

CITY OF ALLISON, IOWA  
INDEPENDENT AUDITOR'S REPORTS  
BASIC FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION  
SCHEDULE OF FINDINGS

JUNE 30, 2006

- Prepared By -

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CITY OF ALLISON, IOWA

TABLE OF CONTENTS

	<u>PAGE</u>
<u>OFFICIALS</u> . . . . .	1
<u>INDEPENDENT AUDITOR'S REPORT</u> . . . . .	2-3
<u>MANAGEMENT'S DISCUSSION AND ANALYSIS</u> . . . . .	4-8
 <u>BASIC FINANCIAL STATEMENTS:</u>	
	<u>Exhibit</u>
Government-wide Financial Statement:	
Statement of Activities and Net Assets - Cash Basis . . . . .	A 9-12
Governmental Fund Financial Statement:	
Statement of Cash Receipts, Disbursements and	
Changes in Cash Balances . . . . .	B 13-14
Proprietary Fund Financial Statement:	
Statement of Cash Receipts, Disbursements and	
Changes in Cash Balances . . . . .	C 15-16
Notes to Financial Statements . . . . .	17-23
 <u>REQUIRED SUPPLEMENTARY INFORMATION:</u>	
Budgetary Comparison Schedule of Receipts, Disbursements and	
Changes in Balances - Budget and Actual (Cash Basis) -	
All Governmental Funds and Proprietary Funds . . . . .	24-25
Notes to Required Supplementary Information	
- Budgetary Reporting . . . . .	26
 <u>OTHER SUPPLEMENTARY INFORMATION:</u>	
	<u>Schedule</u>
Schedule of Cash Receipts, Disbursements and Changes in	
Cash Balances - Nonmajor Governmental Funds . . . . .	1 27
Schedule of Cash Receipts, Disbursements and Changes in	
Cash Balances - Nonmajor Proprietary Funds . . . . .	2 28-29
Schedule of Indebtedness . . . . .	3 30-31
Bond Maturities . . . . .	4 32
 <u>INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER</u>	
<u>FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS</u>	
<u>BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN</u>	
<u>ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS</u> . . . . .	
	33-34
 <u>SCHEDULE OF FINDINGS</u> . . . . .	 35-38

CITY OF ALLISON, IOWA

OFFICIALS

<u>NAME</u>	<u>TITLE</u> (Before January 2006)	<u>TERM EXPIRES</u>
Don Williamson	Mayor	January 2006
Charlie Mosher	Mayor Pro tem	January 2008
David Smith	Council Member	January 2006
Lavern Devries	Council Member	January 2006
Dale Schoneman	Council Member	January 2008
William Groen	Council Member	January 2008
 (After January 2006)		
Don Williamson	Mayor	January 2008
Charlie Mosher	Mayor Pro tem	January 2008
Dale Schoneman	Council Member	January 2008
William Groen	Council Member	January 2008
David Smith	Council Member	January 2010
Lavern Devries	Council Member	January 2010
Sandy Harms	Clerk/Treasurer	Indefinite
Greg Lievens	Attorney	Indefinite



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**INDEPENDENT AUDITOR'S REPORT**

To the Honorable Mayor and  
Members of the City Council:

I 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 Allison, 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 Allison's management. My responsibility is to express opinions on these financial statements based on my audit.

I conducted my audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe my audit provides a reasonable basis for my opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles. Also, as permitted by the Code of Iowa, the accounting records of the City have not been audited for all prior years. Accordingly, I was unable to satisfy myself as to the distribution of the total fund balance at July 1, 2005.

In my opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had I been able to verify the distribution by fund of the total fund balance at July 1, 2005, as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Allison as of June 30, 2006, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, I have also issued my report dated September 12, 2006 on my consideration of the City of Allison's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of my audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 8 and 24 through 26 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Allison's basic financial statements. Other supplementary information included in Schedules 1 through 4 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in my audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in cursive script, appearing to read "Larry Pump".

September 12, 2006

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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

### **2006 FINANCIAL HIGHLIGHTS**

Receipts of the City's governmental activities increased 36%, or approximately \$210,000 from fiscal 2005 to fiscal 2006. Property taxes increased approximately \$102,000 and capital grants increased \$97,000.

Disbursements of the City's governmental activities increased 10%, or approximately \$69,000, in fiscal 2006 from fiscal 2005. General government and debt service disbursements increased approximately \$156,000, and \$30,000, respectively.

The City's total cash basis net assets increased 9.7%, or approximately \$90,000, from June 30, 2005 to June 30, 2006. Of this amount, the assets of the governmental activities increased approximately \$55,000 and the assets of the business type activities increased by approximately \$35,000.

### **USING THIS ANNUAL REPORT**

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

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

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

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

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

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

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

### **BASIS OF ACCOUNTING**

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

## **REPORTING THE CITY'S FINANCIAL ACTIVITIES**

### *Government-wide Financial Statement*

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

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

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

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

Business Type Activities include the waterworks, the sanitary sewer system and garbage disposal. These activities are financed primarily by user charges.

### *Fund Financial Statements*

The City has two kinds of funds:

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

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

2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains three Enterprise Funds to provide separate information for the water, sewer and sewer improvement funds, considered to be major funds of the City.

