CITY OF OSSIAN

FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

June 30, 2006

HAGEN & KALLEVANG, P.C.
Certified Public Accountants

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CITY OF OSSIAN

TABLE OF CONTENTS

		Page No.
OFFICIALS		1
INDEPENDENT AUDITOR'S REPORT		2-3
MANAGEMENT'S DISCUSSION AND ANALYSIS		4-9
BASIC FINANCIAL STATEMENTS	Exhibit	
Government-wide Financial Statement:		
Statement of Activities and Net Assets – Cash Basis	A	10
Governmental Fund Financial Statements:		
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	B	11
Reconciliation of the Statement of Cash Receipts, Disbursements and Changes in Cash Balances to the Statement of Activities and Net Assets	C	12
Proprietary Fund Financial Statements:		
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	D	13
Reconciliation of the Statement of Cash Receipts, Disbursements and Changes in Cash Balances to the Statement of Activities and Net Assets	E	14
Notes to Financial Statements		15-21
REQUIRED SUPPLEMENTARY INFORMATION		
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances – Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Funds		22
Notes to Required Supplementary Information – Budgetary Reporting		23
OTHER SUPPLEMENTARY INFORMATION	Schedule	
Schedule of Cash Receipts, Disbursements and Changes in Cash Balances – Nonmajor Governmental Funds	1	24
Schedule of Indebtedness	2	25
Bond and Note Maturities	3	26
Schedule of Receipts by Source and Disbursements by Function - All Government Funds	4	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 GOVERNMENT AUDITING STANDARDS		28-29
SCHEDULE OF FINDINGS		30-31

CITY OF OSSIAN

OFFICIALS

Name	Title (Before January 2006)	Term Expires
Howard Brechtel	Mayor	January 2008
Thomas Bushman	Council Member	January 2008
Ivan Franzen	Council Member	January 2008
Joseph Helgeson	Council Member	January 2008
Lois Franzen	Council Member	January 2006
Marvin (Mike) Meyer	Council Member	January 2006
Joyce Bakewell	City Clerk	Appointed
Lee Wilmarth	City Attorney	Appointed

(After January 2006)

Howard Brechtel	Mayor	January 2008
Thomas Bushman	Council Member	January 2008
Ivan Franzen	Council Member	January 2008
Joseph Helgeson	Council Member	January 2008
Lois Franzen	Council Member	January 2010
Marvin (Mike) Meyer	Council Member	January 2010
Joyce Bakewell	City Clerk	Appointed
Lee Wilmarth	City Attorney	Appointed

Hagen & Kallevang PC
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

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

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 Ossian, 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 Ossian'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 that 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. Also, as permitted by the Code of Iowa, the accounting records of the City have not been audited for all prior years. Accordingly, we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2005.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2005, as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Ossian 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.

As described in Note 11 during the year ended June 30, 2006, the City adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus; Statement No 38, Certain Financial Statement Note Disclosures; and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences.

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In accordance with Government Auditing Standards, we have also issued our report dated October 26, 2006 on our consideration of the City'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 read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 9 and 22 through 23 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. Other supplementary information included in Schedules 1 through 4 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2005 is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Hagen & Kallevang, P.C.

October 26, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

2006 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities increased 3.0%, or approximately $12,800, from fiscal 2005 to fiscal 2006. The increased receipts were due in large part to property taxes in the amount of $7,300; use of money and property $2,400; charges for services $4,900; all others net $2,300 except for a decrease in other city taxes of $4,100.

- Disbursements increased 8.87%, or approximately $39,800, in fiscal 2006 from fiscal 2005. The following functions had increased disbursements: Public Safety $1,900; Culture & Recreation $7,500; General Government $1,100; and Debt Service $31,300. Public Works disbursements decreased about $2,000.

- The City's total cash basis net assets increased 35.14%, or approximately $68,800 from June 30, 2005 to June 30, 2006. Of this amount, the assets of the governmental activities increased approximately $6,900 and the assets of the business-type activities increased by approximately $61,900.

USING THIS ANNUAL REPORT

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

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

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

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

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

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

Other Supplementary Information provides detailed information about the nonmajor governmental funds as well as its outstanding debt.

