

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

JUNE 30, 2006

Peak & Gerdes, LLP
Certified Public Accountants
1051 Office Park Road
West Des Moines, IA 50265

Table of Contents

		<u>Page</u>
Officials		3
Independent Auditor's Report		5-6
Basic Financial Statements:		
	<u>Exhibit</u>	
Government-wide Financial Statement:		
Statement of Activities and Net Assets-Cash Basis	A	8-9
Governmental Fund Financial Statement:		
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	B	10
Proprietary Fund Financial Statement:		
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	C	11
Notes to Financial Statements		12-18
Required Supplementary Information:		
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances-Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Funds		20
Notes to Required Supplementary Information-Budgetary Reporting		21
Other Supplementary Information:		
	<u>Schedule</u>	
Statement of Cash Receipts, Disbursements and Changes in Cash Balances - Nonmajor Governmental Funds	1	23
Schedule of Indebtedness	2	24
Bond and Note Maturities	3	25
Schedule of Receipts by Source and Disbursements by Function- All Governmental Funds	4	26
Schedule of Expenditures of Federal Awards	5	27
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 <u>Government Auditing Standards</u>		28-29
Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133.		30-31
Schedule of Findings and Questioned Costs		32-39

City of Corydon

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January, 2006)		
Larry Harlan	Mayor	January 2, 2006
John Rider	Mayor ProTem	January 2, 2006
Wendell Chastain	Council Member	January 2, 2006
Cheryl Nessen	Council Member	January 2, 2006
Normajean DuBay *	Council Member	January 2, 2008
Doug McCart **	Council Member	January 2, 2008
Matthew Clayton ***	Council Member	January 2, 2008
Rodney Parham ****	Council Member	January 2, 2008
Norma Rockhold	City Clerk	January 2, 2006
Judy Annis	City Treasurer	January 2, 2006
Monty Franklin	City Attorney	Indefinite
(After January, 2006)		
Larry Harlan	Mayor	January 2, 2008
John Rider	Mayor ProTem	January 2, 2010
Matthew Clayton	Council Member	January 2, 2008
Rodney Parham	Council Member	January 2, 2008
Cheryl Nessen	Council Member	January 2, 2010
Jerry Street	Council Member	January 2, 2010
Norma Rockhold	City Clerk	January 2, 2008
Judy Annis	City Treasurer	January 2, 2008
Monty Franklin	City Attorney	Indefinite

* - Resigned October 1, 2005

** - Resigned November 9, 2005

*** - Began November 7, 2005

**** - Began December 8, 2005

City of Corydon

PEAK & GERDES, LLP
CERTIFIED PUBLIC ACCOUNTANTS
1051 OFFICE PARK ROAD
WEST DES MOINES, IA 50265

(515) 277-3077

Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Corydon, 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 Corydon's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Corydon 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, we have also issued our report dated December 4, 2006 on our consideration of the City of Corydon's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Budgetary comparison information on pages 20 and 21 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

City of Corydon, Iowa, has not presented Management's Discussion and Analysis that accounting principles generally accepted in the United States has determined as necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Corydon's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the year ended June 30, 2005 (which are not presented herein) and expressed unqualified opinions on those financial statements which were prepared in conformity with an other comprehensive basis of accounting. Other supplementary information included in Schedules 1 through 5, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, is presented for 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 our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Peak & Gerdes, LLP
Certified Public Accountants

December 4, 2006

Basic Financial Statements

City of Corydon

Statement of Activities and Net Assets - Cash Basis

As of and for the year ended June 30, 2006

Functions / Programs	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Governmental activities:				
Public safety	\$ 210,785	1,895	20,779	89,868
Public works	136,032	5,396	133,207	-
Culture and recreation	192,755	58,766	12,332	-
Community and economic development	4,773	-	-	-
General government	91,164	4,170	3,000	-
Debt service	126,629	-	18,072	-
Capital projects	84,747	-	-	120,667
Total governmental activities	846,885	70,227	187,390	210,535
Business type activities:				
Sewer	797,579	151,038	-	163,237
Water	1,003,532	308,367	-	144,780
Garbage	156,610	150,358	-	-
Total business type activities	1,957,721	609,763	-	308,017
Total	\$ 2,804,606	679,990	187,390	518,552

General Receipts:

Property tax levied for:

General purposes

Tax increment financing

Debt service

Grants and contributions not restricted to specific purpose

Unrestricted interest on investments

State revolving fund loan proceeds

Miscellaneous

Sale of assets

Total general receipts and transfers

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

Debt service

Other purposes

Unrestricted

Total cash basis net assets

See notes to financial statements.

Exhibit A

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

Governmental Activities	Business Type Activities	Total
(98,243)	-	(98,243)
2,571	-	2,571
(121,657)	-	(121,657)
(4,773)	-	(4,773)
(83,994)	-	(83,994)
(108,557)	-	(108,557)
35,920	-	35,920
<u>(378,733)</u>	<u>-</u>	<u>(378,733)</u>
-	(483,304)	(483,304)
-	(550,385)	(550,385)
-	(6,252)	(6,252)
<u>-</u>	<u>(1,039,941)</u>	<u>(1,039,941)</u>
<u>(378,733)</u>	<u>(1,039,941)</u>	<u>(1,418,674)</u>
288,797	-	288,797
36,885	-	36,885
60,135	-	60,135
9,441	-	9,441
16,195	2,157	18,352
-	1,023,793	1,023,793
27,482	6,600	34,082
4,451	-	4,451
<u>443,386</u>	<u>1,032,550</u>	<u>1,475,936</u>
64,653	(7,391)	57,262
<u>148,362</u>	<u>498,046</u>	<u>646,408</u>
<u>\$ 213,015</u>	<u>490,655</u>	<u>703,670</u>
\$ 71,456	-	71,456
5,698	78,610	84,308
8,136	-	8,136
<u>127,725</u>	<u>412,045</u>	<u>539,770</u>
<u>\$ 213,015</u>	<u>490,655</u>	<u>703,670</u>

