CITY OF CARSON

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 2006

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CITY OF CARSON

OFFICIALS

Name	Title	Term Expires
	(Before January 2006)	
Lyndon K. Taylor	Mayor	January 2006
Bruce Damgaard	Mayor Pro-Tem	January 2008
Gladys Sick	Council Member	January 2008
Don Hendricks	Council Member	January 2006
Susan Miller	Council Member	January 2006
Joseph Riddle	Council Member	January 2006
Brianne Duede	City Clerk	Indefinite
Kristina Hansen	City Treasurer	Indefinite
Richard Heininger	City Attorney	Indefinite
	(After January 2006)	
Lyndon K. Taylor	Mayor	January 2008
Bruce Damgaard	Mayor Pro-Tem	January 2008
Gladys Sick	Council Member	January 2008
Don Hendricks	Council Member	January 2011
Clifford Pracht	Council Member	January 2011
Joseph Riddle	Council Member	January 2011
Brianne Duede	City Clerk	Indefinite
Kristina Hansen	City Treasurer	Indefinite
Richard Heininger	City Attorney	Indefinite

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November 8, 2006

Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

I have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Carson, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Carson'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 principals 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 U.S. generally accepted accounting principles.

Continued . . .

To the Honorable Mayor and
Members of the City Council:

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 Carson 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*, I have also issued my reports dated November 8, 2006 on my consideration of the City of Carson'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 read in conjunction with this report in considering the results of my audit.

Management's Discussion and Analysis and budgetary comparison information on pages 6 through 9, and 32 through 34 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 inquiries of management regarding 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 Carson's basic financial statements. The financial statements for the three years ended June 30, 2005 (which are not presented herein) were audited by another auditor that 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 4, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Mayfield Associates, CPA, P.C.

CITY OF CARSON
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2006

As management of the City of Carson, Iowa we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2006.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's statements include three components: 1) a cash basis government-wide financial statement, 2) cash basis fund financial statements, and 3) notes to the financial statements.

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

Fund financial statements: A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities. The City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. 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, Local Option Tax, and Urban Renewal Tax Increment, 3) Debt Service Fund, and 4) the Capital Projects Funds, such as the Waste Water Treatment Plant, the Community Center, the Lewis/Lariviere Subdivision and the Tibbles Subdivision projects. 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.

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

Notes to the financial statements: The notes provide additional information that is essential to a full understanding of the data provided in the financial statements.

Analysis of significant changes in financial position and fund balances: The cash basis of the net assets of the City's governmental activities increased $366,841 during the fiscal year ended June 30, 2006. Grants, loan proceeds and the construction costs for the community center constitute the majority of the increase to cash basis net assets.

The following is the changes in the cash basis of the net assets of the City's governmental activities:

Changes in Cash Basis Net Assets of Governmental Activities	Year ended June 30, 2006	Year ended June 30, 2005
Receipts:		
Program receipts:		
Charges for services	$ 40,487	$ 12,962
Operating grants, contributions and restricted interest	95,555	69,119
Capital grants, contributions and restricted interest	946,213	120,169
General receipts:		
Property tax	349,774	338,038
Local option sales tax	83,583	67,753
Unrestricted investment earnings	1,342	862
Loan proceeds	1,187,901	255,011
Miscellaneous	-0-	27,571
Total receipts	2,704,855	891,485
Disbursements:		
Public safety	129,467	116,961
Public works	78,928	51,922
Culture and recreation	30,897	32,607
Community and economic development	205,902	159,736
General government	84,268	60,152
Debt service	57,224	91,263
Capital projects	1,751,328	429,624
Total disbursements	2,338,014	942,265
Increase (decrease) in cash basis net assets	366,841	(50,780)
Cash basis net assets, beginning of year	71,417	122,197
Cash basis net assets, end of year	$ 438,258	$ 71,417

The cash basis of the net assets of the City's business type activities decreased $16,402 during the fiscal year ended June 30, 2006. The decrease corresponds to the principal and interest payments on the Sewer Revenue Notes.

The following is the changes in the cash basis of the net assets of the City's business type activities:

Changes in Cash Basis Net Assets of Business Type Activities		
	Year ended June 30,	
	2006	2005
Receipts:		
Program receipts:		
Charges for services and sales:		
Water	$ 92,535	$ 78,392
Sewer	96,042	95,049
Garbage	53,878	45,211
General receipts:		
Interest	35	55
Meter deposits	875	1,070
Miscellaneous	1,167	13,717
Total receipts	244,532	233,494
Disbursements:		
Water	104,008	86,036
Sewer	90,727	51,382
Garbage	66,199	62,597
Total disbursements	260,934	200,015
Increase (decrease) in cash basis net assets	(16,402)	33,479
Cash basis net assets, beginning of year	100,034	66,555
Cash basis net assets, end of year	$ 83,632	$ 100,034

Analysis between actual and budget amounts: The City amended its budget on May 8, 2006. The amended budget increased revenue by approximately $659,000 and increased disbursements by approximately $553,000, the majority of which increased budgeted loan proceeds and capital projects disbursements.

Debt Administration: At June 30, 2006, the City had $2,032,552 in notes and other long-term debt compared to $988,408 last year, as shown below.

Outstanding Debt at Year-End		2006		2005
General Obligation Notes	$	1,779,254	$	729,865
Revenue Capital Loan Notes		237,176		237,537
Lease Purchase Agreement		16,122		21,006
Total	$	2,032,552	$	988,408

Debt increased as a result of a $165,000 capital loan note for the development of the sewer infrastructure in the Tibbles Subdivision. The construction of the Community Center required a $600,000 grant anticipation note and $375,000 in capital loan notes.

Future financial statement impact: In 2005 the City designated the Lewis/Lariviere Subdivision and the Tibbles Subdivision as two new separate urban renewal tax increment finance areas of the City. As housing and/or commercial developments grow in these subdivisions the City's tax increment financing collections will grow, however the City's general fund will not see any increase due to this expansion in property tax values until the date of the urban renewal areas have sunset which will be in approximately 9 years.