Basis of Accounting

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

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

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

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

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

- Governmental Activities include public safety, public works, health and social service, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax, state and federal grants, and debt proceeds finance most of these activities.
- Business Type Activities include the waterworks and the sanitary sewer systems. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Local Option Tax, 3) the Debt Service Fund, 4) the Capital Projects Fund, and 5) the Permanent Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

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

2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains two Enterprise Funds to provide separate information for the waterworks and the sanitary sewer systems; which are also considered to be major funds of the City.

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

Reconciliations between the government-wide financial statement and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

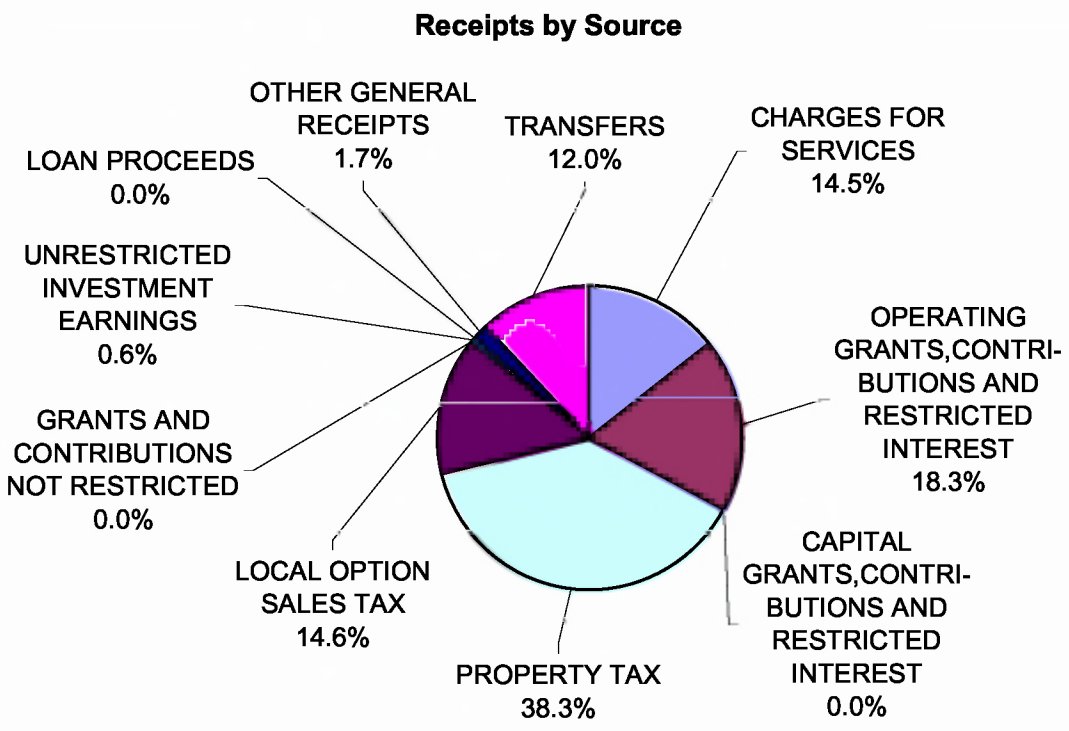
Governmental Activities

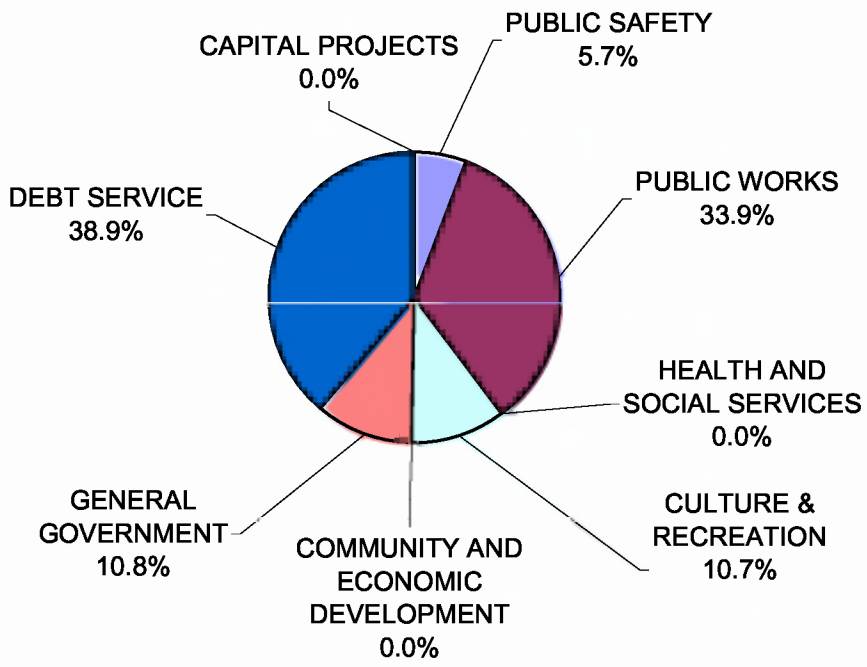
Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased. The analysis that follows focuses on the changes in cash balances for governmental activities.