City of Corydon

Exhibit B

Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Governmental Funds

As of and for the year ended June 30, 2006

	Special Revenue		Capital Projects	Nonmajor	Total
	General	Road Use Tax	Aquatic Center		
Receipts:					
Property tax	\$ 222,981	-	-	125,943	348,924
Tax increment financing	-	-	-	36,885	36,885
Other city tax	9,441	-	-	-	9,441
Licenses and permits	5,223	-	-	-	5,223
Use of money and property	28,266	-	-	-	28,266
Intergovernmental	116,930	133,207	75,000	18,072	343,209
Charges for service	36,007	-	-	-	36,007
Miscellaneous	53,465	-	45,667	-	99,132
Total receipts	<u>472,313</u>	<u>133,207</u>	<u>120,667</u>	<u>180,900</u>	<u>907,087</u>
Disbursements:					
Operating:					
Public safety	191,717	-	-	19,068	210,785
Public works	-	124,101	-	11,931	136,032
Culture and recreation	172,882	-	1,830	18,043	192,755
Community and economic development	4,773	-	-	-	4,773
General government	74,754	-	-	16,410	91,164
Debt service	16,865	-	2,485	107,279	126,629
Capital projects	-	-	84,747	-	84,747
Total disbursements	<u>460,991</u>	<u>124,101</u>	<u>89,062</u>	<u>172,731</u>	<u>846,885</u>
Excess of receipts over disbursements	<u>11,322</u>	<u>9,106</u>	<u>31,605</u>	<u>8,169</u>	<u>60,202</u>
Other financing sources (uses):					
Sale of capital assets	4,451	-	-	-	4,451
Operating transfers in	-	-	6,940	14,720	21,660
Operating transfers out	(6,940)	-	-	(14,720)	(21,660)
Total other financing sources (uses)	<u>(2,489)</u>	<u>-</u>	<u>6,940</u>	<u>-</u>	<u>4,451</u>
Net change in cash balances	8,833	9,106	38,545	8,169	64,653
Cash balances beginning of year	<u>118,892</u>	<u>62,350</u>	<u>(187,210)</u>	<u>154,330</u>	<u>148,362</u>
Cash balances end of year	<u>\$ 127,725</u>	<u>71,456</u>	<u>(148,665)</u>	<u>162,499</u>	<u>213,015</u>
Cash Basis Fund Balances					
Reserved:					
Debt Service	\$ -	-	-	5,698	5,698
Unreserved:					
General fund	127,725	-	-	-	127,725
Special revenue funds	-	71,456	-	156,801	228,257
Capital projects fund	-	-	(148,665)	-	(148,665)
Total cash basis fund balances	<u>\$ 127,725</u>	<u>71,456</u>	<u>(148,665)</u>	<u>162,499</u>	<u>213,015</u>

See notes to financial statements.

Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Proprietary Funds

As of and for the year ended June 30, 2006

	Enterprise Funds			Total
	Sewer	Water	Other Non-Major Proprietary Fund - Garbage	
Operating receipts:				
Charges for service	\$ 150,379	305,541	146,647	602,567
Miscellaneous	659	2,826	3,711	7,196
Total operating receipts	<u>151,038</u>	<u>308,367</u>	<u>150,358</u>	<u>609,763</u>
Operating disbursements:				
Business type activities	756,306	928,781	156,610	1,841,697
Total operating disbursements	<u>756,306</u>	<u>928,781</u>	<u>156,610</u>	<u>1,841,697</u>
Excess (deficiency) of operating receipts over (under) operating disbursements	<u>(605,268)</u>	<u>(620,414)</u>	<u>(6,252)</u>	<u>(1,231,934)</u>
Non-operating receipts (disbursements):				
Intergovernmental	163,237	144,780	-	308,017
Interest on investments	-	2,157	-	2,157
Miscellaneous	-	6,600	-	6,600
State revolving fund loan proceeds	424,798	598,995	-	1,023,793
Debt service	(41,273)	(74,751)	-	(116,024)
Total non-operating receipts (disbursements)	<u>546,762</u>	<u>677,781</u>	<u>-</u>	<u>1,224,543</u>
Excess (deficiency) of receipts over (under) disbursements	<u>(58,506)</u>	<u>57,367</u>	<u>(6,252)</u>	<u>(7,391)</u>
Cash balances beginning of year	296,202	136,391	65,453	498,046
Cash balances end of year	<u>\$ 237,696</u>	<u>193,758</u>	<u>59,201</u>	<u>490,655</u>
Cash Basis Fund Balances				
Reserved for debt service	\$ 37,431	41,179	-	78,610
Unreserved	200,265	152,579	59,201	412,045
Total cash basis fund balances	<u>\$ 237,696</u>	<u>193,758</u>	<u>59,201</u>	<u>490,655</u>

See notes to financial statements.

City of Corydon

Notes to Financial Statements

June 30, 2006

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

The City of Corydon is a political subdivision of the State of Iowa located in Wayne County. It 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, City of Corydon 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 also participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Area 15 Regional Planning Commission, Wayne County Assessor's Conference Board and the Wayne County Development Corporation.

B. Basis of Presentation

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

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

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

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

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

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

The City reports the following major governmental funds:

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

Special Revenue:

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

Capital Projects:

The Aquatic Center Fund is used to account for the construction of the new aquatic center.

The City reports the following major proprietary funds:

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

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

C. Measurement Focus and Basis of Accounting

The City of Corydon 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.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

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 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, culture and recreation, capital projects and business type activities functions.

(2) **Cash and Pooled Investments**

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

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

The City had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$575,000 pursuant to Rule 2a-7 under the Investment Company Act of 1940.