Requests for information: Requests for additional information can be made to the Carson City Clerk, Brianne Duede, at 316 Commercial Street, PO Box 128, Carson, Iowa 51525.

BASIC FINANCIAL STATEMENTS

CITY OF CARSON

STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS

AS OF AND FOR THE YEAR ENDED JUNE 30, 2006

		Program Receipts		
	Disbursements	Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions / Programs:				
Governmental activities:				
Public safety	$ 129,467	$ 23,355	$ 12,474	$ 15,882
Public works	78,928	56,192	-0-	-0-
Cultures and recreation	30,897	4,345	23,427	3,346
Community and economic development	205,902	-0-	-0-	40,891
General government	84,268	8,318	-0-	-0-
Debt service	57,224	-0-	-0-	-0-
Capital projects	1,751,328	4,206	3,725	886,094
Total governmental activities	2,338,014	96,416	39,626	946,213
Business type activities:				
Water	104,008	93,410	-0-	-0-
Sewer	90,727	96,042	-0-	-0-
Sanitation	66,199	55,045	-0-	-0-
Total business type activities	260,934	244,497	-0-	-0-
Total	$ 2,598,948	$ 340,913	$ 39,626	$ 946,213
General receipts:				
Property taxes levied for:				
General purposes				
Debt service				
Tax increment financing				
Local option sales tax				
Unrestricted investment earnings				
Loan 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				
Debt service				
Water meter deposits				
Unrestricted				
Total cash basis net assets				

See notes to financial statements.

Net (Disbursements), Receipts and Changes in Cash Basis Net Assets		
Governmental Activities	Business Type Activities	Total
$ (77,756)	$ -0-	$ (77,756)
(22,736)	-0-	(22,736)
221	-0-	221
(165,011)	-0-	(165,011)
(75,950)	-0-	(75,950)
(57,224)	-0-	(57,224)
(857,303)	-0-	(857,303)
(1,255,759)	-0-	(1,255,759)
-0-	(10,598)	(10,598)
-0-	5,315	5,315
-0-	(11,154)	(11,154)
-0-	(16,437)	(16,437)
(1,255,759)	(16,437)	(1,272,196)
55,066	-0-	55,066
57,132	-0-	57,132
237,576	-0-	237,576
83,583	-0-	83,583
1,342	35	1,377
1,187,901	-0-	1,187,901
1,622,600	35	1,622,635
366,841	(16,402)	350,439
71,417	100,034	171,451
$ 438,258	$ 83,632	$ 521,890
$ 38,245	$ -0-	$ 38,245
358,851	-0-	358,851
(92)	-0-	(92)
-0-	3,625	3,625
41,254	80,007	121,261
$ 438,258	$ 83,632	$ 521,890

CITY OF CARSON

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 Urban Renewal Tax Increment
Receipts:		
Property tax	$ 44,739	$ -0-
Tax increment financing	-0-	237,576
Other city tax	-0-	-0-
Licenses and permits	1,852	-0-
Use of money and property	726	574
Intergovernmental	28,188	40,891
Charges for services	22,888	-0-
Miscellaneous	38,073	-0-
Total receipts	136,466	279,041
Disbursements:		
Operating:		
Public safety	129,467	-0-
Public works	292	-0-
Culture and recreation	30,897	-0-
Community and economic development	-0-	205,902
General government	65,210	-0-
Debt service	-0-	-0-
Capital projects	-0-	-0-
Total disbursements	225,866	205,902
Excess (deficiency) of receipts over (under) disbursements	(89,400)	73,139
Other financing sources (uses):		
Loan proceeds	-0-	25,010
Operating transfers in	83,583	-0-
Operating transfers out	-0-	-0-
Total other financing sources (uses)	83,583	25,010
Net change in cash balances	(5,817)	98,149
Cash balances, beginning of year	(129,724)	260,702
Cash balances, end of year	$ (135,541)	$ 358,851
Cash Basis Fund Balances		
Reserved for Debt Service	$ -0-	$ -0-
Unreserved:		
General fund	(135,541)	-0-
Special revenue funds	-0-	358,851
Capital projects funds	-0-	-0-
Total cash basis fund balances	$ (135,541)	$ 358,851

See notes to financial statements.

EXHIBIT B

Capital Projects		Other Non-major Governmental Funds	Total
Community Center	Tibbles Subdivision		
$ -0-	$ -0-	$ 67,459	$ 112,198
-0-	-0-	-0-	237,576
-0-	-0-	83,583	83,583
-0-	-0-	-0-	1,852
4,395	-0-	-0-	5,695
651,000	150,196	98,705	968,980
-0-	-0-	-0-	22,888
45,847	-0-	262	84,182
701,242	150,196	250,009	1,516,954
-0-	-0-	-0-	129,467
-0-	-0-	78,636	78,928
-0-	-0-	-0-	30,897
-0-	-0-	-0-	205,902
-0-	-0-	19,058	84,268
-0-	-0-	57,224	57,224
1,317,909	343,070	90,349	1,751,328
1,317,909	343,070	245,267	2,338,014
(616,667)	(192,874)	4,742	(821,060)
975,000	160,252	27,639	1,187,901
-0-	-0-	-0-	83,583
-0-	-0-	(83,583)	(83,583)
975,000	160,252	(55,944)	1,187,901
358,333	(32,622)	(51,202)	366,841
(3,805)	(26,676)	(29,080)	71,417
$ 354,528	$ (59,298)	$ (80,282)	$ 438,258
$ -0-	$ -0-	$ (92)	$ (92)
-0-	-0-	-0-	(135,541)
-0-	-0-	44,234	403,085
354,528	(59,298)	(124,424)	170,806
$ 354,528	$ (59,298)	$ (80,282)	$ 438,258

