461,811,540	1,044,700	123,584,680	9,514,780	-	5,266,201	601,221,901	1,415,928	599,805,973

*includes gas & electric valuations at rates levied by the State of Iowa

	Operating Levy Total	TIF District Valuations	Debt Levy Total	Debt Capacity Total
1997	313,210,563	3,537,067	316,747,630	320,284,697
1998	321,982,793	3,754,489	325,737,282	329,491,771
1999	365,858,958	2,898,824	368,757,782	371,656,606
2000	374,216,746	2,322,030	376,538,776	378,860,806
2001	377,255,205	2,380,000	379,635,205	383,471,803
2002	441,553,147	3,523,503	445,076,650	450,038,231
2003	487,024,364	3,523,503	490,547,867	495,524,873
2004	504,168,507	3,349,917	507,518,424	512,345,311
2005	561,739,050	7,369,169	569,108,219	577,942,320
2006	591,695,566	8,110,407	599,805,973	609,332,308

**CITY OF INDIANOLA
Statistical Section (Continued)**

Taxable Valuations

Fiscal Year	Residential	Ag/Bldgs	Commercial	Industrial	Personal Property	Rail & Utilities*	Gross Valuation	Exemptions	Total Valuation
1997	n/a	n/a	n/a	n/a	n/a	n/a	214,176,744	n/a	214,176,744
1998	n/a	n/a	n/a	n/a	n/a	n/a	220,349,458	n/a	220,349,458
1999	n/a	n/a	n/a	n/a	n/a	n/a	238,922,170	n/a	238,922,170
2000	161,764,606	1,373,771	77,255,710	4,602,126	1,548,802	5,342,038	251,887,053	1,452,894	250,434,159
2001	160,285,703	1,414,646	76,511,148	4,227,482	1,004,845	4,715,730	248,159,554	1,456,598	246,702,956
2002	192,598,008	1,430,100	92,184,406	5,323,634	582,416	4,706,240	296,824,804	1,438,078	295,386,726
2003	198,645,718	1,435,150	93,470,399	5,098,469	211,684	5,103,604	303,965,024	1,453,503	302,511,521
2004	203,460,846	1,534,675	100,904,039	5,109,575	-	5,508,783	316,517,918	1,476,970	315,040,948
2005	215,594,811	1,035,300	113,325,316	5,004,142	-	5,009,405	339,968,974	1,464,932	338,504,042
2006	221,243,341	1,044,700	120,608,343	4,641,582	-	5,065,357	352,603,323	1,415,928	351,187,395

*includes gas & electric valuations at rates levied by the State of Iowa

**military

	Operating Levy Total	TIF District Valuation	Debt Levy Total	100% Valuation Total	Ratio of Taxable to 100%
1997	214,176,744	3,537,067	217,713,811	316,747,630	68.7%
1998	220,349,458	3,754,489	224,103,947	325,737,282	68.8%
1999	238,922,170	2,898,824	241,820,994	368,757,782	65.6%
2000	249,060,388	2,322,030	251,382,418	376,538,776	66.8%
2001	245,288,310	2,380,000	247,668,310	379,635,205	65.2%
2002	293,956,626	3,523,503	297,480,129	445,076,650	66.8%
2003	301,076,371	3,523,503	304,599,874	490,547,867	62.1%
2004	313,506,273	3,349,917	316,856,190	507,518,424	62.4%
2005	337,468,742	7,369,169	344,837,911	569,108,219	60.6%
2006	350,142,695	8,110,407	358,253,102	599,805,973	59.7%

CITY OF INDIANOLA
Statistical Section (Continued)

Computation of Legal Debt Margin

Fiscal Year	5% of Debt Capacity Valuation	Less: Outstanding G.O. Debt	Legal Debt Margin	Debt Capacity Used
1997	16,014,235	4,785,000	11,229,235	29.9%
1998	16,474,589	5,125,000	11,349,589	31.1%
1999	18,582,830	4,475,000	14,107,830	24.1%
2000	18,943,040	7,275,000	11,668,040	38.4%
2001	19,173,590	5,925,000	13,248,590	30.9%
2002	22,501,912	7,995,000	14,506,912	35.5%
2003	24,776,244	7,016,000	17,760,244	28.3%
2004	25,617,266	8,331,000	17,286,266	32.5%
2005	28,897,116	8,940,000	19,957,116	30.9%
2006	30,466,615	13,018,000	17,448,615	42.7%

CITY OF INDIANOLA
Statistical Section (Continued)

Computation of Direct and Overlapping Debt
General Obligation Bonds
June 30, 2006

	Jurisdiction	G.O. Debt Outstanding	% Applicable to Government	Amount Applicable to Government
Direct:	City of Indianola	\$ 13,018,000	100.00%	\$ 13,018,000
Indirect:	Warren County**	\$ 2,265,000	27.96%	\$ 633,294
	Indianola Community Schools**	\$ 18,410,000	64.75%	\$ 11,920,475
	Des Moines Area Community College* **	\$ 3,395,000	1.32%	\$ 44,814
	Total	<u>\$ 37,088,000</u>		<u>\$ 25,571,769</u>
Population				14,156
Amount Per Capita				\$ 1,806

*Excludes certificates issued for education and training for workers for new or expanding industry where revenues from the respective projects self-support annual debt service.

**Indirect computations are as of June 30, 2005

CITY OF INDIANOLA
Statistical Section (Continued)

Building Permit Trends

Calendar Year	Construction Value of new		Construction Value of			Total Residential Construction	Total No. of Units	Construction Value of Alterations & Additions	No. of Permits	Total Residential Construction Value
	Single Family Dwellings	No. of Permits	Multi-Family Dwellings	No. of Permits	No. of Units					
1997	390,226	4	-	0	0	390,226	4	303,637	89	693,863
1998	4,716,113	38	1,223,986	5	14	5,940,099	52	796,325	88	6,736,424
1999	11,261,262	79	3,122,806	9	54	14,384,068	133	1,063,943	93	15,448,011
2000	7,141,034	44	2,621,300	7	18	9,762,334	62	1,255,154	119	11,017,488
2001	10,279,579	69	1,150,072	4	8	11,429,651	77	1,251,575	135	12,681,226
2002	10,832,832	77	1,954,846	7	18	12,787,678	95	958,460	105	13,746,138
2003	10,622,051	66	2,345,779	5	11	12,967,830	77	1,582,908	93	14,550,738
2004	13,307,271	77	7,025,148	12	36	20,332,419	113	985,626	78	21,318,045
2005	10,029,458	70	1,956,509	7	14	11,985,967	84	826,263	82	12,812,230
2006	12,603,520	71	5,847,400	12	27	18,450,920	98	539,100	66	18,990,020

Calendar Year	Construction Value of Commercial/Industrial		Construction Value of Non-taxable Construction		Total Construction Value of new Construction	Total No. of Permits
	Commercial/Industrial	No. of Permits	Non-taxable Construction	No. of Permits		
1997	2,818,789	25	-	0	3,512,652	118
1998	2,560,111	24	4,625,000	2	13,921,535	157
1999	10,499,960	32	-	0	25,947,971	213
2000	4,509,895	35	7,000,000	1	22,527,383	206
2001	2,713,484	17	-	0	15,394,710	225
2002	5,578,320	25	2,556,347	1	21,880,805	215
2003	5,516,469	25	3,714,345	2	23,781,552	191
2004	6,908,368	23	6,090,500	2	34,316,913	192
2005	3,876,148	31	1,325,200	1	18,013,578	191
2006	4,788,835	37	2,293,717	2	26,072,572	188

CITY OF INDIANOLA
Statistical Section (Continued)

Demographic Information

Trends:	<u>Calendar Year</u>	<u>Estimated Population</u>	<u>Warren County Unemployment</u>
	1995	12,103	2.3%
	1996	12,334	2.3%
	1997	12,628	2.1%
	1998	12,781	2.0%
	1999	12,865	2.3%
	2000	13,020	1.9%
	2001	12,946	2.3%
	2002	13,036	3.0%
	2003	13,205	3.5%
	2004	13,714	3.9%
History:		<u>Official Population</u>	<u>Median Family Income</u>
	1930	3,488	
	1940	4,100	
	1950	5,145	
	1960	7,062	
	1970	8,976	
	1975	Special	9,611
	1980	10,843	
	1990	11,340	\$ 34,684
	1995	Special	12,339
	2000	12,998	\$ 52,235
	2004	Annexation	13,044
	2005	Special	14,156

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Members of the City Council:

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

We conducted our audit in accordance with generally accepted auditing standards of the United States of America and the standards applicable to financial audits contained in, Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, each major fund and the aggregate remaining fund information of the City of Indianola 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 October 14, 2005 on our consideration of the City of Indianola'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 31 through 39 and 63 through 65 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 conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Indianola'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 four years ended June 30, 2005 (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 5 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

October 25, 2006

CITY OF INDIANOLA
Management Discussion and Analysis (MD&A)

The City of Indianola offers readers of the City of Indianola's financial statements this narrative overview and analysis of the financial activities of the City of Indianola for the fiscal year ended June 30, 2006. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found in this report.