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

Credit risk – The City's investment in the Iowa Public Agency Investment Trust is unrated.

(3) **Bonds and Notes Payable**

Annual debt service requirements to maturity for general obligation bonds and notes, urban renewal tax increment financing revenue bonds, and revenue notes are as follows:

Year Ending June 30,	General Obligation Bonds and Notes		Urban Renewal Tax Increment Financing (TIF) Revenue Bonds		Revenue Notes		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
	2007	\$ 47,000	\$ 28,240	\$ 10,003	\$ 2,082	\$ 74,210	\$ 65,904	\$ 131,213
2008	52,000	26,040	10,713	1,373	82,068	67,710	144,781	95,123
2009	53,000	23,590	11,480	607	84,474	65,114	148,954	89,311
2010	53,000	21,110	-	-	86,900	62,438	139,900	83,548
2011	53,000	19,050	-	-	89,342	59,686	142,342	78,736
2012-2016	274,000	61,670	-	-	496,085	253,795	770,085	315,465
2017-2021	125,000	11,905	-	-	569,275	169,271	694,275	181,176
2022-2026	-	-	-	-	475,105	79,151	475,105	79,151
2027-2031	-	-	-	-	45,659	36,421	45,659	36,421
2032-2036	-	-	-	-	57,872	24,208	57,872	24,208
2037-2041	-	-	-	-	71,366	8,731	71,366	8,731
Total	\$ 657,000	\$ 191,605	\$ 32,196	\$ 4,062	\$ 2,132,356	\$ 892,429	\$ 2,821,552	\$ 1,088,096

See Schedule 2 on page 24 for the detail issues which make up the above principal totals.

General Obligation Capital Loan Notes

On April 9, 1996, the City entered into an agreement with the Iowa Finance Authority, the Iowa Department of Natural Resources and Norwest Bank Iowa, N.A. (now known as Wells Fargo Bank, N.A.) for the issuance of \$256,000 of general obligation capital loan notes with interest at 4.19% per annum (3.00% per annum beginning June 1, 2006). The agreement also requires the City to annually pay a .05% servicing fee on the outstanding principal balance. The notes were issued pursuant to the provisions of Chapter 384.24A of the Code of Iowa for the purpose of paying the costs of construction, improvement and extensions to the municipal wastewater system. The City received disbursements from Trustee upon request to reimburse the City for the costs as they were incurred. Since the project cost less than the original bond amount, the bond amount was amended accordingly to \$230,000. An initiation fee of 1% of the authorized borrowing for the general obligation capital loan notes was charged by the bank. The total initiation fee was withheld by the bank from the first proceeds of the general obligation capital loan notes drawn by the City during the year ended June 30, 1996. The City pledged the full faith and credit of the City for the repayment of the general obligation capital loan notes.

Urban Renewal Tax Increment Financing (TIF) Revenue Bonds

The urban renewal tax increment financing revenue bonds were issued for the purpose of defraying a portion of the costs of carrying out an urban renewal project of the City. The bonds are payable solely from the income and proceeds of the Special Revenue, Urban Renewal Tax Increment Financing 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 revenue bonds shall be expended only for the purposes which are consistent with the plans of the City's urban renewal area. The bonds are not a general obligation of the City. However, the debt is subject to constitutional debt limitation of the City.

Child Care Center Revenue Notes

The resolutions providing for the issuance of the child care center revenue notes include the following provisions:

- (a) The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the funds.
- (b) Sufficient monthly transfers shall be made to a child care center revenue note sinking account for the purpose of making the note principal and interest payments when due.
- (c) Additional monthly transfers of \$138 to the child care center reserve account shall be made until specific minimum balances have been accumulated. This account is restricted for the purpose of paying for the annual bond principal and interest payments should the sinking account have insufficient funds. When \$16,416 is in this account, the City does not have to continue to fund this account. At June 30, 2006, the balance in this account was \$7,764.
- (d) The charges to customers for services of the system shall be sufficient in each year for payment of the proper and reasonable expenses of operation and maintenance of the system and for the payment of principal and interest on the revenue notes.

The City has an agreement with the Wayne County Hospital to operate and manage the Child Care Center. Wayne County Hospital will pay the City use payments on a monthly basis since the City owns the Child Care Center.

Fire Department Revenue Notes

The resolutions providing for the issuance of the fire department revenue notes include the following provisions:

- (a) The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the funds.
- (b) Sufficient monthly transfers shall be made to the fire department revenue note sinking account for the purpose of making the note principal and interest payments when due. The City had an adequate balance in the sinking account at June 30, 2006.
- (c) Additional monthly transfers of \$86 to the fire department reserve account shall be made until specific minimum balances have been accumulated. This account is restricted for the purpose of paying for annual bond principal and interest payments should the sinking account have insufficient funds. When \$10,928 is in this account, the City does not have to continue to fund this account. At June 30, 2006, the City had \$2,064 in this account.
- (d) The charges to customers for services of the system shall be sufficient in each year for payment of the proper and reasonable expenses of operation and maintenance of the system and for the payment of principal and interest on the revenue notes.

Sewer Revenue and Water Revenue Capital Loan Notes

On September 29, 2004, the City entered into an agreement with the Iowa Finance Authority, the Iowa Department of Natural Resources and the Wells Fargo Bank Iowa, N.A. for the issuance of \$654,000 of sewer revenue capital notes and \$1,193,000 of water revenue capital notes with interest at 3.00% per annum. The agreement also requires the City to annually pay .25% servicing fee on the outstanding principal balance. The notes were issued pursuant to the provisions of Chapter 384.24A of the Code of Iowa for the purpose of paying the costs of construction, improvement and extensions to the municipal wastewater and waterworks systems. The City will receive disbursements from the Trustee upon request to reimburse the City for the costs as they are incurred. At June 30, 2006, the City had drawn \$1,825,614 of the \$1,847,000 authorized. Wells Fargo Bank Iowa, N.A. has the remaining \$21,386 held in trust which the City will request as the project progresses. An initiation fee of 1% of the authorized borrowing for the sewer revenue capital loan notes and water revenue capital loan notes was charged by Wells Fargo Bank Iowa, N.A. The total initiation fee was withheld by the bank from the first proceeds of the sewer revenue capital loan notes and water revenue capital loan notes drawn by the City during the year ended June 30, 2005. Although the City is still drawing funds on the sewer revenue capital loan notes and water revenue capital loan notes, a formal repayment schedule has been adopted for the debt.