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

## **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased slightly from a year ago, increasing from \$670,014 to \$724,522. The analysis that follows focuses on the changes in cash balances for governmental activities.

**Changes in Cash Basis Net Assets of Governmental Activities**  
(Expressed in Thousands)

	Year ended June 30,	
	2006	2005
Receipts and transfers:		
Program receipts:		
Charges for service	\$ 53	\$ 43
Operating grants, contributions and restricted interest	110	96
Capital grants, contributions and restricted assets	97	-
General receipts:		
Property tax	420	318
Local option sales tax	48	47
Unrestricted investment earnings	10	7
Other general receipts	55	72
Total receipts	\$ 793	\$ 583
Disbursements:		
Public safety	\$ 63	\$ 180
Public works	96	104
Health and social services	5	3
Culture and recreation	128	116
Community and economic development	41	47
General government	237	81
Debt service	168	138
Total disbursements	\$ 738	\$ 669
Increase (decrease) in cash basis net assets	\$ 55	\$ (86)
Cash basis net assets beginning of year	670	756
Cash basis net assets end of year	\$ 725	\$ 670

The City's total receipts for governmental activities increased by 36%, or \$210,000. The total cost of all programs and services increased by approximately \$69,000, or 10%, with no new programs added this year. The increase in receipts was primarily the result of insurance proceeds received to repair City Hall.

The cost of all governmental activities this year was \$738,000 compared to \$669,000 last year. However, as shown in the Statement of Activities and Net Assets on pages 9-12, the amount taxpayers ultimately financed for these activities was only \$478,000 because some of the cost was paid by those directly benefited from the programs (\$53,000) or by other governments and organizations that subsidized certain programs with grants, contributions, and restricted interest \$(207,000). The City paid for the remaining "public benefit" portion of governmental activities with approximately \$420,000 in tax (some of which could only be used for certain programs) and with other receipts, such as interest and general entitlements.

**Changes in Cash Basis Net Assets of Business Type Activities**  
(Expressed in Thousands)

	Year ended June 30,	
	2006	2005
Receipts:		
Program receipts:		
Charges for service:		
Water	\$ 80	\$ 83
Sewer	92	58
Garbage	82	79
Other	1	1
General receipts:		
Unrestricted interest on investments	4	2
Total receipts	\$ 259	\$ 223
Disbursements and transfers:		
Water	\$ 85	\$ 70
Sewer	61	38
Garbage	77	74
Other	1	-
Total disbursements	\$ 224	\$ 182
Increase (decrease) in cash basis net assets	\$ 35	\$ 41
Cash basis net assets beginning of year	252	211
Cash basis net assets end of year	\$ 287	\$ 252

Total business type activities receipts for the fiscal year were \$259,000 compared to \$223,000 last year. This increase was due primarily to an increase in sewer receipts. Total disbursements for the fiscal year increased by 23% to a total of \$224,000 because of higher operating costs in 2006.

**INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS**

As the City of Allison completed the year, its governmental funds reported a combined fund balance of \$724,522, an increase of \$54,508 from last year's total of \$670,014. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

The General Fund cash balance decreased \$16,197 from the prior year to \$341,967. This decrease was due mainly to an increase in general government disbursements for repairs to City Hall.

The Road Use Tax Fund cash balance increased by \$17,176 to \$51,054 during the fiscal year. This increase was attributable to timing of the completion of certain road projects for the upcoming fiscal year.

At the end of the fiscal year, the Tax Increment Financing Fund cash balance was \$143,116, an increase of \$41,233 from the previous year.

The Debt Service Fund cash balance increased by \$11,174 to zero due primarily to increased property taxes.

**INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS**

The Water Fund cash balance decreased by \$2,923 to \$72,492, due primarily to an increase in operating expenses.

The Sewer Fund cash balance increased by \$32,768 to \$103,444, due primarily to an increase in operating receipts.

The Garbage Fund cash balance increased by \$4,746 to \$15,742, due primarily to increased operating receipts.

#### **BUDGETARY HIGHLIGHTS**

Over the course of the year, the City amended its budget once on May 9, 2006. This resulted in an increase in operating disbursements related to general government of \$80,000. The City had sufficient cash balances to absorb these additional costs.

#### **DEBT ADMINISTRATION**

At June 30, 2006, the City had approximately \$718,000 in bonds and other long-term debt, compared to approximately \$888,000 last year, as follows:

#### **Outstanding Debt at Year-End** (Expressed in Thousands)

	June 30,	
	2006	2005
General obligation bonds	\$ 610	\$ 665
Notes payable	42	116
Community economic betterment account	22	33
Real estate contract	44	74
Total	<u>\$ 718</u>	<u>\$ 888</u>

The City did not incur any new debt during 2006. Principal and interest payments were made as scheduled. The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$610,000 is significantly below its constitutional debt limit of \$1,433,429.

#### **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

The City of Allison's elected and appointed officials and citizens considered many factors when setting the fiscal year 2007 budget, tax rates, and fees that will be charged for various City activities. One of those factors is the economy.