2006 Financial Highlights

- The City of Indianola has an ending cash balance of \$15,022,291 to meet the government's ongoing obligations to citizens and creditors. Of this, \$9,498,286 is under the direct management and control of the primary government with \$8,513,692 for governmental activities and \$984,594 for business-type activities. The remaining \$5,524,005 from the component unit, Indianola Municipal Utilities.
- Total cash balances increased \$3,890,078 for the primary government and decreased \$2,332,487 for the component unit, for a total increase of \$1,557,591. The primary reason for this increase in primary government cash balances over the prior year was \$3,589,080 in unspent bond proceeds that is reserved for capital projects. The primary reason for the decrease in cash balances for the component unit was a completion of capital projects totaling \$2,933,322 net of debt issued for those projects.
- At the end of the fiscal year, the unrestricted cash balance for governmental activities was \$2,059,234 or 21% of governmental activities' total disbursements.
- The primary government's total debt increased by \$5.085 million during the fiscal year. This is due to issuing General Obligation bonds for street and sewer construction projects. A portion (27%) of this will be repaid using Tax Increment Financing revenues.

Using this Annual Report

The annual report consists of a series of financial statements as well as other requirements as follows:

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

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

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

CITY OF INDIANOLA
Management Discussion and Analysis (MD&A) (Continued)

Notes to the Financial Statements provide additional information that is 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. In addition, the Schedule of Expenditures of Federal Awards provides details of various federal programs benefiting the City.

Reporting the City's Financial Activities

Basis of accounting. The City of Indianola maintains its financial records on the basis of cash receipts and disbursements and the financial statements presented in this report 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.

Government-wide Financial Statement. The Combined Statement of Cash Transactions presents information on all of the City of Indianola's cash balances. Over time, increases or decreases in balances may serve as a useful indicator of whether the financial position of the City of Indianola is improving or deteriorating. This statement details how cash balances changed during the most recent fiscal year.

This statement distinguishes functions of the City of Indianola that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business type 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 taxes, charges for service, state and federal allocations and grants, and special assessments finance most of these activities.

Business type activities of the City include both internal service funds and sanitary sewer system funds.

The component unit of the City of Indianola is the combined transactions of the electric, water, and telecommunications utilities. Separate financial statements are issued for these activities under the report of Indianola Municipal Utilities.

CITY OF INDIANOLA
Management Discussion and Analysis (MD&A) (Continued)

Fund Financial Statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The fund financial statements provide detailed information about individual, significant funds; not the City as a whole. Some funds are required to be established in Iowa Code and by bond covenants. The City of Indianola has established other funds to help it control and manage financial resources for particular purposes. The city has two types of funds:

1. Governmental funds account for most of the City of Indianola's basic services. They focus on how money flows into and out of the funds and the balances at year-end that are available for spending. Governmental funds include: 1) the General Fund, 2) Special Revenue Funds, 3) the Debt Service Fund, and 4) Capital Projects Funds. The Statement of Cash Receipts, Disbursements and Changes in Cash Balances - Governmental Funds 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 services.
2. Business type funds account for the City of Indianola's Enterprise Funds and Internal Services Funds. As shown on the Statement of Cash Receipts, Disbursements and Changes in Cash Balances – Proprietary Funds, Enterprise funds are maintained for the sanitary sewer funds. Internal Service Funds are an accounting device used to accumulate and allocate costs internally among various functions. The City of Indianola uses Internal Service Funds to account for employee group health & short-term disability insurance and property & liability deductibles.

Financial Analysis

The following condensed financial information serves as summarized financial data and indicators for management, monitoring, and planning.

Net assets. As shown on the following page, unrestricted net assets on a cash basis totaled \$2,969,926 for the primary government. These net assets exclude those of the component unit, which are under the management and control of a board of trustees.

CITY OF INDIANOLA
Management Discussion and Analysis (MD&A) (Continued)

City of Indianola's Net Assets (Cash Basis)

	<u>2006</u>	<u>2005</u>	<u>Change</u>
Governmental Activities			
Restricted	\$ 6,454,458	\$ 3,078,733	\$ 3,375,725
Unrestricted	2,059,234	1,787,115	\$ 272,119
Business Type Activities			
Restricted	73,902	73,902	\$ --
Unrestricted	910,692	668,458	\$ 242,234
Total Primary Government			
Restricted	6,528,360	3,152,635	\$ 3,375,725
Unrestricted	2,969,926	2,455,573	\$ 514,353
Component Unit			
Restricted	473,538	466,220	\$ 7,318
Unrestricted	5,050,467	7,390,272	\$(2,339,805)

Governmental funds. Governmental funds ended the fiscal year with \$7,966,042 in cash basis fund balances, an increase of \$3,396,639 over the prior year. Unspent bond proceeds, which were used for capital projects in FY 2007, accounted for \$3,561,354 of that increase. Therefore, all other governmental funds combined for a decrease in cash basis fund balances of \$164,715.

The largest portion of that decrease was \$108,287 in the Debt Service Fund for the payment of paving project debt service where the assessment revenue will be repaid over the next 10 years. The debt service fund also includes amount held in escrow for an advance refunding of \$802,273 of General Obligation bonds that were called on June 1, 2006 but funds not disbursed until July, 2007.

The decrease of \$91,116 in the Road Use Tax Fund was due to planned equipment purchases. The table on the following page summarizes changes in net assets.

CITY OF INDIANOLA
Management Discussion and Analysis (MD&A) (Continued)

City of Indianola's Changes in Net Assets
Governmental Funds

	<u>2006</u>	<u>2005</u>
Receipts		
Property tax	\$ 4,193,385	\$ 3,953,158
Tax increment financing collections	242,398	188,396
Other city tax	113,263	127,553
Licenses and permits	163,875	194,540
Use of money and property	198,498	177,341
Intergovernmental	1,366,839	2,082,365
Charges for service	897,130	765,904
Special assessments	148,054	310,621
Miscellaneous	410,502	243,665
Total Receipts	<u>\$ 8,043,543</u>	<u>\$ 8,043,543</u>
Disbursements		
Public safety	\$ 3,098,731	\$ 3,064,421
Public works	1,338,626	1,159,048
Culture and recreation	1,933,962	1,661,909
Community and economic development	65,386	90,030
General government	972,894	931,372
Debt service	1,623,791	1,562,645
Capital projects	962,040	1,790,459
Total disbursements	<u>\$ 9,995,430</u>	<u>\$ 10,259,884</u>
Other financing sources (uses)		
Bond proceeds	\$ 5,044,948	\$ 1,785,542
Sale of capital assets	66,215	62,450
Operating transfers in (out)	546,962	264,818
Total other financing sources (uses)	<u>\$ 5,658,125</u>	<u>\$ 2,112,810</u>
Net change in cash balances	\$ 3,396,639	\$ (103,531)
Cash balances, beginning of year	<u>\$ 4,569,403</u>	<u>\$ 4,672,934</u>
Cash balances, end of year	<u><u>\$ 7,966,042</u></u>	<u><u>\$ 4,569,403</u></u>

Business type funds. Business type funds ended the fiscal year with \$1,989,894 in cash basis fund balances, an increase \$588,572 over the prior year. The \$206,427 increase in the Sewer Enterprise Fund was primarily due to net transfers from the Tax Increment Financing Fund that will be used for sewer revenue debt service in the future. The increase of \$382,145 in the Internal Service Funds was primarily from favorable performance in the self-insured health plan fund (premiums charged to departments was more than actual expenses)

CITY OF INDIANOLA
Management Discussion and Analysis (MD&A) (Continued)

Sources and uses of funds. The following table summarizes how the operations of the city were financed and the programs in which they were expended.