The resolutions providing for the issuance of the sewer revenue capital loan notes and water revenue capital loan notes includes the following provisions.

- (a) The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the fund.
- (b) Monthly transfers of 1/6 of the installment of interest next due and 1/12 of installment of principal due shall be made to a sewer revenue note and interest sinking account and a water revenue note and interest sinking account. At June 30, 2006, the City had \$37,431 in the sewer revenue note and interest sinking account and \$41,179 in the water revenue note and interest sinking account.
- (c) All funds remaining after payment of all maintenance and operating expenses and the transfers to the restricted accounts noted above can be used to pay for extraordinary repairs or replacements to the wastewater and water system, may be used to pay or redeem any notes, and then can be used for any lawful purpose.

Notes Payable

The City is indebted to Great Western Bank in the amount of \$294,356 at June 30, 2006. The note is due in 16 annual installments. The first two installments begin on September 1, 2006 for \$26,985 each year with an interest rate of 4.00 percent per annum. The next 13 installments begin on September 1, 2008 for \$29,400 each year with interest calculated on the unpaid principal balances at a discounted rate (assumed at 6%) based on the Wall Street Journal Prime Rate. The interest rate change will not occur more often than each 36 months. The final payment, consisting of unpaid principal and interest, is due on September 1, 2021.

Future principal requirements of the notes payable are as follows:

Year Ending June 30,	Amount
2007	\$ 15,210
2008	15,819
2009	13,600
2010	14,416
2011	15,281
2012-2016	91,311
2017-2021	122,195
2022	6,524
Total	<u>\$ 294,356</u>

(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 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 contributions to IPERS for the years ended June 30, 2006 and 2005 were \$23,577 and \$23,468, respectively, equal to the required contributions for each year.

(5) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation, sick, compensatory time and personal leave 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 compensated absences payable to employees at June 30, 2006 primarily relating to the General Fund, was \$53,032. The liability has been computed based on rates of pay in effect at June 30, 2006.

(6) Budget Overexpenditure

Per the Code of Iowa, disbursements may not legally exceed budgeted appropriations at the functional level. During the year ended June 30, 2006, disbursements in the Public Safety, Culture and Recreation, Capital Projects and Business Type Activities functions exceeded the amounts budgeted.

(7) Interfund Transfers

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

<u>Transfer To</u>	<u>Transfer From</u>	<u>Amount</u>
Debt Service	Special Revenue: Tax Increment Financing	\$ 14,720
Capital Projects: Aquatic Center	General	6,940
Total		<u>\$ 21,660</u>

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

(8) Related Party Transactions

The City had business transactions between the City and City officials, totaling \$2,376 during the year ended June 30, 2006.

(9) Risk Management

The City of Corydon 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.

(10) Deficit Fund Balance

The Capital Projects Fund, Aquatic Center had a deficit balance of \$148,665 at June 30, 2006. This fund incurred a deficit as the City spent more money than they brought in. The City plans to eliminate the deficit through additional fundraisers and donations.

The Debt Service Fund had a deficit balance of \$2,066 at June 30, 2006. This deficit will be eliminated through the collection of property taxes.

(11) Commitments and Contingencies

The City of Corydon purchases all of its water for resale from the Rathbun Regional Water Association, Inc. The City signed an agreement with a vendor which provides sewer services to the City at a contracted amount of at least \$3,000 per year for the next three years. As of June 30, 2006 the city had uncompleted construction contracts of approximately \$85,000 outstanding for water, sewer and a pool project. These projects were substantially completed in fiscal year 2006, but the final payments on these projects were not made until fiscal year 2007.

The City participates in a number of Federal and State grant programs. These programs are subject to program compliance audits by the grantors or their representatives. Entitlements to these resources are generally conditional upon compliance with the terms and conditions of grant and loan agreements and applicable federal and state regulations, including the expenditure of resources for allowable purposes. Any disallowance resulting from a federal or state audit may become a liability to the City. The City's management believes such revisions or disallowances, if any, will not be material to the City.

Required Supplementary Information

City of Corydon

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	Total	Budgeted Amounts Original	Original to Total Variance
Receipts:					
Property tax	\$ 348,924	-	348,924	334,850	14,074
Tax increment financing collections	36,885	-	36,885	26,806	10,079
Other city tax	9,441	-	9,441	23,735	(14,294)
Licenses and permits	5,223	-	5,223	525	4,698
Use of money and property	28,266	2,157	30,423	69,510	(39,087)
Intergovernmental	343,209	308,017	651,226	181,998	469,228
Charge for service	36,007	609,763	645,770	1,834,600	(1,188,830)
Miscellaneous	99,132	6,600	105,732	81,935	23,797
Total receipts	907,087	926,537	1,833,624	2,553,959	(720,335)
Disbursements:					
Public safety	210,785	-	210,785	143,967	(66,818)
Public works	136,032	-	136,032	153,264	17,232
Culture and recreation	192,755	-	192,755	188,026	(4,729)
Community and economic development	4,773	-	4,773	4,773	-
General government	91,164	-	91,164	98,533	7,369
Debt service	126,629	-	126,629	133,783	7,154
Capital projects	84,747	-	84,747	-	(84,747)
Business type activities	-	1,957,721	1,957,721	1,819,128	(138,593)
Total disbursements	846,885	1,957,721	2,804,606	2,541,474	(263,132)
Excess (deficiency) of receipts over (under) disbursements	60,202	(1,031,184)	(970,982)	12,485	(983,467)
Other financing sources, net	4,451	1,023,793	1,028,244	-	1,028,244
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	64,653	(7,391)	57,262	12,485	44,777
Balances beginning of year	148,362	498,046	646,408	2,761,416	(2,115,008)
Balances end of year	\$ 213,015	490,655	703,670	2,773,901	(2,070,231)

See accompanying independent auditor's report.