#### **CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Sandy Harms, City Clerk, City of Allison.

CITY OF ALLISON, IOWA  
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2006

	<u>Disbursements</u>	<u>Program Receipts</u>		
		<u>Charges for Service</u>	<u>Contributions and Restricted Interest</u>	<u>Operating Grants, Capital Grants, Contributions and Restricted Interest</u>
<b>FUNCTIONS/PROGRAMS:</b>				
Governmental activities:				
Public safety	\$ 62,699	\$ 33,454	\$ 11,675	\$ -
Public works	96,006	-	84,228	-
Health and social services	4,880	-	-	-
Culture and recreation	127,717	19,538	6,949	-
Community and economic development	41,337	-	6,960	-
General government	237,092	-	-	96,913
Debt service	<u>167,862</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total governmental activities	<u>\$ 737,593</u>	<u>\$ 52,992</u>	<u>\$ 109,812</u>	<u>\$ 96,913</u>
Business type activities:				
Water	\$ 85,458	\$ 80,054	\$ -	\$ -
Sewer rental	60,923	91,888	-	-
Garbage	76,902	81,648	-	-
Other	<u>600</u>	<u>1,025</u>	<u>-</u>	<u>-</u>
Total business type activities	<u>\$ 223,883</u>	<u>\$ 254,615</u>	<u>\$ -</u>	<u>\$ -</u>
Total	<u>\$ 961,476</u>	<u>\$ 307,607</u>	<u>\$ 109,812</u>	<u>\$ 96,913</u>

(Continued)

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

<b>Governmental Activities</b>	<b>Business Type Activities</b>	<b>Total</b>
\$ (17,570)	\$ -	\$ (17,570)
(11,778)	-	(11,778)
(4,880)	-	(4,880)
(101,230)	-	(101,230)
(34,377)	-	(34,377)
(140,179)	-	(140,179)
(167,862)	-	(167,862)
\$ (477,876)	\$ -	\$ (477,876)
\$ -	\$ (5,404)	\$ (5,404)
-	30,965	30,965
-	4,746	4,746
-	425	425
\$ -	\$ 30,732	\$ 30,732
\$ (477,876)	\$ 30,732	\$ (447,144)

CITY OF ALLISON, IOWA  
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2006

**General Receipts:**

Property and other city tax levied for:  
    General purposes  
    Tax increment financing  
    Debt service  
Local option sales tax  
Unrestricted interest on investments  
Miscellaneous

Total general receipts

Change in cash basis net assets

Cash basis net assets beginning of year

Cash basis net assets end of year

**Cash Basis Net Assets**

Restricted:  
    Urban renewal purposes  
    Other purposes  
Unrestricted

**Total cash basis net assets**

*See Notes to Financial Statements.*

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

<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
\$ 199,912	\$ -	\$ 199,912
128,245	-	128,245
92,024	-	92,024
47,904	-	47,904
10,311	4,294	14,605
53,988	-	53,988
<u>\$ 532,384</u>	<u>\$ 4,294</u>	<u>\$ 536,678</u>
\$ 54,508	\$ 35,026	\$ 89,534
670,014	251,809	921,823
<u><b>\$ 724,522</b></u>	<u><b>\$ 286,835</b></u>	<u><b>\$ 1,011,357</b></u>
\$ 143,116	\$ -	\$ 143,116
24,192	95,157	119,349
557,214	191,678	748,892
<u><b>\$ 724,522</b></u>	<u><b>\$ 286,835</b></u>	<u><b>\$ 1,011,357</b></u>

CITY OF ALLISON, IOWA  
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES  
GOVERNMENTAL FUNDS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2006

	<u>General</u>	<u>Special Revenue</u>	
		<u>Road Use Tax</u>	<u>Tax Increment Financing</u>
<b>RECEIPTS:</b>			
Property tax	\$ 199,912	\$ -	\$ -
Tax increment financing collections	-	-	128,245
Other city tax	47,904	-	-
Use of money and property	48,002	-	-
Licenses and permits	2,400	-	-
Intergovernmental	12,913	84,228	-
Charges for service	52,935	-	-
Miscellaneous	122,416	-	-
Total receipts	<u>\$ 486,482</u>	<u>\$ 84,228</u>	<u>\$ 128,245</u>
<b>DISBURSEMENTS:</b>			
Operating:			
Public Safety	\$ 62,699	\$ -	\$ -
Public works	28,954	67,052	-
Health and social services	4,880	-	-
Culture and recreation	127,717	-	-
Community and economic development	41,337	-	-
General government	237,092	-	-
Debt service	-	-	-
Total disbursements	<u>\$ 502,679</u>	<u>\$ 67,052</u>	<u>\$ -</u>
Excess (deficiency) of receipts over (under) disbursements	<u>\$ (16,197)</u>	<u>\$ 17,176</u>	<u>\$ 128,245</u>
Other financing sources (uses):			
Operating transfers in	\$ -	\$ -	\$ -
Operating transfers out	-	-	(87,012)
Total other financing sources (uses)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (87,012)</u>
Net change in cash balances	\$ (16,197)	\$ 17,176	\$ 41,233
Cash balances beginning of year	<u>358,164</u>	<u>33,878</u>	<u>101,883</u>
<b>Cash balances end of year</b>	<b><u>\$ 341,967</u></b>	<b><u>\$ 51,054</u></b>	<b><u>\$ 143,116</u></b>
<b>Cash Basis Fund Balances:</b>			
Unreserved:			
General fund	\$ 341,967	\$ -	\$ -
Special revenue funds	-	51,054	143,116
Permanent fund	-	-	-
Total cash basis fund balances	<u>\$ 341,967</u>	<u>\$ 51,054</u>	<u>\$ 143,116</u>