	<u>2006</u>	<u>2005</u>
Receipts		
Property tax	54%	49%
Tax increment financing collections	3%	2%
Other city tax	1%	2%
Licenses and permits	2%	2%
Use of money and property	3%	2%
Intergovernmental	18%	26%
Charges for service	12%	10%
Special assessments	2%	4%
Miscellaneous	5%	3%
Total Receipts	<u>100%</u>	<u>100%</u>
Disbursements		
Public safety	31%	31%
Public works	13%	11%
Culture and recreation	19%	16%
Community and economic development	1%	1%
General government	10%	9%
Debt service	16%	15%
Capital projects	10%	17%
Total disbursements	<u>100%</u>	<u>100%</u>

Property taxes rose due to a reduction in other sources, not due to a dramatic increase in tax rates. Intergovernmental revenue was reduced in 2006 because of the completion of the Kenwood & Iowa project in 2005, which utilized federal funds. This is also shown in the reduction of Capital Project disbursements between the two years.

Budgetary Highlights

In accordance with Iowa Code, the city council annually adopts a budget following required public notice and hearings for all funds. Although the budget document presents functional disbursements by fund, the legal level of control is at the aggregated function level, not at the fund or fund type level. The budget may be amended during the year utilizing similar statutorily prescribed procedures. None of the amendments made, if any, negatively affect the following year's budget.

CITY OF INDIANOLA
Management Discussion and Analysis (MD&A) (Continued)

The FY 2006 budget was amended in May of 2006 to reflect the following items

- Unanticipated land purchase adjacent to the public library.
- Installation of a restroom at Pickard Park.
- Higher expenses at the component unit which had correlated utility revenue.

Receipts were \$516,496 less than those budgeted. Significant negative budget variances were:

- Intergovernmental revenue was \$1,090,461 less primarily due to a federal and state-funded highway construction project that was not undertaken during the year as planned (\$935,000 of intergovernmental funding will be used).
- Miscellaneous revenue was \$221,928 more primarily from unplanned contributions to the Parks & Recreation department, increased fine revenue, and proceeds from fixed asset sales under the community redevelopment program where dangerous & dilapidated houses are purchased, demolished, and then re-sold.

Disbursements were \$3,397,791 less than those budgeted. Significant positive budget variances were:

- Approximately \$1.6 million of the capital projects variance was due to street construction projects that did not get undertaken in the time frame planned.
- Cash balance reserves totaling \$1.27 million were spread across all program areas that were not expended.

Capital Asset and Debt Administration

The city added \$5.085 million in general obligation debt in FY 2006, with proceeds used for sewer and street improvements. Sewer fees, tax increment financing revenue, and property taxes will pay the annual debt service for this debt. The city's bond rating remained at A2.

Factors Affecting Financial Condition

Local economy. The City of Indianola currently enjoys a favorable economic environment and local indicators point to continued moderate growth. The projection in 2010 is for Indianola to grow to a population of approximately 16,600, which represents an increase of 17% from the 2005 special census. Although a primarily residential community, the varied nature of the educational, light manufacturing, agriculture services, and retail sectors of the local economy provides relative employment stability. Close proximity to the Des Moines metro area, the state capital with a combined population of approximately 460,000, provides employment for approximately 60% of the available workforce. Over the past 5 years, retail sales have grown at an annual average of over 5% and new single family dwellings have been constructed at an average rate in excess of 50 units.

CITY OF INDIANOLA
Management Discussion and Analysis (MD&A) (Continued)

The region (which includes the City of Indianola and the surrounding unincorporated area within Warren County) has a moderate growth employment outlook over the next several years. New commercial construction is occurring along the four-lane highway between the City of Indianola and the Des Moines metropolitan area. New utility services to recently annexed areas along its highway corridors have been installed to open new ground for development in these areas where commercial or industrial growth is likely. A four-lane bypass to the south of the Des Moines metro, completed in 2002, provides increased commercial development opportunities for the community as it improved traffic flow from Indianola to the western Des Moines suburbs and the interstate highway system. The city makes annual financial commitments to the Indianola Development Corporation and Warren County Economic Development Corporation, both non-related entities to the city, to support economic development in the region. The component unit also offers its own revolving loan program to spur economic development

Long-term financial planning. The city has adopted a Comprehensive Plan, last updated in 2003, to help determine future infrastructure needs. City authorities annually adopt 5-year capital improvement budgets that prioritize foreseen projects. Those with potential long-term significant impacts to the financial operations of the city are:

- The city has received approval of a \$735,000 federal grant to improve the intersection of its two major highways, US 65/69 & IA 92. The \$1.9 million project requires funded by other federal funds and general obligation debt. Approximately \$500,000 of that project cost is allocated towards property acquisition, with the anticipation that these properties will be sold and redeveloped once the project is completed. Local costs will be financed using Tax Increment Financing authority from an expanded Downtown Urban Renewal Area. The project will significantly improve traffic flow and reduce auto emissions pollution. Construction will not occur until FY 2006-07. General obligation bonds were issued as part of the FY 2006 \$5.085 million issue.
- A \$2 million street replacement project is planned for completion in FY 2007. General obligation bonds will be issued. General obligation bonds were issued as part of the FY 2006 \$5.085 million issue.
- A new school building may result in up to a \$1 million street paving project in FY 2007 or FY 2008. Assessments will pay for a portion of the debt service.
- The City Council is installing a wastewater lift station and main extension into recently annexed territories to improve development potential. Sewer revenue fees, connection fees, and assessments would be used to meet debt service needs. Also, the council is using Tax Increment Financing for this project by expanding the current Industrial Park Urban Renewal Area.
- Facility studies for both the library and city hall (includes police and fire station) were conducted to determine space needs. Major improvements would be financed using general obligation bonds upon passage of referendum(s). Donations would be requested for a library expansion. A \$4.5 million referendum for the redesigned city hall failed in August of 2005. Costs of \$6-7 million for a library expansion were provided to the City Council. The council has not yet acted to place these items on a ballot.

CITY OF INDIANOLA
Management Discussion and Analysis (MD&A) (Continued)

- Investigations into the community's desire to construct a family recreation center in partnership with the YMCA. The facility would be financed using a type of debt instrument; either industrial development, general obligation, or sales tax revenue bonds. Donations would be requested. Costs of the proposal are in the range of \$7-9 million in capital expense.

Regulatory changes. It is expected that the State of Iowa will enact new regulations on sewer treatment quality that could take effect within 5 years. Accordingly, plant upgrades currently being constructed will help the City of Indianola meet these regulations. The improvements to the gravity lines will reduce infiltration and inflow of storm water, also helping meet current regulations.

Other regulatory impacts under consideration by the State of Iowa also include increased monitoring and controlling storm water pollution levels. Once imposed, the city will consider establishing a storm water utility, with an appropriate fee structure, to finance infrastructure improvements and treatment controls. It is not anticipated that these regulations will be imposed for 3-5 years.

The City Council makes a concerned effort to maintain effective services while keeping tax rates affordable, especially in light of local economic conditions. Indianola continues to have predictable and steady growth in population, retail sales, and new home construction, which is above the norm for the state as a whole. The city property tax rate for FY 2007 increased from \$11.90 to \$11.95 per \$1,000 in taxable valuation. The City Council increased sewer rates by 9.8% in June of 2006 to pay the debt service for new mains and increased operational costs.

The component unit, Indianola Municipal Utilities, did not increase electrical or water rates in FY 2006. Water rates were increased 20.2% in FY 2007 and it is anticipated that electric rates will increase upon the implementation of a new wholesale electric contract in January of 2007.

Requests for Information

This financial report is designed to provide a general overview of the City of Indianola's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City Clerk, 110 N. First St., PO Box 299, Indianola, IA 50125. The Clerk's Office telephone number is 515-961-9410.

