

**CITY OF PAULLINA**  
INDEPENDENT AUDITOR'S REPORTS

FINANCIAL STATEMENTS AND  
SUPPLEMENTAL INFORMATION  
SCHEDULE OF FINDINGS

JUNE 30, 2006

**David A. Maske**  
Certified Public Accountant  
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Spencer, Iowa 51301

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# CITY OF PAULLINA, IOWA

## OFFICIALS

(Before January, 2006)

<b><u>Name</u></b>	<b><u>Title</u></b>	<b><u>Term Expires</u></b>
Paul Struve	Mayor	January 2006
Patrick Hill	Mayor Pro-Tem	January 2008
David Honkomp	Council Member	January 2008
John Ihle	Council Member	January 2008
Ed Bettin	Council Member	January 2006
Garth Hurley	Council Member	January 2006

(After January, 2006)

<b><u>Name</u></b>	<b><u>Title</u></b>	<b><u>Term Expires</u></b>
Marlo Ebel	Mayor	January 2008
Patrick Hill	Mayor Pro-Tem	January 2008
David Honkomp	Council Member	January 2008
John Ihle	Council Member	January 2008
Ed Bettin	Council Member	January 2010
Martin Weber	Council Member	January 2010
Sandy Fritz	City Clerk/Administrator	January 2008
Johnene Altman	Treasurer	January 2007
Tisha Halverson	Attorney	January 2007

# DAVID A. MASKE

## Certified Public Accountant

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### INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and  
Members of the City Council  
City of Paullina  
Paullina, Iowa

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 Paullina, 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'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 and provisions 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 that my audit provides a reasonable basis for my opinion.

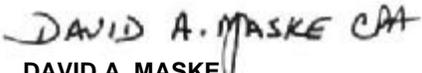
As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Paullina, 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 August 25, 2006 on my consideration of the City of Paullina's internal control over financial reporting and my 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 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 3 through 6 and 15 are not required parts of the basic financial statements, but are supplementary information required by the governmental Accounting Standards Board. I applied limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the supplementary information I did not audit the information and express no opinion on it.

My audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Paullina's basic financial statements. I previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2005 (none of which are presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 5, 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 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 as a whole.

  
DAVID A. MASKE  
Certified Public Accountant

August 25, 2006  
Spencer, Iowa

**CITY OF PAULLINA**  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2006

The City of Paullina 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. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

**2006 FINANCIAL HIGHLIGHTS**

- Receipts of the City-wide activities decreased 1.0%, or approximately \$18,000 from fiscal 2005 to fiscal 2006.
- Disbursements decreased 16.4%, or approximately \$329,000 in fiscal 2006 from fiscal 2005. The decrease was related primarily to Capitol Projects.
- The City's total cash basis net assets increased 2.8%, or approximately \$46,700 from June 30, 2005 to June 30, 2006.

**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 City's Financial Statement consists of a Statement of Receipts, Disbursements and Cash Balances. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

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 City's 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**

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 Receipts, Disbursements and Changes in Cash Balances reports information which helps answer this question.

The Statement of Receipts, Disbursements and Changes in Cash Balances 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.

*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 Urban Renewal Tax Increment, and 3) the Debt Service 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 statements for governmental funds include 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 four Enterprise Funds to provide separate information for the Water Fund, Electric Fund, Sewer Fund and Telecom Fund considered to be major funds of the City.

The required financial statements for proprietary funds include 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 from a year ago, from \$806,485 to \$811,590. The analysis that follows focuses on the changes in cash balances for governmental activities.

**Changes in Cash Basis Net Assets of Governmental Activities**

	<b><u>Year Ended June 30,</u></b>	
	<b><u>2006</u></b>	<b><u>2005</u></b>
Receipts and Transfers:		
Program Receipts:		
Charges for Service.....	\$ 118,724	\$ 107,011
General Receipts		
Property Tax.....	226,642	225,099
Special Assessments .....	83,416	59,413
Tax Increment Financing Collections.....	21,039	21,507
Local Option Sales Tax .....	76,864	76,608
Intergovernmental .....	102,560	100,753
Use of Money and Property.....	51,806	30,286
Licenses and Permits .....	2,288	2,100
Other General Receipts.....	14,265	51,887
Sale of Capital Assets .....	500	80,245
Net Transfers.....	-0-	419,926
Total Receipts and Transfers	<u>\$ 698,104</u>	<u>\$ 1,174,835</u>
Disbursements:		
Public Safety .....	\$ 190,849	\$ 198,757
Public Works.....	144,941	141,432
Health and Social Services .....	3,750	3,750
Culture and Recreation .....	87,839	75,097
Community and Economic Development .....	1,651	1,000
General Government .....	68,662	63,849
Debt Service .....	73,863	113,649
Capital Projects.....	38,312	421,454
Net Transfers Out .....	83,132	-0-
Total Disbursements	<u>\$ 692,999</u>	<u>\$ 1,018,988</u>
Increase (Decrease) in Cash Basis Net Assets	\$ 5,105	\$ 155,847
Cash Basis Net Assets - Beginning of Year	<u>806,485</u>	<u>650,638</u>
Cash Basis Net Assets - End of Year	<u>\$ 811,590</u>	<u>\$ 806,485</u>