The receipts and disbursements were as follows:

Changes in Cash Basis Net Assets of Governmental Activities

	Year ended June 30,	
	2006	2005
Receipts and transfers:		(Unaudited)
Program receipts:		
Charges for service	$ 72,202	$ 57,329
Operating grants, contributions and restricted interest	90,615	89,296
Capital grants, contributions and restricted interest	-	-
General receipts:		
Property tax	190,319	183,036
Local option sales tax	72,341	84,839
Grants and contributions not restricted to specific purposes	-	-
Unrestricted investment earnings	2,982	3,651
Loan proceeds	-	-
Other general receipts	8,354	5,856
Transfers, net	59,341	46,878
Total receipts and transfers	496,154	470,885
Disbursements and transfers:		
Public safety	28,100	26,124
Public works	175,627	167,720
Health and social services	-	-
Culture and recreation	52,494	44,969
Community and economic development	-	-
General government	52,900	51,759
Debt service	180,178	158,879
Capital projects	-	-
Transfers, net	-	-
Total disbursements and transfers	489,299	449,451
Increase in cash basis net assets	6,855	21,434
Cash basis net assets beginning of year	112,225	90,791
Cash basis net assets end of year	$ 119,080	$ 112,225


Receipts by Source
OTHER GENERAL RECEIPTS 1.7%
TRANSFERS 12.0%
CHARGES FOR SERVICES 14.5%
LOAN PROCEEDS 0.0%
UNRESTRICTED INVESTMENT EARNINGS 0.6%
OPERATING GRANTS,CONTRI-BUTIONS AND RESTRICTED INTEREST 18.3%
GRANTS AND CONTRIBUTIONS NOT RESTRICTED 0.0%
CAPITAL GRANTS,CONTRI-BUTIONS AND RESTRICTED INTEREST 0.0%
LOCAL OPTION SALES TAX 14.6%
PROPERTY TAX 38.3%


Disbursements by Function
CAPITAL PROJECTS 0.0%
PUBLIC SAFETY 5.7%
DEBT SERVICE 38.9%
PUBLIC WORKS 33.9%
HEALTH AND SOCIAL SERVICES 0.0%
GENERAL GOVERNMENT 10.8%
CULTURE & RECREATION 10.7%
COMMUNITY AND ECONOMIC DEVELOPMENT 0.0%

Receipts of the City's governmental activities increased by approximately 3.0% from fiscal year 2005 to 2006 from $424,007 to $436,813 respectively. Property tax, use of money & property and charges for services created the majority of the increase.

Disbursements of the City's governmental activities increased by approximately 8.87% from fiscal year 2005 to 2006 or from $449,451 to $489,299. The largest increase was in the function of debt service where the City spent $21,299 more than the prior year paying GO Bond principal and interest. The City also saw an increase of $7,525 in the Culture and Recreation Function where the money was spent in the city's parks and library.

Business-type Activities:

The City's business-type receipts and disbursements were as follows:

Changes in Cash Basis Net Assets of Business Type Activities

	Year ended June 30,	
	2006	2005
Receipts and transfers:		(Unaudited)
Program receipts:		
Charges for services	$ 224,402	$ 208,493
General receipts:		
Unrestricted investment earnings	540	161
Bond Proceeds	585,684	-
Transfers, net	-	-
Total receipts and transfers	810,626	208,654
Disbursements and transfers:		
Operations	689,352	184,013
Transfers, net	59,341	46,878
Total disbursements and transfers	748,693	230,891
Increase (decrease) in cash balance	61,933	(22,237)
Cash basis net assets beginning of year	25,216	47,453
Cash basis net assets end of year	$ 87,149	$ 25,216