BASIC FINANCIAL STATEMENTS

CITY OF INDIANOLA

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

		Program	
	Disbursements	Charges for Service	Operating Grants, Contributions, and Restricted Interest
Functions / Programs			
Primary Government:			
Governmental activities			
Public safety	\$ 2,962,862	27,062	561,246
Public works	1,311,624	292,815	1,177,541
Culture and recreation	1,881,850	410,167	181,532
Community and economic development	65,386	156,643	4,783
General government	937,754	116,246	12,812
Debt service	1,623,791	-	-
Capital projects	962,040	-	41,000
Total governmental activities	9,745,307	1,002,933	1,978,914
Business type activities			
Sewer	1,763,744	1,753,560	29,426
Total Primary Government	\$ 11,509,051	2,756,493	2,008,340
Component Unit:			
Municipal Utilities	\$ 13,964,996	10,343,252	130,102
General Receipts			
Property tax levied for			
General purposes			
Tax increment financing			
Debt service			
Employee benefits			
Utility tax replacement excise tax			
Grants and contributions not restricted to specific purpose			
Unrestricted interest on investments			
Bond proceeds			
Rent			
Sale of assets			
Transfers			
Total general receipts and transfers			

Receipts	Net (Disbursements) Receipts and Changes in Cash Basis Net Assets			
	Primary Government			Component Unit
Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	Total	Municipal Utilities
-	(2,374,554)	-	(2,374,554)	-
2,455	161,187	-	161,187	-
-	(1,290,151)	-	(1,290,151)	-
-	96,040	-	96,040	-
-	(808,696)	-	(808,696)	-
-	(1,623,791)	-	(1,623,791)	-
-	(921,040)	-	(921,040)	-
<u>2,455</u>	<u>(6,761,005)</u>	-	<u>(6,761,005)</u>	-
-	-	19,242	19,242	-
<u>2,455</u>	<u>(6,761,005)</u>	<u>19,242</u>	<u>(6,741,763)</u>	-
-	-	-	-	<u>(3,491,642)</u>
	3,597,562	-	3,597,562	-
	242,399	-	242,399	-
	-	-	-	-
	595,821	-	595,821	-
	54,120	-	54,120	-
	71,385	-	71,385	-
	186,210	22,953	209,163	272,025
	5,044,948	-	5,044,948	1,511,275
	3,227	22,800	26,027	85,270
	66,216	-	66,216	14,785
	546,961	177,239	724,200	(724,200)
	<u>10,408,849</u>	<u>222,992</u>	<u>10,631,841</u>	<u>1,159,155</u>

CITY OF INDIANOLA

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

Change in cash basis net assets

Cash basis net assets beginning of year

Cash basis net assets end of year

Cash Basis Net Assets

 Restricted

 Streets

 Debt service

 Other purposes

 Unrestricted

 Total cash basis net assets

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

<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>	<u>Municipal Utilities</u>
3,647,844	242,234	3,890,078	(2,332,487)
<u>4,865,848</u>	<u>742,360</u>	<u>5,608,208</u>	<u>7,856,492</u>
<u>\$ 8,513,692</u>	<u>984,594</u>	<u>9,498,286</u>	<u>5,524,005</u>
265,783	-	265,783	-
1,274,742	73,902	1,348,644	473,538
4,913,933	-	4,913,933	-
<u>2,059,234</u>	<u>910,692</u>	<u>2,969,926</u>	<u>5,050,467</u>
<u>\$ 8,513,692</u>	<u>984,594</u>	<u>9,498,286</u>	<u>5,524,005</u>

See notes to financial statements.

CITY OF INDIANOLA

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

	<u>General</u>	<u>Special Revenue</u> Road Use Tax
Receipts		
Property tax	\$ 2,844,309	-
Tax increment financing collections	-	-
Other city tax	113,263	-
Licenses and permits	163,875	-
Use of money and property	181,652	-
Intergovernmental	226,368	1,138,016
Charges for service	880,887	-
Special assessments	-	-
Miscellaneous	295,201	22,357
Total receipts	<u>4,705,555</u>	<u>1,160,373</u>
Disbursements		
Operating		
Public safety	3,088,186	-
Public works	210,037	1,128,589
Culture and recreation	1,933,962	-
Community and economic development	64,482	-
General government	972,894	-
Debt service	128,906	-
Capital projects	-	-
Total disbursements	<u>6,398,467</u>	<u>1,128,589</u>
Excess of receipts over disbursements	<u>(1,692,912)</u>	<u>31,784</u>
Other financing sources (uses)		
Bond proceeds	-	-
Sale of capital assets	19,758	-
Operating transfers in (out)	1,667,009	(122,900)
Total other financing sources (uses)	<u>1,686,767</u>	<u>(122,900)</u>

Debt Service	Capital Projects		Other Nonmajor Governmental Funds	Total
	Unspent Bond Proceeds	Street Construction		
753,255	-	-	595,821	4,193,385
-	-	-	242,398	242,398
-	-	-	-	113,263
-	-	-	-	163,875
554	-	-	16,292	198,498
-	-	2,455	-	1,366,839
-	-	16,243	-	897,130
80,219	-	67,835	-	148,054
-	-	17,810	75,134	410,502
<u>834,028</u>	<u>-</u>	<u>104,343</u>	<u>929,645</u>	<u>7,733,944</u>
-	-	-	10,545	3,098,731
-	-	-	-	1,338,626
-	-	-	-	1,933,962
-	-	-	904	65,386
-	-	-	-	972,894
1,494,885	-	-	-	1,623,791
-	27,726	922,461	11,853	962,040
<u>1,494,885</u>	<u>27,726</u>	<u>922,461</u>	<u>23,302</u>	<u>9,995,430</u>
<u>(660,857)</u>	<u>(27,726)</u>	<u>(818,118)</u>	<u>906,343</u>	<u>(2,261,486)</u>
-	5,044,949	-	-	5,044,949
-	-	-	46,457	66,215
<u>552,570</u>	<u>(1,455,869)</u>	<u>849,926</u>	<u>(943,775)</u>	<u>546,961</u>
<u>552,570</u>	<u>3,589,080</u>	<u>849,926</u>	<u>(897,318)</u>	<u>5,658,125</u>

CITY OF INDIANOLA

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

	<u>General</u>	<u>Special Revenue</u> Road Use Tax
Net change in cash balances	(6,145)	(91,116)
Cash balances beginning of year	<u>1,490,670</u>	<u>356,899</u>
Cash balances end of year	<u>\$ 1,484,525</u>	<u>265,783</u>
Cash Basis Fund Balances		
Reserved		
Debt service	\$ -	-
Unreserved		
General fund	1,484,525	-
Special revenue funds	-	265,783
Capital projects funds	-	-
Total cash basis fund balances	<u>\$ 1,484,525</u>	<u>265,783</u>

See notes to financial statements.

Exhibit B
(Continued)

Debt Service	Capital Projects		Other Nonmajor Governmental Funds	Total
	Unspent Bond Proceeds	Street Construction		
(108,287)	3,561,354	31,808	9,025	3,396,639
<u>1,383,029</u>	<u>364,803</u>	<u>482,263</u>	<u>491,739</u>	<u>4,569,403</u>
<u>1,274,742</u>	<u>3,926,157</u>	<u>514,071</u>	<u>500,764</u>	<u>7,966,042</u>
1,274,742	-	-	-	1,274,742
-	-	-	-	1,484,525
-	-	-	215,576	481,359
-	<u>3,926,157</u>	<u>514,071</u>	<u>285,188</u>	<u>4,725,416</u>
<u>1,274,742</u>	<u>3,926,157</u>	<u>514,071</u>	<u>500,764</u>	<u>7,966,042</u>

CITY OF INDIANOLA

Exhibit C

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 government funds cash balances	\$ 7,966,042
--------------------------------------	--------------

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

The Internal Service Fund is used by management to charge the costs of partial self funding of the City's health insurance benefit plan to individual funds. The assets of the Internal Service Fund are included in governmental activities in the Statement of Net Assets.

547,650

Cash basis net assets of governmental activities	<u>\$ 8,513,692</u>
--	---------------------

Net change in cash balances	\$ 3,396,639
-----------------------------	--------------

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

The Internal Service Fund is used by management to charge the costs of employee health benefits to individual funds. The change on net assets of the Internal Service Fund is reported with governmental activities.

251,205

Change in cash balance of governmental activities	<u>\$ 3,647,844</u>
---	---------------------

See notes to financial statements.

