

**CITY OF ARNOLDS PARK  
INDEPENDENT AUDITORS' REPORT  
PRIMARY GOVERNMENT  
BASIC FINANCIAL STATEMENTS,  
SUPPLEMENTARY INFORMATION,  
AND SCHEDULE OF FINDINGS  
AND QUESTIONED COSTS  
JUNE 30, 2006**

CITY OF ARNOLDS PARK

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CITY OF ARNOLDS PARK

CITY OFFICIALS

<u>NAME</u>	<u>TITLE</u>	<u>TERM EXPIRES</u>
	(Before January 2006)	
Mike Mitchell	Mayor	December 31, 2005
Susan Munsen	Mayor Pro-Tem	December 31, 2007
Mitchell Watters	Council Member	December 31, 2005
Mike Koppert	Council Member	December 31, 2005
James D. Jensen	Council Member	December 31, 2007
Jason Christensen	Council Member	December 31, 2007
	(After January 2006)	
Mike Mitchell	Mayor	December 31, 2007
Susan Munsen	Mayor Pro-Tem	December 31, 2007
Mitchell Watters	Council Member	December 31, 2009
Mike Koppert	Council Member	December 31, 2009
James D. Jensen	Council Member	December 31, 2007
Jason Christensen	Council Member	December 31, 2007
Ron Walker	Clerk Administrator	December 31, 2006
Doug Noble	City Treasurer	December 31, 2006
Harold White	City Attorney	December 31, 2006

**WINTHER, STAVE & Co., LLP**  
*Certified Public Accountants*

1316 West 18th Street  
P.O. Box 175  
Spencer, Iowa 51301-0175  
Phone 712-262-3117  
FAX 712-262-3159

1004 21st Street #4  
P.O. Box 187  
Milford, Iowa 51351  
Phone 712-338-2488  
FAX 712-338-2510

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and  
Members of the City Council  
City of Arnolds Park  
Arnolds Park, IA 51331

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

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

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

The financial statements referred to above include only the primary government of the City of Arnolds Park, which consists of all funds, organizations, institutions, agencies, departments, and offices that comprise the City's legal entity. The financial statements do not include financial data for the City's legally separate component units, if any, which accounting principles generally accepted in the United States of America require to be reported with the financial data of the City's primary government. As a result, the primary government financial statements do not purport to, and do not, present fairly the financial position - cash basis of the reporting entity of the City of Arnolds Park as of June 30, 2006, and the changes in its financial position - cash basis for the year then ended in conformity with the basis of accounting described in Note 1.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information for the primary government of the City of Arnolds Park at June 30, 2006, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 14, 2007 on our consideration of the City of Arnolds Park's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Budgetary comparison information on pages 15 through 17 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We applied limited procedures which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

The City has not presented management's discussion and analysis which introduces the basic financial statements by presenting certain financial information as well as management's analytical insight on that information that the Government Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Arnolds Park's basic financial statements. The financial statements for the three years ended June 30, 2005 (none of which are presented herein) were previously audited, in accordance with the standards referred to in the second paragraph of this report, by other auditors who expressed unqualified opinions on those financial statements which were prepared in conformity with an other comprehensive basis of accounting. Other supplementary information included in Schedules 1 through 5, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB), Circular A-133, *Audits of States, Local Governments, and Non-profit Organizations*, is presented for the purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applies in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements as a whole.

A handwritten signature in black ink, appearing to read "Wintery Stone" followed by a stylized flourish.

March 14, 2007

## **BASIC FINANCIAL STATEMENTS**

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

		Program Receipts	
	Disbursements	Charges for Service	Operating Grants, Contributions, and Restricted Interest
<b>FUNCTIONS/PROGRAMS:</b>			
Governmental activities:			
Public safety .....	\$ 475,152	\$ 22,190	
Public works .....	356,311	153,444	\$ 97,289
Culture and recreation .....	126,096	24,883	12,748
Community and economic development	84,353		
General government .....	357,747		
Debt service .....	864,169		
Capital projects .....	<u>1,944,811</u>		
Total governmental activities	<u>4,208,639</u>	<u>200,517</u>	<u>110,037</u>
Business-type activities:			
Water .....	269,498	251,921	
Sewer .....	<u>119,748</u>	<u>143,959</u>	
Total business-type activities	<u>389,246</u>	<u>395,880</u>	
 TOTAL	 <u>\$4,597,885</u>	 <u>\$596,397</u>	 <u>\$ 110,037</u>

General Receipts:

Property taxes levied for:	
General purposes .....	
Tax increment financing collections ....	
Debt service .....	
Local option sales tax .....	
Hotel/motel tax .....	
Unrestricted interest on investments .....	
Miscellaneous .....	
Sales of assets .....	
Bond proceeds .....	
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:

Streets .....	
Urban renewal purpose .....	
Debt service .....	
Capital projects .....	
Unrestricted .....	