CITY OF CARSON

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES - PROPRIETARY FUNDS

AS OF AND FOR THE YEAR ENDED JUNE 30, 2006

	Water	Sewer
Operating receipts:		
Charges for services	$ 92,535	$ 96,042
Miscellaneous	-0-	-0-
Total receipts	92,535	96,042
Operating disbursements:		
Business type activities	104,008	53,726
Total disbursements	104,008	53,726
Operating income	(11,473)	42,316
Non-operating receipts (disbursements):		
Interest	35	-0-
Meter deposits	875	-0-
Debt service	-0-	(37,001)
Total non-operating receipts (disbursements)	910	(37,001)
Net change in cash balances	(10,563)	5,315
Cash balances, beginning of year	97,193	68,998
Cash balances, end of year	$ 86,630	$ 74,313
Cash Basis Fund Balances		
Reserved for meter deposits	$ 3,625	$ -0-
Unreserved	83,005	74,313
Total cash basis fund balances	$ 86,630	$ 74,313

See notes to financial statements.

EXHIBIT C

	Garbage		Total
$	53,878	$	242,455
	1,167		1,167
	55,045		243,622
	66,199		223,933
	66,199		223,933
	(11,154)		19,689
	-0-		35
	-0-		875
	-0-		(37,001)
	-0-		(36,091)
	(11,154)		(16,402)
	(66,157)		100,034
$	(77,311)	$	83,632
$	-0-	$	3,625
	(77,311)		80,007
$	(77,311)	$	83,632

NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following associations: Carson Business Club, Southwest Iowa Clerk's Association, Iowa Municipal Finance Association, Iowa League of Cities, Western Iowa Development Association, MAPA, SWIPCO, Iowa Rural Water Works Association, Southwest Iowa Coalition, and International Municipal Clerk's Institute.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd.)

B. Basis of Presentation

Government-wide Financial Statement - The Statement of Activities and Net Assets reports information on all of the non-fiduciary 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 non-fiduciary 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 whose purchase or use 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 non-major 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 that are 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.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd.)

B. Basis of Presentation (Cont'd)

Special Revenue:

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

Capital Projects:

The Community Center Fund is utilized to account for the resources used in the construction of the Carson Community Center.

The Tibbles Subdivision Fund is utilized to account for all resources used in the construction of the infrastructure in this subdivision.

The City reports the following major proprietary funds:

The Water Fund is utilized to finance and account for the acquisition, operation and maintenance of the City's water system that is supported by user charges.

The Sewer Fund is utilized to finance and account for the acquisition, operation and maintenance of the City's sewer system that is supported by user charges.

The City also reports the following additional non-major funds:

Special Revenue:

The Local Option Tax Fund is used to account for the local option sales tax received.

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

The Employee Benefit Levy Fund is utilized to account for the tax levy to support the benefits of the City's employees.

The Tort Liability Fund is utilized to account for the tax levy to support the City's insurance.

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd.)

B. Basis of Presentation (Cont'd)

Capital Projects Funds:

The Wastewater Treatment Fund is utilized to account for the resources used in the construction of the waste water treatment plant.

The Lewis/Lariviere Fund is utilized to account for all resources used in the construction of the infrastructure in that subdivision.

The non-major proprietary fund is the garbage fund which is utilized to account for the operation and maintenance of the City's garbage service that is supported by user charges.

C. Measurement Focus and Basis of Accounting

The City of Carson 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 and business type activities functions.

NOTE 2 DEPOSITS AND INVESTMENTS

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

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

As of June 30, 2006, the City's cash amounted to $521,890 and consisted of cash on hand, cash in bank and certificates of deposit which were held within the State of Iowa in the City's name.

NOTE 3 NOTES PAYABLE

Annual debt service requirements to maturity for general obligation notes, sewer revenue notes and lease purchase agreement are as follows:

Year Ending June 30,	General Obligation Notes		Urban Renewal General Obligation Notes	
	Principal	Interest	Principal	Interest
2007	$ 720,000	$ 91,901	$ 50,000	$ 17,181
2008	125,000	35,993	50,000	15,152
2009	135,000	29,694	55,000	13,058
2010	140,000	22,672	55,000	10,660
2011	145,000	15,166	55,000	8,187
2012-2016	119,254	10,471	130,000	13,637
2017-2021	-0-	-0-	-0-	-0-
2022-2025	-0-	-0-	-0-	-0-
Total	$ 1,384,254	$ 205,897	$ 395,000	$ 77,875

NOTE 3 NOTES PAYABLE (Continued)

Year Ending June 30,	Sewer Revenue Notes		Tractor Lease Purchase		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2007	$ 29,000	$ 21,660	$ 5,121	$ 783	$ 804,121	$ 131,525
2008	30,000	20,790	5,370	534	210,370	72,469
2009	31,000	19,890	5,631	274	226,631	62,916
2010	31,000	18,960	-0-	-0-	226,000	52,292
2011	32,000	18,030	-0-	-0-	232,000	41,383
2012-2016	176,000	75,150	-0-	-0-	425,254	99,258
2017-2021	205,000	46,950	-0-	-0-	205,000	46,950
2022-2025	188,000	14,310	-0-	-0-	188,000	14,310
Total	$ 722,000	$ 235,740	$ 16,122	$ 1,591	$ 2,517,376	$ 521,103

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

The urban renewal tax increment financing general obligation capital loan notes were issued for the purpose of defraying a portion of the costs of carrying out an urban renewal project including street improvements for the Wilbur and Tibbles Subdivisions. The notes are payable solely from the income and proceeds of the Special Revenue Fund, Urban Renewal Tax Increment Fund and the taxes to be paid into the fund in accordance with Chapter 403.19 of the Code of Iowa.