City of Corydon

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. 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, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Funds, the Permanent Fund and the 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, the City did not amend its budget.

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

Other Supplementary Information

City of Corydon

Schedule 1

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Nonmajor Governmental Funds

As of and for the year ended June 30, 2006

	Special Revenue				Debt Service	Total
	Grant	Employee Benefits	Child Care	Tax Increment Financing		
Receipts:						
Property tax	\$ -	65,808	-	-	60,135	125,943
Tax increment financing	-	-	-	36,885	-	36,885
Intergovernmental	-	-	18,072	-	-	18,072
Total receipts	-	65,808	18,072	36,885	60,135	180,900
Disbursements:						
Operating:						
Public safety	-	19,068	-	-	-	19,068
Public works	-	11,931	-	-	-	11,931
Culture and recreation	-	18,043	-	-	-	18,043
General government	-	16,410	-	-	-	16,410
Debt service	-	-	16,416	12,086	78,777	107,279
Total disbursements	-	65,452	16,416	12,086	78,777	172,731
Excess (deficiency) of receipts over (under) disbursements	-	356	1,656	24,799	(18,642)	8,169
Other financing sources (uses):						
Operating transfers in (out)	-	-	-	(14,720)	14,720	-
Net change in cash balances	-	356	1,656	10,079	(3,922)	8,169
Cash balances beginning of year	7,331	123,655	6,108	15,380	1,856	154,330
Cash balances end of year	\$ 7,331	124,011	7,764	25,459	(2,066)	162,499
Cash Basis Fund Balances						
Reserved:						
Debt service	\$ -	-	7,764	-	(2,066)	5,698
Unreserved:						
Special revenue funds	7,331	124,011	-	25,459	-	156,801
Total cash basis fund balances	\$ 7,331	124,011	7,764	25,459	(2,066)	162,499

See accompanying independent auditor's report.

City of Corydon
Schedule of Indebtedness
Year ended June 30, 2006

Schedule of Indebtedness
Year ended June 30, 2006

Obligation	Date of Issue	Interest Rates	Amount Originally Issued	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
General Obligation Capital Loan Notes - Iowa Finance Authority - State Revolving Fund	April 9, 1996	3.00% *	\$ 230,000	148,000	-	11,000	137,000	6,201	-
General Obligation Bonds and Notes - Capital Loan Notes	November 17, 2000	5.90%	\$ 115,000	80,000	-	10,000	70,000	4,720	-
General Obligation Bonds	June 1, 2004	3.60-5.50%	500,000	475,000	-	25,000	450,000	21,375	-
			\$ 555,000	\$ 555,000	-	35,000	520,000	26,095	-
Revenue Notes - Child Care Center Revenue Notes	March 1, 2002	4.75%	\$ 288,000	282,521	-	3,063	279,458	13,353	-
Swimming Pool Note **	May 20, 2004	4.00%	300,000	300,000	-	300,000	-	-	-
Fire Department Revenue Notes - Iowa Finance Authority - State Revolving Fund -	June 9, 2004	4.25%	107,000	101,753	-	5,469	96,284	4,325	-
Sewer Revenue Capital Loan Note	September 29, 2004	3.00%	654,000	288,132	363,868	24,000	628,000	15,644	-
Water Revenue Capital Loan Note	September 29, 2004	3.00%	1,193,000	513,688	659,926	45,000	1,128,614	26,768	-
			\$ 1,486,094	\$ 1,486,094	1,023,794	377,532	2,132,356	60,090	-
Urban Renewal Tax Increment Financing (TIF) Revenue Bonds	April 8, 1994	7.00%	\$ 110,000	41,534	-	9,338	32,196	2,747	-
Notes Payable - Swimming Pool Note	July 1, 2005	4.00%	\$ 300,000	-	300,000	5,644	294,356	3,912	-

* - Interest rate changed from 4.19% to 3.00% on June 1, 2006.

** - Refinanced during the year.

See accompanying independent auditor's report

City of Corydon

Schedule 3

Bond and Note Maturities

June 30, 2006

General Obligation Bonds and Notes									
Iowa Finance Authority					Urban Renewal Tax Increment Financing (TIF) Revenue Bonds Issued April 8, 1994				
Year Ending June 30,	State Revolving Fund Issued April 9, 1996		Capital Loan Notes Issued November 17, 2000		General Obligation Bonds Issued June 1, 2004		Interest Rates		Amount
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	
2007	3.00%	\$ 12,000	5.90%	\$ 10,000	5.00%	\$ 25,000	7.00%	\$ 47,000	10,003
2008	3.00%	12,000	5.90%	10,000	5.00%	30,000	7.00%	52,000	10,713
2009	3.00%	13,000	5.90%	10,000	5.00%	30,000	7.00%	53,000	11,480
2010	3.00%	13,000	5.90%	10,000	3.60%	30,000	-	53,000	-
2011	3.00%	13,000	5.90%	10,000	3.80%	30,000	-	53,000	-
2012-2016	3.00%	74,000	5.90%	20,000	4.00-4.50%	180,000	-	274,000	-
2017-2021	-	-	-	-	4.60-4.70%	125,000	-	125,000	-
		<u>\$ 137,000</u>		<u>\$ 70,000</u>		<u>\$ 450,000</u>		<u>\$ 657,000</u>	<u>\$ 32,196</u>