Total cash basis net assets

<u>Capital Grants, Contributions, and Restricted Interest</u>	<u>Net (Disbursement) Receipts and Changes in Cash Basis Net Assets</u>		
	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
	\$ (452,962)		\$ (452,962)
	(105,578)		(105,578)
	(88,465)		(88,465)
	(84,353)		(84,353)
	(357,747)		(357,747)
	(864,169)		(864,169)
<u>\$1,260,682</u>	<u>(684,129)</u>		<u>(684,129)</u>
<u>1,260,682</u>	<u>(2,637,403)</u>		<u>(2,637,403)</u>
		\$ (17,577)	(17,577)
		24,211	24,211
		6,634	6,634
<u>\$1,260,682</u>	<u>(2,637,403)</u>	<u>6,634</u>	<u>(2,630,769)</u>
	561,051		561,051
	609,254		609,254
	56,836		56,836
	172,798		172,798
	155,367		155,367
	174,565		174,565
	221,886		221,886
	17,500		17,500
	<u>4,515,000</u>		<u>4,515,000</u>
	<u>6,484,257</u>		<u>6,484,257</u>
	3,846,854	6,634	3,853,488
	<u>1,902,273</u>	<u>58,648</u>	<u>1,960,921</u>
	<u>\$5,749,127</u>	<u>\$ 65,282</u>	<u>\$5,814,409</u>
	\$ 33,066		\$ 33,066
	88,197		88,197
	2,751,240		2,751,240
	2,499,277		2,499,277
	<u>377,347</u>	<u>\$ 65,282</u>	<u>442,629</u>
	<u>\$5,749,127</u>	<u>\$ 65,282</u>	<u>\$5,814,409</u>

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

	General	Special Revenue	
		Road Use Tax	Urban Renewal Tax Increment
<b>RECEIPTS:</b>			
Property tax .....	\$ 561,051		
Tax increment financing collections .....			\$609,254
Other city tax .....	155,367		
Licenses and permits .....	12,669		
Use of money and property .....	27,874		
Intergovernmental .....	22,269	\$ 97,289	
Charges for service .....	178,327		
Special assessments .....			
Miscellaneous .....	216,548		
<b>TOTAL RECEIPTS</b>	<u>1,174,105</u>	<u>97,289</u>	<u>609,254</u>
<b>DISBURSEMENTS:</b>			
Operating:			
Public safety .....	475,152		
Public works .....	266,173	90,138	
Culture and recreation .....	126,096		
Community and economic development .....	84,353		
General government .....	357,747		
Debt service .....			
Capital projects .....			
<b>TOTAL DISBURSEMENTS</b>	<u>1,309,521</u>	<u>90,138</u>	
<b>EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS</b>	<u>(135,416)</u>	<u>7,151</u>	<u>609,254</u>
<b>OTHER FINANCING SOURCES (USES):</b>			
Operating transfers in .....	180,000		
Operating transfers out .....	(11,050)		(563,577)
Bond proceeds .....			
Sale of assets .....	17,500		
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>186,450</u>		<u>(563,577)</u>
<b>NET CHANGE IN CASH BALANCES</b>	51,034	7,151	45,677
<b>CASH BALANCES - BEGINNING OF YEAR</b> .....	<u>305,795</u>	<u>25,915</u>	<u>42,520</u>
<b>CASH BALANCES - END OF YEAR</b>	<u>\$ 356,829</u>	<u>\$ 33,066</u>	<u>\$ 88,197</u>
<b>CASH BASIS FUND BALANCES:</b>			
Reserved:			
Debt service .....			
Unreserved:			
General fund .....	\$ 356,829		
Special revenue funds .....		\$ 33,066	\$ 88,197
Capital projects fund .....			
<b>TOTAL CASH BASIS FUND BALANCES</b>	<u>\$ 356,829</u>	<u>\$ 33,066</u>	<u>\$ 88,197</u>

See Notes to Financial Statements

Exhibit B

<u>Debt Service</u>	<u>Capital Projects</u>	<u>Nonmajor Local Option Sales Tax</u>	<u>Total</u>
			\$ 561,051
			609,254
		\$ 172,798	328,165
			12,669
\$ 68,761	\$ 77,930		174,565
	1,260,682		1,380,240
			178,327
56,836			56,836
	5,338		221,886
<u>125,597</u>	<u>1,343,950</u>	<u>172,798</u>	<u>3,522,993</u>
			475,152
			356,311
			126,096
			84,353
			357,747
864,169			864,169
	1,944,811		1,944,811
<u>864,169</u>	<u>1,944,811</u>		<u>4,208,639</u>
<u>(738,572)</u>	<u>(600,861)</u>	<u>172,798</u>	<u>(685,646)</u>
486,127	88,500		754,627
		(180,000)	(754,627)
2,930,000	1,585,000		4,515,000
			17,500
<u>3,416,127</u>	<u>1,673,500</u>	<u>(180,000)</u>	<u>4,532,500</u>
2,677,555	1,072,639	(7,202)	3,846,854
<u>73,685</u>	<u>1,426,638</u>	<u>27,720</u>	<u>1,902,273</u>
<u>\$2,751,240</u>	<u>\$2,499,277</u>	<u>\$ 20,518</u>	<u>\$5,749,127</u>
\$2,751,240			\$2,751,240
			356,829
		\$ 20,518	141,781
	<u>\$2,499,277</u>		<u>2,499,277</u>
<u>\$2,751,240</u>	<u>\$2,499,277</u>	<u>\$ 20,518</u>	<u>\$5,749,127</u>