CITY OF INDIANOLA

Exhibit D

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

	Enterprise Fund <u>Sewer</u>	Internal Service Funds <u>Funds</u>
Operating receipts		
Use of money and property	\$ 45,483	1,352
Charges for service	1,697,254	1,304,328
Special assessments	56,306	-
Miscellaneous	<u>29,426</u>	<u>75,316</u>
Total operating receipts	<u>1,828,469</u>	<u>1,380,996</u>
Operating disbursements		
Governmental activities		
Public safety	-	334,065
Public works	-	102,492
Culture and recreation	-	136,980
General government	-	94,721
Business type activities	1,799,281	75,642
Component Unit:		
Municipal Utilities	<u>-</u>	<u>254,951</u>
Total operating disbursements	<u>1,799,281</u>	<u>998,851</u>
Excess (deficiency) of receipts over (under) disbursements	<u>29,188</u>	<u>382,145</u>
Other financing sources (uses)		
Operating transfers in	<u>177,239</u>	<u>-</u>
Net change in cash balances	206,427	382,145
Cash balances beginning of year	<u>704,455</u>	<u>441,916</u>
Cash balances end of year	<u>\$ 910,882</u>	<u>824,061</u>
Cash Basis Fund Balances		
Reserved for debt service	\$ 150,848	-
Unreserved	<u>760,034</u>	<u>824,061</u>
Total cash basis fund balances	<u>\$ 910,882</u>	<u>824,061</u>

See notes to financial statements.

CITY OF INDIANOLA

Exhibit E

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	\$ 910,882
--------------------------------------	------------

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

The Internal Service Fund is used by management to charge the costs of partial self funding of the City's health insurance benefit plan to individual funds. The assets of the Internal Service Fund are included in business type activities in the Statement of Net Assets.

73,712

Cash basis net assets of business type activities	\$ <u>984,594</u>
---	-------------------

Net change in cash balances	\$ 206,427
-----------------------------	------------

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

The Internal Service Fund is used by management to charge the costs of partial self funding of the City's health insurance benefit individual funds. The change in net assets of the Internal Service Fund is reported with business type activities.

35,807

Change in cash balance of business type activities	\$ <u>242,234</u>
--	-------------------

See notes to financial statements.

CITY OF INDIANOLA

NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2006

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The City of Indianola is a political subdivision of the State of Iowa located in Warren County. It was incorporated in 1864 and operates under the home rule provisions of the constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, culture and recreation, community and economic development and general government services.

A. REPORTING ENTITY

For financial reporting purposes, the 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.

These financial statements present the City of Indianola (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.

Certain disclosures about the discretely presented component unit are not included because the component unit has been audited separately and a report has been issued under separate cover. The audited financial statements are available at the City Clerk's office.

Discretely Presented Component Unit - The financial information for the Indianola Municipal Utilities is presented as a Component Unit to emphasize that it is legally separate from the City, but is financially accountable to the City, or whose relationship with the City is such that exclusion would cause the City's financial statements to be misleading or incomplete. The Utilities are governed by a five-member board appointed by the City Council and the Utilities' operating budget is subject to the approval of the City Council.

CITY OF INDIANOLA

NOTES TO FINANCIAL STATEMENTS - CONTINUED
Year Ended June 30, 2006

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

A. REPORTING ENTITY (Continued)

Jointly Governed Organizations - The City also participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: South Central Iowa Landfill Agency Board, Central Iowa Regional Transportation Planning Alliance Board, Metropolitan Planning Organization Committee, Marion/Warren County Drug Task Force, Community Athletic Facilities Board.

B. BASIS OF PRESENTATION

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

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

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

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

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

CITY OF INDIANOLA

NOTES TO FINANCIAL STATEMENTS - CONTINUED
Year Ended June 30, 2006

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

B. **BASIS OF PRESENTATION (Continued)**

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

The City reports the following major governmental funds:

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

Special Revenue:

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

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

The Capital Projects Funds are used to account for all resources used in the acquisition and construction of capital facilities.

The City reports the following major proprietary funds:

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

The City also reports the following additional proprietary fund:

An Internal Service Fund is utilized to account for the financing of goods or services purchased by one department of the City and provided to other departments or agencies.

CITY OF INDIANOLA

NOTES TO FINANCIAL STATEMENTS - CONTINUED
Year Ended June 30, 2006

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

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

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

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

CITY OF INDIANOLA

NOTES TO FINANCIAL STATEMENTS - CONTINUED
Year Ended June 30, 2006

2. CASH AND POOLED INVESTMENTS (CONTINUED)

The City's investments at June 30, 2006 were as follows:

	<u>CARRYING AMOUNT</u>	<u>MARKET VALUE</u>
Money market accounts	\$ 31,018	31,018
Commercial paper	989,292	989,292
U.S. agency bonds and notes	9,235,091	9,093,306
U.S. agency collateralized mortgage obligations	<u>327,154</u>	<u>322,323</u>
	<u>\$10,582,555</u>	<u>10,435,939</u>

Credit risk – The City's investments are held by a bank's trust department in the City's name. Investments with a carrying amount of \$2,806,946 are rated AAA. The balance of the investments is not rated.

3. BONDS AND NOTES PAYABLE

Annual debt service requirements to maturity for the City's general obligation bonds and notes, capital loan notes, revenue capital loan notes, revenue bonds, and other long-term debt as of June 30, 2006 are as follows:

YEAR ENDING June 30,	GENERAL OBLIGATION		CAPITAL		REVENUE CAPITAL		OTHER		TOTAL	
	BONDS & NOTES		LOAN NOTES		LOAN NOTES		DEBT			
	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST
2007	\$ 1,190,000	397,003	490,000	121,409	105,000	24,331	16,029	5,450	1,801,029	548,193
2008	1,230,000	353,172	501,000	104,047	111,000	21,382	16,830	4,649	1,858,830	483,250
2009	1,285,000	306,773	487,000	85,149	112,000	17,998	17,671	3,807	1,901,671	413,727
2010	1,330,000	256,510	498,000	66,552	118,000	14,339	18,555	2,924	1,964,555	340,325
2011	1,050,000	203,675	435,000	46,662	119,000	10,351	19,482	1,997	1,623,482	262,685
2012	915,000	164,097	272,000	29,917	125,000	5,970	20,456	1,023	1,332,456	201,007
2013	950,000	131,910	70,000	17,780	26,000	3,087	-	-	1,046,000	152,777
2014	985,000	97,380	75,000	14,665	27,000	1,884	-	-	1,087,000	113,929
2015	895,000	60,665	75,000	11,290	28,000	636	-	-	998,000	72,591
2016	455,000	26,830	80,000	7,840	-	-	-	-	535,000	34,670
2017	110,000	9,453	85,000	4,080	-	-	-	-	195,000	13,533
2018	<u>115,000</u>	<u>4,887</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>115,000</u>	<u>4,887</u>
	<u>\$ 10,510,000</u>	<u>2,012,355</u>	<u>3,068,000</u>	<u>509,391</u>	<u>771,000</u>	<u>99,978</u>	<u>109,023</u>	<u>19,850</u>	<u>14,458,023</u>	<u>2,641,574</u>

CITY OF INDIANOLA

NOTES TO FINANCIAL STATEMENTS - CONTINUED
Year Ended June 30, 2006

3. **BONDS AND NOTES PAYABLE (CONTINUED)**

The revenue capital loan notes are payable solely and only out of the net earnings of the sewer enterprise and constitute a first lien on the future net earnings of the utility. These bonds are not general obligations of the City, nor are they payable in any manner by taxation and the City is not liable if the net earnings of the utility are not sufficient for the repayment of the notes.

In May 2004 the City issued \$835,000 of General Obligation Refunding Bonds for a crossover refunding of a portion of the general obligation bonds issued May 1996. The City entered in to an escrow agreement whereby the proceeds were converted into U.S. securities. These securities were placed in an escrow account for the express purpose of paying the \$795,000 principal on the refunded bonds when they become callable on June 1, 2006 and the interest from May 1, 2004 to and including June 1, 2006 on the general obligation bonds. After the principal and interest on all of the outstanding bonds have been paid, any remaining funds in the escrow account, together with any interest thereon, shall be returned to the City. The transactions and balances of the escrow are recorded by the City since the refunded debt is not considered extinguished.

In August 2004 the City issued \$1,800,000 of General Obligation Bonds. The proceeds from the bonds were used to pay costs of street work, acquisition of equipment, and sewer plant improvements, an essential corporate purpose.

In February 2006 the City entered into a lease-purchase agreement for a street sweeper. The loan is payable in annual installments of \$21,479, including interest at 4.99% per annum, through March 15, 2012.