The proceeds of the urban renewal tax increment financing general obligation notes shall be expended only for purposes which are consistent with the plans of the City's urban renewal area. The notes are a general obligation of the City; and the debt is subject to the constitutional debt limitation of the City.

The resolutions providing for the issuance of the sewer revenue notes include the following provision:

1) Sewer user charges must be established at a level which produces and maintains net revenues at a level no less than 110% of principal and interest falling due in the same year.
2) No reserve fund or improvement fund is required for the State Revolving Fund loan.

NOTE 4 LEASE PURCHASE AGREEMENT

On November 17, 2004, the City entered into a lease purchase agreement with Deere Credit, Inc. The lease is a five year lease at the interest rate of 4.75% for a John Deere utility tractor, loader and mower to be used for City maintenance.

NOTE 5 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 a 3.70% of their annual covered salary and the City is required to contribute 5.75% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contribution to IPERS for the years ended June 30, 2006, 2005 and 2004 were $10,128, $8,638 and $7,518, respectively, equal to the required contributions for each year.

NOTE 6 COMPENSATED ABSENCES

City employees accumulate a limited amount of earned but unused vacation for payment upon termination, retirement or death and sick leave hours for subsequent use during employment. As of November 12, 2001, full-time employees may elect compensatory time in lieu of overtime pay. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation, sick leave and compensatory time payments payable to employees at June 30, 2006, is as follows:

Type of Benefit		Amount June 30, 2006
Vacation	$	4,718
Sick leave		4,247
Compensatory time		3,171
Total	$	12,136

This liability has been computed based on rates of pay in effect at June 30, 2006.

NOTE 7 PROPERTY TAXES

Property taxes become an enforceable lien on property when they are certified to the County Board of Supervisors on or before March 15. Taxes are payable on September 30 and March 31, payment later than this results in a penalty. The County bills and collects property taxes and remits them to the City monthly.

NOTE 8 INTERFUND TRANSFERS

The following operating transfer was made to move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources: $83,583 from the Special Revenue, Local Option Tax Fund to the General Fund.

NOTE 9 RELATED PARTY TRANSACTIONS

The City had the following business transactions between the City and relatives of City officials during the year ended June 30, 2006.

		Amount
Jon Taylor, owner JE Larson Construction	$	398,246
James Taylor, computer consulting and web hosting fees		1,510
Total	$	399,756

NOTE 10 RISK MANAGEMENT

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

NOTE 11 DEFICIT FUND BALANCES

At June 30, 2006, the City had the following deficit fund balances:

General Fund	$	135,541
Special Revenue, Tort Liability Levy Fund		49
Debt Service Fund		92
Capital Projects, Wastewater Treatment Plant		21,894
Capital Projects, Lewis/Lariviere Subdivision		102,530
Capital Projects, Tibbles Subdivision		59,298
Proprietary, Garbage Fund		77,311
Total	$	396,715

The General Fund deficit has doubled over the past two years. Efforts to reduce the deficit include improved collections for ambulance calls and salaries for the City Clerk and City Treasurer paid from the proprietary funds. The Capital Projects deficits will be eliminated upon receipts of grants and other financing sources. The Garbage Fund deficit will be eliminated by fees for services.

NOTE 12 URBAN RENEWAL

Carson Urban Renewal Area

On September 13, 1999, the City established the Carson Urban Renewal Area which included the entire area within the corporate boundaries of the City except for four agricultural properties. The objectives of the plan included the stimulation of new residential development, the efficient construction of street, water, storm sewer and sanitary sewer improvements to support housing development and an increase in affordable housing units in the City. The area principally served by the plan is the Wilbur Subdivision.

On September 12, 2005, the City adopted Amendment No. 1 to the Carson Urban Renewal Area. The amendment determined an area of the City to be blighted and provided for its rehabilitation, conservation, redevelopment, and development as in the interest of the public health, safety or welfare of the residents of the City.

Lewis/Lariviere Urban Renewal Area

In June 2004, the City established the Lewis/Lariviere Urban Renewal Area and designated the area as an economic development district. In December 2004, the area was expanded to include a parcel of the commercial district by the adoption of Amendment No. 1. The objectives of the plan are commercial and residential development south of Highway 92.

NOTE 12 URBAN RENEWAL (Continued)

Tibbles Urban Renewal Area

On April 11, 2005, the City established the Tibbles Urban Renewal Area and designated the Tibbles Subdivision as an economic development district to promote new residential development. The Tibbles subdivision is located west of the Nishnabotna River.

NOTE 13 IOWA WEST FOUNDATION GRANTS

Fire Department Grant

During the fiscal year, the Carson Volunteer Fire Department received grants totaling $10,000 from the Iowa West Foundation for miscellaneous fire equipment. The total cost of this equipment was $23,951.

Community Center

In the fall of 2003, the City was awarded a challenge grant not to exceed $200,000 or 20% of the total project cost of a new community center building. The cost of the community center was $1,436,759 as of June 30, 2006. The City received the $200,000 challenge grant from Iowa West Foundation in May 2006.

Nishna Loop Signage

In the fall of 2004, the City was awarded a matching grant in the amount of $3,571 or 50% of the costs toward the completion of the Nishna Loop community enhancement project which included lighting and landscaping of the City's sign west of town on Highway 92. The total estimated cost of the project is $7,142. $3,855 was expended for the project for the year ended June 30, 2006. No grant monies were received during the fiscal year. The grant was due to expire December 15, 2005.

Park Improvement

In the fall of 2004, the City was awarded a matching grant in the amount of $7,000 or 20% of the costs of a new scoreboard in the city park. The total cost of the project was $6,963. The City received $3,346 during the year ended June 30, 2006.

NOTE 14 CDBG HOUSING REHABILITATION GRANT

In March 2005, the City was awarded a $206,000 Community Development Block Grant (CDBG) from the Iowa Department of Economic Development. The project consists of the rehabilitation of eleven single family owner occupied units whose income is at or below the 50% area median income within the City. The total estimated cost of the project is $270,000. For the year ended June 30, 2006, the City received $33,981 of the CDBG grant funds and expended $75,652.