See Notes to Financial Statements

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

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
OPERATING RECEIPTS:			
Charges for service .....	\$238,387	\$141,529	\$379,916
Sales tax .....	6,703	2,430	9,133
Deposits .....	1,920		1,920
Miscellaneous .....	4,911		4,911
TOTAL OPERATING RECEIPTS	<u>251,921</u>	<u>143,959</u>	<u>395,880</u>
OPERATING DISBURSEMENTS:			
Business type activities:			
Personal services .....	55,427		55,427
Contractual services .....	10,810	115,228	126,038
Services and commodities .....	188,310	4,520	192,830
Sales tax .....	12,896		12,896
Deposit refund .....	2,055		2,055
TOTAL OPERATING DISBURSEMENTS	<u>269,498</u>	<u>119,748</u>	<u>389,246</u>
EXCESS (DEFICIENCY) OF OPERATING RECEIPTS OVER (UNDER) OPERATING DISBURSEMENTS	(17,577)	24,211	6,634
CASH BALANCES - BEGINNING OF YEAR .....	<u>54,401</u>	<u>4,247</u>	<u>58,648</u>
CASH BALANCES - END OF YEAR	<u>\$ 36,824</u>	<u>\$ 28,458</u>	<u>\$ 65,282</u>
CASH BASIS FUND BALANCES:			
Unreserved .....	<u>\$ 36,824</u>	<u>\$ 28,458</u>	<u>\$ 65,282</u>
TOTAL CASH BASIS FUND BALANCES	<u>\$ 36,824</u>	<u>\$ 28,458</u>	<u>\$ 65,282</u>

## **NOTES TO FINANCIAL STATEMENTS**

CITY OF ARNOLDS PARK  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2006

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The City of Arnolds Park is a political subdivision of the State of Iowa located in Dickinson County. It operates under the Home Rule provisions of the Constitution of Iowa and under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, culture, recreation, public improvements, and general administrative services. The City also provides water and sewer utilities for its citizens.

**A. Reporting Entity**

For financial reporting purposes, City of Arnolds Park has included all funds, organizations, account groups, agencies, boards, commissions, and authorities. These financial statements present the primary government of the City of Arnolds Park but do not include component units or any other organizations, if any, for which it would be financially accountable.

The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the City.

Jointly Governed Organizations

The City also participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards: Dickinson County Assessor's Conference Board, Upper Des Moines Opportunity Board, Dickinson County Emergency Management Commission, and Dickinson County Joint E911 Service Board.

**B. Basis of Presentation**

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

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

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

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

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

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 Urban Renewal Tax Increment 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 Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

The City reports the following major proprietary funds:

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

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

### **C. Measurement Focus and Basis of Accounting**

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

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

#### **D. Budgets and Budgetary Accounting**

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2006, disbursements exceeded the amounts budgeted in the public safety, public works, and debt service functions.

## **2. DEPOSITS AND POOLED INVESTMENTS**

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

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

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.

Credit risk - The City did not have investments subject to risk categorization at June 30, 2006.

At June 30, 2006, \$2,711,497 was held in trust on behalf of the City from the \$2,930,000 proceeds of general obligation refunding bonds issued during the fiscal year. The funds are maintained by the trustee in insured deposit accounts and U.S. Treasury notes maturing from December 1, 2006 through June 1, 2008 and are included in Debt Service Fund cash balances at June 30, 2006.

### 3. BONDS AND NOTES PAYABLE

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

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2007	\$ 420,000	\$ 409,771
2008	475,000	395,439
2009	495,000	379,466
2010	560,000	362,164
2011	540,000	340,809
2012 - 2016	2,830,000	1,378,651
2017 - 2021	3,225,000	719,948
2022 - 2025	<u>1,305,000</u>	<u>111,780</u>
Total	<u>\$9,850,000</u>	<u>\$4,098,028</u>

The Code of Iowa requires that principal and interest on general obligation bonds be paid from the Debt Service Fund.

### 4. PENSION AND RETIREMENT BENEFITS

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

Plan members are required to contribute 3.70% of their annual salary and the City is required to contribute 5.75% of annual covered payroll except for police employees, in which case the percentages are 5.93% and 8.90%, respectively. Contribution requirements are established by State statute. The City's contribution to IPERS for the year ended June 30, 2006, 2005, and 2004, were \$32,918, \$31,030, and \$32,873, respectively, equal to the required contribution for the year.