**Changes in Cash Basis Net Assets of Business Type Activities**

	<b><u>Year ended June 30,</u></b>	
	<b><u>2006</u></b>	<b><u>2005</u></b>
Receipts:		
Operating Receipts:		
Water.....	\$ 188,482	\$ 182,465
Electric .....	587,585	576,388
Sewer .....	100,549	93,090
Telecom .....	110,379	101,907
Interest.....	35,945	30,380
Net Transfers In .....	<u>83,132</u>	<u>-0-</u>
Total	<u>\$ 1,106,072</u>	<u>\$ 984,230</u>
Disbursements:		
Operating Disbursements:		
Water .....	\$ 154,120	\$ 103,002
Electric .....	534,071	502,903
Sewer .....	117,419	122,671
Telecom .....	50	1,500
Debt Service .....	258,822	254,689
Net Transfers Out .....	<u>-0-</u>	<u>419,926</u>
Total	<u>\$ 1,064,482</u>	<u>\$ 1,404,691</u>
Net Change in Cash Balance	\$ 41,590	\$ (420,461)
Cash Basis Net Assets - Beginning of Year	<u>\$ 839,697</u>	<u>\$ 1,260,158</u>
Cash Basis Net Assets - End of Year	<u>\$ 881,287</u>	<u>\$ 839,697</u>

**INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS**

As the City of Paullina completed the year, its governmental funds reported a combined fund balance of \$811,590, an increase of \$5,105 over last year's total of \$806,485. 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 \$114,509 from the prior year.
- The Road Use Tax Fund cash balance increased by \$80,156 during the fiscal year.
- The Urban Renewal Tax Increment Fund cash balance decreased by \$5,899 during the year.
- The Debt Service Fund cash balance increased by \$89,369 during the year.

**INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS**

- The Water Fund cash balance increased by \$36,440 to \$257,781
- The Electric Fund cash balance decreased by \$12,309 to \$272,029.
- The Sewer Fund cash balance decreased by \$19,028 to \$31,889.
- The Telecom Fund cash balance increased by \$36,487 to \$319,588.

**BUDGETARY HIGHLIGHTS**

Over the course of the year, the City amended its budget once. The City had sufficient cash balances to absorb these additional costs.

**DEBT ADMINISTRATION**

A comparison of the City's debt at June 30, 2006 to June 30, 2005 follows:

	<u>Year Ended June 30,</u>	
	<u>2006</u>	<u>2005</u>
G.O. Bonds and Notes .....	\$ 260,000	\$ 305,000
Special Assessment Notes.....	60,000	70,000
Sewer Revolving Loan Notes .....	98,000	144,000
Electric Revenue Notes .....	890,000	960,000
Telecommunication:		
Revenue Notes .....	<u>850,000</u>	<u>900,000</u>
Total	<u>\$ 2,158,000</u>	<u>\$ 2,379,000</u>

**ECONOMIC FACTORS**

The City is in the process of developing the business park, which it hopes will bring new business into the City.

The Utilities are working with the commodity suppliers to stabilize the rates and lock in costs into 2010.

**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 Fritz, City Clerk, Paullina, Iowa.

# **BASIC FINANCIAL STATEMENTS**

**CITY OF PAULLINA**  
 Statement of Activities and Net Assets – Cash Basis  
 For the Year Ended June 30, 2006

	<u>-----Program Receipts-----</u>			<u>-----Net (Disbursements) Receipts and Changes in Cash Basis Net Assets-----</u>		
		<b>Operating Grants, Contributions, and Restricted Interest</b>				
	<b>Disbursements</b>	<b>Charges for Service</b>		<b>Governmental Activities</b>	<b>Business Type Activities</b>	<b>Total</b>
Functions / Programs:						
Government Activities:						
Public Safety.....	\$ 190,849	\$ 44,631	\$ -0-	\$ (146,218)	\$ -0-	\$ (146,218)
Public Works.....	144,941	71,024	94,107	20,190	-0-	20,190
Health and Social Services.....	3,750	-0-	-0-	(3,750)	-0-	(3,750)
Culture and Recreation.....	87,839	3,069	8,453	(76,317)	-0-	(76,317)
Community and Economic Development .....	1,651	-0-	-0-	(1,651)	-0-	(1,651)
General Government .....	68,662	2,288	-0-	(66,374)	-0-	(66,374)
Debt Service.....	73,863	-0-	-0-	(73,863)	-0-	(73,863)
Capital Projects .....	38,312	-0-	-0-	(38,312)	-0-	(38,312)
Total Governmental Activities	<u>\$ 609,867</u>	<u>\$ 121,012</u>	<u>\$ 102,560</u>	<u>\$ (386,295)</u>	<u>\$ -0-</u>	<u>\$ (386,295)</u>
Business Type Activities:						
Water.....	\$ 154,120	\$ 188,482	\$ -0-	\$ -0-	\$ 34,362	\$ 34,362
Sewer.....	169,453	100,549	-0-	-0-	(68,904)	(68,904)
Electric.....	655,446	587,585	-0-	-0-	(67,861)	(67,861)
Telecom.....	85,463	110,379	-0-	-0-	24,916	24,916
Total Business Type Activities	<u>\$ 1,064,482</u>	<u>\$ 986,995</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ (77,487)</u>	<u>\$ (77,487)</u>
Total	<u>\$ 1,674,349</u>	<u>\$ 1,108,007</u>	<u>\$ 102,560</u>	<u>\$ (386,295)</u>	<u>\$ (77,487)</u>	<u>\$ (463,782)</u>
General Receipts:						
Property Tax Levied For:						
General Purposes.....				\$ 220,626	\$ -0-	\$ 220,626
Tax Increment Financing .....				21,039	-0-	21,039
Debt Service.....				6,016	-0-	6,016
Local Option Sales Tax.....				76,864	-0-	76,864
Unrestricted Interest on Investments.....				30,405	35,945	66,350
Special Assessments.....				83,416	-0-	83,416
Sale of Assets.....				500	-0-	500
Miscellaneous.....				35,666	-0-	35,666
Transfers.....				(83,132)	83,132	-0-
Total General Receipts and Transfers				<u>\$ 391,400</u>	<u>\$ 119,077</u>	<u>\$ 510,477</u>
Change in Cash Basis Net Assets				\$ 5,105	\$ 41,590	\$ 46,695
Cash Basis Net Assets – Beginning of Year				806,485	839,697	1,646,182
Cash Basis Net Assets – End of Year				<u>\$ 811,590</u>	<u>\$ 881,287</u>	<u>\$ 1,692,877</u>
Cash Basis Net Assets						
Restricted:						
Streets.....				\$ 336,151	\$ -0-	\$ 336,151
Urban Renewal Purpose.....				12,740	-0-	12,740
Debt Service.....				305,313	513,558	818,871
Other Purposes .....				(32,142)	-0-	(32,142)
Unrestricted .....				189,528	367,729	557,257
Total Cash Basis Net Assets				<u>\$ 811,590</u>	<u>\$ 881,287</u>	<u>\$ 1,692,877</u>