NOTE 15 CITIES (Community Improvements to Increase Economic Stability) GRANT

In June 2005, the City was awarded a CITIES grant from the Pottawattamie County Board of Supervisors in the amount of $150,196 or 50% of the costs of construction of water mains, a sewer lift station, sanitary sewer force mains, and storm sewer infrastructure to connect existing water and sewer systems to the Tibbles Subdivision west of the Nishnabotna River. The $150,196 grant was received as of June 30, 2006. Total cost of the project was $343,069.

On March 13, 2006, the City was awarded a grant from the Pottawattamie County Board of Supervisors in the amount of $46,000 or 50% of the costs of construction of 1,800 LF of 8" sanitary sewer mains and installation of 5 manholes in Tibbles Subdivision. Also, the grant provides for the installation of rock surfacing on approximately 1,660 LF of Christy Drive. The total estimated cost of the project is $92,000. There were no disbursements made or grant funds received on this project during the fiscal year. The grant will expire December 31, 2006.

NOTE 16 COMMUNITY DEVELOPMENT BLOCK GRANTS (CDBG)

Wastewater Treatment Plant

On May 28, 2003, the City was awarded a $250,000 CDBG grant from the Iowa Department of Economic Development. The City's matching contribution is $329,000. As of June 30, 2006, the City had received $190,120 of the grant funds. The remaining $59,880 was received in July 2006. The grant was extended to expire November 30, 2006.

On March 18, 2005, the City was awarded a $300,000 CDBG grant from the Iowa Department of Economic Development. The City's matching contribution is $471,000. As of June 30, 2006, the City received $0 of this CDBG grant. The grant was extended to expire November 30, 2006.

The total costs of the Wastewater Treatment Project through June 30, 2006 were $469,718.

NOTE 17 COMMUNITY ATTRACTION AND TOURISM (CAT) GRANT

On July 13, 2005, the City was awarded a $400,000 CAT grant from the Iowa Department of Economic Development to fund in part the construction of the 11,000 square foot Community Center, as described also in Note 13. The $400,000 grant was received in June 2006.

NOTE 18 COMMITMENTS

Water Tower Lease Agreement

On March 29, 2002, the City entered into a lease agreement with American Relay Company, LLC to lease space on the City's water tower in order to install, maintain, and operate radio communication equipment, antennas and appurtenances. The initial term was for five years at an annual rent of $1,077 to be paid in the form of service credits for two Stratocruiser connections (high speed internet connections for city hall and the fire station). This agreement will automatically be extended for four additional five year terms each increased to $1,200, $1,300, $1,400 and $1,500 per term.

Development Agreement

On February 12, 2003, the City entered into a development agreement with Tibbles Farms, Inc. for the annexation of certain property to be included in the City's Urban Renewal Area as a Subdivision. This agreement includes the purchase of approximately 24 acres of Wildlife Preserve Property by the City and the City agrees to extend the water main and sewer main along Highway 92 so as to serve the Subdivision and Wildlife Preserve Property.

Billing Services Agreement

On December 16, 2004, the City entered into an agreement with the Physician's Claims Company, Inc. The Billing Service provides medical billings for the ambulance calls for a month fee of 10% of the gross amount collected on the City's behalf during the preceding month or 30% of the gross amount collected on any aged accounts. The initial term of the agreement was for two years and automatically will renew for successive one-year terms. Either party may terminate with 30 days notice.

NOTE 19 CONTINGENCIES

Sewer Revenue Bonds

The City has entrusted the financing for the $750,000 Sewer Revenue Bonds to the Iowa Finance Authority and Wells Fargo Bank. This financing is in the form of Iowa State Revolving Fund Revenue Bonds. The City has drawn $265,176 on the bonds and repaid $28,000 as of June 30, 2006. The balance at June 30, 2006 was $237,176.

Line of Credit

On August 2, 2005, the City received a line of credit in the amount of $50,000 with an interest rate of 5.00% from the Rolling Hills Bank and Trust for the purpose of financing short term debt to complete urban renewal housing projects. The balance on the line of credit at June 30, 2006 was $0.

NOTE 20 SUBSEQUENT EVENTS

Law Enforcement Service Contract

The City renewed its Law Enforcement Services Contract with Pottawattamie County for the services of the Pottawattamie County Sheriff's Department as of July 1, 2006. The contract is payable in four installments of $2,923 on July 1 and October 1, 2006 and January 1 and April 1, 2007.

Iowa West Foundation Grant

On August 15, 2006, the City was awarded a matching grant in the amount of $3,000 for City downtown improvements. The Carson Business Community Club will provide the local match. The grant will expire on June 30, 2007.

General Obligation Capital Loan Notes

On October 30, 2006, the City authorized the issuance of $135,000 of Capital Loan Notes to finance the street and storm sewer project in the Lewis/Lariviere Subdivision. Interest rates vary from 4.0% to 4.50%. Maturities range from 2008 to 2017.