Revenue Notes									
Child Care Center			Fire Department			Iowa Finance Authority			Iowa Finance Authority
Year Ending June 30,	Revenue Notes Issued March 1, 2002		Revenue Notes Issued June 9, 2004		State Revolving Fund - Sewer Issued September 29, 2004		State Revolving Fund - Water Issued September 29, 2004		Total
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	
2007	4.75%	\$ 3,210	4.25%	\$ -	3.00%	\$ 25,000	3.00%	\$ 46,000	\$ 74,210
2008	4.75%	3,366	4.25%	5,702	3.00%	26,000	3.00%	47,000	82,068
2009	4.75%	3,530	4.25%	5,944	3.00%	26,000	3.00%	49,000	84,474
2010	4.75%	3,703	4.25%	6,197	3.00%	27,000	3.00%	50,000	86,900
2011	4.75%	3,882	4.25%	6,460	3.00%	28,000	3.00%	51,000	89,342
2012-2016	4.75%	22,424	4.25%	36,661	3.00%	155,000	3.00%	282,000	496,085
2017-2021	4.75%	28,955	4.25%	35,320	3.00%	180,000	3.00%	325,000	569,275
2022-2026	4.75%	35,491	-	-	3.00%	161,000	3.00%	278,614	475,105
2027-2031	4.75%	45,659	-	-	-	-	-	-	45,659
2032-2036	4.75%	57,872	-	-	-	-	-	-	57,872
2037-2041	4.75%	71,366	-	-	-	-	-	-	71,366
		<u>\$ 279,458</u>		<u>\$ 96,284</u>		<u>\$ 628,000</u>		<u>\$ 1,128,614</u>	<u>\$ 2,132,356</u>

See accompanying independent auditor's report.

City of Corydon

Schedule 4

Schedule of Receipts By Source and Disbursements By Function -
All Governmental Funds

For the Last Two Years

	2006	2005
Receipts:		
Property tax	\$ 348,924	356,027
Tax increment financing collections	36,885	30,719
Other city tax	9,441	-
Licenses and permits	5,223	5,817
Use of money and property	28,266	33,104
Intergovernmental	343,209	192,343
Charges for service	36,007	11,423
Miscellaneous	99,132	328,066
	<u>907,087</u>	<u>957,499</u>
Total	\$ 907,087	957,499
Disbursements:		
Operating:		
Public safety	\$ 210,785	122,810
Public works	136,032	184,068
Culture and recreation	192,755	188,635
Community and economic development	4,773	5,025
General government	91,164	133,718
Debt service	126,629	125,496
Capital Projects	84,747	1,050,397
	<u>846,885</u>	<u>1,810,149</u>
Total	\$ 846,885	1,810,149

See accompanying independent auditor's report.

City of Corydon

Schedule 5

Schedule of Expenditures of Federal Awards

Year ended June 30, 2006

<u>Grantor/Program</u>	<u>CFDA Number</u>	<u>Agency or Pass-Through Number</u>	<u>Program Expenditures</u>
Direct:			
U.S. Department of Homeland Security: Assistance to Firefighters Grant	97.044	EMW-2005-FG-11712	\$ 85,117
Indirect:			
U.S. Department of Housing and Urban Development: Iowa Department of Economic Development: Community Development Block Grants/ State's Program	14.228	03-WS-060	276,226
Environmental Protection Agency: Iowa Department of Natural Resources: Capitalization Grants for Clean Water State Revolving Funds	66.458	CS19228901	216,819 <u>493,045</u>
			<u>\$ 578,162</u>

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

See accompanying independent auditor's report.

PEAK & GERDES, LLP
CERTIFIED PUBLIC ACCOUNTANTS
1051 OFFICE PARK ROAD
WEST DES MOINES, IA 50265

(515) 277-3077

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:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Corydon, 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 our report thereon dated December 4, 2006. Our report expressed an unqualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

Compliance and Other Matters

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

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

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

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

Peak & Gerdes, LLP
Certified Public Accountants

December 4, 2006

PEAK & GERDES, LLP
CERTIFIED PUBLIC ACCOUNTANTS
1051 OFFICE PARK ROAD
WEST DES MOINES, IA 50265

(515) 277-3077

Independent Auditor's Report on Compliance with Requirements
Applicable to Each Major Program and on Internal Control over Compliance
in Accordance with OMB Circular A-133

To the Honorable Mayor and
Members of the City Council:

Compliance

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

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

In our opinion, City of Corydon complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended June 30, 2006. However, the results of our auditing procedures disclosed an instance of non-compliance with those requirements that is required to be reported in accordance with OMB Circular A-133 and which is described as item III-A-06 in the accompanying Schedule of Findings and Questioned Costs.

Internal Control Over Compliance

The management of the City of Corydon is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered the City of Corydon's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

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

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that non-compliance with applicable requirements of laws, regulations, contracts and grant agreements caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item III-B-06 is a material weakness.

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

Peak & Gerdes, LLP
Certified Public Accountants

December 4, 2006

City of Corydon

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 material weaknesses.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) A reportable condition in internal control over the major programs was disclosed by the audit of the financial statements, including a material weakness.
- (e) An unqualified opinion was issued on compliance with requirements applicable to the major programs.
- (f) The audit disclosed audit findings which are required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) The major programs were CFDA Number 14.228 – Community Development Block Grants/State's Program, and CFDA Number 66.458 – Capitalization Grants for Clean Water State Revolving Funds.
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) The City of Corydon did not qualify as a low-risk auditee.

