CITY OF SERGEANT BLUFF, IOWA

Sergeant Bluff, Iowa

INDEPENDENT AUDITORS' REPORTS
BASIC FINANCIAL STATEMENTS,
SUPPLEMENTARY INFORMATION AND
SCHEDULE OF FINDINGS AND RESPONSES

For the Year Ended
June 30, 2006

CITY OF SERGEANT BLUFF, IOWA

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INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and
Members of the City Council
City of Sergeant Bluff
Sergeant Bluff, Iowa

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 Sergeant Bluff, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Sergeant Bluff's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Sergeant Bluff, Iowa, as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2006 on our consideration of the City of Sergeant Bluff's internal control over financial reporting and on 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 the internal control over financial reporting or on 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.

The management's discussion and analysis and budgetary comparison information on pages 3 through 10 and pages 36 through 38 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, 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 Sergeant Bluff's basic financial statements. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplementary information has been subjected to the auditing procedures applied in the 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.

King Reinsch Prosser & Co LLP

Sioux City, Iowa
December 15, 2006

Management's Discussion and Analysis

This discussion and analysis of the City of Sergeant Bluff's financial performance provides a narrative overview of the City's financial activities for the year ended June 30, 2006. Readers are encouraged to consider the information presented here in conjunction with the City's financial statements that follow this discussion.

Financial Highlights

- The City's assets of approximately $24 million are divided between Governmental Activities ($12 million) and Business-Type Activities ($12 million). Combined assets exceeded liabilities by approximately $17 million. Of this amount, approximately $4 million is unrestricted and may be used to meet the City's ongoing obligations to citizens and creditors.
- At June 30, 2006, the City of Sergeant Bluff's governmental funds reported combined ending fund balances of approximately $500,000.
- The unreserved fund balance for the general fund, at the end of the current fiscal year was approximately $485,000. This represents 32 percent of total general fund expenditures.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City of Sergeant Bluff's basic financial statements. The City's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains supplementary information in addition to the basic financial statements.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the City of Sergeant Bluff's finances, in a manner similar to a private-sector business. The Statement of Net Assets is essentially a balance sheet that combines all funds on a government-wide basis. Changes in net assets over time may be an indicator of whether the City's financial position is improving or worsening.

The Statement of Activities presents information showing how the City's net assets changed during the most recent fiscal year. All changes in the net assets are reported as soon as the underlying event occurs, giving rise to the change regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in the statement for some items that will only result in cash flows in future fiscal periods (e.g. uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City of Sergeant Bluff 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). The governmental activities of the City of Sergeant Bluff include general government, public safety, public works, community and

economic development, culture and recreation and debt service. The Business-Type Activities of the City include an electric, water, sewer, solid waste and storm water utilities.

The government-wide financial statements can be found on pages 11-12 of this report.

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 City of Sergeant Bluff, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statement, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of the governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City of Sergeant Bluff maintains 7 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, debt service fund, and capital projects fund, which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund information for each of these non-major governmental funds is provided in the form of combining statements as supplementary information.

The basic governmental fund financial statements can be found on pages 13-16 of this report.

Proprietary Funds. The City of Sergeant Bluff maintains one type of proprietary fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its Electric, Water, Sewer, Solid Waste and Storm Water Utilities.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Electric, Water, Sewer, Solid Waste and Storm Water Utilities as all are considered, or have been designated to be major funds of the City.

The basic proprietary fund financial statements can be found on pages 17-19 of this report.

Fiduciary Funds. Fiduciary funds are used to account for resources held for the benefit of parties external to the City. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the City of Sergeant Bluff's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The basic fiduciary funds financial statements are reported in a separate statement of fiduciary net assets.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the information provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 21-35 of this report.

Government-Wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The largest part of the City's net assets reflects its investment in capital assets (land, buildings and improvements, and equipment) less any related debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The following comparative chart shows the changes in net assets for the years ended June 30, 2006 and 2005:

	Governmental Activities		Business-Type Activities		Total City	
	2006	2005	2006	2005	2006	2005
Current and other assets	$ 2,309,142	$ 2,523,122	$ 4,171,629	$ 3,250,254	$ 6,480,771	$ 5,773,376
Capital assets	9,886,699	9,469,263	7,950,809	6,971,636	17,837,508	16,440,899
Total assets	$ 12,195,841	$ 11,992,385	12,122,438	$ 10,221,890	$ 24,318,279	$ 22,214,275
Long-term liabilities	$ 3,975,057	$ 3,900,857	1,417,809	$ 220,000	$ 5,392,866	$ 4,120,857
Other liabilities	1,325,092	1,207,789	369,059	361,250	1,694,151	1,569,039
Total liabilities	$ 5,300,149	$ 5,108,646	1,786,868	$ 581,250	$ 7,087,017	$ 5,689,896
Net assets:						
Invested in capital assets, net of related debt	$ 5,946,699	$ 5,574,263	$ 6,555,809	$ 6,751,636	$ 12,502,508	$ 12,325,899
Restricted	638,793	526,579	-	-	638,793	526,579
Unrestricted	310,200	782,897	3,779,761	2,889,004	4,089,961	3,671,901
Total net assets	$ 6,895,692	$ 6,883,739	$ 10,335,570	$ 9,640,640	$ 17,231,262	$ 16,524,379

This summary reflects almost no increase in governmental activities net assets and an increase of 7 percent in the business-type activities net assets.

Total revenue reported in Fiscal Year 2006 was $6,249,025. The following table breaks down revenues for governmental activities and business-type activities for fiscal year 2006 and 2005.

Revenue Source	Governmental Activities 2006	Governmental Activities 2005	Business-Type Activities 2006	Business-Type Activities 2005	Total 2006	Total 2005
Program revenues:						
Charges for services	$ 210,132	$ 214,369	$ 4,005,574	$ 3,510,167	$ 4,215,706	$ 3,724,536
Operating grants and contributions	316,786	369,757	-	-	316,786	369,757
Capital grants and contributions	97,785	1,081,996	-	383,267	97,785	1,465,263
Total program revenues	$ 624,703	$ 1,666,122	$ 4,005,574	$ 3,893,434	$ 4,630,277	$ 5,559,556
General revenues and interfund transfers:						
Property taxes	$ 1,128,602	$ 984,726	$ -	$ -	$ 1,128,602	$ 984,726
Local option sales tax	305,685	303,119	-	-	305,685	303,119
Hotel/motel tax	34,436	24,480	-	-	34,436	24,480
Interest	39,688	43,373	2,428	34,071	42,116	77,444
Use of property	-	-	13,880	12,133	13,880	12,133
Gain on sale of assets	50,763	49,817	-	-	50,763	49,817
Miscellaneous	29,267	46,890	13,999	1,280	43,266	48,170
Interfund transfers	171,209	323,109	(171,209)	(323,109)	-	-
Total general revenues and interfund transfers	$ 1,759,650	$ 1,775,514	$ (140,902)	$ (275,625)	$ 1,618,748	$ 1,499,889
	$ 2,384,353	$ 3,441,636	$ 3,864,672	$ 3,617,809	$ 6,249,025	$ 7,059,445

Program revenues totaled $4,630,277 for fiscal year 2006. Governmental activities provided $624,703 and business-type activities provided $4,005,574. Charges for services during the year was $4,215,706, accounting for 92 percent of total program revenues.

General revenues for fiscal year 2006 totaled $1,618,748, with governmental activities providing $1,759,650, and business-type activities using $140,902. Property tax revenues for fiscal year 2006 totaled $1,128,602, accounting for 70 percent of general revenues.

Expenditures and expenses for fiscal year 2006 totaled $5,542,142. Expenditures for governmental activities totaled $2,372,400, accounting for 43 percent of total expenditures and expenses. Business-type activities expenses totaled $3,169,742, for 57 percent of the total. The following table shows total expenditures and expenses by Function/Program:

Program Level	Governmental Activities 2006	Governmental Activities 2005	Business-Type Activities 2006	Business-Type Activities 2005	Total 2006	Total 2005
Public safety	$ 934,927	$ 889,010	$ -	$ -	$ 934,927	$ 889,010
Public works	732,433	728,978	-	-	732,433	728,978
Culture and recreation	141,698	210,543	-	-	141,698	210,543
Community and economic development	72,653	49,963	-	-	72,653	49,963
General government	294,363	271,462	-	-	294,363	271,462
Interest and debt related costs	196,326	214,268	-	-	196,326	214,268
Electric utility	-	-	1,963,272	1,788,007	1,963,272	1,788,007
Water utility	-	-	447,258	418,780	447,258	418,780
Sewer utility	-	-	542,269	357,219	542,269	357,219
Solid waste utility	-	-	197,206	202,607	197,206	202,607
Storm water utility	-	-	19,737	31,047	19,737	31,047
Total expenditures and expenses	$ 2,372,400	$ 2,364,224	$ 3,169,742	$ 2,797,660	$ 5,542,142	$ 5,161,884

The following table shows the activities included within each program level:

Public Safety	Individual & Community Protection, Physical Health
Public Works	Roadway Construction, Airport Operations, General Streets, Transportation Services
Culture and Recreation	Education & Culture, Leisure Time Opportunities
Community and Economic Development	Economic Development and Community Beautification
General Government	Administration, Accounting, Support Services
Debt Service	Payment of Interest
Capital Projects	Construction of Capital Facilities
Electric Utility	Operation of Electric Distribution System
Water Utility	Operation of Water Supply Distribution System
Sewer Utility	Operation of Waste Water Treatment Plant/Collection System
Solid Waste Utility	Operation of Garbage and Recycling Collection and Disposal System
Storm Water Utility	Operation of Storm Water Drainage System

Governmental Activities

To aid in the understanding of the Statement of Activities, some additional clarification is given. Of particular interest is the format that is significantly different than a typical Statement of Revenues, Expenses and Changes in Fund Balance. Please note that the expenses are listed in the first column, with revenues from that particular program reported to the right. The result is a Net (Expense) Revenue calculation. This format highlights the respective financial burden that each of the functions place on the taxpayers. For example, the City spent $934,927 for Public Safety and received $263,219 in revenue, leaving a cost to taxpayers of $671,708 to be funded by various methods. The new format also identifies how much each function draws from general revenues or is self-financing through fees or grants. Some of the individual line item revenues reported for each function are:

Public Safety	Fines, Fees
Public Works	Road Use Tax, Rent
Culture and Recreation	Fees, State Aid
General Government	Licenses, Permits
Capital Projects	Donations, State Grants, Federal Grants

The total cost of governmental activities this year was $2,372,400. Of these costs, $210,132 was paid by those who directly benefited from the programs. Costs paid by other governments and organizations that subsidized certain programs with grants and contributions were $414,571, leaving a Net Expense of $1,747,697 for Governmental Activities. These expenses were covered with tax revenues, interest, and other general revenues. The Statement of Activities in the financial statements provides further detail. The net (expense) revenue by governmental activity is shown in the following table:

Functions/Programs	Net (Expense) Revenue	
	2006	2005
Governmental activities:		
Public safety	$ (671,708)	$ (715,135)
Public works	(447,149)	(199,828)
Culture and recreation	(141,698)	(151,270)
Community and economic development	(40,191)	(9,597)
General government	(250,625)	(240,000)
Capital projects	-	831,996
Debt service	(196,326)	(214,268)
Total net (expense) revenue governmental activities	$(1,747,697)	$ (698,102)
General revenues and interfund transfers	1,759,650	1,775,514
Change in net assets	$ 11,953	$ 1,077,412

Total resources available during the year to finance governmental operations were $9,268,092, consisting of net assets at July 1, 2005 of $6,883,739, program revenues of $624,703, and general revenues and transfers of $1,759,650. Total governmental activities during the year expended $2,372,400; thus, net assets were increased by $11,953 to $6,895,692.

Business-Type Activities

Business-type activities increased the City's net assets by $694,930, accounting for 100 percent of the growth in the City's net assets.

The cost of all proprietary activities this year was $3,169,742. As shown in the Statement of Activities, program revenue was $4,005,574, resulting in a total net revenue of $835,832.

Business-Type Activities	Net (Expense) Revenue	
	2006	2005
Electric utility	$ 658,635	$ 508,543
Water utility	178,200	238,921
Sewer utility	(84,801)	299,592
Solid waste utility	16,110	203
Storm water utility	67,688	48,515
Total net (expense) revenue business-type activities	$ 835,832	$ 1,095,774
General revenues and interfund transfers	(140,902)	(275,625)
Change in net assets	$ 694,930	$ 820,149

Total resources available during the year to finance business type activities were $13,505,312, consisting of net assets at July 1, 2005, of $9,640,640, program revenues of $4,005,574, and general revenues, net of transfers of $(140,902). Total business type activities during the year expended $3,169,742; thus, net assets were increased by $694,930 to $10,335,570.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance related legal requirements. The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing financing requirements. Unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of a fiscal year. The City's governmental funds reported combined ending fund balances of $528,499. The combined governmental funds balance decreased $726,250 from the prior year.

The General Fund is the main operating fund of the City. During the year, expenditures exceeded revenues in the General Fund by $44,204. Capital Projects expenditures exceeded revenues by $888,499. This change is the result of issuing an anticipatory note being shown at the fund level. Also, the Electric Utility Fund had revenues exceed expenditures by $666,268. The increase is due to a 10 percent increase in rates and a 15 percent increase in usage.

BUDGETARY HIGHLIGHTS

Comparing the fiscal year 2006 original (adopted) citywide amount of $6,171,845 to the final budget amount of $6,856,845 shows a net increase of $685,000.

Original Budget	Supplemental Changes	Amended Budget
$ 6,171,845	$ 685,000	$ 6,856,845

The following table shows the budget to actual variances by program:

Program	Final Budget	Actual (Cash Basis)	Variance Favorable (Unfavorable)
Public Safety	$ 982,993	$ 929,610	$ 53,383
Public Works	473,495	256,947	216,548
Culture and Recreation	336,066	131,446	204,620
Community and Economic Development	40,840	60,800	(19,960)
General Government	283,466	281,475	1,991
Capital Projects	1,051,359	875,576	175,783
Debt Service	546,484	553,667	(7,183)
Business-Type/Enterprise	3,142,142	4,239,417	(1,097,275)
	$ 6,856,845	$ 7,328,938	$ (472,093)

See pages 36-38 for more detail information regarding the City's budget.

CAPITAL ASSETS

The City's investment in capital assets, including land, buildings and improvements, equipment, streets, electric systems, sewer systems, water systems, and other infrastructure represents the value of the resources utilized to provide services to our citizens. The investment in capital assets as of June 30, 2006, was $17,837,508, (net of accumulated depreciation). This is an increase of $1,396,609 from fiscal year 2005. The gross additions to capital assets for fiscal years 2006 and 2005 are as follows:

	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
Infrastructure	$ 22,794	$ 953,316	$ -	$ -	$ 22,794	$ 953,316
Buildings	-	-	-	-	-	-
Land improvements	-	502,286	-	-	-	502,286
Distribution system	-	-	8,340	828,211	8,340	828,211
Equipment	245,067	507,303	78,848	52,780	323,915	560,083
Construction in progress	898,359	1,267,184	1,082,877	450,698	1,981,236	1,717,882
Total	$1,166,220	$ 3,230,089	$ 1,170,065	$ 1,331,689	$ 2,336,285	$ 4,561,778

Construction in progress consisted of costs associated with Alexander's subdivision improvements, pool rehabilitation, and an upgrade to #3 lift station.

See Note 5 to the financial statements for more information on the City's capital assets.

DEBT ADMINISTRATION

On June 30, 2006 the City had $5,335,000 of debt outstanding. This is a increase of $1,220,000 from the prior year. $1,685,000 of new debt was issued and $465,000 of existing debt was retired.

See Note 6 to the financial statements for more information on the City's long-term debt.

ECONOMIC FACTORS

The City of Sergeant Bluff continues to report strong residential and commercial building projects. Property tax is a major source of revenue and Sergeant Bluff is fortunate that it has seen minor, but consistent increases in assessed and taxable valuation.

This steady growth has allowed the City to maintain its high level of service. The City has budgeted for use of General Fund balance during the past years, but has projected a balanced budget for the next three years. The General Fund balance continues to remain at a solid 33 percent of expenditures.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the City of Sergeant Bluff's financial position for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City of Sergeant Bluff, Administration Office, Sergeant Bluff, Iowa.

FINANCIAL STATEMENTS

CITY OF SERGEANT BLUFF, IOWA

STATEMENT OF NET ASSETS

JUNE 30, 2006

	Primary Government		
ASSETS	Governmental Activities	Business-Type Activities	Total
Current assets:			
Cash	$ 1,176,243	$ 1,368,732	$ 2,544,975
Investments	1,724,353	28,652	1,753,005
Receivables (net, where applicable, of allowance for uncollectibles):			
Taxes	11,484	-	11,484
Subsequent year taxes	1,150,990	-	1,150,990
Accounts	-	470,155	470,155
Estimated unbilled usage	-	129,743	129,743
Due from other governmental agencies	90,014	-	90,014
Internal balances	(1,921,321)	1,921,321	-
Inventories	6,650	152,339	158,989
Prepaid assets	16,548	49,644	66,192
Total current assets	$ 2,254,961	$ 4,120,586	$ 6,375,547
Non-current assets:			
Restricted assets:			
Cash and cash equivalents	$ -	$ 26,430	$ 26,430
Bond issue costs	54,181	24,613	78,794
Land	393,609	202,934	596,543
Construction in progress	898,359	1,207,436	2,105,795
Infrastructure, property and equipment, net of accumulated depreciation (Note 5)	8,594,731	6,540,439	15,135,170
Total non-current assets	$ 9,940,880	$ 8,001,852	$ 17,942,732
Total assets	$ 12,195,841	$ 12,122,438	$ 24,318,279
LIABILITIES			
Current liabilities:			
Accounts payable	$ 154,446	$ 335,826	$ 490,272
Accrued wages	4,478	2,586	7,064
Accrued interest payable	15,178	4,217	19,395
Deferred revenue - subsequent year taxes	1,150,990	-	1,150,990
Bonds and notes payable due within one year	370,000	110,000	480,000
Total current liabilities	$ 1,695,092	$ 452,629	$ 2,147,721
Liabilities payable from restricted assets:			
Customer deposits	$ -	$ 26,430	$ 26,430
Total liabilities payable from restricted assets	$ -	$ 26,430	$ 26,430
Non-current liabilities:			
Bonds and notes payable due in more than one year	$ 3,570,000	$ 1,285,000	$ 4,855,000
Compensated absences due in more than one year	35,057	22,809	57,866
Total non-current liabilities	$ 3,605,057	$ 1,307,809	$ 4,912,866
Total liabilities	$ 5,300,149	$ 1,786,868	$ 7,087,017
NET ASSETS			
Invested in capital assets, net of related debt	$ 5,946,699	$ 6,555,809	$ 12,502,508
Restricted:			
Debt service	9,108	-	9,108
Local option sales tax purposes	279,967	-	279,967
Road purposes	349,718	-	349,718
Unrestricted	310,200	3,779,761	4,089,961
Total net assets	$ 6,895,692	$ 10,335,570	$ 17,231,262

See accompanying notes to financial statements.