### 5. COMPENSATED ABSENCES

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

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	<u>\$ 12,669</u>

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

As sick leave is not payable upon termination, retirement or death, the minimum accumulated sick leave is not presented as part of these financial statements.

## 6. 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 \$39,021.

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.

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 workers compensation. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

## 7. INTERFUND TRANSFERS

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

<u>Transfers to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Local option sales tax	\$180,000
Debt service	General	11,050
Debt service	Urban renewal - tax increment	475,077
Capital projects	Urban renewal - tax increment	<u>88,500</u>
		<u>\$754,627</u>

## 8. LITIGATION

The City is party to routine legal proceedings and litigation arising in the normal course of business. In the opinion of management, the outcome of such actions will have no material impact on the City's financial condition.

## 9. CONSTRUCTION COMMITMENTS

At June 30, 2006, the City had construction contracts for street improvements totaling approximately \$2,290,000 of which approximately \$900,000 remained outstanding. The balance on the contracts will be paid as the projects progress.

Subsequent to June 30, 2006, the City received approximately \$100,000 in grant proceeds from the State of Iowa to fund construction expenditures, with an additional \$50,000 to be received pending final audit. The City also subsequently received approximately \$219,000 from Dickinson County to reimburse the City for the portion of construction costs it had agreed to share. In addition, the City subsequently paid Iowa Great Lakes Regional Water approximately \$214,000 as reimbursement for the portion of construction costs the City had agreed to share.

The City has agreed to pay approximately \$700,000 for its share of a joint construction project with the State of Iowa. Although the project was completed in a prior fiscal year, the City has not been billed by the State.

**REQUIRED SUPPLEMENTARY INFORMATION**

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

	Governmental Funds <u>Actual</u>	Proprietary Funds <u>Actual</u>	Less Funds Not Required to be Budgeted	<u>Net</u>
<b>RECEIPTS:</b>				
Property tax .....	\$ 561,051			\$ 561,051
Tax increment financing collections .....	609,254			609,254
Other city tax .....	328,165			328,165
Licenses and permits .....	12,669			12,669
Use of money and property .....	174,565		\$ 68,761	105,804
Intergovernmental .....	1,380,240			1,380,240
Charges for service .....	178,327	\$379,916		558,243
Special assessments .....	56,836			56,836
Miscellaneous .....	<u>221,886</u>	<u>15,964</u>		<u>237,850</u>
TOTAL RECEIPTS	<u>3,522,993</u>	<u>395,880</u>	<u>68,761</u>	<u>3,850,112</u>
<b>DISBURSEMENTS:</b>				
Public safety .....	475,152			475,152
Public works .....	356,311			356,311
Culture and recreation .....	126,096			126,096
Community and economic development .....	84,353			84,353
General government .....	357,747			357,747
Debt service .....	864,169		287,264	576,905
Capitol projects .....	1,944,811			1,944,811
Business-type activities .....		<u>389,246</u>		<u>389,246</u>
TOTAL DISBURSEMENTS	<u>4,208,639</u>	<u>389,246</u>	<u>287,264</u>	<u>4,310,621</u>
EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS	(685,646)	6,634	(218,503)	(460,509)
OTHER FINANCING SOURCES (USES) - NET	<u>4,532,500</u>		<u>2,930,000</u>	<u>1,602,500</u>
EXCESS (DEFICIENCY) OF RECEIPTS AND OTHER FINANCING SOURCES OVER DISBURSEMENTS AND OTHER FINANCING SOURCES	3,846,854	6,634	2,711,497	1,141,991
BALANCES - BEGINNING OF YEAR .....	<u>1,902,273</u>	<u>58,648</u>		<u>1,960,921</u>
BALANCES - END OF YEAR	<u>\$5,749,127</u>	<u>\$ 65,282</u>	<u>\$2,711,497</u>	<u>\$3,102,912</u>

<u>Budgeted Amounts</u>	<u>Final to Net Variance</u>
<u>Original/Final</u>	
\$ 545,408	\$ 15,643
564,000	45,254
356,133	(27,968)
7,000	5,669
250	105,554
1,161,151	219,089
591,450	(33,207)
39,500	17,336
116,780	<u>121,070</u>
<u>3,381,672</u>	<u>468,440</u>
426,065	(49,087)
330,545	(25,766)
203,253	77,157
102,500	18,147
372,482	14,735
536,155	(40,750)
2,879,400	934,589
393,853	<u>4,607</u>
<u>5,244,253</u>	<u>933,632</u>
(1,862,581)	1,402,072
<u>(783,016)</u>	<u>819,484</u>
(1,079,565)	<u>\$2,221,556</u>
<u>1,664,725</u>	
<u>\$ 585,160</u>	

CITY OF ARNOLDS PARK  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING  
JUNE 30, 2006

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

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

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

During the year ended June 30, 2006, disbursements exceeded the amounts budgeted in the public safety, public works, and debt service functions.