**CITY OF PAULLINA**  
**Statement of Cash Receipts, Disbursements and Changes in Cash Balances**  
**Governmental Funds**  
**For the Year Ended June 30, 2006**

	----- <u>Special Revenue</u> -----				Other Nonmajor Governmental Funds	Total
	General	Road Use Tax	Urban Renewal Tax Increment	Debt Service		
<b>Receipts:</b>						
Property Tax .....	\$ 171,812	\$ -0-	\$ -0-	\$ 6,016	\$ 48,814	\$ 226,642
Tax Increment Financing Collections.....	-0-	-0-	21,039	-0-	-0-	21,039
Other City Tax.....	-0-	-0-	-0-	-0-	76,864	76,864
Licenses and Permits.....	2,288	-0-	-0-	-0-	-0-	2,288
Use of Money and Property.....	38,359	-0-	1,062	11,650	735	51,806
Intergovernmental .....	8,453	94,107	-0-	-0-	-0-	102,560
Charges for Services.....	118,724	-0-	-0-	-0-	-0-	118,724
Special Assessments.....	-0-	-0-	-0-	83,416	-0-	83,416
Miscellaneous .....	14,265	-0-	-0-	-0-	-0-	14,265
Total Receipts	<u>\$ 353,901</u>	<u>\$ 94,107</u>	<u>\$ 22,101</u>	<u>\$ 101,082</u>	<u>\$ 126,413</u>	<u>\$ 697,604</u>
<b>Disbursements:</b>						
<b>Operating:</b>						
Public Safety .....	\$ 153,264	\$ -0-	\$ -0-	\$ -0-	\$ 37,585	\$ 190,849
Public Works.....	130,837	13,951	-0-	-0-	153	144,941
Health and Social Services .....	3,750	-0-	-0-	-0-	-0-	3,750
Culture and Recreation .....	84,748	-0-	-0-	-0-	3,091	87,839
Community and Economic Development.....	1,651	-0-	-0-	-0-	-0-	1,651
General Government.....	67,730	-0-	-0-	-0-	932	68,662
Debt Service.....	-0-	-0-	-0-	73,863	-0-	73,863
Capital Projects .....	-0-	-0-	-0-	-0-	38,312	38,312
Total Disbursements	<u>\$ 441,980</u>	<u>\$ 13,951</u>	<u>\$ -0-</u>	<u>\$ 73,863</u>	<u>\$ 80,073</u>	<u>\$ 609,867</u>
Excess (Deficiency) of Receipts over Disbursements	\$ (88,079)	\$ 80,156	\$ 22,101	\$ 27,219	\$ 46,340	\$ 87,737
<b>Other Financing Sources (Uses):</b>						
Operating Transfers In (Out) .....	\$ (26,930)	\$ -0-	\$ (28,000)	\$ 62,150	\$ (90,352)	\$ (83,132)
Sale of Capital Assets.....	500	-0-	-0-	-0-	-0-	500
Total Other Financing Sources (Uses)	<u>\$ (26,430)</u>	<u>\$ -0-</u>	<u>\$ (28,000)</u>	<u>\$ 62,150</u>	<u>\$ (90,352)</u>	<u>\$ (82,632)</u>
Net Change in Cash Balances	\$ (114,509)	\$ 80,156	\$ (5,899)	\$ 89,369	\$ (44,012)	\$ 5,105
Cash Balances – Beginning of Year	304,037	255,995	18,639	215,944	11,870	806,485
Cash Balances – End of Year	<u>\$ 189,528</u>	<u>\$ 336,151</u>	<u>\$ 12,740</u>	<u>\$ 305,313</u>	<u>\$ (32,142)</u>	<u>\$ 811,590</u>
<b>Cash Basis Net Assets</b>						
<b>Restricted:</b>						
Debt Service.....	\$ -0-	\$ -0-	\$ -0-	\$ 305,313	\$ -0-	\$ 305,313
<b>Unrestricted:</b>						
General Fund.....	189,528	-0-	-0-	-0-	-0-	189,528
Special Revenue Fund .....	-0-	336,151	12,740	-0-	19,824	368,715
Capital Projects Fund .....	-0-	-0-	-0-	-0-	(51,966)	(51,966)
Total Cash Basis Fund Balances	<u>\$ 189,528</u>	<u>\$ 336,151</u>	<u>\$ 12,740</u>	<u>\$ 305,313</u>	<u>\$ (32,142)</u>	<u>\$ 811,590</u>

**CITY OF PAULLINA**  
Statement of Cash Receipts, Disbursements and  
Changes in Cash Balances  
Proprietary Funds  
For the Year Ended June 30, 2006