Sewer Revenue Bonds

On September 14, 2006, the City authorized the issuance of $250,000 of additional Sewer Revenue Bonds at 3.0%. Maturities range from 2007 to 2026. The bonds will finance the sewer infrastructure in the Tibbles Subdivision.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF CARSON

BUDGETARY COMPARISON SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN BALANCES - BUDGET AND ACTUAL (CASH BASIS) - ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUNDS

REQUIRED SUPPLEMENTARY INFORMATION

YEAR ENDED JUNE 30, 2006

	Governmental Funds Actual	Proprietary Funds Actual
Receipts:		
Property tax	$ 112,198	$ -0-
Tax increment financing	237,576	-0-
Other city tax	83,583	-0-
Licenses and permits	1,852	-0-
Use of money and permits	5,695	35
Intergovernmental	968,980	-0-
Charges for services	22,888	244,497
Miscellaneous	84,182	-0-
Total receipts	1,516,954	244,532
Disbursements:		
Public safety	129,467	-0-
Public works	78,928	-0-
Culture and recreation	30,897	-0-
Community and economic development	205,902	-0-
General government	84,268	-0-
Debt service	57,224	-0-
Capital projects	1,751,328	-0-
Business type activities	-0-	260,934
Total disbursements	2,338,014	260,934
Excess (deficiency) of receipts over (under) disbursements	(821,060)	(16,402)
Other financing sources, net	1,187,901	-0-
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	366,841	(16,402)
Balances beginning of year	71,417	100,034
Balances end of year	$ 438,258	$ 83,632

See Accompanying Independent Auditor's Report

Total	Budgeted Amounts Original	Budgeted Amounts Final	Final to Total Variance
$ 112,198	$ 105,720	$ 105,720	$ 6,478
237,576	237,640	237,640	(64)
83,583	70,130	89,779	(6,196)
1,852	1,850	2,518	(666)
5,730	3,500	250	5,480
968,980	1,530,261	1,310,691	(341,711)
267,385	258,075	266,750	635
84,182	13,800	122,643	(38,461)
1,761,486	2,220,976	2,135,991	(374,505)
129,467	119,226	120,655	(8,812)
78,928	66,305	87,843	8,915
30,897	23,011	33,738	2,841
205,902	207,862	282,862	76,960
84,268	66,468	86,067	1,799
57,224	57,206	62,763	5,539
1,751,328	2,027,350	2,449,514	698,186
260,934	245,015	242,084	(18,850)
2,598,948	2,812,443	3,365,526	766,578
(837,462)	(591,467)	(1,229,535)	392,073
1,187,901	700,000	1,444,302	(256,401)
350,439	108,533	214,767	135,672
171,451	171,451	171,451	-0-
$ 521,890	$ 279,984	$ 386,218	$ 135,672

CITY OF CARSON

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 for 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 $553,083. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2006, disbursements exceeded the amounts budgeted in the public safety and business type activities functions.

OTHER SUPPLEMENTARY INFORMATION

CITY OF CARSON

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES - NON-MAJOR GOVERNMENTAL FUNDS

AS OF AND FOR THE YEAR ENDED JUNE 30, 2006

	Special Revenue		
	Local Option Tax	Road Use	Employee Benefits
Receipts:			
Property taxes	$ -0-	$ -0-	$ 5,376
Other city taxes	83,583	-0-	-0-
Intergovernmental	-0-	55,929	-0-
Miscellaneous	-0-	262	-0-
Total receipts	83,583	56,191	5,376
Disbursements:			
Operations:			
Public works	-0-	78,636	-0-
General government	-0-	-0-	14,058
Debt service	-0-	-0-	-0-
Capital projects	-0-	-0-	-0-
Total disbursements	-0-	78,636	14,058
Excess (deficiency) of receipts over (under) disbursements	83,583	(22,445)	(8,682)
Other financing sources (uses):			
Loan proceeds	-0-	-0-	-0-
Transfers out	(83,583)	-0-	-0-
Net financing sources (uses)	(83,583)	-0-	-0-
Net changes in cash balances	-0-	(22,445)	(8,682)
Cash balances, beginning of year	-0-	60,690	14,720
Cash balances, end of year	$ -0-	$ 38,245	$ 6,038
Cash Basis Fund Balances			
Unreserved:			
Special Revenue	$ -0-	$ 38,245	$ 6,038
Debt Service	-0-	-0-	-0-
Capital projects	-0-	-0-	-0-
Total cash basis fund balances	$ -0-	$ 38,245	$ 6,038

See Accompanying Independent Auditor's Report

SCHEDULE 1

Tort Liability	Debt Service	Capital Projects: Wastewater Treatment	Capital Projects: Lewis/Lariviere Subdivision	Total
$ 4,951	$ 57,132	$ -0-	$ -0-	$ 67,459
-0-	-0-	-0-	-0-	83,583
-0-	-0-	42,776	-0-	98,705
-0-	-0-	-0-	-0-	262
4,951	57,132	42,776	-0-	250,009
-0-	-0-	-0-	-0-	78,636
5,000	-0-	-0-	-0-	19,058
-0-	57,224	-0-	-0-	57,224
-0-	-0-	79,728	10,621	90,349
5,000	57,224	79,728	10,621	245,267
(49)	(92)	(36,952)	(10,621)	4,742
-0-	-0-	27,639	-0-	27,639
-0-	-0-	-0-	-0-	(83,583)
-0-	-0-	27,639	-0-	(55,944)
(49)	(92)	(9,313)	(10,621)	(51,202)
-0-	-0-	(12,581)	(91,909)	(29,080)
$ (49)	$ (92)	$ (21,894)	$ (102,530)	$ (80,282)
$ (49)	$ -0-	$ -0-	$ -0-	$ 44,234
-0-	(92)	-0-	-0-	(92)
-0-	-0-	(21,894)	(102,530)	(124,424)
$ (49)	$ (92)	$ (21,894)	$ (102,530)	$ (80,282)

CITY OF CARSON

SCHEDULE OF INDEBTEDNESS

YEAR ENDED JUNE 30, 2006

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General Obligation Notes:			
Water Tower	Feb 1, 1998	4.10-5.25%	$ 380,000
Wilbur/TIF Subdivision	Nov 1, 2001	3.50-5.10%	$ 355,000
Ambulance	Sep 1, 2002	3.00-4.80%	$ 140,000
Fire Truck	Nov 10, 2003	3.25-6.50%	$ 150,000
Tibbles/TIF Subdivision	Aug 1, 2005	3.25-4.20%	$ 165,000
Community Center Grant Anticipation Note	Sep 14, 2005	7.75%	$ 600,000
Community Center Bond	Mar 29, 2006	5.75%	$ 375,000
Revenue Capital Loan Notes:			
Sewer	Sep 29, 2004	3.00%	$ 750,000
Lease Purchase Agreement:			
Tractor, Loader & Mower	Nov 17, 2004	4.75%	$ 26,910
Line of Credit:			
TIF Housing Loan	Aug 5, 2005	5.00%	$ 25,010

See Accompanying Independent Auditor's Report.