CITY OF SERGEANT BLUFF, IOWA

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2006

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions
Primary government:				
Governmental activities:				
Public safety	$ 934,927	$ 157,654	$ 15,701	$ 89,864
Public works	732,433	6,567	278,717	-
Culture and recreation	141,698	-	-	-
Community and economic development	72,653	10,094	22,368	-
General government	294,363	35,817	-	7,921
Interest and related costs on long-term debt	196,326	-	-	-
Total governmental activities	$ 2,372,400	$ 210,132	$ 316,786	$ 97,785
Business-type activities:				
Electric utility	$ 1,963,272	$ 2,621,907	$ -	$ -
Water utility	447,258	625,458	-	-
Sewer utility	542,269	457,468	-	-
Solid waste utility	197,206	213,316	-	-
Storm water utility	19,737	87,425	-	-
Total business-type activities	$ 3,169,742	$ 4,005,574	$ -	$ -
Total primary government	$ 5,542,142	$ 4,215,706	$ 316,786	$ 97,785
General revenues:				
Property taxes, levied for general purposes				
Property taxes, levied for tax increment financing debt				
Property taxes, levied for debt service				
Local option sales tax				
Hotel/motel taxes				
Interest				
Use of property				
Gain on sale of assets				
Miscellaneous				
Transfers				
Total general revenues and transfers				
Change in net assets				
Net assets - beginning				
Net assets - ending				

See accompanying notes to financial statements.

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business-Type Activities	Total
$ (671,708)	$ -	$ (671,708)
(447,149)	-	(447,149)
(141,698)	-	(141,698)
(40,191)	-	(40,191)
(250,625)	-	(250,625)
(196,326)	-	(196,326)
$ (1,747,697)	$ -	$ (1,747,697)
$ -	$ 658,635	$ 658,635
-	178,200	178,200
-	(84,801)	(84,801)
-	16,110	16,110
-	67,688	67,688
$ -	$ 835,832	$ 835,832
$ (1,747,697)	$ 835,832	$ (911,865)
$ 739,050	$ -	$ 739,050
64,969	-	64,969
324,583	-	324,583
305,685	-	305,685
34,436	-	34,436
39,688	2,428	42,116
-	13,880	13,880
50,763	-	50,763
29,267	13,999	43,266
171,209	(171,209)	-
$ 1,759,650	$ (140,902)	$ 1,618,748
$ 11,953	$ 694,930	$ 706,883
6,883,739	9,640,640	16,524,379
$ 6,895,692	$ 10,335,570	$ 17,231,262

CITY OF SERGEANT BLUFF, IOWA

BALANCE SHEET - GOVERNMENTAL FUNDS

JUNE 30, 2006

	General	Debt Service	Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS					
Cash	$ 505,431	$ 22,620	$ -	$ 648,192	$ 1,176,243
Investments	4,353	-	1,625,000	95,000	1,724,353
Receivables (net, where applicable, of allowance for uncollectibles):					
Taxes	8,054	3,430	-	-	11,484
Subsequent year taxes	804,437	346,553	-	-	1,150,990
Due from other governmental agencies	18,818	-	-	71,196	90,014
Interfund receivable	44,125	-	-	-	44,125
Inventories	-	-	-	6,650	6,650
Total assets	$ 1,385,218	$ 372,603	$ 1,625,000	$ 821,038	$ 4,203,859
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	$ 91,438	$ -	$ 63,008	$ -	$ 154,446
Accrued wages	4,478	-	-	-	4,478
Interfund payable	-	-	1,921,321	44,125	1,965,446
Deferred revenue - subsequent year taxes	804,437	346,553	-	-	1,150,990
Bond anticipation note payable	-	-	400,000	-	400,000
Total liabilities	$ 900,353	$ 346,553	$ 2,384,329	$ 44,125	$ 3,675,360
Fund balances:					
Reserved for:					
Inventories	$ -	$ -	$ -	$ 6,650	$ 6,650
Debt service	-	26,050	-	-	26,050
Unreserved, reported in:					
General fund	484,865	-	-	-	484,865
Special revenue funds	-	-	-	770,263	770,263
Capital projects fund	-	-	(759,329)	-	(759,329)
Total fund balances (deficits)	$ 484,865	$ 26,050	$ (759,329)	$ 776,913	$ 528,499
Total liabilities and fund balances (deficits)	$ 1,385,218	$ 372,603	$ 1,625,000	$ 821,038	$ 4,203,859

See accompanying notes to financial statements.

CITY OF SERGEANT BLUFF, IOWA

RECONCILIATION OF THE BALANCE SHEET OF

GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS

JUNE 30, 2006

Total governmental fund balances (page 13)		$ 528,499
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the governmental funds balance sheet.		9,886,699
Prepaid expenses are reported in the governmental activities but are not reported in the funds as they do not provide current economic resources.		16,548
Accrued interest payable on long-term debt does not require current financial resources; therefore, it is not reported as a liability in the governmental funds balance sheet.		(15,178)
Compensated absences are not due and payable in the current period and therefore, are not reported as liabilities in the funds.		(35,057)
Long-term liabilities are not due and payable in the current period and, therefore, they are not reported in the governmental funds balance sheet.		
Due within one year	$ 370,000	
Due in more than one year	3,170,000	
Deferred charges	(54,181)	(3,485,819)
Total net assets of governmental activities (page 11)		$ 6,895,692

See accompanying notes to financial statements.

CITY OF SERGEANT BLUFF, IOWA

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES

IN FUND BALANCES - GOVERNMENTAL FUNDS

YEAR ENDED JUNE 30, 2006

	General	Debt Service	Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
Revenue:					
Taxes	$ 773,486	$ 324,583	$ -	$ -	$ 1,098,069
Tax increment financing	-	-	-	64,969	64,969
Other city taxes	-	-	-	305,685	305,685
Special assessment	-	-	-	6,567	6,567
Licenses and permits	48,673	-	-	-	48,673
Intergovernmental revenue	15,397	-	-	368,581	383,978
Charges for services	37,456	-	-	79,976	117,432
Fines and forfeits	16,663	-	-	-	16,663
Contributions	30,289	-	-	15,701	45,990
Rental income	6,600	-	-	-	6,600
Interest	38,825	-	100	763	39,688
Miscellaneous	23,911	-	-	4,156	28,067
Total revenue	$ 991,300	$ 324,583	$ 100	$ 846,398	$ 2,162,381
Expenditures:					
Operating:					
Public safety	$ 801,334	$ -	$ -	$ 133,614	$ 934,948
Public works	241,329	-	-	903	242,232
Culture and recreation	136,670	-	-	-	136,670
Community and economic development	62,889	-	-	-	62,889
General government	281,676	-	-	-	281,676
Capital projects	-	-	902,415	-	902,415
Debt service	-	545,273	4,500	-	549,773
Total expenditures	$ 1,523,898	$ 545,273	$ 906,915	$ 134,517	$ 3,110,603
Excess (deficiency) of revenues over expenditures	$ (532,598)	$ (220,690)	$ (906,815)	$ 711,881	$ (948,222)
Other financing sources (uses):					
Proceeds from the sale of assets	$ 50,763	$ -	$ -	$ -	$ 50,763
Transfers in	455,947	271,347	18,316	-	745,610
Transfers out	(18,316)	-	-	(556,085)	(574,401)
Total other financing sources (uses)	$ 488,394	$ 271,347	$ 18,316	$ (556,085)	$ 221,972
Net change in fund balance	$ (44,204)	$ 50,657	$ (888,499)	$ 155,796	$ (726,250)
Fund balances (deficits) - beginning of year	529,069	(24,607)	129,170	621,117	1,254,749
Fund balances (deficits) - end of year	$ 484,865	$ 26,050	$ (759,329)	$ 776,913	$ 528,499

See accompanying notes to financial statements.

CITY OF SERGEANT BLUFF, IOWA

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES

IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2006

Net changes in fund balances - total governmental funds (page 15)		$ (726,250)
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays, including infrastructure, as expenditures. However, in the government-wide statement of activities and changes in net assets, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. Capital outlays exceeded depreciation expense in the current year as follows:		
Capital asset purchases capitalized	$ 1,143,426	
Depreciation expense	(725,990)	417,436
Prepaid insurance is not reported in the governmental funds as it is not available to provide current financial resources.		(3,480)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds:		
Accrued compensated absences		(29,200)
Accrued interest expense on long-term debt is reported in the government-wide statement of activities and changes in net assets, but does not require the use of current financial resources; therefore, accrued interest expense is not reported as expenditures in governmental funds.		1,764
The issuance of long-term debt (e.g. bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs when debt is first issued, whereas the amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.		
Bond issuance costs	$ 4,500	
Bond principal retirement	355,000	
Amortization of deferred charges	(7,817)	351,683
Change in net assets of governmental activities (page 12)		$ 11,953

See accompanying notes to financial statements.