	Water	Electric	Sewer	Telecom	Total
<b>Operating Receipts:</b>					
Charges for Services.....	\$ 167,161	\$ 562,221	\$ 92,568	\$ 110,379	\$ 932,329
Sales Tax.....	11,136	19,518	873	-0-	31,527
Refunds and Reimbursements.....	9,582	3,150	7,108	-0-	19,840
Deposits.....	-0-	2,226	-0-	-0-	2,226
Miscellaneous.....	603	470	-0-	-0-	1,073
<b>Total Operating Receipts</b>	<b>\$ 188,482</b>	<b>\$ 587,585</b>	<b>\$ 100,549</b>	<b>\$ 110,379</b>	<b>\$ 986,995</b>
<b>Operating Disbursements:</b>					
<b>Business Type Activities:</b>					
Personal Services.....	\$ 48,854	\$ 122,895	\$ 50,912	\$ -0-	\$ 222,661
Contractual Services.....	19,636	34,219	41,046	-0-	94,901
Economic Development.....	-0-	80	-0-	-0-	80
Purchased Current.....	-0-	286,469	-0-	-0-	286,469
Services and Commodities.....	74,546	67,693	24,587	-0-	166,826
Sales Tax.....	11,084	19,690	874	50	31,698
Deposit Refunds.....	-0-	3,025	-0-	-0-	3,025
<b>Total Operating Disbursements</b>	<b>\$ 154,120</b>	<b>\$ 534,071</b>	<b>\$ 117,419</b>	<b>\$ 50</b>	<b>\$ 805,660</b>
<b>Excess (Deficiency) of Operating Receipts Over Operating Disbursements</b>	<b>\$ 34,362</b>	<b>\$ 53,514</b>	<b>\$ (16,870)</b>	<b>\$ 110,329</b>	<b>\$ 181,335</b>
<b>Non-Operating Receipts (Disbursements):</b>					
Debt Service.....	\$ -0-	\$ (121,375)	\$ (52,034)	\$ (85,413)	\$ (258,822)
Interest on Investments.....	9,278	13,529	1,567	11,571	35,945
<b>Total</b>	<b>\$ 9,278</b>	<b>\$ (107,846)</b>	<b>\$ (50,467)</b>	<b>\$ (73,842)</b>	<b>\$ (222,877)</b>
<b>Excess (Deficiency) of Receipts over Disbursements</b>	<b>\$ 43,640</b>	<b>\$ (54,332)</b>	<b>\$ (67,337)</b>	<b>\$ 36,487</b>	<b>\$ (41,542)</b>
<b>Operating Transfers In (Out)</b>	<b>(7,200)</b>	<b>42,023</b>	<b>48,309</b>	<b>-0-</b>	<b>83,132</b>
<b>Net Change in Cash Balances</b>	<b>\$ 36,440</b>	<b>\$ (12,309)</b>	<b>\$ (19,028)</b>	<b>\$ 36,487</b>	<b>\$ 41,590</b>
<b>Cash Balances – Beginning of Year</b>	<b>221,341</b>	<b>284,338</b>	<b>50,917</b>	<b>283,101</b>	<b>839,697</b>
<b>Cash Balances – End of Year</b>	<b>\$ 257,781</b>	<b>\$ 272,029</b>	<b>\$ 31,889</b>	<b>\$ 319,588</b>	<b>\$ 881,287</b>
<b>Cash Basis Fund Balances</b>					
Reserved for Debt Services.....	\$ 43,666	\$ 298,691	\$ 48,113	\$ 123,088	\$ 513,558
Unreserved.....	214,115	(26,662)	(16,224)	196,500	367,729
<b>Total Cash Basis Fund Balances</b>	<b>\$ 257,781</b>	<b>\$ 272,029</b>	<b>\$ 31,889</b>	<b>\$ 319,588</b>	<b>\$ 881,287</b>

**CITY OF PAULLINA**  
Notes to Financial Statements  
June 30, 2006

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

The City of Paullina is a political subdivision of the State of Iowa located in O'Brien County. It was first incorporated in 1883 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 nonpartisan 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, sewer, and electrical utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, City of Paullina has included all funds, organizations, account groups, 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 of Paullina has no component units.

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.

**CITY OF PAULLINA**  
Notes to Financial Statements  
June 30, 2006

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 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 waste water treatment and sanitary sewer system.

The Electric Fund accounts for the operation and maintenance of the City's electric system.

The Telecom Fund accounts for the operations of the telecom system.

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

The City of Paullina 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.

**NOTE 2 - CASH 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.

**CITY OF PAULLINA**  
Notes to Financial Statements  
June 30, 2006

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 and the Treasurer of the State of Iowa; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City had no investments at June 30, 2006; however the City's time deposits were as follows:

Certificates of Deposit \$ 603,203

**NOTE 3 - BONDS AND NOTES PAYABLE:**

Annual debt service requirements to maturity for General Obligation Bonds and Notes, revolving loan fund loans, special assessment notes and Revenue Capital Loan Notes are as follows:

Year Ending June 30	General Obligation Bonds and Notes		Revolving Loan Fund	
	Principal	Interest	Principal	Interest
2007.....	\$ 50,000	\$ 12,293	\$ 48,000	\$ 4,106
2008.....	55,000	10,040	50,000	2,095
2009.....	55,000	7,510	-0-	-0-
2010.....	55,000	4,930	-0-	-0-
2011.....	15,000	2,295	-0-	-0-
2012.....	15,000	1,545	-0-	-0-
2013.....	15,000	780	-0-	-0-
2014.....	-0-	-0-	-0-	-0-
2015.....	-0-	-0-	-0-	-0-
2016.....	-0-	-0-	-0-	-0-
TOTAL	<u>\$ 260,000</u>	<u>\$ 39,393</u>	<u>\$ 98,000</u>	<u>\$ 6,201</u>