*See Notes to Financial Statements.*

<u>Debt Service</u>	<u>Other Nonmajor Governmental Funds</u>	<u>Total</u>
\$ 92,024	\$ -	\$ 291,936
-	-	128,245
-	-	47,904
-	722	48,724
-	-	2,400
-	-	97,141
-	-	52,935
-	400	122,816
<u>\$ 92,024</u>	<u>\$ 1,122</u>	<u>\$ 792,101</u>
\$ -	\$ -	\$ 62,699
-	-	96,006
-	-	4,880
-	-	127,717
-	-	41,337
-	-	237,092
167,862	-	167,862
<u>\$ 167,862</u>	<u>\$ -</u>	<u>\$ 737,593</u>
<u>\$ (75,838)</u>	<u>\$ 1,122</u>	<u>\$ 54,508</u>
\$ 87,012	\$ -	\$ 87,012
-	-	(87,012)
<u>\$ 87,012</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 11,174	\$ 1,122	\$ 54,508
(11,174)	187,263	670,014
<u>\$ -</u>	<u>\$ 188,385</u>	<u>\$ 724,522</u>
\$ -	\$ -	\$ 341,967
-	164,193	358,363
-	24,192	24,192
<u>\$ -</u>	<u>\$ 188,385</u>	<u>\$ 724,522</u>

CITY OF ALLISON, IOWA  
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND  
CHANGES IN CASH BALANCES  
PROPRIETARY FUNDS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2006

	<b>Enterprise Funds</b>		
	<b>Water</b>	<b>Sewer Rental</b>	<b>Garbage</b>
Operating receipts:			
Charges for service	\$ 80,054	\$ 91,888	\$ 81,648
Operating disbursements:			
Business type activities	<u>85,458</u>	<u>60,923</u>	<u>76,902</u>
Excess (deficiency) of operating receipts over (under) operating disbursements	\$ (5,404)	\$ 30,965	\$ 4,746
Non-operating receipts:			
Interest on investments	<u>2,481</u>	<u>1,803</u>	<u>-</u>
Net change in cash balances	\$ (2,923)	\$ 32,768	\$ 4,746
Cash balances beginning of year	<u>75,415</u>	<u>70,676</u>	<u>10,996</u>
Cash balances end of year	<u>\$ 72,492</u>	<u>\$ 103,444</u>	<u>\$ 15,742</u>
<b>Cash Basis Fund Balances</b>			
Reserved for other	\$ -	\$ -	\$ -
Unreserved	<u>72,492</u>	<u>103,444</u>	<u>15,742</u>
<b>Total cash basis fund balances</b>	<b><u>\$ 72,492</u></b>	<b><u>\$ 103,444</u></b>	<b><u>\$ 15,742</u></b>

*See Notes to Financial Statements.*

<u>Nonmajor Enterprise Funds</u>	<u>Total</u>
\$ 1,025	\$ 254,615
600	223,883
\$ 425	\$ 30,732
10	4,294
\$ 435	\$ 35,026
94,722	251,809
\$ 95,157	\$ 286,835
\$ 95,157	\$ 95,157
-	191,678
<b>\$ 95,157</b>	<b>\$ 286,835</b>

CITY OF ALLISON, IOWA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006

(1) Summary of Significant Accounting Policies

The City of Allison is a political subdivision of the State of Iowa located in Butler County. It was first incorporated in 1881 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, culture and recreation, community and economic development, and general services. The City also provides water and sewer utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Allison has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City. The City has no component units which meet the Governmental Accounting Standards Board Criteria.

Jointly Governed Organizations - The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the Butler County Assessor's Conference Board and Butler County Emergency Management Commission.

B. Basis of Presentation

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

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

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

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

CITY OF ALLISON, IOWA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006

(1) Summary of Significant Accounting Policies - continued

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

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

The City reports the following major governmental funds:

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

Special Revenue:

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

The Tax Increment Financing Fund is used to account for urban renewal projects financed by tax increment financing.

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

The City reports the following major proprietary funds:

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

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

The Garbage Fund is used to account for the operation and maintenance of the City's garbage pick up.

C. Measurement Focus and Basis of Accounting

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

CITY OF ALLISON, IOWA  
 NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2006

(1) **Summary of Significant Accounting Policies** - continued

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

D. **Budgets and Budgetary Accounting**

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2006, disbursements exceeded the amount budgeted in the general government function.