CITY OF SERGEANT BLUFF, IOWA

STATEMENT OF NET ASSETS - PROPRIETARY FUNDS

JUNE 30, 2006

	Business-Type Activities	
	Electric Utility	Water Utility
ASSETS		
Current assets:		
Cash	$ 501,640	$ 136,306
Investments	-	18,872
Receivables (net, where applicable, of allowance for uncollectibles):		
Accounts	286,587	99,405
Estimated unbilled funds	78,252	29,461
Interfund receivable	1,921,321	-
Inventories	152,339	-
Prepaid assets	16,548	16,548
Total current assets	$ 2,956,687	$ 300,592
Non-current assets:		
Restricted assets:		
Cash and cash equivalents	$ 26,430	$ -
Unamortized bond issue costs	-	3,086
Land	-	151,344
Construction in progress	-	-
Infrastructure, property and equipment, net of accumulated depreciation	969,347	3,402,941
Total non-current assets	$ 995,777	$ 3,557,371
Total assets	$ 3,952,464	$ 3,857,963
LIABILITIES		
Current liabilities:		
Accounts payable	$ 146,380	$ 33,501
Accrued wages	1,280	596
Accrued interest payable	-	600
General obligation bonds payable due within one year	-	20,000
Total current liabilities	$ 147,660	$ 54,697
Liabilities payable from restricted assets:		
Customer deposits	$ 26,430	$ -
Total liabilities payable from restricted assets	$ 26,430	$ -
Non-current liabilities:		
General obligation bonds payable due in more than one year	$ -	$ 180,000
Compensated absences	7,839	8,840
Total non-current liabilities	$ 7,839	$ 188,840
Total liabilities	$ 181,929	$ 243,537
NET ASSETS		
Invested in capital assets, net of related debt	$ 969,347	$ 3,354,285
Unrestricted	2,801,188	260,141
Total net assets	$ 3,770,535	$ 3,614,426

See accompanying notes to financial statements.

Business-Type Activities			
Sewer Utility	Solid Waste Utility	Storm Water Utility	Total
$ 589,927	$ 44,057	$ 96,802	$ 1,368,732
9,780	-	-	28,652
51,439	24,498	8,226	470,155
13,134	6,523	2,373	129,743
-	-	-	1,921,321
-	-	-	152,339
16,548	-	-	49,644
$ 680,828	$ 75,078	$ 107,401	$ 4,120,586
$ -	$ -	$ -	$ 26,430
21,527	-	-	24,613
51,590	-	-	202,934
1,207,436	-	-	1,207,436
2,104,513	-	63,638	6,540,439
$ 3,385,066	$ -	$ 63,638	$ 8,001,852
$ 4,065,894	$ 75,078	$ 171,039	$ 12,122,438
$ 142,924	$ 13,021	$ -	$ 335,826
710	-	-	2,586
3,617	-	-	4,217
90,000	-	-	110,000
$ 237,251	$ 13,021	$ -	$ 452,629
$ -	$ -	$ -	$ 26,430
$ -	$ -	$ -	$ 26,430
$ 1,105,000	$ -	$ -	$ 1,285,000
6,130	-	-	22,809
$ 1,111,130	$ -	$ -	$ 1,307,809
$ 1,348,381	$ 13,021	$ -	$ 1,786,868
$ 2,168,539	$ -	$ 63,638	$ 6,555,809
548,974	62,057	107,401	3,779,761
$ 2,717,513	$ 62,057	$ 171,039	$ 10,335,570

CITY OF SERGEANT BLUFF, IOWA

STATEMENT OF REVENUES, EXPENSES, AND

CHANGES IN NET ASSETS - PROPRIETARY FUNDS

FOR THE YEAR ENDED JUNE 30, 2006

	Business-Type Activities	
	Electric Utility	Water Utility
Operating revenues:		
Charges for services	$ 2,621,907	$ 625,458
Operating expenses:		
Cost of service	$ 1,904,891	$ 366,387
Depreciation	58,381	71,544
Total operating expenses	$ 1,963,272	$ 437,931
Operating income (loss)	$ 658,635	$ 187,527
Non-operating income (expense):		
Interest income	$ 414	$ 284
Revenue from use of property	-	13,880
Other non-operating revenues	7,219	4,982
Interest expense	-	(9,327)
Total non-operating income (expenses)	$ 7,633	$ 9,819
Income (loss) before contributions and transfers	$ 666,268	$ 197,346
Transfers out	-	(116,594)
Change in net assets	$ 666,268	$ 80,752
Net assets - beginning	3,104,267	3,533,674
Net assets - ending	$ 3,770,535	$ 3,614,426

See accompanying notes to financial statements.

Business-Type Activities			
Sewer Utility	Solid Waste Utility	Storm Water Utility	Total
$ 457,468	$ 213,316	$ 87,425	$ 4,005,574
$ 435,643	$ 197,206	$ 16,979	$ 2,921,106
58,209	-	2,758	190,892
$ 493,852	$ 197,206	$ 19,737	$ 3,111,998
$ (36,384)	$ 16,110	$ 67,688	$ 893,576
$ 1,730	$ -	$ -	$ 2,428
-	-	-	13,880
1,798	-	-	13,999
(48,417)	-	-	(57,744)
$ (44,889)	$ -	$ -	$ (27,437)
$ (81,273)	$ 16,110	$ 67,688	$ 866,139
(54,615)	-	-	(171,209)
$ (135,888)	$ 16,110	$ 67,688	$ 694,930
2,853,401	45,947	103,351	9,640,640
$ 2,717,513	$ 62,057	$ 171,039	$ 10,335,570

CITY OF SERGEANT BLUFF, IOWA

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS

FOR THE YEAR ENDED JUNE 30, 2006

	Business-Type Activities	
	Electric Utility	Water Utility
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers	$ 2,618,492	$ 567,354
Cash paid to suppliers for goods and services	(1,772,441)	(256,529)
Cash paid to employees for services	(226,030)	(121,742)
Other receipts	7,219	18,862
Net cash provided by (used in) operating activities	$ 627,240	$ 207,945
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchases of capital assets	$ (41,089)	$ (25,808)
Proceeds from capital debt	-	-
Principal paid on capital debt	-	(20,000)
Interest and bond costs paid	-	(9,851)
Net cash provided by (used in) capital and related financing activities	$ (41,089)	$ (55,659)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
Operating transfers to other funds	$ -	$ (116,594)
Advances from (to) other funds, net of repayments	(518,274)	-
Net cash provided by (used in) non-capital financing activities	$ (518,274)	$ (116,594)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments	$ -	$ (385)
Proceeds from sale of investments	328,488	-
Interest earned on investments	1,373	386
Net cash provided by (used in) non-capital financing activities	$ 329,861	$ 1
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	$ 397,738	$ 35,693
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	130,332	100,613
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 528,070	$ 136,306
Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating income (loss)	$ 658,635	$ 187,527
Adjustments to reconcile net operating income (loss) to net cash provided by operating activities:		
Depreciation	$ 58,381	$ 71,544
Miscellaneous receipts	7,219	18,862
(Increase) decrease in assets:		
Accounts receivable	2,877	(39,293)
Estimated unbilled usage	(7,378)	(18,811)
Prepaids	2,958	4,077
Increase (decrease) in liabilities:		
Accounts payable	(95,367)	(20,005)
Accrued wages and compensated absences	(1,171)	4,044
Customer deposits	1,086	-
Total adjustments	$ (31,395)	$ 20,418
Net cash provided by (used in) operating activities	$ 627,240	$ 207,945
CASH RECONCILIATION:		
Cash	$ 501,640	$ 136,306
Unrestricted cash	26,430	-
Total	$ 528,070	$ 136,306
SUPPLEMENTAL SCHEDULE OF NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchases of property and equipment incurred by short-term debt (accounts payable)	$ -	$ -

See accompanying notes to financial statements.