Year Ending June 30	Special Assessment Capital Loan		Electric Revenue Capital Loan Notes Issued 2-1-01	
	Principal	Interest	Principal	Interest
2007.....	\$ 10,000	\$ 3,125	\$ 70,000	\$ 47,475
2008.....	10,000	2,650	75,000	43,940
2009.....	10,000	2,150	80,000	40,115
2010.....	10,000	1,635	80,000	35,995
2011.....	10,000	1,105	85,000	31,835
2012.....	10,000	560	90,000	27,330
2013.....	-0-	-0-	95,000	22,515
2014.....	-0-	-0-	100,000	17,385
2015.....	-0-	-0-	105,000	11,935
2016.....	-0-	-0-	110,000	6,160
TOTAL	<u>\$ 60,000</u>	<u>\$ 11,225</u>	<u>\$ 890,000</u>	<u>\$ 284,685</u>

**CITY OF PAULLINA**  
Notes to Financial Statements  
June 30, 2006

Year Ending June 30	Telecommunications Revenue Capital Loan Notes Issued 4-1-04		Total	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
	2007.....	\$ 55,000	\$ 33,937	\$ 233,000
2008.....	55,000	32,563	245,000	91,288
2009.....	55,000	30,995	200,000	80,770
2010.....	55,000	29,235	200,000	71,795
2011.....	60,000	27,338	170,000	62,573
2012.....	60,000	25,117	175,000	54,552
2013.....	65,000	22,777	175,000	46,072
2014.....	65,000	20,145	165,000	37,530
2015.....	70,000	17,415	175,000	29,350
2016.....	70,000	14,405	180,000	20,565
2017.....	75,000	11,290	75,000	11,290
2018.....	80,000	7,840	80,000	7,840
2019.....	85,000	4,080	85,000	4,080
TOTAL	<u>\$ 850,000</u>	<u>\$ 277,137</u>	<u>\$ 2,158,000</u>	<u>\$ 618,641</u>

**NOTE 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.

Most regular plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by State statute. The City's contribution to IPERS for the years ended June 30, 2006, 2005, and 2004 were \$12,931, \$11,288, and \$13,627, respectively, equal to the required contributions for each year.

**NOTE 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>3,061</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.

**NOTE 6 - RISK MANAGEMENT:**

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

**CITY OF PAULLINA**  
Notes to Financial Statements  
June 30, 2006

**NOTE 7 – TELECOMMUNICATIONS PROJECT:**

On May 2, 1999 the City of Paullina entered into a Joint Public Improvement agreement with other communities in O'Brien County, under Chapter 28E of the Code of Iowa, to acquire property and construct facilities to provide telecommunication services to the cities. Each party is responsible for retiring its portion of the debt incurred. The Community Cable Television Agency of O'Brien County is controlled by a jointly appointed Board of Directors and is operated apart from the City's operations. The financial information for the Community Cable Television Agency is not included in the City's financial statements.

**NOTE 8 – INTERFUND TRANSFERS:**

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

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General	\$ 64,997	\$ 91,927
Debt Service	62,150	
Urban Renewal – TIF		28,000
Emergency		4,786
Local Option Sales Tax		76,864
Capitol Projects		8,702
Water		7,200
Electric	91,927	49,904
Sewer	<u>48,309</u>	
	<u>\$ 267,383</u>	<u>\$ 267,383</u>

**NOTE 9 – DEFICIT BALANCE:**

The Capital Projects fund had a deficit of \$51,966 at June 30, 2006. The deficit balance was a result of project costs incurred prior to availability of funds. The deficit will be eliminated through tax receipts.

## **REQUIRED SUPPLEMENTARY INFORMATION**

**City of Paullina**  
 Budgetary Comparison Schedule  
 of Receipts, Disbursements, and Changes in Balances  
 Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Fund