SCHEDULE 2

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
$ 235,000	$ -0-	$ 25,000	$ 210,000	$ 11,778	$ 884
265,000	-0-	35,000	230,000	15,046	916
120,000	-0-	15,000	105,000	2,584	386
109,865	-0-	15,611	94,254	4,273	396
-0-	165,000	-0-	165,000	5,156	516
-0-	600,000	-0-	600,000	-0-	34,875
-0-	375,000	-0-	375,000	-0-	2,416
237,537	27,639	28,000	237,176	7,126	593
21,006	-0-	4,884	16,122	1,020	24
-0-	25,010	25,010	-0-	521	-0-
$ 988,408	$ 1,192,649	$ 148,505	$ 2,032,552	$ 47,504	$ 41,006

SCHEDULE 3

CITY OF CARSON

BOND AND NOTE MATURITIES

YEAR ENDED JUNE 30, 2006

General Obligation Notes

Year Ended June 30,	Water Tower Issued Feb 1, 1998 Callable June 1, 2007		Ambulance Issued Sep 1, 2002 Callable June 1, 2010		Fire Truck Issued Nov 10, 2003 Callable June 1, 2011	
	Interest Rate	Amount	Interest Rate	Amount	Interest Rate	Amount
2007	4.75%	$ 25,000	3.90%	$ 15,000	4.75%	$ 15,000
2008	4.85%	25,000	4.10%	15,000	5.15%	15,000
2009	4.95%	30,000	4.30%	15,000	5.55%	15,000
2010	5.05%	30,000	4.45%	15,000	5.90%	15,000
2011	5.15%	30,000	4.60%	15,000	6.10%	15,000
2012	5.20%	35,000	4.70%	15,000	6.25%	15,000
2013	5.25%	35,000	4.80%	15,000	6.50%	4,254
Total		$ 210,000		$ 105,000		$ 94,254

Year Ended June 30,	Community Center Bond Issued Mar 29, 2006		Community Center Grant Anticipation Note Issued Sep 14, 2005		
	Interest Rate	Amount	Interest Rate	Amount	Total
2007	5.75%	$ 65,000	7.75%	$ 600,000	$ 720,000
2008	5.75%	70,000		-0-	125,000
2009	5.75%	75,000		-0-	135,000
2010	5.75%	80,000		-0-	140,000
2011	5.75%	85,000		-0-	145,000
2012		-0-		-0-	65,000
2013		-0-		-0-	54,254
Total		$ 375,000		$ 600,000	$ 1,384,254

See Accompanying Independent Auditor's Report.

Urban Renewal General Obligation Notes

Year Ended June 30,	Tibbles Subdivision Issued August 1, 2005 Interest Rates	Amount	Wilbur Subdivision Issued November 1, 2001 Interest Rates	Amount	Total
2007	3.25%	$ 15,000	4.40%	$ 35,000	$ 50,000
2008	3.35%	15,000	4.55%	35,000	50,000
2009	3.45%	15,000	4.70%	40,000	55,000
2010	3.55%	15,000	4.85%	40,000	55,000
2011	3.65%	15,000	5.00%	40,000	55,000
2012	3.75%	15,000	5.10%	40,000	55,000
2013	3.85%	15,000	--	-0-	15,000
2014	4.00%	20,000	--	-0-	20,000
2015	4.10%	20,000	--	-0-	20,000
2016	4.20%	20,000	--	-0-	20,000
Total		$ 165,000		$ 230,000	$ 395,000

See Accompanying Independent Auditor's Report

Revenue Note

Sewer Revenue Note
Issued September 29, 2004

Year Ended June 30,	Interest Rates	Amount
2007	3.00%	29,000
2008	3.00%	30,000
2009	3.00%	31,000
2010	3.00%	31,000
2011	3.00%	32,000
2012	3.00%	33,000
2013	3.00%	34,000
2014	3.00%	35,000
2015	3.00%	36,000
2016	3.00%	38,000
2017	3.00%	39,000
2018	3.00%	40,000
2019	3.00%	41,000
2020	3.00%	42,000
2021	3.00%	43,000
2022	3.00%	45,000
2023	3.00%	46,000
2024	3.00%	48,000
2025	3.00%	49,000
Total		$ 722,000

Capital Lease

John Deere Tractor
Issued November 17, 2004

Year Ended June 30,	Interest Rates	Amount
2007	4.75%	$ 5,121
2008	4.75%	5,370
2009	4.75%	5,631
		$ 16,122

See Accompanying Independent Auditor's Report

SCHEDULE 4

CITY OF CARSON

SCHEDULE OF RECEIPTS BY SOURCE AND DISBURSEMENTS BY FUNCTION - ALL GOVERNMENTAL FUNDS

FOR THE LAST FOUR YEARS

	2006	2005	2004	2003
Receipts:				
Property tax	$ 112,198	$ 115,291	$ 127,556	$ 122,576
Tax increment financing	237,576	222,747	195,524	166,400
Other city tax	83,583	67,769	68,343	64,840
License and permits	1,852	2,666	1,816	1,845
Use of money and property	5,695	862	1,789	4,213
Intergovernmental	968,980	154,309	437,476	71,697
Charges for service	22,888	12,962	1,200	2,400
Miscellaneous	84,182	59,867	62,107	33,117
Total	$ 1,516,954	$ 636,473	$ 895,811	$ 467,088
Disbursements:				
Operating:				
Public safety	$ 129,467	$ 116,961	$ 260,589	$ 245,720
Public works	78,928	51,922	71,754	134,547
Culture and recreation	30,897	32,607	37,034	75,180
Community and economic development	205,902	159,736	117,331	46,138
General government	84,268	60,152	105,770	110,202
Debt service	57,224	91,263	65,453	50,516
Capital projects	1,751,328	429,624	383,197	123,786
Total	$ 2,338,014	$ 942,265	$ 1,041,128	$ 786,089

See Accompanying Independent Auditor's Report.