	Business-Type Activities			
	Sewer Utility	Solid Waste Utility	Storm Water Utility	Total
	$ 457,264	$ 211,665	$ 81,766	$ 3,936,541
	(195,719)	(197,019)	(16,979)	(2,438,687)
	(147,950)	-	-	(495,722)
	1,798	-	-	27,879
	$ 115,393	$ 14,646	$ 64,787	$ 1,030,011
	$ (1,049,840)	$ -	$ (2,092)	$ (1,118,829)
	1,285,000	-	-	1,285,000
	(90,000)	-	-	(110,000)
	(66,327)	-	-	(76,178)
	$ 78,833	$ -	$ (2,092)	$ (20,007)
	$ (54,615)	$ -	$ -	$ (171,209)
	78,634	-	-	(439,640)
	$ 24,019	$ -	$ -	$ (610,849)
	$ (197)	$ -	$ -	$ (582)
	-	-	-	328,488
	1,762	-	-	3,521
	$ 1,565	$ -	$ -	$ 331,427
	$ 219,810	$ 14,646	$ 62,695	$ 730,582
	370,117	29,411	34,107	664,580
	$ 589,927	$ 44,057	$ 96,802	$ 1,395,162
	$ (36,384)	$ 16,110	$ 67,688	$ 893,576
	$ 58,209	$ -	$ 2,758	$ 190,892
	1,798	-	-	27,879
	2,352	443	(4,289)	(37,910)
	(2,556)	(2,094)	(1,370)	(32,209)
	4,077	-	-	11,112
	86,449	187	-	(28,736)
	1,448	-	-	4,321
	-	-	-	1,086
	$ 151,777	$ (1,464)	$ (2,901)	$ 136,435
	$ 115,393	$ 14,646	$ 64,787	$ 1,030,011
	$ 589,927	$ 44,057	$ 96,802	$ 1,368,732
	-	-	-	26,430
	$ 589,927	$ 44,057	$ 96,802	$ 1,395,162
	$ 51,236	$ -	$ -	$ 51,236

CITY OF SERGEANT BLUFF, IOWA

STATEMENT OF FIDUCIARY NET ASSETS - AGENCY FUND

JUNE 30, 2006

ASSETS:	
Cash	$ 7,623
LIABILITIES:	
Accounts payable	$ 7,623
NET ASSETS:	
Unrestricted	$ -

See accompanying notes to financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The City of Sergeant Bluff, Iowa, is a political subdivision of the State of Iowa located in Woodbury County, and was incorporated in 1854, under the laws of the State of Iowa, later amended in 1974 under the Home Rule City Act. The City operates under a Mayor-Council form of government, with an appointed administrator, elected on a nonpartisan basis and administers the following programs as authorized by its charter: public safety, public works, culture and recreation, community and economic development, general government, capital projects and debt service. The City also has municipal electric, water, sewer, solid waste and storm water utility systems which are governed by the City Council.

The City's financial statements are prepared in accordance with U.S. generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow certain other pronouncements issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. The City elects not to apply the applicable FASB statements and interpretations issued after November 30, 1989 in accounting and reporting its proprietary operations. The more significant accounting policies established in GAAP and used by the City are discussed below.

A. Reporting Entity - For financial reporting purposes, the City of Sergeant Bluff, Iowa, has included all its 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. The City has no component units that meet the Governmental Accountings Standards Board criteria.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

Jointly Governed Organizations - The City also participates in several jointly governed organizations for which the City is not financially accountable or that the nature and significance of the relationship with the City are such that exclusion does not cause the City's financial statements to be misleading or incomplete. City officials are members of the following Boards or Commissions: Woodbury County Solid Waste Agency Board, Woodbury County Joint E-911 Services Board and Woodbury County Conference Board.

B. Basis of Presentation

The City's basic financial statements include both government-wide (reporting the City as a whole) and fund financial statements (reporting the City's major funds). Both the government-wide and fund financial statements categorize primary activities as either governmental or business-type. The City's general, special revenue, debt service, and capital projects funds are classified as governmental activities.

Government-Wide Statements

In the government-wide statement of net assets, both the governmental and business-type activities columns (a) are presented on a consolidated basis by column, and (b) are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The City's net assets are reported in three parts-invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. The City first uses any restricted resources to finance qualifying activities.

The government-wide statement of activities reports both the gross and net cost of each of the City's governmental functions (public safety, public works, culture and recreation, community and economic development, general government, etc.) and business-type activities. The functions are also supported by related program revenue, operating grants, and capital grants. Program revenue must be directly associated with the function or a business-type activity. Operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants.

Direct expenses are reported for each City function. The City does not allocate its indirect expenses to each function.

This government-wide focus is more on the sustainability of the City as an entity and the change in the City's net assets resulting from the current year activities.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

Fund Accounting

The accounts of the City are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for by a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Government resources are allocated to, and accounted for, in individual funds based on the purpose for which they are to be spent and the means by which spending activities are controlled.

The emphasis in fund financial statements is on the major funds in both the governmental category and enterprise type. GASB No. 34 sets forth minimum criteria for the determination of major funds. The City electively added funds, as major funds, which had a specific community focus. The nonmajor governmental funds are combined into a single column in the governmental fund financial statements.

Governmental Fund Types - The governmental fund financial statements are reported using the current financial resources measurement focus. This means that the focus of the governmental funds' measurement is upon the determination of financial position and changes in financial position (sources, uses and balances of financial resources) rather than upon net income. The following is a description of the major governmental funds of the City:

1) General Fund - The General Fund is the main operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund. The sources of revenue include property taxes, charges for services, fines and fees, licenses and permits, as well as state and federal grants. The expenditures of the General Fund relate to general administration, police and fire protection, economic development, and culture and recreation.

2) Debt Service Fund - Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt, principal, interest, and related costs.

3) Capital Projects Fund - The Capital Projects Fund is used to account for the construction of major capital improvements and infrastructure financed by transfer from other funds and bond issues. The current capital projects include the Alexander subdivision development and the pool rehabilitation.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

Proprietary Fund - The focus of proprietary fund measurement is upon determination of operating income, changes in net assets, financial position, and cash flows. Operating revenues and expenses are distinguished from non-operating revenues and expenses. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal operating revenues of enterprise funds are charges to customers for services. Operating expenses consist of cost of sales and services, administrative expenses and depreciation on capital assets.

Enterprise Funds - Enterprise funds are used to account for business-like activities provided to the general public. These activities are financed primarily by user charges and the measurement of financial activity focuses on net income measurement similar to the private sector. The major enterprise funds are listed as follows:

The Water and Sewer Funds are used to account for the provision of water and sewer services to the residents of the City. Activities of the fund include administration, operation and maintenance of the water system and billing and collection activities. The fund also accounts for the accumulation of resources for, and the payment of, long-term debt principal and interest for water and sewer debt. All costs are financed through charges to utility customers with rates reviewed regularly and adjusted if necessary to ensure integrity of the funds.

The Solid Waste Fund is used to account for billing, collection and payment for solid waste collection and disposal services. All costs are financed though charges to sanitation customers.

The Electric Fund is used to account for the operations of the City's electric distribution system, including the administration, operation and maintenance. All costs are financed through charges to utility customers with rates adjusted monthly to ensure integrity of the fund.

The Storm Water Utility Fund is used to account for the operations of the City's storm water utility system, including the administration, operation and maintenance. All costs are financed though charges to utility customers.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

Fiduciary Fund - Fiduciary fund accounts for assets held by the City in a purely custodial capacity. Since an agency fund is custodial in nature, they do not involve the measurement of results of operations and are not incorporated into the government-wide financial statements. The City's Agency Fund is used to account for a medical flexible spending account for employees.

C. Measurement Focus and Basis of Accounting - Basis of accounting refers to the point at which revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made, regardless of the measurement focus applied.

Accrual basis of accounting is used for all activities in the government-wide financial statements and for the proprietary and fiduciary activities in the fund financial statements. Revenues are recognized when they occur and expenses are recognized when incurred.

Modified accrual basis of accounting is used by all governmental funds in the fund financial statements. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The City considers property taxes as available if they are collected within 60 days after year-end. A one-year availability period is used for revenue recognition for all other governmental fund revenues.

Expenditures are recorded when the related fund liability is incurred. An exception to this general rule is that principal and interest on general obligation debt, if any, is recognized when due.

Those revenues susceptible to accrual are property taxes, assessments, and intergovernmental revenues. Licenses, fines and permits are not susceptible to accrual because generally they are not measurable until received in cash.

D. Budget - The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2006, disbursements exceeded the amount budgeted in the community and economic development, debt service and business-type functions.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

E. Pooled Cash And Investments - The cash balances of most City funds are pooled and invested.

1) Cash and Cash Equivalents - Includes investments with original maturities of three months or less.

2) Investments - Investments consist of certificates of deposit with original maturities of more than three months and perfected repurchase agreement. The City reports certificates of deposit and perfected repurchase agreement at cost.

F. Property Tax Receivable - Property tax in governmental funds is accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the City Council to the County Board of Supervisors. Current year delinquent property taxes receivable represents unpaid taxes from the current year. The succeeding year property tax receivable represents taxes certified by the City Council to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the City Council is required to certify its budget to the County Auditor by March 15 of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1-1/2 percent per month penalty for delinquent payments; is based on January 1, 2004 assessed property valuations; is for the tax accrual period July 1, 2005 through June 30, 2006 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April 2005. Any county collections on the 2005-2006 tax levy remitted to the City within 60 days subsequent to June 30, 2006, are recorded as property tax revenue.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

G. Short-Term Interfund Receivables/Payables - During the course of its operations, the City has numerous transactions between funds to finance operations, provide services, construct assets, and service debt. To the extent that certain transactions between funds have not been paid or received as of June 30, 2006, balances of interfund amounts payable or receivable have been recorded. Any residual balances outstanding between governmental activities and business-type activities are reported in the government-wide financial statements as internal balances and eliminated upon consolidation.

H. Restricted Assets - Customer deposits held as a security deposit for utility customers are recorded as restricted assets to indicate that their use is limited to payment of delinquent utility bills or refunds to customers.