Required Supplementary Information  
 Year Ended June 30, 2006

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds Not Required to be Budgeted	Net	-----Budgeted Amounts-----		Final to Net Variance
					Original	Final	
<b>Receipts:</b>							
Property Tax .....	\$ 226,642	\$ -0-	\$ -0-	\$ 226,642	\$ 225,105	\$ 225,105	\$ 1,537
Tax Increment Financing Collections.....	21,039	-0-	-0-	21,039	16,000	16,000	5,039
Other City Tax.....	76,864	-0-	-0-	76,864	70,801	70,801	6,063
Licenses and Permits.....	2,288	-0-	-0-	2,288	2,195	2,195	93
Use of Money and Property.....	51,806	35,945	-0-	87,751	54,163	54,163	33,588
Intergovernmental.....	102,560	-0-	-0-	102,560	100,313	100,313	2,247
Charges for Service.....	118,724	986,995	-0-	1,105,719	1,023,915	1,023,915	81,804
Special Assessments.....	83,416	-0-	-0-	83,416	66,750	66,750	16,666
Miscellaneous.....	14,265	-0-	-0-	14,265	23,350	23,350	(9,085)
<b>Total Receipts</b>	<b>\$ 697,604</b>	<b>\$ 1,022,940</b>	<b>\$ -0-</b>	<b>\$ 1,720,544</b>	<b>\$ 1,582,592</b>	<b>\$ 1,582,592</b>	<b>\$ 137,952</b>
<b>Disbursements:</b>							
Public Safety.....	\$ 190,849	\$ -0-	\$ -0-	\$ 190,849	\$ 226,132	\$ 226,132	\$ 35,283
Public Works.....	144,941	-0-	-0-	144,941	158,354	158,354	13,413
Health and Social Services.....	3,750	-0-	-0-	3,750	4,000	4,000	250
Culture and Recreation.....	87,839	-0-	-0-	87,839	108,184	116,184	28,345
Community and Economic Development .....	1,651	-0-	-0-	1,651	1,000	2,000	349
General Government .....	68,662	-0-	-0-	68,662	78,059	78,059	9,397
Debt Service.....	73,863	-0-	-0-	73,863	73,913	73,913	50
Capital Projects.....	38,312	-0-	-0-	38,312	204,000	204,000	165,688
Business Type Activities.....	-0-	1,064,482	-0-	1,064,482	1,137,049	1,178,949	114,467
<b>Total Disbursements</b>	<b>\$ 609,867</b>	<b>\$ 1,064,482</b>	<b>\$ -0-</b>	<b>\$ 1,674,349</b>	<b>\$ 1,990,691</b>	<b>\$ 2,041,591</b>	<b>\$ 367,242</b>
Excess (Deficiency) of Receipts Over Disbursements	\$ 87,737	\$ (41,542)	\$ -0-	\$ 46,195	\$ (408,099)	\$ (458,999)	\$ 505,194
Other Financing Sources, Net .....	(82,632)	83,132	-0-	500	204,500	204,500	(204,000)
Excess (Deficiency) of Receipts and Other Financing Sources Over Disbursements and Other Financing Sources.....	\$ 5,105	\$ 41,590	\$ -0-	\$ 46,695	\$ (203,599)	\$ (254,499)	\$ 301,194
Balances – Beginning of Year	806,485	839,697	-0-	1,646,182	1,345,034	1,345,034	301,148
Balances – End of Year	\$ 811,590	\$ 881,287	\$ -0-	\$ 1,692,877	\$ 1,141,435	\$ 1,090,535	\$ 602,342

**CITY OF PAULLINA**  
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, a budget amendment increased budgeted disbursements by \$50,900. The budget amendment is reflected in the final budgeted amounts.

## **OTHER SUPPLEMENTARY INFORMATION**

**CITY OF PAULLINA**  
Statement of Cash Receipts, Disbursements and  
Changes in Cash Balances  
Nonmajor Governmental Funds  
Year Ended June 30, 2006

	Emergency	Employee Benefits	Local Option Sales Tax	Capital Projects	Total
<b>Receipts:</b>					
Property Taxes.....	\$ 4,703	\$ 44,111	\$ -0-	\$ -0-	\$ 48,814
Other City Tax.....	-0-	-0-	76,864	-0-	76,864
Use of Money and Property.....	83	607	-0-	45	735
Total Receipts	<u>\$ 4,786</u>	<u>\$ 44,718</u>	<u>\$ 76,864</u>	<u>\$ 45</u>	<u>\$ 126,413</u>
<b>Disbursements:</b>					
Operating:					
Public Safety.....	\$ -0-	\$ 37,585	\$ -0-	\$ -0-	\$ 37,585
Public Works.....	-0-	153	-0-	-0-	153
Culture and Recreation.....	-0-	3,091	-0-	-0-	3,091
General Government.....	-0-	932	-0-	-0-	932
Capital Projects.....	-0-	-0-	-0-	38,312	38,312
Total Disbursements	<u>\$ -0-</u>	<u>\$ 41,761</u>	<u>\$ -0-</u>	<u>\$ 38,312</u>	<u>\$ 80,073</u>
Excess (Deficiency) of Receipts Over Disbursements	\$ 4,786	\$ 2,957	\$ 76,864	\$ (38,267)	\$ 46,340
<b>Other Financing Sources (Uses):</b>					
Transfers In (Out).....	<u>(4,786)</u>	<u>-0-</u>	<u>(76,864)</u>	<u>(8,702)</u>	<u>(90,352)</u>
Net Changes in Cash Balances	\$ -0-	\$ 2,957	\$ -0-	\$ (46,969)	\$ (44,012)
Cash Balances – Beginning of Year	<u>-0-</u>	<u>16,867</u>	<u>-0-</u>	<u>(4,997)</u>	<u>11,870</u>
Cash Balances – End of Year	<u>\$ -0-</u>	<u>\$ 19,824</u>	<u>\$ -0-</u>	<u>\$ (51,966)</u>	<u>\$ (32,142)</u>
<b>Cash Basis Fund Balances</b>					
Unreserved:					
Special Revenue Funds.....	\$ -0-	\$ 19,824	\$ -0-	\$ -0-	\$ 19,824
Capital Project Fund.....	-0-	-0-	-0-	(51,966)	(51,966)
Total Cash Basis Fund Balances	<u>\$ -0-</u>	<u>\$ 19,824</u>	<u>\$ -0-</u>	<u>\$ (51,966)</u>	<u>\$ (32,142)</u>