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

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Licensed In:

Iowa
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November 8, 2006

INDEPENDENT AUDITOR'S REPORT
ON INTERNAL CONTROL OVER FINANCIAL REPORTING
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To the Honorable Mayor and
Members of the City Council:

I have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Carson, 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 November 8, 2006. My report expressed an unqualified opinion on 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 Carson'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 a reportable condition. 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 Carson's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part II of the accompanying Schedule of Findings and Questioned Costs.

Continued . . .

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 II-A-06 is a material weakness. Prior year reportable conditions have been resolved except for item II-A-05.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Carson'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 or other matters that are described in Part III 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 my audit of the financial statements of the City. Since my audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

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

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

Mayfield Associates, CPA, P.C.

CITY OF CARSON

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2006

PART I: SUMMARY OF THE INDEPENDENT AUDITOR'S RESULTS

a. Unqualified opinions were 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. Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, including a material weakness.

c. The audit did not disclose any non-compliance which is material to the financial statements.

PART II: FINDINGS RELATED TO THE FINANCIAL STATEMENTS

REPORTABLE CONDITIONS

II-A-06 Segregation of Duties

Comment - One important aspect of internal accounting 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 acknowledged. The City could segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

CITY OF CARSON

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2006

PART III: OTHER FINDINGS RELATED TO STATUTORY REPORTING:

III-A-06 Certified Budget - Disbursements during the year ended June 30, 2006, exceeded the amounts budgeted in the public safety and business type activities 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. Also, disbursements exceeded amounts budgeted before the budget was amended on May 8, 2006 in the public works function.

Recommendation - The budget should have been amended in sufficient amounts in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget. Actual disbursements should be reviewed on a timely basis.

Response - We will review disbursements periodically and amend the budget accordingly.

Conclusion – Response accepted.

III-B-06 Questionable Disbursements - I noted no disbursements for parties, banquets or other entertainment for employees that I believe may constitute an unlawful expenditure from public funds as defined in an Attorney General's opinion dated April 25, 1979.

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

III-D-06 Business Transactions – Business transactions between the City and City officials, employees or relatives of City officials are detailed as follows:

Name, Title, and Business Connection	Transaction Description		Amount
Jon Taylor, Owner of JE Larson Construction	Construction, per bid	$	398,246
James Taylor, Consultant	Consulting and web hosting fees	$	1,510

In accordance with Chapter 362.5(10) of the Code of Iowa, the transactions with the mayor's son do not appear to represent a conflict of interest since it was entered into through competitive bidding.

CITY OF CARSON

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2006

PART III: OTHER FINDINGS RELATED TO STATUTORY REPORTING (Continued)

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

III-F-06 Council Minutes - No transactions were found that I believe should have been approved in the Council minutes but were not. It was noted that there was no publication of receipts and disbursements for the year.

Recommendation - The City should ensure that the City's receipts and disbursements are published monthly.

Response - We will adopt this recommendation.

Conclusion - Response accepted.

III-G-06 Revenue Notes - The City is in compliance with all covenants of their Sewer Revenue Note resolutions.

III-H-06 Deposits and Investments - No instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12Cof the Code of Iowa and the City's deposit and investment policy were noted.

III-I-06 Official Depositories - A resolution naming official depositories and maximum deposit amount has been approved by the City. The maximum deposit amount stated in the resolution was exceeded from March through June 2006.

Recommendation - A new resolution increasing the maximum deposit amount should have been adopted before bank balances exceeded the maximum deposit amounts.

Response- We will adopt this practice in future.

Conclusion - Response accepted.

CITY OF CARSON

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2006

PART III: OTHER FINDINGS RELATED TO STATUTORY REPORTING (Continued)

III-J-06 Financial Condition - At June 30, 2006, the City's funds had the following deficit balances:

General Fund	$	135,541
Special Revenue, Tort Liability Levy Fund		49
Debt Service Fund		92
Capital Projects, Wastewater Treatment Plant		21,894
Capital Projects, Lewis/Lariviere Subdivision		102,530
Capital Projects, Tibbles Subdivision		59,298
Proprietary, Garbage Fund		77,311
Total	$	396,715

Recommendation - The City should investigate alternatives to eliminate these deficits in order to return these funds to a sound financial condition.

Response - The capital projects deficits are the result of ongoing construction and will be eliminated upon completion of the projects. The proprietary garbage fund deficit will be restored eventually through the collection of fees. The general fund deficit will be monitored closely.

Conclusion – Response accepted.

CITY OF CARSON

CARSON, IOWA 51525

NEWS RELEASE

Muxfeldt Associates, CPA, P.C., 2309 B Chatburn Avenue, Harlan, Iowa today released an audit report on the City of Carson, Iowa.

The City's receipts totaled $2,949,387 for the year ended June 30, 2006, a 162 percent increase from 2005. The receipts included $112,198 from property tax, $284,984 from charges for services, $95,555 from operating grants, contributions and restricted interest, $946,213 from capital grants, contributions and restricted interest, $83,583 from local option sales tax, $237,576 from tax incremental financing, $1,377 from unrestricted investment earnings and $1,187,901 from loan proceeds.

Disbursements for the year totaled $2,598,948, a 128 percent increase from 2005, and included $1,751,328 for capital projects, $205,902 for community and economic development, and $129,467 for public safety.

A copy of the audit report is available for review in the office of the Auditor of State and the City Clerk's office.