**OTHER SUPPLEMENTARY INFORMATION**

CITY OF ARNOLDS PARK  
 SCHEDULE OF INDEBTEDNESS  
 YEAR ENDED JUNE 30, 2006

<u>Obligation</u>	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount Originally Issued</u>
General Obligation Capital Notes: Street improvement	March 1, 1996	3.80 - 5.30%	\$ 600,000
General Obligation Capital Notes: Essential Corporate Purpose	June 1, 1998	4.00 - 4.70%	390,000
General Obligation Bonds: Essential Corporate Purpose	July 1, 2000	4.40 - 5.50%	3,000,000
General Obligation Bonds: Urban renewal	May 1, 2003	1.25 - 4.30%	2,300,000
General Obligation Refunding Capital Notes: Essential corporate purpose	March 1, 2003	1.25 - 3.45%	850,000
General Obligation Bonds: Essential corporate purpose	October 1, 2005	3.75 - 4.375%	1,585,000
General Obligation Refunding Bonds: Essential corporate purpose	October 1, 2005	3.10 - 4.05%	2,930,000

<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>
\$ 20,000		\$ 10,000	\$ 10,000	\$ 1,050	
175,000		35,000	140,000	7,998	
2,750,000		100,000	2,650,000	144,925	
2,140,000		65,000	2,075,000	77,575	
705,000		75,000	630,000	19,380	
	\$1,585,000		1,585,000	43,966	
<u>                    </u>	<u>2,930,000</u>	<u>170,000</u>	<u>2,760,000</u>	<u>71,937</u>	
<u>\$5,790,000</u>	<u>\$4,515,000</u>	<u>\$455,000</u>	<u>\$9,850,000</u>	<u>\$366,831</u>	

CITY OF ARNOLDS PARK  
BOND AND NOTE MATURITIES  
JUNE 30, 2006

General Obligation Bonds and Notes

Essential Corporate Purpose

Year Ending <u>June 30,</u>	<u>Issued 3-1-2003</u>		<u>Issued 3-1-1996</u>		<u>Issued 6-1-1998</u>		<u>Issued 7-1-2000</u>	
	<u>Interest Rate</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Amount</u>
2007	2.25%	\$ 75,000	5.30%	\$ 10,000	4.50%	\$ 35,000	5.10%	\$ 100,000
2008	2.50	130,000			4.55	35,000	5.10	100,000
2009	2.80	130,000			4.65	35,000	5.10	100,000
2010	3.05	135,000			4.70	35,000	5.10	150,000
2011	3.25	130,000					5.10	150,000
2012	3.45	30,000					5.10	150,000
2013							5.15	200,000
2014							5.20	200,000
2015							5.25	200,000
2016							5.30	250,000
2017							5.35	250,000
2018							5.40	250,000
2019							5.50	275,000
2020							5.50	275,000
2021								
2022								
2023								
2024								
2025								
TOTALS		<u>\$630,000</u>		<u>\$ 10,000</u>		<u>\$140,000</u>		<u>\$2,650,000</u>

General Obligation Bonds and Notes

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<u>Essential Corporate Purpose</u>				<u>Urban Renewal</u>		
<u>Issued 10-1-2005</u>		<u>Issued 10-1-2005</u>		<u>Issued 3-1-2003</u>		
<u>Interest Rate</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Amount</u>	<u>Total</u>
		3.20%	\$120,000	2.00%	\$ 80,000	\$ 420,000
		3.30	120,000	2.30	90,000	475,000
		3.35	120,000	2.65	110,000	495,000
		3.45	165,000	3.00	75,000	560,000
		3.55	165,000	3.20	95,000	540,000
		3.60	165,000	3.30	105,000	450,000
3.75%	\$ 100,000	3.65	210,000	3.40	80,000	590,000
3.80	95,000	3.70	210,000	3.50	95,000	600,000
3.90	90,000	3.75	205,000	3.60	110,000	605,000
4.00	5,000	3.80	255,000	3.75	75,000	585,000
4.00	10,000	3.85	250,000	3.90	90,000	600,000
4.10	15,000	3.90	245,000	4.00	110,000	620,000
4.125	10,000	4.00	265,000	4.05	100,000	650,000
4.125	25,000	4.05	265,000	4.10	120,000	685,000
4.15	250,000			4.20	420,000	670,000
4.20	235,000			4.30	320,000	555,000
4.25	300,000					300,000
4.30	350,000					350,000
4.375	100,000					100,000
	<u>\$1,585,000</u>		<u>\$2,760,000</u>		<u>\$2,075,000</u>	<u>\$9,850,000</u>

CITY OF ARNOLDS PARK  
 SCHEDULE OF RECEIPTS BY SOURCE AND DISBURSEMENTS BY FUNCTION  
 ALL GOVERNMENTAL FUNDS  
 FOR THE LAST FOUR YEARS