**CITY OF PAULLINA**  
Statement of Indebtedness  
Year Ended June 30, 2006

<u>Obligation</u>	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount Originally Issued</u>	<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>
General Obligation Notes:									
Essential Corporate Purpose	May 1, 1999	4.10-4.75%	\$ 340,000	\$ 190,000	\$ -0-	\$ 35,000	\$ 155,000	\$ 8,768	\$ -0-
Essential Corporate Purpose	June 1, 2003	3.60-5.20%	<u>135,000</u>	<u>115,000</u>	<u>-0-</u>	<u>10,000</u>	<u>105,000</u>	<u>5,520</u>	<u>-0-</u>
			<u>\$ 475,000</u>	<u>\$ 305,000</u>	<u>\$ -0-</u>	<u>\$ 45,000</u>	<u>\$ 260,000</u>	<u>\$ 14,288</u>	<u>\$ -0-</u>
Special Assessment Notes:									
Street Improvements	June 1, 2002	3.75-5.60%	<u>\$ 93,000</u>	<u>\$ 70,000</u>	<u>\$ -0-</u>	<u>\$ 10,000</u>	<u>\$ 60,000</u>	<u>\$ 3,575</u>	<u>\$ -0-</u>
Revolving Loan Fund:									
Sewage Treatment Works	February 13, 1999	4.19%	<u>\$ 418,000</u>	<u>\$ 144,000</u>	<u>\$ -0-</u>	<u>\$ 46,000</u>	<u>\$ 98,000</u>	<u>\$ 6,034</u>	<u>\$ -0-</u>
Electric Revenue:									
Capital Loan Notes	February 1, 2001	4.70-5.60%	<u>\$1,200,000</u>	<u>\$ 960,000</u>	<u>\$ -0-</u>	<u>\$ 70,000</u>	<u>\$ 890,000</u>	<u>\$ 50,975</u>	<u>\$ -0-</u>
Telecommunications									
Revenue Capital Notes	April 1, 2005	1.80-4.80%	<u>\$ 950,000</u>	<u>\$ 900,000</u>	<u>\$ -0-</u>	<u>\$ 50,000</u>	<u>\$ 850,000</u>	<u>\$ 35,012</u>	<u>\$ -0-</u>

See accompanying independent auditor's report.

**City of Paullina**

Bond and Note Maturities

June 30, 2006

Year Ending June 30,	<u>General Obligation Capital Loan Notes Issued 5-1-99</u>			<u>General Obligation Street Project Issued 6-1-02</u>			<u>Special Assessment Capital Loan Street Improvement Issued 6-1-02</u>			<u>Revolving Loan Capital Loan Sewage Treatment Issued 2-13-99</u>			<u>Electric Revenue Capital Loan Notes Issued 2-13-99</u>			<u>Telecommunications Revenue Capital Loan Note Issued 4-1-04</u>		
	Interest Rates	Amount		Interest Rates	Amount	Total	Interest Rates	Amount		Interest Rates	Amount		Interest Rates	Amount		Interest Rates	Amount	
2007	4.55%	\$ 35,000		4.40%	\$ 15,000	\$ 50,000	4.75%	\$ 10,000		4.19%	\$ 48,000		5.05%	\$ 70,000		2.50%	\$ 55,000	
2008	4.60%	40,000		4.60%	15,000	55,000	5.00%	10,000		4.19%	50,000		5.10%	75,000		2.85%	55,000	
2009	4.65%	40,000		4.80%	15,000	55,000	5.15%	10,000		--	--		5.15%	80,000		3.20%	55,000	
2010	4.75%	40,000		4.90%	15,000	55,000	5.30%	10,000		--	--		5.20%	80,000		3.40%	55,000	
2011	--	--		5.00%	15,000	15,000	5.45%	10,000		--	--		5.30%	85,000		3.70%	60,000	
2012	--	--		5.10%	15,000	15,000	5.60%	10,000		--	--		5.35%	90,000		3.90%	60,000	
2013	--	--		5.20%	15,000	15,000	--	--		--	--		5.40%	95,000		4.05%	65,000	
2014	--	--		--	--	--	--	--		--	--		5.45%	100,000		4.20%	65,000	
2015	--	--		--	--	--	--	--		--	--		5.50%	105,000		4.30%	70,000	
2016	--	--		--	--	--	--	--		--	--		5.60%	110,000		4.45%	70,000	
2017	--	--		--	--	--	--	--		--	--		--	--		4.60%	75,000	
2018	--	--		--	--	--	--	--		--	--		--	--		4.70%	80,000	
2019	--	--		--	--	--	--	--		--	--		--	--		4.80%	85,000	
		<u>\$ 155,000</u>			<u>\$ 105,000</u>	<u>\$ 260,000</u>		<u>\$ 60,000</u>			<u>\$ 98,000</u>			<u>\$ 890,000</u>			<u>\$ 850,000</u>	

**CITY OF PAULLINA**  
**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 .....	\$ 226,642	\$ 225,099	\$ 211,872	\$ 228,905
Tax Increment Financing Collections .....	21,039	21,507	17,614	-0-
Other City Tax.....	76,864	76,608	73,613	74,835
Licenses and Permits.....	2,288	2,100	3,624	761
Use of Money and Property .....	51,806	30,286	21,065	25,822
Intergovernmental .....	102,560	100,753	103,234	116,254
Charges for Services .....	118,724	107,011	96,680	88,145
Special Assessments .....	83,416	59,413	75,451	86,484
Miscellaneous .....	14,265	51,887	60,055	40,925
Sale of Capital Assets .....	<u>500</u>	<u>80,245</u>	<u>-0-</u>	<u>-0-</u>
Total	<u>\$ 698,104</u>	<u>\$ 754,909</u>	<u>\$ 663,208</u>	<u>\$ 662,131</u>
<b>Disbursements:</b>				
Operating:				
Public Safety .....	\$ 190,849	\$ 198,757	\$ 228,346	\$ 161,320
Public Works .....	144,941	141,432	203,043	184,518
Health and Social Services .....	3,750	3,750	3,750	-0-
Culture and Recreation .....	87,839	75,097	80,087	76,330
Community and Economic Development .	1,651	1,000	-0-	8,801
General Government.....	68,662	63,849	67,830	61,439
Debt Service .....	73,863	113,649	117,557	91,368
Capital Projects.....	<u>38,312</u>	<u>421,454</u>	<u>-0-</u>	<u>9,994</u>
Total	<u>\$ 609,867</u>	<u>\$ 1,018,988</u>	<u>\$ 700,613</u>	<u>\$ 593,770</u>

See accompanying independent auditor's report.