City of Cordyon

Schedule of Findings and Questioned Costs

Year Ended June 30, 2006

Part II: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

II-A-06 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The issuance of receipt slips, bank deposits and the posting of the cash receipts to the accounting records are sometimes all done by the same person.

Recommendation - We 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.

II-B-06 Contract Procedures – Our review of a construction contract on a water and sewer project noted that it appears the City overpaid a contractor by approximately \$22,000.

Based on our review of the pool contract, it appears the City significantly overpaid the architect for the aquatic center project.

The City has not received reimbursement for fiscal year 2006 water tower rent.

Recommendation – The City implement procedures to monitor contracts to ensure the correct amounts are paid based on the contracts. In addition, the City should work with their attorney and follow up on the amounts as noted above.

Response – We will work with our attorney in relation to the above.

Conclusion – Response accepted.

City of Corydon

Schedule of Findings and Questioned Costs

Year Ended June 30, 2006

Part III: Findings and Questioned Costs for Federal Awards

INSTANCES OF NONCOMPLIANCE:

CFDA Number 14.228 – Community Development Block Grants/State’s Program
Pass-through Agency Number: 03-WS-060
Federal Award Year: 2003
U.S Department of Housing and Urban Development
Passed through the Iowa Department of Economic Development

CFDA Number 66.458 – Capitalization Grants for Clean Water State Revolving Funds
Pass-through Agency Number: CS19228901
Federal Award Year: 2003
Environmental Protection Agency
Passed through Iowa Department of Natural Resources

III-A-06 Fund Reconciliation – The City does not appear to have procedures in place to ensure the costs incurred are claimed from the proper program. In addition, the accounting records, on a fund basis, do not appear to properly reflect the costs incurred for each program. The claim forms submitted to the State of Iowa were not accurate.

Recommendation – The City implement procedures to ensure costs incurred are claimed from the proper program, the accounting records properly reflect the costs, on a fund by fund basis, and the claim forms submitted to the State of Iowa are accurate.

Response – During the fiscal year, our grant administrator resigned and moved out of state. The water project cost less than anticipated, the sewer project cost more than anticipated, and in total we spent more than was originally budgeted on these projects. The two projects were funded from different grants, and took four years to complete from beginning to end. In addition, changes were made to the grant agreements in fiscal year 2006 which affected the accounting records in fiscal year 2005. However, we did not change the accounting records, because by the time the changes to the grant agreements in fiscal year 2006 were made, our accounting records for fiscal year 2005 were already closed. In fiscal year 2007, we reconciled our records with the grant records kept by the State of Iowa, and determined the amount of corrective transfers that need to be made in fiscal year 2007 for the project as a whole, and these transfers were made. As a result, our accounting records now reflect the proper allocation of receipts and disbursements between the various funds for the projects as a whole. In addition, we received a contract amendment from the Department of Economic Development dated January 10, 2007, which allocates the proper amount of grant monies to each project. Should future issues arise in relation to this, we will work with our grant administrator and the State of Iowa to correct the problems, if any. However, we believe that with the final contract amendment, all issues in relation to this have been resolved.

Conclusion – Response accepted.

City of Corydon

Schedule of Findings and Questioned Costs

Year Ended June 30, 2006

REPORTABLE CONDITIONS:

CFDA Number 14.228 – Community Development Block Grants/State’s Program

Pass-through Agency Number: 03-WS-060

Federal Award Year: 2003

U.S Department of Housing and Urban Development

Passed through the Iowa Department of Economic Development

CFDA Number 66.458 – Capitalization Grants for Clean Water State Revolving Funds

Pass-through Agency Number: CS19228901

Federal Award Year: 2003

Environmental Protection Agency

Passed through the Iowa Department of Natural Resources

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

III-C-06 Grant Administration – In the bid to the City, the grant administrator quoted a price of \$45 per hour. The contract between the grant administrator and the City noted a price of \$50 per hour. A billing from the grant administrator to the City indicated the price was \$125 per hour to provide grant administration services. The cost of the grant administrator was paid for with Community Development Block Grant funds. The total contract with the grant administrator was for \$23,000. Through June 30, 2006, the City paid the grant administrator a total of \$19,000, with \$4,000 still due as of June 30, 2006.

Recommendation – The City review the above with State of Iowa grant personnel, and take action as necessary.

Response – In fiscal year 2007, we paid the grant administrator the remaining \$4,000. As a result, the grant administrator received a total of \$23,000 for this project, which agrees to the original bid and contract. In addition, we will work with grant personnel from the State of Iowa in regards to this issue.

Conclusion – Response accepted.

City of Corydon

Schedule of Findings and Questioned Costs

Year Ended June 30, 2006

Part IV: Other Findings Related to Statutory Reporting:

IV-A-06 Certified Budget - Disbursements during the year ended June 30, 2006, exceeded the amounts budgeted in the public safety, culture and recreation, capital projects 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.

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

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

Conclusion - Response accepted.

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

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

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

Name, Title, and Business Connection	Transactions Description	Amount
Rod Parham, Council Member Owner of Rod's Auto Service	Vehicle repair, maintenance and fuel	\$1,380
Cheryl Nessen, Council Member Co-Owner of Nessen Pharmacy	Film	63
Matthew Clayton, Council Member Owner of Clayton Plumbing	Supplies and materials	933

The above do not appear to represent a conflict of interest as defined in Chapter 362.5(11) of the Code of Iowa since total transactions with each individual were less than \$2,500.