In April 2006 the City issued \$5,085,000 of General Obligation Bonds. The proceeds from the bonds were used to pay costs of constructing street and sewer improvements, and to pay costs of aiding in the planning, undertaking and carrying out of urban renewal projects, including street and sewer improvements, an essential corporate purpose.

4. **PENSION AND RETIREMENT BENEFITS**

MUNICIPAL FIRE AND POLICE RETIREMENT SYSTEM OF IOWA - The City contributes to the Municipal Fire and Police Retirement System of Iowa (the Plan), which is a cost-sharing, multiple-employer defined benefit pension plan administered by a Board of Trustees. The Plan provides retirement, disability and death benefits which are established by state statute to plan members and beneficiaries. The Plan issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to Municipal Fire and Police Retirement System of Iowa, 2836 104th Street, Urbandale, Iowa 50322.

CITY OF INDIANOLA

NOTES TO FINANCIAL STATEMENTS - CONTINUED
Year Ended June 30, 2006

4. **PENSION AND RETIREMENT BENEFITS (CONTINUED)**

Plan members are required to contribute 9.35% of earnable compensation and the City's contribution rate may not be less than 17% of earnable compensation. Contribution requirements are established by state statute. The City's contribution to the Plan for the years ended June 30, 2006, 2005 and 2004 were \$239,692, \$191,963 and \$160,117, respectively, which met the required minimum contribution for each year.

IPERS - 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, PO Box 9117, Des Moines, Iowa, 50306-9117.

Most plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contribution to IPERS for the years ended June 30, 2006, 2005 and 2004 were \$154,232, \$139,928 and \$129,817, equal to the required contributions for each year.

5. **COMPENSATED ABSENCES**

City employees accumulate vacation hours and sick leave for subsequent use. Unused vacation hours are payable upon termination, retirement or death. Sick leave hours are payable only when used. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate maximum liability for unrecognized accrued employee benefits as of June 30, 2006, primarily relating to the General Fund, was as follows:

Vacation	\$ 200,398
Sick leave	<u>580,808</u>
	\$ <u>781,206</u>

This liability has been computed based on rates of pay as of June 30, 2006.

CITY OF INDIANOLA

NOTES TO FINANCIAL STATEMENTS - CONTINUED
Year Ended 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:	
	Road Use Tax	\$ 119,600
	Employee Benefits Levy	595,821
	Police Retirement	75,000
	Capital Projects:	
	Unspent Bond Proceeds	-
	General Fund Projects	10,000
	Enterprise:	
	Sewer	274,900
	Component Unit	<u>624,400</u>
		<u>1,699,721</u>
Special Revenue:		
Police Seizures	General	<u>15,712</u>
Debt Service	General	17,000
	Enterprise:	
	Sewer	419,170
	Component Unit	<u>116,400</u>
		<u>552,570</u>
Capital Projects:		
Street Construction	Special Revenue:	
	Downtown Tax Increment	86,420
	Capital Projects:	
	Unspent Bond Proceeds	<u>763,506</u>
		<u>849,926</u>
Enterprise:		
Sewer	Special Revenue:	
	Industrial Park Urban Renewal Tax Increment	192,246
	Capital Projects:	
	Unspent Bond Proceeds	<u>692,363</u>
		<u>884,609</u>
Component Unit	Special Revenue:	
	Road Use Tax	3,300
	Enterprise:	
	Sewer	<u>13,300</u>
		<u>16,600</u>
		<u>\$ 4,019,138</u>

CITY OF INDIANOLA

NOTES TO FINANCIAL STATEMENTS - CONTINUED
Year Ended June 30, 2006

6. **INTERFUND TRANSFERS (CONTINUED)**

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

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 with over 531 members from 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 members' 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' basic 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 \$115,081.

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 \$250,000 per claim. Claims exceeding \$250,000 are reinsured in an amount not to exceed \$1,750,000 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.

CITY OF INDIANOLA

NOTES TO FINANCIAL STATEMENTS - CONTINUED
Year Ended June 30, 2006

7. **RISK MANAGEMENT (CONTINUED)**

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. 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 is a member of the Iowa Municipalities Workers' Compensation Association (the "Association"). The Association is governed by a board of directors elected by representatives of the governing bodies of each participating governmental jurisdiction. The City has executed a Worker's Compensation coverage Agreement with the Association which extends through June 30, 2006 and has authorized the Association to issue general obligation bonds to provide funds with which to pay claims. During the year ended June 30, 2006, the City paid workers' compensation insurance premiums of \$123,112 to the Association.

8. **DEFICIT BALANCE**

The Special Revenue, East 92 Tax Increment Fund had a deficit balance of \$7,089 at June 30, 2006. The deficit balance was the result of costs incurred prior to availability of funds. The deficit will be eliminated upon receipt of funds or transfers in the next fiscal years.

9. **COMMITMENTS**

The City has entered into contracts for paving and sanitary sewer projects totaling approximately \$3,952,821. The remaining commitment on these contracts at June 30, 2006 is \$3,725,994.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF INDIANOLA

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

	Governmental Funds Actual	Proprietary Funds Actual
	<u> </u>	<u> </u>
Receipts		
Property tax	\$ 4,193,385	-
Tax increment financing collectitons	242,398	-
Other city tax	113,263	-
Licenses and permits	163,875	-
Use of money and property	198,498	46,835
Intergovernmental	1,366,839	-
Charges for service	897,130	2,998,662
Special assessments	148,054	56,306
Miscellaneous	<u>410,502</u>	<u>107,662</u>
Total receipts	<u>7,733,944</u>	<u>3,209,465</u>
Disbursements		
Public safety	3,098,731	334,065
Public works	1,338,626	102,492
Culture and recreation	1,933,962	136,980
Community and economic development	65,386	-
General government	972,894	94,721
Debt service	1,623,791	-
Capital projects	962,040	-
Business type activities	<u>-</u>	<u>1,874,923</u>
Total disbursements	<u>9,995,430</u>	<u>2,543,181</u>
Excess of receipts over disbursements	(2,261,486)	666,284
Other financing sources, net	<u>5,658,125</u>	<u>177,239</u>
Excess of receipts and other financing sources over disbursements and other financing uses	3,396,639	843,523
Balances beginning of year	<u>4,569,403</u>	<u>1,146,371</u>
Balances end of year	<u>\$ 7,966,042</u>	<u>1,989,894</u>

Less Funds not Required to to be Budgeted	Net	Budgeted Amounts		Final to Net Variance
		Original	Final	
-	4,193,385	4,157,446	4,157,446	35,939
-	242,398	206,400	206,400	35,998
-	113,263	149,492	149,492	(36,229)
-	163,875	165,000	165,000	(1,125)
17,523	227,810	179,900	179,900	47,910
-	1,366,839	2,457,300	2,457,300	(1,090,461)
1,301,408	2,594,384	2,456,200	2,456,200	138,184
-	204,360	73,000	73,000	131,360
78,236	439,928	218,000	218,000	221,928
<u>1,397,167</u>	<u>9,546,242</u>	<u>10,062,738</u>	<u>10,062,738</u>	<u>(516,496)</u>
334,065	3,098,731	3,218,900	3,218,900	120,169
102,492	1,338,626	1,500,600	1,500,600	161,974
136,980	1,933,962	1,992,900	2,290,900	356,938
-	65,386	245,200	245,200	179,814
94,721	972,894	1,051,100	1,051,100	78,206
24,002	1,599,789	1,740,500	1,740,500	140,711
-	962,040	2,903,500	2,903,500	1,941,460
75,642	1,799,281	2,217,800	2,217,800	418,519
<u>767,902</u>	<u>11,770,709</u>	<u>14,870,500</u>	<u>15,168,500</u>	<u>3,397,791</u>
629,265	(2,224,467)	(4,807,762)	(5,105,762)	2,881,295
-	5,835,364	3,347,300	3,145,300	2,690,064
629,265	3,610,897	(1,460,462)	(1,960,462)	5,571,359
-	5,715,774	10,871,419	10,871,419	(5,155,645)
<u>629,265</u>	<u>9,326,671</u>	<u>9,410,957</u>	<u>8,910,957</u>	<u>415,714</u>

CITY OF INDIANOLA

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

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

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

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$298,000. The budget amendment is reflected in the final budgeted amounts.