(2) **Cash and Pooled Investments**

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

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

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

(3) **Bonds Payable**

Annual debt service requirements to maturity for general obligations bonds are as follows:

Year Ending June 30,	<u>General Obligation Bonds</u>	
	<u>Principal</u>	<u>Interest</u>
2007	\$ 55,000	\$ 30,098
2008	60,000	27,445
2009	60,000	24,550
2010	65,000	21,655
2011	65,000	18,490
2012-2016	260,000	45,590
2017	<u>45,000</u>	<u>2,250</u>
Total	<u>\$610,000</u>	<u>\$170,078</u>

CITY OF ALLISON, IOWA  
 NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2006

(3) **Bonds Payable** - continued

The resolutions providing for the issuance of the general obligation bonds include the following provision:

- a) At the option of the City, bonds maturing on or after June 1, 2009, on the Essential Corporate Purpose Bond issue of January 1, 2001, are subject to redemption and prepayment in whole or in part, on said date or any date thereafter upon the City giving proper notice, not less than thirty days prior to the date fixed for prepayment, at a price of par plus accrued interest.
- b) At the option of the City, bonds maturing on or after June 1, 2009, on the General Corporate Purpose Bond issue of March 1, 2002, are subject to redemption and prepayment in whole or in part, on said date or any date thereafter, in any order of maturity and within an annual maturity by lot, at a price of par plus accrued interest.

**Notes Payable**

The City has entered into the following loan agreements with Lincoln Savings Bank, Allison, Iowa:

Date of Loan	<u>2-13-03</u>	<u>11-19-03</u>
Original amount	\$ 19,000	\$100,000
Interest rate	5.00%	5.00%
Payment dates	Monthly	Monthly
Maturity date	2-13-07	6-1-08
Collateral	Pickup	Capital Equipment
At June 30, 2006:		
Number of payments remaining	8	2
Outstanding balance	\$ 3,417	\$ 41,992

**Community Economic Betterment Account (CEBA)**

The 0% interest bearing loan is due to the State of Iowa in monthly installments through April 1, 2008. The loan is to be repaid from proceeds due to the City for an Economic Development Loan, and Tax Increment Financing revenues. Should these local sources be inadequate, the loan must be paid from other sources.

The City is not in compliance with the Iowa Department of Economic Development CEBA Program promissory note.

**Real Estate Contract**

The farmland contract is payable in principal and interest due in annual installments, at an interest rate of 7%, with the final payment due October 2006.

(4) **Pension and Retirement Benefits**

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

CITY OF ALLISON, IOWA  
 NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2006

(4) **Pension and Retirement Benefits** - continued

Plan members are required to contribute 3.70% of their annual salary and the City is required to contribute 5.75% of covered salary. Contribution requirements are established by State statute. The City's contribution to IPERS for the year ended June 30, 2006, was \$8,127, which was equal to the required contribution for the year.

(5) **Law Enforcement Contract**

The City of Allison entered into an agreement with the Butler County Sheriff's Department for the purpose of providing the City with law enforcement services. The amount paid on the contract by the City for the year ended June 30, 2006 amounted to \$31,250.

(6) **Compensated Absences**

City employees accumulate a limited amount of earned but unused vacation, comp time and sick leave hours for subsequent use. These accumulations are not recognized as disbursements by the City until used or paid. The City's policy is to not pay employees for accumulated vacation, comp time or sick leave upon separation of employment. The City therefore has no liability for this time at June 30, 2006.

(7) **Related Party Transactions**

The City had business transactions between the City and City officials, totaling \$2,029 during the year ended June 30, 2006.

(8) **Operating Lease**

The City leases a building on an operating lease basis. The lease calls for lease payments as described below. The City subleases the building to a local business and has expected lease receipts of \$6,960 each year. In addition, the City is responsible for property taxes on the building. Total net lease expense for the year ended June 30, 2006 was \$1,148.

The following is a schedule, by years, of future minimum rental payments required under the operating lease:

<u>Year ended June 30,</u>	
2007	\$ 6,000
2008	6,000
2009	6,000
2010	6,000
2011	<u>3,000</u>
Total	<u>\$27,000</u>

CITY OF ALLISON, IOWA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006

(9) **Risk Management**

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

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

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

The City's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The City's annual contributions to the Pool for the year ended June 30, 2006 were \$19,557.

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

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

CITY OF ALLISON, IOWA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006

(9) **Risk Management** - continued

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

The City also carries commercial insurance purchased from other insurers for coverage associated with public employee dishonesty coverage and workers compensation coverage. The City assumes liability for any deductibles, and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage during the fiscal year ended June 30, 2006.

(10) **Interfund Transfers**

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

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Debt Service	Special Revenue:	
	Tax Increment Financing	<u>\$ 87,012</u>

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

**Required Supplementary Information**

CITY OF ALLISON, IOWA  
 BUDGETARY COMPARISON SCHEDULE OF RECEIPTS, DISBURSEMENTS  
 AND CHANGES IN BALANCES  
 BUDGET AND ACTUAL (CASH BASIS) - ALL  
 GOVERNMENTAL FUNDS AND PROPRIETARY FUNDS  
 REQUIRED SUPPLEMENTARY INFORMATION  
 YEAR ENDED JUNE 30, 2006