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

City of Corydon

Schedule of Findings and Questioned Costs

Year Ended June 30, 2006

- IV-F-06 Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not.
- For a closed session, the Council minutes did not document the vote of each board member and the specific exemption for entering into a closed session, as required by Chapter 21 of the Code of Iowa.
- Recommendation – For closed sessions, the City should implement procedures to ensure compliance with Chapter 21 of the Code of Iowa.
- Response – We will implement this recommendation.
- IV-G-06 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.
- IV-H-06 Revenue Bonds and Notes – The City has complied with the revenue bond and note resolutions.
- IV-I-06 Annual Reports – The beginning and ending balances recorded on the City's annual report, as required by Chapter 384.22 of the Code of Iowa, do not agree to the City's accounting records. In addition, the Outstanding Obligations Report submitted to the State Treasurer's Office was inaccurate. The Street Finance Report submitted to the Department of Transportation did not include some receipts and disbursements.
- Recommendation - The City implement procedures to ensure the City's annual report and the outstanding obligations report agrees to the City's accounting records. Also, procedures should be implemented to ensure the Street Finance Report is accurate.
- Response – We will make corrections next year to bring everything into balance.
- Conclusion - Response accepted.
- IV-J-06 Financial Condition – The Capital Projects, Aquatic Center Fund had a deficit balance of \$148,665 at June 30, 2006. The Debt Service Fund had a deficit balance of \$2,066 at June 30, 2006. The balance in the Special Revenue, Employee Benefits Fund may be excessive.
- Recommendation – The City should investigate alternatives to eliminate this deficit in order to return these funds to a sound financial position. The City should also take steps to reduce the balance in the Employee Benefits Fund.
- Response – The deficit in the Aquatic Center Fund was due to construction costs incurred prior to receipt of donations. In addition, the Debt Service Fund deficit will be positive in fiscal year 2007. Based on a prior audit recommendation, we reduced the property tax levy in the Employee Benefits Fund in fiscal year 2007, and plan to do the same in fiscal year 2008. We will continually evaluate the balance in the Employee Benefits Fund to determine if the cash on hand is excessive.
- Conclusion – Response accepted.

City of Corydon

Schedule of Findings and Questioned Costs

Year Ended June 30, 2006

- IV-K-06 Pool Receipts – Even though there is reconciliation between pool receipts and money that should be collected based on pool admissions, on some days significant differences were noted. Also, there appears to be a minimal control over concession stand receipts at the pool.
- Recommendation – Procedures should be implemented to ensure there is reconciliation between pool receipts and money that should be collected based on pool admissions, and differences should be timely investigated. Also, procedures should be implemented for the control of concession stand receipts at the pool.
- Response – We will implement the above recommendations.
- Conclusion – Response accepted.
- IV-L-06 Personnel – Not all employees are required to keep timecards. In addition, instances were noted where I9 forms were incomplete. Also, written documentation is not always available documenting employees rate of pay. An instance was noted where an employee did not receive credit for 4 hours of compensatory time.
- Recommendation – The City require that all employees keep timecards, and that I9 forms are on file for all employees. Also, written documentation should exist documenting employees rate of pay, and that employees compensatory time is properly recorded.
- Response – We will review this area, and take action as necessary.
- Conclusion – Response accepted.
- IV-M-06 Payment of General Obligation Bonds – Certain general obligation bonds were paid from funds other than the Debt Service Fund. Chapter 384.4 of the Code of Iowa states in part “Moneys pledged or available to service general obligation bonds, and received from sources other than property tax, must be deposited in the Debt Service Fund.” Adjustments were subsequently made to the financial statements to show all general obligation bond payments made from the Debt Service Fund.
- Recommendation – All payments of general obligation bonds should be disbursed from the Debt Service Fund.
- Response – After the last audit, we implemented this recommendation. Prior to the time the auditor was here last year, a payment of general obligations bonds was not paid from the Debt Service Fund in fiscal year 2006. However, since that time, all general obligation bonds and related interest have been paid from the Debt Service Fund. As a result, we have implemented this fully in fiscal year 2007.
- Conclusion – Response accepted.
- IV-N-06 Compliance Issues – The City Code of Ordinances requires that the commercial garbage rates be established by resolution of the City Council. We noted that this was not done. Federal regulations require that procedures be implemented to minimize the amount of time between receipt and the related disbursement of the federal funds. We noted that for a grant from the U.S. Department of Homeland Security, several months elapsed between the receipt of the funds and the related disbursement of the funds.

City of Corydon

Schedule of Findings and Questioned Costs

Year Ended June 30, 2006

Recommendation – The City establish commercial garbage rates by resolution of the City Council. Also, the City should implement procedures to minimize the amount of time between receipt and the related disbursement of the federal funds.

Response - We will review the above and take action as necessary.

Conclusion – Response accepted.

IV-O-06 Loan Refinancing – The City refinanced a loan during the year. The City did not publish a notice of public hearing and hold a public hearing, as required by Chapter 384 of the Code of Iowa.

Recommendation – In the future, the City follow the Code of Iowa requirements in regards to refinancing loans.

Response – We will implement this recommendation.

Conclusion – Response accepted.

IV-P-06 Account Codes – The City does not consistently follow the account code structure as recommended by the City Finance Committee.

Recommendation – The City implement procedures to ensure the account code structure is followed as required by the City Finance Committee.

Response – The issue in question relates to the Employee Benefits Fund. In prior years, our computer records did not allocate these costs between the various functions, but our manual records did. After the last audit, we modified our computer system, effective for fiscal year 2007, to properly allocate the costs between the various functions for costs charged to the Employee Benefits Fund. As a result, we have implemented this recommendation in fiscal year 2007.

Conclusion – Response accepted.

IV-Q-06 Library – Library receipts are only deposited once per month. In some cases the Board President signs the checks in advance. On some certificates of deposits, the bank interest rate was less than the interest rate established by the State Rate Setting Committee.

Recommendation – Library receipts should be deposited to the bank on a timelier basis. Also, checks should not be signed in advance. The Library should implement procedures to ensure interest rates on certificates of deposits meet or exceed the interest rates established by the State Rate Setting Committee.

Response – We will forward the above to the Library Board for consideration.

Conclusion – Response accepted.