OTHER SUPPLEMENTARY INFORMATION

CITY OF INDIANOLA

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

	Industrial Park Urban Renewal Tax Increment	Employee Benefits Levy	Special Downtown Tax Increment
Receipts			
Property tax	\$ -	595,821	-
Tax increment financing collections	180,908	-	61,304
Use of money and property	-	-	-
Special assessments	-	-	-
Miscellaneous	12,242	-	-
Total receipts	193,150	595,821	61,304
Disbursements			
Public safety	-	-	-
Community and economic development	904	-	-
Capital projects	-	-	-
Total disbursements	904	-	-
Excess (deficiency) of receipts over (under) disbursements	192,246	595,821	61,304
Other financing uses			
Sale of capital assets	-	-	-
Operating transfers in (out)	(192,246)	(595,821)	(86,420)
Total other financing sources (uses)	(192,246)	(595,821)	(86,420)
Net change in cash balances	-	-	(25,116)
Cash balances beginning of year	-	-	25,116
Cash balances end of year	\$ -	-	-
Cash Basis Fund Balances			
Unreserved			
Special revenue funds	\$ -	-	-
Capital project funds	-	-	-
Total cash basis fund balances	\$ -	-	-

See accompanying independent auditor's report.

Revenue			Capital Projects			
East 92			Community		General	
Tax	Police	Police	Athletic	Community	Fund	
Increment	Retirement	Seizures	Facility	Redevelopment	Projects	Total
-	-	-	-	-	-	595,821
186	-	-	-	-	-	242,398
-	10,005	-	413	5,874	-	16,292
-	-	-	-	-	-	-
-	-	21,892	-	-	41,000	75,134
<u>186</u>	<u>10,005</u>	<u>21,892</u>	<u>413</u>	<u>5,874</u>	<u>41,000</u>	<u>929,645</u>
-	-	10,545	-	-	-	10,545
-	-	-	-	-	-	904
-	-	-	3,260	2,671	5,922	11,853
-	-	10,545	3,260	2,671	5,922	23,302
<u>186</u>	<u>10,005</u>	<u>11,347</u>	<u>(2,847)</u>	<u>3,203</u>	<u>35,078</u>	<u>906,343</u>
-	-	-	-	44,457	2,000	46,457
-	(75,000)	15,712	-	-	(10,000)	(943,775)
-	(75,000)	15,712	-	44,457	(8,000)	(897,318)
186	(64,995)	27,059	(2,847)	47,660	27,078	9,025
<u>(7,275)</u>	<u>260,601</u>	<u>-</u>	<u>10,238</u>	<u>123,059</u>	<u>80,000</u>	<u>491,739</u>
<u>(7,089)</u>	<u>195,606</u>	<u>27,059</u>	<u>7,391</u>	<u>170,719</u>	<u>107,078</u>	<u>500,764</u>
(7,089)	195,606	27,059	-	-	-	215,576
-	-	-	7,391	170,719	107,078	285,188
<u>(7,089)</u>	<u>195,606</u>	<u>27,059</u>	<u>7,391</u>	<u>170,719</u>	<u>107,078</u>	<u>500,764</u>

CITY OF INDIANOLA

Schedule 2

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

	Internal Service				Total
	Health Insurance Reserve	Property Insurance Council	Health Pool	Health Reimbursement Arrangement	
Receipts					
Use of money and property	\$ -	1,352	-	-	1,352
Internal service charges	16,208	-	1,204,645	80,555	1,301,408
Miscellaneous	19,128	5,777	53,331	-	78,236
Total receipts	<u>35,336</u>	<u>7,129</u>	<u>1,257,976</u>	<u>80,555</u>	<u>1,380,996</u>
Disbursements					
Operating					
Public safety	11,760	-	305,171	17,134	334,065
Public works	2,972	6,843	85,254	7,423	102,492
Culture and recreation	4,653	626	124,243	7,458	136,980
General government	3,037	-	83,368	8,316	94,721
Business type activities					
Sewer	2,552	-	70,072	3,018	75,642
Component Unit:					
Municipal Utilities	8,916	-	230,249	15,786	254,951
Total disbursements	<u>33,890</u>	<u>7,469</u>	<u>898,357</u>	<u>59,135</u>	<u>998,851</u>
Excess (deficiency) of receipts over (under) disbursements	<u>1,446</u>	<u>(340)</u>	<u>359,619</u>	<u>21,420</u>	<u>382,145</u>
Net change in cash balances	1,446	(340)	359,619	21,420	382,145
Cash balances beginning of year	151,556	32,048	199,804	58,508	441,916
Cash balances end of year	<u>\$ 153,002</u>	<u>31,708</u>	<u>559,423</u>	<u>79,928</u>	<u>824,061</u>
Cash Basis Fund Balances					
Unreserved	153,002	31,708	559,423	79,928	824,061
Total cash basis fund balances	<u>\$ 153,002</u>	<u>31,708</u>	<u>559,423</u>	<u>79,928</u>	<u>824,061</u>

See accompanying independent auditor's report.

CITY OF INDIANOLA

Schedule of Indebtedness
Year ended June 30, 2006

OBLIGATION	DATE OF ISSUE	INTEREST RATES	AMOUNT ORIGINALLY ISSUED
1996 Swimming Pool	5/1/1996	4.05-5.55	1,910,000
2000 Street & Fire Truck	5/1/2000	4.60-5.05	2,750,000
2003 Sewer & Water Improvements	10/1/2003	2.25-4.25	2,410,000
2004 Ambulance, Sewer & Street Improvements	8/15/2004	2.10-3.90	1,800,000
2006 Sewer & Street Improvements	4/1/2006	3.35-3.75	5,085,000
Capital Loan Notes			
1995 Sewer Revenue	6/21/1995	4.54	383,000
1997 Essential Corporate Purpose	5/1/1997	4.90-6.50	375,000
1999 General Corporate Purpose	11/1/1999	5.35	650,000
2002 Essential Corporate Purpose	2/15/2002	3.10-5.35	350,000
2002 B Refunding and Essential Corporate Purpose	5/1/2002	2.10-4.80	3,430,000
2004 Sewer Revenue Refunding	1/1/2004	1.50-3.45	725,000
2004 General Obligation Refunding	5/1/2004	2.00-3.10	835,000
Other Debt			
Equipment loan	2/15/2006	4.99	130,502
Total City of Indianola			
Indianola Municipal Utilities			
Revenue Bonds and Notes			
1996 Water Revenue	12/1/1996	4.87-5.12	3,410,000
2004 Water Revenue Refunding	8/15/2004	2.55-4.20	2,485,000
2006 Electric Revenue Capital Loan Note	2/15/2006	3.30-4.00	1,525,000

See accompanying independent auditor's report.

BALANCE BEGINNING OF YEAR	ISSUED DURING YEAR	REDEEMED DURING YEAR	BALANCE END OF YEAR	INTEREST PAID	INTEREST DUE AND UNPAID
\$ 935,000	-	140,000	795,000	48,807	-
1,445,000	-	260,000	1,185,000	71,963	-
2,210,000	-	175,000	2,035,000	73,297	-
1,800,000	-	155,000	1,645,000	57,028	-
-	5,085,000	235,000	4,850,000	30,108	-
<u>6,390,000</u>	<u>5,085,000</u>	<u>965,000</u>	<u>10,510,000</u>	<u>281,203</u>	<u>-</u>
235,000	-	19,000	216,000	8,692	-
135,000	-	45,000	90,000	7,099	-
360,000	-	65,000	295,000	19,260	-
260,000	-	32,000	228,000	12,646	-
1,795,000	-	175,000	1,620,000	73,283	-
640,000	-	85,000	555,000	16,530	-
835,000	-	-	835,000	-	-
<u>4,260,000</u>	<u>-</u>	<u>421,000</u>	<u>3,839,000</u>	<u>137,510</u>	<u>-</u>
<u>-</u>	<u>130,502</u>	<u>21,479</u>	<u>109,023</u>	<u>-</u>	<u>-</u>
<u>\$ 10,650,000</u>	<u>5,215,502</u>	<u>1,407,479</u>	<u>14,458,023</u>	<u>418,713</u>	<u>-</u>
\$ 2,720,000	-	160,000	2,560,000	133,282	-
2,485,000	-	-	2,485,000	-	-
-	1,525,000	-	1,525,000	-	-
<u>\$ 5,205,000</u>	<u>1,525,000</u>	<u>160,000</u>	<u>6,570,000</u>	<u>133,282</u>	<u>-</u>