	<u>Governmental Funds Actual</u>	<u>Proprietary Funds Actual</u>	<u>Less Funds Not Required to be Budgeted</u>
<b>RECEIPTS:</b>			
Property tax	\$ 291,936	\$ -	\$ -
Tax increment financing collections	128,245	-	-
Other city tax	47,904	-	-
Licenses and permits	2,400	-	-
Use of money and property	48,724	4,294	-
Intergovernmental	97,141	254,615	-
Charges for service	52,935	-	-
Miscellaneous	122,816	-	400
Total receipts	<u>\$ 792,101</u>	<u>\$ 258,909</u>	<u>\$ 400</u>
<b>DISBURSEMENTS:</b>			
Public safety	\$ 62,699	\$ -	\$ -
Public works	96,006	-	-
Health and social services	4,880	-	-
Culture and recreation	127,717	-	-
Community and economic development	41,337	-	-
General government	237,092	-	-
Debt service	167,862	-	-
Business type activities	-	223,883	-
Total disbursements	<u>\$ 737,593</u>	<u>\$ 223,883</u>	<u>\$ -</u>
Excess (deficiency) of receipts over (under) disbursements	\$ 54,508	\$ 35,026	\$ 400
Other financing sources, net	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	\$ 54,508	\$ 35,026	\$ 400
Balance beginning of year	<u>670,014</u>	<u>251,809</u>	<u>23,792</u>
<b>Balance end of year</b>	<u><b>\$ 724,522</b></u>	<u><b>\$ 286,835</b></u>	<u><b>\$ 24,192</b></u>

*See Accompanying Independent Auditor's Report.*

<u>Net</u>	<u>Budgeted Amounts</u>		<u>Final to Net Variance</u>
	<u>Original</u>	<u>Final</u>	
\$ 291,936	\$ 249,743	\$ 249,743	\$ 42,193
128,245	110,000	110,000	18,245
47,904	54,293	54,293	(6,389)
2,400	2,000	2,000	400
53,018	44,000	44,000	9,018
97,141	98,270	98,270	(1,129)
307,550	273,000	273,000	34,550
122,416	25,000	25,000	97,416
<u>\$1,050,610</u>	<u>\$ 856,306</u>	<u>\$ 856,306</u>	<u>\$ 194,304</u>
\$ 62,699	\$ 77,900	\$ 77,900	\$ 15,201
96,006	136,000	136,000	39,994
4,880	8,450	8,450	3,570
127,717	148,699	148,699	20,982
41,337	82,000	82,000	40,663
237,092	133,250	213,250	(23,842)
167,862	168,271	168,271	409
223,883	237,776	237,776	13,893
<u>\$ 961,476</u>	<u>\$ 992,346</u>	<u>\$ 1,072,346</u>	<u>\$ 110,870</u>
\$ 89,134	\$ (136,040)	\$ (216,040)	\$ 305,174
<u>          -</u>	<u>          -</u>	<u>          80,000</u>	<u>          (80,000)</u>
\$ 89,134	\$ (136,040)	\$ (136,040)	\$ 225,174
<u>898,031</u>	<u>814,943</u>	<u>814,943</u>	<u>83,088</u>
<u><b>\$ 987,165</b></u>	<u><b>\$ 678,903</b></u>	<u><b>\$ 678,903</b></u>	<u><b>\$ 308,262</b></u>

**CITY OF ALLISON, IOWA**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING**  
**JUNE 30, 2006**

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

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

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and nonprogram. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, the Permanent Fund and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$ 80,000. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2006, disbursements exceeded the amount budgeted in the general government function.

Other Supplementary Information

CITY OF ALLISON, IOWA  
 SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES  
 NONMAJOR GOVERNMENTAL FUNDS  
 AS OF AND FOR THE YEAR ENDED JUNE 30, 2006

	Special Revenue	Permanent		
	Capital Improvement Reserve	Library Trust	Cemetery Perpetual Care	Total
<b>RECEIPTS:</b>				
Use of money and property	\$ 501	\$ 221	\$ -	\$ 722
Miscellaneous	-	-	400	400
Total receipts	<u>\$ 501</u>	<u>\$ 221</u>	<u>\$ 400</u>	<u>\$ 1,122</u>
<b>DISBURSEMENTS:</b>				
None	-	-	-	-
Net change in cash balances	\$ 501	\$ 221	\$ 400	\$ 1,122
Cash balances beginning of year	104,986	58,485	23,792	187,263
<b>Cash balances end of year</b>	<b><u>\$ 105,487</u></b>	<b><u>\$ 58,706</u></b>	<b><u>\$ 24,192</u></b>	<b><u>\$ 188,385</u></b>
<b>Cash Basis Fund Balances:</b>				
Unreserved:				
Special revenue funds	\$ 105,487	\$ 58,706	\$ -	\$ 164,193
Permanent fund	-	-	24,192	24,192
<b>Total cash basis fund balances</b>	<b><u>\$ 105,487</u></b>	<b><u>\$ 58,706</u></b>	<b><u>\$ 24,192</u></b>	<b><u>\$ 188,385</u></b>

*See Accompanying Independent Auditor's Report.*

CITY OF ALLISON, IOWA  
SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS AND  
CHANGES IN CASH BALANCES  
NONMAJOR PROPRIETARY FUNDS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2006