I. Inventories - Inventories of the proprietary fund types are valued at cost, which approximates market, using the first-in/first-out (FIFO) method. The costs of governmental fund-type inventories are recorded as expenditures when purchase rather than when consumed.

J. Prepaid Items - Payments made to vendors for services that will benefit periods beyond June 30, 2006 are recorded as prepaid items.

K. Bond Issuance Costs - Bond issuance costs for governmental fund types are deferred and amortized over the term of the bonds in the governmental activities column of the government-wide Statement of Net Assets.

L. Property and Equipment - Capital assets with an initial individual cost of $1,000 or more are capitalized. Property and equipment are valued at historical cost or estimated historical cost if actual historical cost is not available. Contributed assets are reported at their fair value as of the date received. Additions, improvements, and other capital outlays that significantly extending the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Infrastructure has been capitalized using historical or estimated historical cost beginning in 1980 as required by GASB 34. Depreciation on all assets is provided on the straight-line basis over the following estimated lives:

Buildings	20 - 50 Years
Utility Plant	30 - 33 Years
Land Improvements	20 - 50 Years
Machinery and Equipment	5 - 20 Years
Infrastructure	20 - 100 Years

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

M. Compensated Absences - The City accrues accumulated unpaid vacation costs and related employee benefits when earned (or estimated to be earned) by the employee. The amount estimated to be used in subsequent fiscal years for governmental funds is reported only as a general liability in the government-wide statement of net assets and represents a reconciling item between the fund and government-wide presentations.

N. Long-Term Obligations - Long-term debt is recognized as a liability of a governmental fund when due, or when resources have been accumulated in the debt service fund for payment early in the following year. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund. The remaining portion of such obligations is reported in the government-wide financial statements. Long-term liabilities expected to be financed from proprietary fund operations are accounted for in those funds.

O. Fund Equity - Reserves represent those portions of fund equity legally segregated for a specific future use.

P. Interfund Activity - Interfund activity are reported as services provided, reimbursements or transfers. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements are when a fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers between governmental or between proprietary funds are netted as part of the reconciliation to the government-wide financial statements.

NOTE 2 - CASH AND CASH EQUIVALENTS AND 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 obligation 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; and certain joint investment trusts.

NOTE 2 - CASH AND CASH EQUIVALENTS AND INVESTMENTS (CONTINUED):

At June 30, 2006, the City had investments as follows:

Certificate of deposits	$ 128,005
Perfected repurchase agreement - maturity July 2006	1,625,000
	$ 1,753,005

The City's $1,625,000 investment in repurchase agreements is held in the name of the City and underlying securities (totaling $1,750,000) are held by an authorized custodian of the City.

NOTE 3 - DUE FROM OTHER GOVERNMENTS:

At June 30, 2006, amounts due from other governments were as follows:

Due from the Iowa Department of Transportation for road use tax collections	$ 21,653
Due from the State of Iowa for local option sales taxes	49,543
Due from other governments for miscellaneous grants	18,818
Total due from other governments	$ 90,014

NOTE 4 - INTERFUND RECEIVABLES AND PAYABLES:

As of June 30, 2006, short-term interfund borrowings were as follows:

Interfund Receivables	Interfund Payables	Amount
General Fund	Non-major - Volunteer Fire Department	$ 44,125
Proprietary - electric	Capital projects	1,921,321
		$ 1,965,446

Volunteer Fire Department was advanced $44,125 for equipment purchases and Electric Utility advanced Capital Projects funds for projects to be financed with current resources and additional debt issuance. The balances are scheduled to be collected in the subsequent year.

NOTE 5 - CAPITAL ASSETS:

A summary of changes in capital assets is as follows:

Governmental activities	Balance July 1, 2005	Additions	Deletions	Balance June 30, 2006
Capital assets not being depreciated:				
Land	$ 393,609	$ -	$ -	$ 393,609
Construction in progress	22,794	898,359	22,794	898,359
Total capital assets not being depreciated	$ 416,403	$ 898,359	$ 22,794	$ 1,291,968
Capital assets being depreciated:				
Buildings	$ 1,967,139	$ -	$ -	$ 1,967,139
Equipment	2,201,634	245,067	-	2,446,701
Land improvements	502,286	-	-	502,286
Infrastructure	10,496,005	22,794	-	10,518,799
	$15,167,064	$ 267,861	$ -	$15,434,925
Less: accumulated depreciation for:				
Buildings	$ 188,932	$ 49,307	$ -	$ 238,239
Equipment	1,199,519	190,029	-	1,389,548
Land improvements	6,279	12,557	-	18,836
Infrastructure	4,719,474	474,097	-	5,193,571
Total accumulated depreciation	$ 6,114,204	$ 725,990	$ -	$ 6,840,194
Total capital assets being depreciated, net	$ 9,052,860	$ (458,129)	$ -	$ 8,594,731
Governmental activities capital assets, net	$ 9,469,263	$ 440,230	$ 22,794	$ 9,886,699

NOTE 5 - CAPITAL ASSETS (CONTINUED):

Business-Type Activities	Balance July 1, 2005	Additions	Deletions	Balance June 30, 2006
Capital assets not being depreciated:				
Land	$ 202,934	$ -	$ -	$ 202,934
Construction in progress	124,559	1,082,877	-	1,207,436
Total capital assets not being depreciated	$ 327,493	$ 1,082,877	$ -	$ 1,410,370
Capital assets being depreciated:				
Buildings and improvements	$ 855,800	$ -	$ -	$ 855,800
Equipment	400,208	78,848	-	479,056
Distribution system	6,764,317	8,340	-	6,772,657
Total capital assets being depreciated	$ 8,020,325	$ 87,188	$ -	$ 8,107,513
Less: accumulated depreciation	1,376,182	190,892	-	1,567,074
Total capital assets being depreciated, net	$ 6,644,143	$ (103,704)	$ -	$ 6,540,439
Business-type activities capital assets, net	$ 6,971,636	$ 979,173	$ -	$ 7,950,809

Construction in progress at June 30, 2006 consisted of costs associated with Alexander's Subdivision, pool rehabilitation and an upgrade to #3 lift station.

Depreciation expense was charged to functions/programs of the City as follows:

Governmental activities:	
Public safety	$ 157,686
Public works	524,552
Culture and recreation	23,604
Community and economic development	9,764
General government	10,384
Total depreciation expense - governmental activities	$ 725,990
Business-type activities:	
Water	$ 71,544
Sewer	58,209
Electric	58,381
Storm water	2,758
Total depreciation expense - business-type activities	$ 190,892

NOTE 5 - CAPITAL ASSETS (CONTINUED):

	Governmental Activities	Business-Type Activities
Land	$ 393,609	$ 202,934
Construction in progress	898,359	1,207,436
Capital assets (net of accumulated depreciation)	8,594,731	6,540,439
Less: general obligation bonds and anticipation notes payable	(3,940,000)	(1,395,000)
Investment in capital assets, net of related debt	$ 5,946,699	$ 6,555,809

NOTE 6 - LONG-TERM DEBT:

The City's computed legal debt limit as of June 30, 2006, is $7,873,439 of which $5,335,000 is committed for outstanding general obligation debt.

The following is a summary of bond transactions of the City for the year ended June 30, 2006:

Primary Government	Governmental Activities Bonds and Notes Paid by Debt Service Fund	Business-Type Activities Bonds and Notes Paid by Enterprise Funds
Bonds and notes payable July 1, 2005	$ 3,895,000	$ 220,000
Plus: bonds and notes issued	400,000	1,285,000
Less: payments	(355,000)	(110,000)
Bonds and notes payable June 30, 2006	$ 3,940,000	$ 1,395,000
Due within one year	$ 370,000	$ 110,000

General Obligation	Date of Issue	Interest Rates	Final Due Date	Annual Payments	Amount Originally Issued	Outstanding June 30, 2006
Corporate purpose	1999	4.30-5.50%	2015	$75,000 - $120,000	$ 1,330,000	$ 895,000
Swimming pool	2001	4.75-5.40%	2017	$65,000 - $120,000	1,300,000	1,060,000
Corporate purpose	2001	3.50-5.20%	2015	$65,000 - $100,000	960,000	760,000
Corporate purpose	2004	2.00-4.80%	2016	$35,000 - $50,000	500,000	430,000
Refunding + Water	2005	2.75-4.10%	2015	$25,000 - $135,000	720,000	595,000
Interstate Lift Station	2006	2.85-4.10%	2017	$90,000 - $130,000	1,285,000	1,195,000
Bond Anticipation Note	2006	3.6%	2008	-	400,000	400,000
Total general obligation					$ 6,495,000	$ 5,335,000

NOTE 6 - LONG-TERM DEBT (CONTINUED):

The following is a schedule of debt service requirements to maturity:

Year	Principal	Interest	Total
2007	$ 480,000	$ 232,743	$ 712,743
2008	910,000	214,350	1,124,350
2009	490,000	179,710	669,710
2010	505,000	159,333	664,333
2011	435,000	137,760	572,760
2012 -2016	2,265,000	366,333	2,631,333
2017	250,000	11,810	261,810
	$ 5,335,000	$ 1,302,039	$ 6,637,039

In December 2005, the City issued $400,000 of bond anticipation notes to finance the rehabilitation of the swimming pool. The notes mature June 1, 2008 and accrue interest at 3.60 percent.