	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
<b>RECEIPTS:</b>				
Property tax .....	\$ 561,051	\$ 533,685	\$ 515,415	\$ 494,669
Tax increment financing collections .....	609,254	636,830	574,591	581,769
Other city tax.....	328,165	355,572	327,238	325,115
Licenses and permits.....	12,669	14,911	7,971	5,877
Use of money and property .....	174,565	38,828	37,587	83,072
Intergovernmental.....	1,380,240	120,886	134,136	148,153
Charges for services.....	178,327	159,328	162,807	152,629
Special assessments.....	56,836	59,403	62,830	71,639
Miscellaneous .....	<u>221,886</u>	<u>507,963</u>	<u>294,707</u>	<u>394,214</u>
<b>TOTAL</b>	<b><u>\$3,522,993</u></b>	<b><u>\$2,427,406</u></b>	<b><u>\$2,117,282</u></b>	<b><u>\$2,257,137</u></b>
 <b>DISBURSEMENTS:</b>				
Operating:				
Public safety .....	\$ 475,152	\$ 592,769	\$ 528,822	\$ 368,883
Public works .....	356,311	346,028	334,328	368,139
Culture and recreation.....	126,096	100,940	137,317	97,155
Community and economic development	84,353	101,098	116,042	96,455
General government.....	357,747	337,188	309,483	318,508
Debt service.....	864,169	552,752	530,304	1,520,028
Capital projects .....	<u>1,944,811</u>	<u>950,488</u>	<u>1,139,304</u>	<u>2,373,925</u>
<b>TOTAL</b>	<b><u>\$4,208,639</u></b>	<b><u>\$2,981,263</u></b>	<b><u>\$3,095,600</u></b>	<b><u>\$5,143,093</u></b>

CITY OF ARNOLDS PARK  
 COMBINING SCHEDULE OF CASH TRANSACTIONS  
 GENERAL FUND  
 YEAR ENDED JUNE 30, 2006

	<u>Operating</u>	<u>Special Electric</u>
<b>RECEIPTS:</b>		
Property tax .....	\$ 561,051	<u>          </u>
Other city tax - hotel/motel tax .....	<u>155,367</u>	<u>          </u>
Licenses and permits .....	<u>12,669</u>	<u>          </u>
Use of money and property - interest on investments .....	<u>27,874</u>	<u>          </u>
Intergovernmental:		
Beer and liquor permits .....	9,521	
Library grant .....	<u>12,748</u>	
Total intergovernmental	<u>22,269</u>	<u>          </u>
Charges for services:		
Residential garbage .....	76,420	
Commercial garbage .....	52,740	
Sales tax .....	4,583	
Garbage bags .....	19,701	
Park rental .....	<u>24,883</u>	
Total charges for services	<u>178,327</u>	<u>          </u>
Miscellaneous:		
Library donation .....	9,800	
Cable TV fee .....	12,153	
Fines .....	26,104	
Miscellaneous .....	30,171	
Fire protection reimbursement .....	51,604	
Board of adjustment .....	6,428	
Franchise fee .....		\$ 12,936
Beautification donation .....	20,085	
Boat slips .....	16,380	
Reimbursements .....	<u>8,191</u>	
Total miscellaneous	<u>180,916</u>	<u>12,936</u>
 TOTAL RECEIPTS	 <u>1,138,473</u>	 <u>12,936</u>

Schedule 4

<u>Equipment Revolving</u>	<u>Employee Benefits</u>	<u>Total</u>
		\$ 561,051
		<u>155,367</u>
		12,669
		<u>27,874</u>
		9,521
		<u>12,748</u>
		<u>22,269</u>
		76,420
		52,740
		4,583
		19,701
		<u>24,883</u>
		<u>178,327</u>
		9,800
		12,153
		26,104
\$ 22,696		52,867
		51,604
		6,428
		12,936
		20,085
		16,380
		8,191
<u>22,696</u>		<u>216,548</u>
<u>22,696</u>		<u>1,174,105</u>

CITY OF ARNOLDS PARK  
 COMBINING SCHEDULE OF CASH TRANSACTIONS - Continued  
 GENERAL FUND  
 YEAR ENDED JUNE 30, 2006

	<u>Operating</u>	<u>Special Electric</u>
<b>DISBURSEMENTS:</b>		
Public safety:		
Police:		
Personal services .....	\$ 265,933	
Commodities .....	44,099	
Capital outlay .....	8,506	
Total police	318,538	
Fire:		
Personal services .....	25,615	
Commodities .....	29,872	
Capital outlay .....	24,575	
Total fire	80,062	
Animal control .....	2,400	
Total public safety	401,000	
 Public works:		
Street:		
Personal services .....		
Commodities .....	47,755	\$ 37,218
	47,755	37,218
Street lighting - commodities .....	43,570	
Sanitary sewer - commodities .....	4,461	
Solid waste:		
Contractual services .....	126,205	
Commodities .....	6,909	
Total solid waste	133,114	
Total public works	228,900	37,218
 Culture and recreation:		
Library:		
Personal services .....	34,780	
Contractual services .....	9,551	
Commodities .....	27,982	
Total library	72,313	
Parks and recreation:		
Personal services .....	20,098	
Commodities .....	22,999	
Capital outlay .....	4,000	
Total parks and recreation	47,097	
Total culture and recreation	119,410	
 Community and economic development:		
Tourism - contractual services .....	77,684	
Beautification - commodities .....	6,669	
Total community and economic development	84,353	