	<u>Enterprise Funds</u>			
	<u>Water Reserve</u>	<u>Water Depreciation</u>	<u>Sewer Reserve</u>	<u>Sewer Depreciation</u>
Operating Receipts:				
Charges for service	\$ -	\$ -	\$ -	\$ -
Operating Disbursements:				
Business type activities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess of operating receipts Over operating disbursements	\$ -	\$ -	\$ -	\$ -
Non-operating receipts:				
Interest on investments	<u>-</u>	<u>-</u>	<u>10</u>	<u>-</u>
Net change in cash balances	\$ -	\$ -	\$ 10	\$ -
Cash balances beginning of year	<u>33,180</u>	<u>16,080</u>	<u>12,554</u>	<u>19,153</u>
<b>Cash balances end of year</b>	<b><u>\$ 33,180</u></b>	<b><u>\$ 16,080</u></b>	<b><u>\$ 12,564</u></b>	<b><u>\$ 19,153</u></b>
<b>Cash Basis Fund Balances:</b>				
Reserved for other	<b><u>\$ 33,180</u></b>	<b><u>\$ 16,080</u></b>	<b><u>\$ 12,564</u></b>	<b><u>\$ 19,153</u></b>

*See Accompanying Independent Auditor's Report.*

<u>Customer Deposits</u>	<u>Total</u>
\$ 1,025	\$ 1,025
<u>600</u>	<u>600</u>
\$ 425	\$ 425
<u>-</u>	<u>10</u>
\$ 425	\$ 435
<u>13,755</u>	<u>94,722</u>
<u><b>\$ 14,180</b></u>	<u><b>\$ 95,157</b></u>
 <u><b>\$ 14,180</b></u>	 <u><b>\$ 95,157</b></u>

CITY OF ALLISON, IOWA  
 SCHEDULE OF INDEBTEDNESS  
 YEAR ENDED JUNE 30, 2006

<u>Obligation</u>	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount Originally Issued</u>
<b>General Obligation Bonds:</b>			
Essential Corporate Purpose	01-01-01	5.05-5.20%	\$ 340,000
Essential Corporate Purpose	03-01-02	4.50-5.00	450,000
<b>Notes Payable:</b>			
TIF - Assisted Living	11-22-99	5.10%	\$ 170,000
Capital Equipment	11-19-03	5.00	100,000
Pickup	02-13-03	5.00	19,000
<b>Community Economic Betterment Account</b>	09-20-00	0.00%	\$ 82,500
<b>Real Estate Contract:</b>			
Farm Land	01-01-00	7.00%	\$ 202,000
<b>Total indebtedness</b>			

*See Accompanying Independent Auditor's Report.*

<u>Balance Beginning of Year</u>	<u>Issued During Year</u>	<u>Redeemed During Year</u>	<u>Balance End of Year</u>	<u>Interest Paid</u>	<u>Interest Due and Unpaid</u>
\$265,000	\$ -	\$ 30,000	\$235,000	\$ 13,530	\$ -
400,000	-	25,000	375,000	19,220	-
<u>\$665,000</u>	<u>\$ -</u>	<u>\$ 55,000</u>	<u>\$610,000</u>	<u>\$ 32,750</u>	<u>\$ -</u>
\$ 54,467	\$ -	\$ 54,467	\$ -	\$ 2,259	\$ -
61,503	-	19,511	41,992	3,075	-
8,367	-	4,950	3,417	306	-
<u>\$124,337</u>	<u>\$ -</u>	<u>\$ 78,928</u>	<u>\$ 45,409</u>	<u>\$ 5,640</u>	<u>\$ -</u>
\$ 33,393	\$ -	\$ 11,786	\$ 21,607	\$ -	\$ -
\$ 73,991	\$ -	\$ 29,821	\$ 44,170	\$ 5,179	\$ -
<u><b>\$896,721</b></u>	<u><b>\$ -</b></u>	<u><b>\$175,535</b></u>	<u><b>\$721,187</b></u>	<u><b>\$ 43,569</b></u>	<u><b>\$ -</b></u>

CITY OF ALLISON, IOWA  
BOND MATURITIES  
JUNE 30, 2006

<u>Year</u> <u>Ending</u> <u>June 30,</u>	<u>GENERAL OBLIGATION BONDS</u>				
	<u>Essential</u>		<u>General</u>		<u>Total</u>
	<u>Corporate Purpose</u>		<u>Corporate Purpose</u>		
	<u>Issued January 1, 2001</u>		<u>Issued March 1, 2002</u>		
<u>Interest Rates</u>	<u>Amount</u>	<u>Interest Rates</u>	<u>Amount</u>		
2007	5.05%	\$ 30,000	4.55%	\$ 25,000	\$ 55,000
2008	5.05	30,000	4.60	30,000	60,000
2009	5.05	30,000	4.60	30,000	60,000
2010	5.10	35,000	4.60	30,000	65,000
2011	5.10	35,000	4.70	30,000	65,000
2012	5.20	35,000	4.80	35,000	70,000
2013	5.20	40,000	4.90	35,000	75,000
2014		-	5.00	35,000	35,000
2015		-	5.00	40,000	40,000
2016		-	5.00	40,000	40,000
2017		-	5.00	45,000	45,000
<b>Total</b>		<b><u>\$235,000</u></b>		<b><u>\$375,000</u></b>	<b><u>\$610,000</u></b>