In July 2005, the City issued $1,285,000 of general obligation sewer improvement bonds to finance the construction of a new lift station. The notes mature June 1, 2017 and accrue interest at up to 4.1 percent.

NOTE 7 - TRANSFERS:

The following is a summary of transfers between funds:

	General	Debt Service	Capital Projects	Total Transfers Out
General	$ -	$ -	$ 18,316	$ 18,316
Nonmajor governmental	455,947	100,138	-	556,085
Water	-	116,594	-	116,594
Sewer	-	54,615	-	54,615
Total transfers in	$ 455,947	$ 271,347	$ 18,316	$ 745,610

Transfers are used to:

1. Move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them.

2. Move revenues restricted to debt service from the fund collecting the revenues to the debt service fund as debt service payments become due.

NOTE 8 - PENSION AND RETIREMENT:

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

Most regular plan members are required to contribute 3.70 percent of their annual covered salary and the City is required to contribute 5.75 percent of annual 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 contribution to IPERS for the years ended June 30, 2006, 2005, and 2004 were $69,610, $67,424 and $63,878, respectively, equal to the required contributions for each year.

NOTE 9 - DEFICIT UNRESTRICTED NET ASSETS:

The capital projects fund ended the fiscal year with a deficit balance of $759,329. The deficit will be financed with future bond proceeds.

NOTE 10 - RISK MANAGEMENT:

The City of Sergeant Bluff is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE 11 - COMMITMENTS:

During the year ended June 30, 2006, the City had entered into several construction contracts totaling $1,966,136 of which $1,795,058 has been expended to date. The remaining balance will be paid as work progresses.

NOTE 12 - INDUSTRIAL DEVELOPMENT REVENUE BONDS:

The City has issued a total of $9,100,000 of industrial development revenue bonds under the provisions of Chapter 419 of the Code of Iowa. The bonds and related interest are payable solely from the rents payable by tenants of the properties constructed, and the bond principal and interest do not constitute liabilities of the City.

NOTE 13 - COMMUNITY ECONOMIC BETTERMENT (CEBA) LOAN:

On December 15, 1998, the City received $175,000 from the Iowa Department of Economic Development under a CEBA loan agreement. The City subsequently loaned $175,000 to a private business. No interest or principal payments are required during the first and second years. At the project completion date, $1,250 will be forgiven for each new job created and the balance remaining will be amortized over the remaining three years in equal annual payments with 6 percent per annum interest. The City's liability for repayment of this loan is limited to those amounts the City collects through its good faith enforcement of security interest with the business, therefore, the liability for this loan is not included in the Government-Wide Financial Statements.

NOTE 14 - CLAIMS:

As of June 30, 2006, the City has made a claim against other parties in connection with the construction of the swimming pool in Sergeant Bluff.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF SERGEANT BLUFF, IOWA

BUDGETARY COMPARISON SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND

CHANGES IN BALANCES - BUDGET AND ACTUAL (CASH BASIS) -

GOVERNMENTAL FUNDS AND PROPRIETARY FUNDS

REQUIRED SUPPLEMENTARY INFORMATION

YEAR ENDED JUNE 30, 2006

	Actual Amounts			Budgeted Amounts		Variance With Final Budget
	Governmental Funds	Proprietary Funds	Total	Original	Final	Positive Negative
Receipts:						
Property taxes	$ 1,056,990	$ -	$ 1,056,990	$ 1,049,526	$ 1,049,526	$ 7,464
Tax increment financing	64,969	-	64,969	-	-	64,969
Other city tax	324,809	-	324,809	258,280	258,280	66,529
Special assessment	6,567	-	6,567	47,950	47,950	(41,383)
Licenses and permits	48,673	-	48,673	17,235	17,235	31,438
Intergovernmental revenue	385,629	-	385,629	305,800	305,800	79,829
Charges for services	118,912	3,936,543	4,055,455	3,389,331	3,389,331	666,124
Use of money and property	46,291	17,401	63,692	25,074	25,074	38,618
Miscellaneous	88,269	13,999	102,268	16,602	16,602	85,666
Total receipts	$ 2,141,109	$ 3,967,943	$ 6,109,052	$ 5,109,798	$ 5,109,798	$ 999,254
Disbursements:						
Public safety	$ 929,610	$ -	$ 929,610	$ 782,993	$ 982,993	$ 53,383
Public works	256,947	-	256,947	473,495	473,495	216,548
Culture and recreation	131,446	-	131,446	336,066	336,066	204,620
Community and economic development	60,800	-	60,800	30,840	40,840	(19,960)
General government	281,475	-	281,475	283,466	283,466	1,991
Capital projects	875,576	-	875,576	576,359	1,051,359	175,783
Debt service	553,667	-	553,667	546,484	546,484	(7,183)
Business type activities	-	4,239,417	4,239,417	3,142,142	3,142,142	(1,097,275)
Total disbursements	$ 3,089,521	$ 4,239,417	$ 7,328,938	$ 6,171,845	$ 6,856,845	$ (472,093)
Deficiency of receipts under disbursements	$ (948,412)	$ (271,474)	$ (1,219,886)	$ (1,062,047)	$ (1,747,047)	$ 527,161
Other financing sources (uses), net	621,972	1,113,791	1,735,763	65,970	1,475,099	260,664
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	$ (326,440)	$ 842,317	$ 515,877	$ (996,077)	$ (271,948)	$ 787,825
Fund balances - beginning of year	1,305,714	2,502,819	3,808,533			
Fund balances - end of year	$ 979,274	$ 3,345,136	$ 4,324,410			

See accompanying notes to financial statements.

CITY OF SERGEANT BLUFF, IOWA

BUDGET TO GAAP RECONCILIATION

REQUIRED SUPPLEMENTARY INFORMATION

FOR THE YEAR ENDED JUNE 30, 2006

	Governmental Funds			Proprietary Funds Enterprise		
	Cash Basis	Accrual Adjustments	Modified Accrual Basis	Cash Basis	Accrual Adjustments	Accrual Basis
Revenues	$ 2,141,109	$ 21,272	$ 2,162,381	$ 3,967,943	$ 67,938	$ 4,035,881
Expenditures/expenses	3,089,521	21,082	3,110,603	4,239,417	(1,069,675)	3,169,742
Net	$ (948,412)	$ 190	$ (948,222)	$ (271,474)	$ 1,137,613	$ 866,139
Other financing sources, net	621,972	(400,000)	221,972	1,113,791	(1,285,000)	(171,209)
Beginning fund balances/net assets	1,305,714	(50,965)	1,254,749	2,502,819	7,137,821	9,640,640
Ending fund balances/net assets	$ 979,274	$ (450,775)	$ 528,499	$ 3,345,136	$ 6,990,434	$ 10,335,570

CITY OF SERGEANT BLUFF, IOWA

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING

JUNE 30, 2006

The budgetary comparison is presented as Required Supplementary Information in accordance with Government 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 the Agency Fund, and appropriates the amount deemed necessary for each of the different City offices and departments. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures. Encumbrances are not recognized on the cash basis budget and appropriations lapse at year end.

Formal and legal budgetary control is based upon 9 major classes of disbursements known as functions, not by fund. These 9 functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, and business-type activities. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Fund, and the Enterprise 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 fiscal year 2006, the City had one budget amendment. The amendment was as follows:

Program	Original Budget	May 30, 2006 Amendment	Final Budget
Public Safety	$ 782,993	$ 200,000	$ 982,993
Public Works	473,495	-	473,495
Culture and Recreation	336,066	-	336,066
Community and Economic Development	30,840	10,000	40,840
General Government	283,466	-	283,466
Capital Projects	576,359	475,000	1,051,359
Debt Service	546,484	-	546,484
Business-Type/Enterprise	3,142,142	-	3,142,142
	$ 6,171,845	$ 685,000	$ 6,856,845

During the year ended June 30, 2006, disbursements in the community and economic development, debt service and business-type functions exceeded the amounts budgeted.