Total business-type activities receipts for the fiscal year were $810,626 compared to $208,493 last year. This increase was due primarily to bond proceeds of $585,684 to finance improvements to the water system and the balance for an increase in water utility rates. Total disbursements and transfers for the fiscal year increased by $517,802, as a result of expenditures for improvements to the water system. The generated net increase of $61,933 to the cash balance was a result of the rate increase which will assist in making loan payments.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Ossian completed the year, its governmental funds reported a combined fund balance of $119,080; an increase of more than $6,800 above last year's total of $112,225. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance decreased $3,297 from the prior year to $45,027. Decrease was due to planned decrease in reserves as shown on the certified budget.
- The Road Use Tax Fund cash balance increased by $9,265 to $37,642 during the fiscal year. This increase was a result of holding back revenues for future street projects.

- The Local Option Tax Fund cash balance decrease $1,164 from the prior year to $17,264. Decrease was due to planned decrease in reserves as shown on the certified budget.
- The Debt Service Fund cash balance decreased $131 from the prior year to $3,711. Decrease was due to planned decrease in reserves as shown on the certified budget.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

The Water Fund cash balance increased by $59,751 to $62,101 due primarily to an increase in water rates and less routine maintenance and repair disbursements.

The Sewer Fund cash balance increased by $2,182 to $25,048 due primarily to decreased expenses in operation.

BUDGETARY HIGHLIGHTS

The City amended its budget once during the 2006 fiscal year. The amendment resulted in an increase in operating disbursements related to increases in utility costs, park and cemetery maintenance, library needs, and garbage fuel surcharge. Revenues used to offset the increased expenses were extra monies received by the library, water rate increase, and garbage fuel charges.

DEBT ADMINISTRATION

At June 30, 2006, the City had approximately $868,954 in bonds and other long-term debt, compared to approximately $430,701 last year, as shown below.

Outstanding Debt at Year-End

	Year ended June 30,	
	2006	2005
General obligation notes		(Unaudited)
1999 Utility Improvements	$ 265,000	$ 325,000
2001 Sewer Extension	21,237	42,621
2003 Water/Sewer Extension	4,717	23,080
2005 Water Improvements	548,000	-
Winn Co Shop-Loan Agreement	30,000	40,000
Total	$ 868,954	$ 430,701

The Constitution of the State of Iowa limits the amount of general obligation debt city's can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of $868,954 is significantly below its constitutional debt limit of $1,487,887.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's elected and appointed officials and citizens considered many factors when setting the 2007 fiscal year budget.

The receipts and disbursements are much less than the prior year as no major capital projects are planned. However, the sewer rates are being raised to fund future improvements to the system.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

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

BASIC FINANCIAL STATEMENTS

CITY OF OSSIAN

STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS

As of and for the year ended June 30, 2006

		Program Receipts			Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
Functions/Programs	Disbursements	Charges for Services	Operating Grants, Contributions, and Restricted Interest	Capital Grants, Contributions, and Restricted Interest	Governmental Activities	Business Type Activities	Total
Governmental activities							
Public safety	$ (28,100)	$ 10	$ -	$ -	$ (28,090)	$ -	$ (28,090)
Public works	(165,627)	59,924	71,418	-	(34,285)	-	(34,285)
Culture and recreation	(52,494)	5,419	16,947	-	(30,128)	-	(30,128)
General government	(52,900)	6,849	2,250	-	(43,801)	-	(43,801)
Debt service	(190,178)	-	-	-	(190,178)	-	(190,178)
Total governmental activities	(489,299)	72,202	90,615	-	(326,482)	-	(326,482)
Business type activities							
Water	(626,484)	139,352	-	-	-	(487,132)	(487,132)
Sewer	(62,868)	85,050	-	-	-	22,182	22,182
Total business type activities	(689,352)	224,402	-	-	-	(464,950)	(464,950)
Total	$ (1,178,651)	$ 296,604	$ 90,615	$ -	(326,482)	(464,950)	(791,432)
General Receipts							
Property and other City tax levied for							
General purposes					150,450	-	150,450
Debt service					39,869	-	39,869
Local option sales tax					72,341	-	72,341
Unrestricted interest on investments					2,982	540	3,522
Bond proceeds (net of $14,316 discount)					-	585,684	585,684
Miscellaneous					8,354	-	8,354
Transfers					59,341	(59,341)	-
Total general receipts and transfers					333,337	526,883	860,220
Change in cash basis net assets					6,855	61,933	68,788
Cash basis net assets beginning of year					112,225	25,216	137,441
Cash basis net assets end of year					$ 119,080	$ 87,149	$ 206,229
Cash Basis Net Assets							
Restricted							
Streets					$ 37,642	$ -	$ 37,642
Urban renewal purposes					17,264	-	17,264
Debt service					3,711	-	3,711
Other purposes					15,436	-	15,436
Unrestricted					45,027	87,149	132,176
Total cash basis net assets					$ 119,080	$ 87,149	$ 206,229