*See Accompanying Independent Auditor's Report.*



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

To the Honorable Mayor and  
 Members of the City Council:

I have audited the accompanying financial statements of the governmental activities, business type activities, each major fund and the aggregate remaining fund information of the City of Allison, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements listed in the table of contents and have issued my report thereon dated September 12, 2006. My report on the financial statements, which were prepared in conformity with an other comprehensive basis of accounting, expressed a qualified opinion since I was unable to satisfy myself as to the distribution by fund of the total fund balance at July 1, 2005. I conducted my audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements 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. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, I believe item II-A-06 is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Allison's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations and contracts, 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 my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, I noted certain immaterial instances of non-compliance or other matters that are described in Part IV of the accompanying Schedule of Findings.

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

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

I would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Allison during the course of my audit. Should you have any questions concerning any of the above matters, I shall be pleased to discuss them with you at your convenience.



September 12, 2006

CITY OF ALLISON, IOWA  
Schedule of Findings  
Year Ended June 30, 2006

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

- (a) A qualified opinion was issued on the financial statements, which were prepared in conformity with an other comprehensive basis of accounting, since I was unable to satisfy myself as to the distribution by fund of the total fund balance at July 1, 2005.
- (b) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, including a material weakness.
- (c) The audit did not disclose any noncompliance which is material to the financial statements.

**Part II: Findings Related to the Financial Statements:**

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

**REPORTABLE CONDITIONS:**

II-A-06     Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. I noted that certain accounting functions are not properly segregated.

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

Response - We will review procedures and make changes to improve internal control where possible.

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

II-B-06     Personnel Policy - The City does not have a formal personnel policy.

Recommendation - For a better understanding of the policies the City Council implements, I recommend that the City adopt a formal personnel policy.

Response - We will investigate this, and implement this if it is feasible.

Conclusion - Response accepted.

CITY OF ALLISON, IOWA  
Schedule of Findings  
Year Ended June 30, 2006

**Part II: Findings Related to the Financial Statements:** - continued

II-C-06      Information Systems Controls - The City does not have a written disaster recovery plan. Also, adequate fire protection of computers and files does not exist.

Recommendation - The City should implement the controls necessary to protect the processing of computer information.

Response - We will do this.

Conclusion - Response accepted.

**Part III: Findings and Questioned Costs for Federal Awards:**

Not applicable

**Part IV: Other Findings Related to Statutory Reporting:**

IV-A-06      Certified Budget - Disbursements during the year ended June 30, 2006 exceeded the amount budgeted in the general government function. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

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

Response - We will do this in the future.

Conclusion - Response accepted.

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

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

IV-D-06      Business Transactions - Business transactions between the City and City officials or employees are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Linda Mosher, Spouse of Council Member Charlie Mosher	Contract labor	\$ 805
Charlie Mosher, Council Member Owner Mosher Electric	Repairs and maintenance	1,224

In accordance with Chapter 362.5(11) of the Code of Iowa, these transactions do not appear to represent conflicts of interest since total transactions with each individual were less than \$2,500 during the fiscal year.

CITY OF ALLISON, IOWA  
Schedule of Findings  
Year Ended June 30, 2006

**Part IV: Other Findings Related to Statutory Reporting:** - continued

- IV-E-06      Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- IV-F-06      Council Minutes - The City did not publish annual gross salaries as required by an Attorney General's opinion dated April 12, 1978.
- Recommendation - The City should publish annual individual salaries as required.
- Response - We will publish salaries annually.
- Conclusion - Response Accepted.
- IV-G-06      Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.
- IV-H-06      Employee Benefit Levy - I noted that the proceeds from the Employee Benefits Levy were recorded in the General Fund.
- Recommendation - The City should establish a separate Special Revenue Fund, Employee Benefits Account for better accountability of the tax levy proceeds.
- Response - We will look into this.
- Conclusion - Response accepted.
- IV-I-06      Local Option Sales Tax - Local option sales tax was deposited into the General fund. Chapter 384.4 of the Code of Iowa states, in part, that monies collected for the local option sales tax shall be deposited in the Special Revenue Fund.
- Recommendation - The City should establish a Special Revenue Account for local option sales tax and deposit all revenue from these taxes in that account.
- Response - We will look into this.
- Conclusion - Response accepted.

CITY OF ALLISON, IOWA  
Schedule of Findings  
Year Ended June 30, 2006

**Part IV: Other Findings Related to Statutory Reporting:** - continued

IV-J-06      Utility Billings - The City does not appear to be reading all water meters as specified in the City Code. The City does not appear to collect a utility deposit on all new utility customers, as required by the City Code. Sales tax on sewer services provided to non-residential commercial operations was not uniformly assessed.

Recommendation - The City should take necessary steps to comply with the City Code and insure the meters are read and deposits are collected. The City should uniformly assess sales tax on sewer services provided to non-residential commercial operations in accordance with section 701-26.72 of the Iowa Department of Revenue and Finance Administrative Rules and Regulations.

Response - These items will be corrected.

Conclusion - Response accepted.