SUPPLEMENTARY INFORMATION

CITY OF SERGEANT BLUFF, IOWA

COMBINING BALANCE SHEET - GOVERNMENTAL NONMAJOR FUNDS

JUNE 30, 2006

	Special Revenue Funds				Total
	Road Use Tax	Tax Increment Financing	Local Option Sales Tax	Volunteer Fire Department	Governmental Nonmajor Funds
ASSETS					
Cash	$ 321,415	$ -	$ 230,424	$ 96,353	$ 648,192
Investments	-	-	-	95,000	95,000
Due from other governmental agencies	21,653	-	49,543	-	71,196
Inventories	6,650	-	-	-	6,650
Total assets	$ 349,718	$ -	$ 279,967	$ 191,353	$ 821,038
LIABILITIES AND FUND BALANCES					
LIABILITIES:					
Interfund payable	$ -	$ -	$ -	$ 44,125	$ 44,125
Total liabilities	$ -	$ -	$ -	$ 44,125	$ 44,125
FUND BALANCES:					
Reserved for:					
Inventories	$ 6,650	$ -	$ -	$ -	$ 6,650
Unreserved	343,068	-	279,967	147,228	770,263
Total fund balances	$ 349,718	$ -	$ 279,967	$ 147,228	$ 776,913
Total liabilities and fund balances	$ 349,718	$ -	$ 279,967	$ 191,353	$ 821,038

CITY OF SERGEANT BLUFF, IOWA

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES

IN FUND BALANCES - GOVERNMENTAL NONMAJOR FUNDS

FOR THE YEAR ENDED JUNE 30, 2006

	Special Revenue Funds				Total
	Road Use Tax	Tax Increment Financing	Local Option Sales Tax	Volunteer Fire Department	Governmental Nonmajor Funds
REVENUE:					
Tax increment financing	$ -	$ 64,969	$ -	$ -	$ 64,969
Other city tax	-	-	305,685	-	305,685
Special assessments	6,567	-	-	-	6,567
Intergovernmental revenue	278,717	-	-	89,864	368,581
Charges for services	-	-	-	79,976	79,976
Contributions	-	-	-	15,701	15,701
Interest	-	-	-	763	763
Miscellaneous	4,156	-	-	-	4,156
Total revenue	$ 289,440	$ 64,969	$ 305,685	$ 186,304	$ 846,398
EXPENDITURES:					
Public safety	$ -	$ -	$ -	$ 133,614	$ 133,614
Public works	903	-	-	-	903
Total expenditures	$ 903	$ -	$ -	$ 133,614	$ 134,517
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	$ 288,537	$ 64,969	$ 305,685	$ 52,690	$ 711,881
OTHER FINANCING SOURCES (USES):					
Transfers out	$ (241,730)	$ (64,969)	$ (249,386)	$ -	$ (556,085)
NET CHANGE IN FUND BALANCE	$ 46,807	$ -	$ 56,299	$ 52,690	$ 155,796
FUND BALANCES - BEGINNING OF YEAR	302,911	-	223,668	94,538	621,117
FUND BALANCES - END OF YEAR	$ 349,718	$ -	$ 279,967	$ 147,228	$ 776,913

See accompanying independent auditors' report.

CITY OF SERGEANT BLUFF, IOWA

SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION

ALL GOVERNMENTAL FUNDS

FOR THE LAST THREE YEARS ENDED JUNE 30,

	2006	2005	2004
REVENUES:			
Property tax	$ 1,063,633	$ 984,838	$ 1,043,606
Tax increment financing	64,969	-	-
Other city tax	340,121	327,599	331,845
Licenses and permits	48,673	39,175	44,407
Intergovernmental	383,978	316,846	376,970
Charges for services	117,432	141,887	148,640
Use of money and property	46,288	51,173	47,802
Special assessments	6,567	1,094	-
Miscellaneous	90,720	374,214	157,001
Total	$ 2,162,381	$ 2,236,826	$ 2,150,271
EXPENDITURES:			
Operating:			
Public safety	$ 934,948	$ 1,131,396	$ 955,098
Public works	242,232	225,671	236,940
Culture and recreation	136,670	260,106	295,518
Community and economic development	62,889	93,899	94,772
General government	281,676	266,095	325,995
Capital projects	902,415	559,441	618,256
Debt service	549,773	1,037,788	497,679
Total	$ 3,110,603	$ 3,574,396	$ 3,024,258

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INDEPENDENT AUDITORS' 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
City of Sergeant Bluff
Sergeant Bluff, Iowa

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Sergeant Bluff, Iowa, as of and for the year ended June 30, 2006, and have issued our report thereon dated December 15, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered the City of Sergeant Bluff, Iowa's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying schedule of findings and responses.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe item I-A-06 and I-B-06 are material weaknesses.

KRP KING, REINSCH, PROSSER & CO., L.L.P.
Certified Public Accountants

To the Honorable Mayor and
Members of the City Council
City of Sergeant Bluff
Sergeant Bluff, Iowa

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the City of Sergeant Bluff, Iowa's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that are described in Part II of the accompanying schedule of findings and responses.

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.

We also noted certain additional matters that we reported to management of City of Sergeant Bluff, Iowa in a separate letter dated December 15, 2006.

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 Sergeant Bluff, Iowa, 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 Sergeant Bluff, Iowa 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.

King Reinsch Prosser & Co LLP

Sioux City, Iowa
December 15, 2006

CITY OF SERGEANT BLUFF

SCHEDULE OF FINDINGS AND RESPONSES

YEAR ENDED JUNE 30, 2006

Part I: Findings Related to the Financial Statements

REPORTABLE CONDITIONS:

I-A-06 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual from handling duties which are incompatible. Incompatible duties, for accounting control purposes, are those duties that place a person in a position where they could both perpetrate and conceal errors or fraud. To accomplish proper segregation of duties, the system, insofar as possible, should provide for different individuals to perform the functions of (a) authorizing transactions, (b) recording transactions, (c) maintaining custody of the assets that result from transactions, and (d) comparing assets with the related amounts recorded in the accounting records. In performing our audit, one individual has control over collecting, depositing, journalizing and posting receipts.

Recommendation - The size of the City's accounting and administrative staff precludes certain internal controls that would be preferred if the staff were large enough to provide optimum segregation of duties. This situation dictates that the Council should remain actively involved in the financial affairs of the City to provide oversight and review functions.

Response - The City understands the nature of the weakness and the necessity for the Council to provide oversight and review functions. The City will review its procedures and implement changes as deemed necessary.

Conclusion - Response accepted.

I-B-06 Financial Accounting and Reporting - An internal control system that does not prevent or detect material misstatements identified by the auditor is considered a control deficiency. We proposed numerous adjusting journal entries as a result of our audit which were subsequently made by the City. The adjusting journal entries were deemed material to the City's financial statements. This control deficiency is primarily the result of unfamiliarity with generally accepted accounting principles (GAAP) on the part of the City's administrative staff and the GAAP prepared general ledger maintained separately by an outside accounting firm.

Recommendation - We recommend the City engage the additional services of the outside accounting firm to record the necessary GAAP adjustments into the City's books and records and use the City's general ledger to record the necessary GAAP adjustments.

Response - The City will consider the need for these additional services.

Conclusion - Response accepted.

CITY OF SERGEANT BLUFF

SCHEDULE OF FINDINGS AND RESPONSES

YEAR ENDED JUNE 30, 2006

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

I-C-06 Records of Accounts - The fire department maintains some accounting records and bank balances pertaining to the operations of the fire service. These transactions and the resulting balances are not recorded in the Clerk's records. Chapter 384.20 of the Code of Iowa states in part that "a city shall keep accounts which show an accurate and detailed statement of all public funds collected, received, or expended for any city purpose.

Recommendation - For better accountability, financial and budgetary control, the financial activity and balances of all City accounts should be recorded in the Clerk's records.

Response - We will endeavor to obtain at least a quarterly report of receipts and disbursements from the fire department and include such transactions in the City's ledger.

Conclusion - Response accepted.

Part II: Other Findings Related to Required Statutory Reporting

II-A-06 Certified Budget - Disbursements for the year ended June 30, 2006 exceeded the amount budgeted in the community and economic development, debt service, and business-type functions. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under annual or continuing appropriation.

Recommendation - The budget should have been amended timely in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response - The budget will be amended in the future, if applicable.

Conclusion - Response accepted.

II-B-06 Questionable Disbursements - No disbursements were noted that did not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

II-C-06 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

CITY OF SERGEANT BLUFF

SCHEDULE OF FINDINGS AND RESPONSES

YEAR ENDED JUNE 30, 2006

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

II-D-06 Business Transactions - There were no business transactions between the City and City officials or employees noted.

II-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 the coverage is adequate for current operations.

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

Although minutes of Council proceedings were published, they were not published within fifteen days as required by Chapter 372.13(6) of the Code of Iowa. Also, the publication did not include listing of claims and a summary of all receipts.

We also noted that not all the minutes were properly signed in accordance with Chapter 380.7 of the Code of Iowa.

Recommendation - The City should comply with Chapter 21 of the Code of Iowa and should sign and publish minutes, receipts and claims as required.

Response - We will comply with the Code requirements.

Conclusion - Response accepted.

II-G-06 Deposits and Investments - We noted 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.

II-H-06 Deficit Balance - At June 30, 2006, the City's Capital Projects Fund had a deficit balance of $759,329.

Recommendation - After the issuance of bonds, the City should review to be sure that the deficit balance is eliminated.

Response - We will review.

Conclusion - Response accepted.

CITY OF SERGEANT BLUFF

SCHEDULE OF FINDINGS AND RESPONSES

YEAR ENDED JUNE 30, 2006

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

II-I-06 Electronic Documents - During our audit, we noted that the City receives electronic image printouts of its cancelled checks that contain only the front of the check.

Recommendation - Iowa Code Section 554D.114(5) requires the City to maintain check images of both the front and back. We recommend the City consult its bank institutions to determine the most cost beneficial way to obtain the required electronic information or the original cancelled checks.

Response - We will do as recommended.

Conclusion - Response accepted.

II-J-06 Transfers - For financial reporting, the City's management should approve and take responsibility for transfers between funds. The outside accounting firm that provides the financial reporting services to the City has proposed numerous transfers between funds.

Recommendation - We recommend that the City's Council should approve the transfers proposed by the outside accounting firm in the minutes or budget, as applicable.

Response - We will do as recommended.

Conclusion - Response accepted.