Schedule 4

<u>Equipment Revolving</u>	<u>Employee Benefits</u>	<u>Total</u>
	\$ 32,067	\$ 298,000
\$ 12,631		56,730
<u>29,322</u>		<u>37,828</u>
<u>41,953</u>	<u>32,067</u>	<u>392,558</u>
	132	25,747
		29,872
		<u>24,575</u>
<u>          </u>	<u>132</u>	<u>80,194</u>
<u>          </u>		<u>2,400</u>
<u>41,953</u>	<u>32,199</u>	<u>475,152</u>
	55	55
<u>          </u>	<u>          </u>	<u>84,973</u>
<u>          </u>	<u>55</u>	<u>85,028</u>
<u>          </u>		<u>43,570</u>
<u>          </u>		<u>4,461</u>
		126,205
<u>          </u>	<u>          </u>	<u>6,909</u>
<u>          </u>		<u>133,114</u>
<u>          </u>	<u>55</u>	<u>266,173</u>
	4,661	39,441
<u>          </u>	<u>          </u>	<u>9,551</u>
<u>          </u>	<u>          </u>	<u>27,982</u>
<u>          </u>	<u>4,661</u>	<u>76,974</u>
	2,025	22,123
<u>          </u>	<u>          </u>	<u>22,999</u>
<u>          </u>	<u>          </u>	<u>4,000</u>
<u>          </u>	<u>2,025</u>	<u>49,122</u>
<u>          </u>	<u>6,686</u>	<u>126,096</u>
		77,684
<u>          </u>	<u>          </u>	<u>6,669</u>
<u>          </u>	<u>          </u>	<u>84,353</u>

CITY OF ARNOLDS PARK  
 COMBINING SCHEDULE OF CASH TRANSACTIONS - Continued  
 GENERAL FUND  
 YEAR ENDED JUNE 30, 2006

	<u>Operating</u>	<u>Special Electric</u>
<b>DISBURSEMENTS:</b>		
General government:		
Mayor and council members - personal services .....	\$ 6,600	_____
City hall:		
Personal services .....	125,329	_____
Commodities .....	<u>106,809</u>	_____
Total city hall	232,138	_____
Legal and professional - contractual services .....	<u>51,818</u>	_____
Insurance - contractual services .....	<u>52,230</u>	_____
Total general government	<u>342,786</u>	_____
TOTAL DISBURSEMENTS	<u>1,176,449</u>	<u>\$ 37,218</u>
EXCESS (DEFICIENCY) OF RECEIPTS OVER DISBURSEMENTS	<u>(37,976)</u>	<u>(24,282)</u>
OTHER FINANCING SOURCES (USES):		
Operating transfers in .....	180,000	_____
Operating transfers out .....	(121,050)	_____
Sale of assets .....	_____	_____
TOTAL OTHER FINANCING SOURCES	<u>58,950</u>	_____
NET	20,974	(24,282)
CASH BALANCES - BEGINNING OF YEAR .....	<u>249,494</u>	<u>96,681</u>
CASH BALANCES - END OF YEAR	<u>\$ 270,468</u>	<u>\$ 72,399</u>

Schedule 4

<u>Equipment Revolving</u>	<u>Employee Benefits</u>	<u>Total</u>
		<u>\$ 6,600</u>
	\$ 14,961	140,290
		<u>106,809</u>
	<u>14,961</u>	<u>247,099</u>
		<u>51,818</u>
		<u>52,230</u>
	<u>14,961</u>	<u>357,747</u>
<u>\$ 41,953</u>	<u>53,901</u>	<u>1,309,521</u>
<u>(19,257)</u>	<u>(53,901)</u>	<u>(135,416)</u>
45,000	65,000	290,000
		(121,050)
<u>17,500</u>		<u>17,500</u>
<u>62,500</u>	<u>65,000</u>	<u>186,450</u>
43,243	11,099	51,034
<u>(5,750)</u>	<u>(34,630)</u>	<u>305,795</u>
<u>\$ 37,493</u>	<u>\$ (23,531)</u>	<u>\$ 356,829</u>

CITY OF ARNOLDS PARK  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 YEAR ENDED JUNE 30, 2006

Grantor/Program	CFDS Number	Agency Pass-Through Number	Expenditures
Indirect:			
U.S. Department of Transportation:			
Iowa Department of Transportation:			
Highway planning and construction	20.205	BRM-0232(604)-8N-30	<u>\$850,102</u>