**CITY OF PAULLINA**  
**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS**  
**AND CHANGES IN CASH BALANCE**  
**GENERAL FUND**  
**FOR THE YEAR ENDED JUNE 30, 2006**

	GENERAL	LIBRARY	TOTAL
<b>Receipts:</b>			
Property Tax.....	\$ 171,812	\$ -0-	\$ 171,812
Licenses and Permits.....	2,288	-0-	2,288
Use of Money and Property:			
Interest.....	16,210	748	16,958
Rent.....	21,401	-0-	21,401
Intergovernmental:			
State.....	-0-	1,953	1,953
County.....	-0-	6,500	6,500
Charges for Service:			
Garbage.....	71,024	-0-	71,024
Fire Service.....	8,425	-0-	8,425
Ambulance.....	36,206	-0-	36,206
Library Fees.....	-0-	3,069	3,069
Miscellaneous:			
Reimbursements and Refund.....	9,439	-0-	9,439
Donations and Grants.....	-0-	1,997	1,997
Miscellaneous.....	2,829	-0-	2,829
Total Receipts	<u>\$ 339,634</u>	<u>\$ 14,267</u>	<u>\$ 353,901</u>
<b>Disbursements:</b>			
Public Safety:			
Police.....	\$ 99,411	\$ -0-	\$ 99,411
Fire.....	31,385	-0-	31,385
Ambulance.....	22,468	-0-	22,468
Public Works:			
Solid Waste.....	61,415	-0-	61,415
Airport.....	4,950	-0-	4,950
Street Maintenance.....	55,519	-0-	55,519
Street Lights.....	7,453	-0-	7,453
Traffic Safety.....	1,500	-0-	1,500
Health and Social Services.....	3,750	-0-	3,750
Culture and Recreation:			
Recreation.....	12,000	-0-	12,000
Parks.....	11,676	-0-	11,676
Cemetery.....	5,000	-0-	5,000
Library.....	25,368	30,704	56,072
Community and Economic Development.....	1,651	-0-	1,651
General Government:			
Mayor – Council.....	11,739	-0-	11,739
City Clerk.....	19,563	-0-	19,563
Professional Services.....	12,078	-0-	12,078
Election.....	941	-0-	941
General.....	9,623	-0-	9,623
City Hall.....	13,786	-0-	13,786
Total Disbursements	<u>\$ 411,276</u>	<u>\$ 30,704</u>	<u>\$ 441,980</u>
Excess (Deficiency) of Receipts over Disbursements	\$ (71,642)	\$ (16,437)	\$ (88,079)
Other Financing Sources (Uses):			
Sale of Capital Assets.....	500	-0-	500
Transfers In (Out).....	(46,060)	19,130	(26,930)
Net	\$ (117,202)	\$ 2,693	\$ (114,509)
Cash Balances – Beginning of Year	<u>270,690</u>	<u>33,347</u>	<u>304,037</u>
Cash Balances – End of Year	<u>\$ 153,488</u>	<u>\$ 36,040</u>	<u>\$ 189,528</u>
Cash Basis Fund Balances:			
Unreserved:			
General Fund	<u>\$ 153,488</u>	<u>\$ 36,040</u>	<u>\$ 189,528</u>

# DAVID A. MASKE

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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  
City of Paullina  
Paullina, Iowa

I have audited the accompanying financial statements for the governmental activities, business type activities, each major fund and the aggregate remaining fund information of the City of Paullina, 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 August 25, 2006. My report expressed an unqualified opinion of the financial statements which were prepared in conformity with an other comprehensive basis of accounting. 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 Paullina's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance 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 Paullina's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

A material weakness is a 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. 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 06-I-A is a material weakness. Prior year reportable conditions have been resolved except for item 06-I-A.

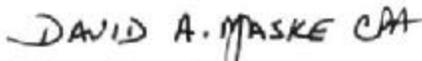
### Compliance and Other Matters

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

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during 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. Prior year statutory comments have been resolved.

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 Paullina and other parties whom the City of Paullina 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 me by personnel of the City of Paullina 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.

  
DAVID A. MASKE  
Certified Public Accountant

August 25, 2006

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**CITY OF PAULLINA**  
**SCHEDULE OF FINDINGS**  
**FOR THE YEAR ENDED JUNE 30, 2006**

**PART I - FINDINGS RELATED TO THE GENERAL PURPOSE FINANCIAL STATEMENTS:**

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

06-I-A      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 – I realize that 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.

**PART II - OTHER FINDINGS RELATED TO STATUTORY REPORTING:**

06-II-A      Certified Budget – Disbursements during the year ended June 30, 2006 did not exceed the amounts budgeted.

06-II-B      Questionable Disbursements – I noted no disbursements that did not meet the requirements of public purpose as defined in the Attorney General's Opinion dated April 25, 1979.

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

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

06-II-E      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.

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

06-II-G      Revenue Notes - The City was in compliance with the requirements of its revenue notes.

06-II-H      Deposits and Investments - I noted no instances of noncompliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City's investment policies.

06-II-I      Financial Condition –The Capital Projects Fund had a deficit balance of \$51,966 at June 30, 2006.

Recommendation - The City should consider alternatives to eliminate this deficit.

Response – The deficit will be eliminated through the receipt of tax revenues.

Conclusion - Response accepted.