CITY OF INDIANOLA

Bond and Note Maturities
June 30, 2006

YEAR ENDING JUNE 30,	GENERAL			
	SWIMMING POOL		STREET IMPROVEMENT & FIRE TRUCK	
	ISSUED MAY 1, 1996		ISSUED MAY 1, 2000	
	INTEREST RATE	AMOUNT	INTEREST RATE	AMOUNT
2007	5.10	\$ 145,000	4.90	\$ 275,000
2008	5.20	150,000	5.00	285,000
2009	5.20	160,000	5.05	305,000
2010	5.20	165,000	5.05	320,000
2011	5.55	175,000		-
2012		-		-
2013		-		-
2014		-		-
2015		-		-
2016		-		-
2017		-		-
2018		-		-
		<u>\$ 795,000</u>		<u>\$ 1,185,000</u>

YEAR ENDING JUNE 30,	OTHER DEBT	
	EQUIPMENT LOAN	
	ISSUED FEBRUARY 15, 2006	
INTEREST RATE	AMOUNT	
2007	4.99	\$ 16,029
2008	4.99	16,830
2009	4.99	17,671
2010	4.99	18,555
2011	4.99	19,482
2012	4.99	20,456
		<u>\$ 109,023</u>

OBLIGATION						
SEWER & WATER IMPROVEMENTS		AMBULANCE, SEWER & STREET IMPROVEMENTS		SEWER & STREET IMPROVEMENTS		
ISSUED OCTOBER 1, 2003		ISSUED AUGUST 15, 2004		ISSUED AUGUST 15, 2004		
INTEREST		INTEREST		INTEREST		
RATE	AMOUNT	RATE	AMOUNT	RATE	AMOUNT	TOTAL
2.50	\$ 180,000	2.40	\$ 160,000	3.40	\$ 430,000	\$ 1,190,000
2.50	185,000	2.65	165,000	3.45	445,000	1,230,000
2.90	190,000	2.90	170,000	3.50	460,000	1,285,000
3.10	195,000	3.10	175,000	3.50	475,000	1,330,000
3.30	200,000	3.30	180,000	3.50	495,000	1,050,000
3.50	210,000	3.45	190,000	3.55	515,000	915,000
3.75	220,000	3.60	195,000	3.60	535,000	950,000
3.90	225,000	3.75	200,000	3.65	560,000	985,000
4.00	100,000	3.90	210,000	3.70	585,000	895,000
4.05	105,000		-	3.75	350,000	455,000
4.15	110,000		-		-	110,000
4.25	115,000		-		-	115,000
	<u>\$2,035,000</u>		<u>\$ 1,645,000</u>		<u>\$ 4,850,000</u>	<u>\$10,510,000</u>

CITY OF INDIANOLA

Bond and Note Maturities
June 30, 2006

YEAR ENDING JUNE 30,	CAPITAL					
	SEWER REVENUE		ESSENTIAL CORPORATE PURPOSE		GENERAL CORPORATE PURPOSE	
	ISSUED JUNE 21, 1995		ISSUED MAY 1, 1997		ISSUED NOVEMBER 1, 1995	
	INTEREST RATE	AMOUNT	INTEREST RATE	AMOUNT	INTEREST RATE	AMOUNT
2007	4.54	\$ 20,000	5.25	\$ 45,000	5.35	\$ 70,000
2008	4.54	21,000	5.38	45,000	5.35	70,000
2009	4.54	22,000	-	-	5.35	75,000
2010	4.54	23,000	-	-	5.35	80,000
2011	4.54	24,000	-	-	-	-
2012	4.54	25,000	-	-	-	-
2013	4.54	26,000	-	-	-	-
2014	4.54	27,000	-	-	-	-
2015	4.54	28,000	-	-	-	-
2016	-	-	-	-	-	-
2017	-	-	-	-	-	-
		<u>\$ 216,000</u>		<u>\$ 90,000</u>		<u>\$ 295,000</u>

See accompanying independent auditor's report.

LOAN NOTES

ESSENTIAL CORPORATE PURPOSE ISSUED FEBRUARY 15, 2002		ESSENTIAL CORPORATE PURPOSE ISSUED MAY 1, 2002		SEWER REVENUE REFUNDING ISSUED JANUARY 1, 2004	
INTEREST RATE	AMOUNT	INTEREST RATE	AMOUNT	INTEREST RATE	AMOUNT
4.50	\$ 35,000	3.60	\$ 180,000	2.05	\$ 85,000
4.65	36,000	3.80	190,000	2.55	90,000
4.85	37,000	4.00	205,000	2.80	90,000
5.00	38,000	4.10	210,000	2.90	95,000
5.20	40,000	4.20	220,000	3.25	95,000
5.35	42,000	4.30	230,000	3.45	100,000
	-	4.45	70,000		-
	-	4.50	75,000		-
	-	4.60	75,000		-
	-	4.70	80,000		-
	-	4.80	85,000		-
	<u>\$ 228,000</u>		<u>\$ 1,620,000</u>		<u>\$ 555,000</u>

Schedule 4
(Continued)

GENERAL OBLIGATION
REFUNDING
ISSUED MAY 1, 2004

INTEREST		
<u>RATE</u>	<u>AMOUNT</u>	<u>TOTAL</u>
2.00	\$ 160,000	\$ 595,000
2.40	160,000	612,000
2.70	170,000	599,000
3.00	170,000	616,000
3.10	175,000	554,000
	-	397,000
	-	96,000
	-	102,000
	-	103,000
	-	80,000
	-	85,000
	<u>\$ 835,000</u>	<u>\$ 3,839,000</u>

CITY OF INDIANOLA

Schedule 5

Statement 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	\$ 4,193,385	3,953,158	3,657,046	3,313,265
Tax increment financing collections	242,398	188,396	104,611	101,614
Other city tax	113,263	127,553	118,717	116,006
Licenses and permits	163,875	194,540	209,890	155,117
Use of money and property	198,498	177,341	160,428	198,625
Intergovernmental	1,366,839	2,082,365	1,514,317	1,610,670
Charges for service	897,130	765,904	746,475	859,959
Special assessments	148,054	310,621	101,884	140,938
Miscellaneous	<u>410,502</u>	<u>243,665</u>	<u>246,324</u>	<u>334,933</u>
Total	<u>\$ 7,733,944</u>	<u>8,043,543</u>	<u>6,859,692</u>	<u>6,831,127</u>
Disbursements				
Operating				
Public safety	3,098,731	3,064,421	2,575,156	2,238,824
Public works	1,338,626	1,159,048	1,236,315	1,247,388
Health and social services	-	-	-	-
Culture and recreation	1,933,962	1,661,909	1,681,481	1,805,974
Community and economic development	65,386	90,030	109,684	307,054
General government	972,894	931,372	838,593	795,336
Debt service	1,623,791	1,562,645	1,412,173	1,547,690
Capital projects	<u>962,040</u>	<u>1,790,459</u>	<u>194,327</u>	<u>187,119</u>
Total	<u>\$ 9,995,430</u>	<u>10,259,884</u>	<u>8,047,729</u>	<u>8,129,385</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, each major fund and the aggregate remaining fund information of the City of Indianola, 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 reports thereon dated October 25, 2006. Our reports expressed unqualified opinions on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Indianola'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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Indianola's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance 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.

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 Indianola and other parties to whom the City may report. This report is not intended to be and should not be used by anyone other than these specified parties.

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

October 25, 2006

CITY OF INDIANOLA

Schedule of Findings
Year ended June 30, 2006

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

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

Part II: Findings Related to the Financial Statements:

None

Part III: Findings and Questioned Costs for Federal Awards:

Not applicable

Part IV: Other Findings Related to Required Statutory Reporting:

- IV-A-06 Certified Budget - Disbursements during the year ended June 30, 2006, did not exceed the amounts budgeted.
- IV-B-06 Questionable Disbursements - No disbursements that we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.
- IV-C-06 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- IV-D-06 Business Transactions - No business transactions between the City and City officials or employees were noted.

CITY OF INDIANOLA

Schedule of Findings - Continued
Year ended June 30, 2006

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

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

IV-F-06 Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not.

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

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

IV-I-06 Financial Condition - The Special Revenue, East 92 Tax Increment Fund had a deficit balance of \$7,089 at June 30, 2006.

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

Response – We will do so.

Conclusion – Response accepted.