Basis of Presentation - The Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Arnolds Park and is presented in conformity with an other comprehensive basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

**WINTHER, STAVE & Co., LLP**  
*Certified Public Accountants*

1316 West 18th Street  
P.O. Box 175  
Spencer, Iowa 51301-0175  
Phone 712-262-3117  
FAX 712-262-3159

1004 21st Street #4  
P.O. Box 187  
Milford, Iowa 51351  
Phone 712-338-2488  
FAX 712-338-2510

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

To the Honorable Mayor and  
Members of the City Council  
City of Arnolds Park  
Arnolds Park, IA 51331

We have audited the financial statements of the City of Arnolds Park, Iowa, as of and for the year ended June 30, 2006, and have issued our report thereon dated March 14, 2007. Our report expressed an unqualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the City of Arnolds Park's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of Arnolds Park's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in Part II of the accompanying Schedule of Findings and Questioned Costs.

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

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Arnolds Park's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of non-compliance that are described in Part IV of the accompanying Schedule of Findings and Questioned Costs

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

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Arnolds Park and other parties whom the City of Arnolds Park 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 Arnolds Park 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.

A handwritten signature in cursive script that reads "Wincher, Stone & Co LLP". The signature is written in black ink and is positioned in the lower right quadrant of the page.

March 14, 2007

**WINTHER, STAVE & Co., LLP**  
*Certified Public Accountants*

1316 West 18th Street  
P.O. Box 175  
Spencer, Iowa 51301-0175  
Phone 712-262-3117  
FAX 712-262-3159

1004 21st Street #4  
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Milford, Iowa 51351  
Phone 712-338-2488  
FAX 712-338-2510

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH  
REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND  
ON INTERNAL CONTROL OVER COMPLIANCE

To the Honorable Mayor and  
Members of the City Council  
City of Arnolds Park  
Arnolds Park, IA 51331

**Compliance**

We have audited the compliance of the City of Arnolds Park, Iowa, with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2006. The City's major federal program is identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grant agreements applicable to its major federal program is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion, the City of Arnolds Park complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2006.

**Internal Control Over Compliance**

The management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grant agreements applicable to federal programs. In planning and performing our audit, we

considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted a certain matter involving the internal control over compliance and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the City's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts, and grant agreements. The reportable condition is described as item III-A-06 in the accompanying Schedule of Findings and Questioned Costs.

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 non-compliance with applicable requirements of laws, regulations, contracts, and grant agreements caused by error or fraud that would be material in relation to a major federal program 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 compliance 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 the reportable condition described above, item III-A-06, is a material weakness.

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 Arnolds Park and other parties to whom the City may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Wither, Steve H. L.L.P." The signature is written in a cursive, flowing style.

March 14, 2007

CITY OF ARNOLDS PARK  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2006

**Part I: Summary of the Independent Auditors' Results**

- a. An unqualified opinion was issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles
- b. A reportable condition in internal control over financial reporting was disclosed by the audit of the financial statements, including a material weakness.
- c. The audit did not disclose any non-compliance which is material to the financial statements.
- d. A reportable condition in internal control over major program was disclosed by the audit of the financial statements, including a material weakness.
- e. An unqualified opinion was issued on compliance with requirements applicable to the major program.
- f. The audit disclosed no audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- g. The major program was CFDA number 20.205 - highway planning and construction.
- h. The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- i. The City of Arnolds Park did not qualify as a low-risk auditee.

CITY OF ARNOLDS PARK  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - Continued  
FOR THE YEAR ENDED JUNE 30, 2006

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

**Instances of Noncompliance:**

No matters were noted

**Reportable Condition:**

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. The cash receipts listing, bank deposits, and the posting of the cash receipts to the cash receipts journal are all done by the same person.

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

Response - We will consider this.

Conclusion - Response accepted.

CITY OF ARNOLDS PARK  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - Continued  
FOR THE YEAR ENDED JUNE 30, 2006

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

**Instances of Noncompliance:**

No matters were noted

**Reportable Condition:**

CFDA No. 20.205

III-A-06 Segregation of Duties over Federal Receipts - The City did not properly segregate collection, deposit, and record-keeping for receipts, including those related to federal programs. See item II-A-06.

CITY OF ARNOLDS PARK  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - Continued  
FOR THE YEAR ENDED JUNE 30, 2006

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

IV-A-06 Certified Budget - Disbursements during the year ended June 30, 2006 exceeded the amounts budgeted in the public safety, public works, and debt service functions. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

Recommendation - The budget should have been amended in 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.

IV-B-06 Questionable Disbursements - We noted no expenditures that did 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 expenditures of City money for travel expenses of spouses of City officials or employees were noted.

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

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

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

IV-G-06 Revenue Notes - The City had no revenue notes outstanding during the year.

IV-H-06 Deposits and Investments - We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the Utilities' investment policy.