See notes to financial statements.

CITY OF OSSIAN

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
GOVERNMENT FUNDS

As of and for the year ended June 30, 2006

	General	Road Use Tax	Local Option Sales Tax	Debt Service	Other Nonmajor Governmental Funds	Total
Receipts						
Property tax	$ 144,015	$ -	$ -	$ 39,006	$ 7,298	$ 190,319
Other city tax	7,329	-	72,341	863	162	80,695
Licenses and permits	3,745	-	-	-	-	3,745
Use of money and property	6,037	-	-	-	-	6,037
Intergovernmental	16,680	71,418	-	-	-	88,098
Charges for service	59,516	-	-	-	-	59,516
Special assessments	130	1,818	-	-	-	1,948
Miscellaneous	4,147	-	-	-	2,308	6,455
Total receipts	241,599	73,236	72,341	39,869	9,768	436,813
Disbursements						
Operating						
Public safety	28,100	-	-	-	-	28,100
Public works	114,188	46,371	268	-	4,800	165,627
Health and social services	-	-	-	-	-	-
Culture and recreation	52,108	-	-	-	386	52,494
Community and economic development	-	-	-	-	-	-
General government	50,500	-	-	-	2,400	52,900
Debt service	-	-	-	190,178	-	190,178
Capital projects	-	-	-	-	-	-
Total disbursements	244,896	46,371	268	190,178	7,586	489,299
Excess of receipts over (under) disbursements	(3,297)	26,865	72,073	(150,309)	2,182	(52,486)
Other financing sources (uses)						
Operating transfers in	-	-	-	150,178	-	150,178
Operating transfers out	-	(17,600)	(73,237)	-	-	(90,837)
Total other financing sources (uses)	-	(17,600)	(73,237)	150,178	-	59,341
Net change in cash balances	(3,297)	9,265	(1,164)	(131)	2,182	6,855
Cash balances beginning of year	48,324	28,377	18,428	3,842	13,254	112,225
Cash balances end of year	$ 45,027	$ 37,642	$ 17,264	$ 3,711	$ 15,436	$ 119,080
Cash Basis Fund Balances						
Reserved						
Debt service	$ -	$ -	$ -	$ 3,711	$ -	$ 3,711
Unreserved						
General fund	45,027	-	-	-	-	45,027
Special revenue funds	-	37,642	17,264	-	4,519	59,425
Permanent fund	-	-	-	-	10,917	10,917
Total cash basis fund balances	$ 45,027	$ 37,642	$ 17,264	$ 3,711	$ 15,436	$ 119,080

See notes to financial statements.

CITY OF OSSIAN

RECONCILIATION OF THE STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES TO THE STATEMENT OF ACTIVITIES AND NET ASSETS - GOVERNMENTAL FUNDS

As of and for the year ended June 30, 2006

Total governmental funds cash balances (page 11)	$	119,080
None		
Amounts reported for governmental activities in the Statement of Activities and Net Assets are different because:		
Not applicable		-
Cash basis net assets of governmental activities (page 10)	$	119,080
Net change in cash balances (page 11)	$	6,855
Amounts reported for governmental activities in the Statement of Activities and Net Assets are different because:		
Not applicable		-
Change in cash balance of governmental activities (page 10)	$	6,855

See notes to financial statements.

Exhibit D

CITY OF OSSIAN

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

As of and for the year ended June 30, 2006

	Enterprise Funds		
	Water	Sewer	Total
Operating receipts:			
Charges for service	$ 132,931	$ 85,050	$ 217,981
Miscellaneous	6,421	-	6,421
Total operating receipts	139,352	85,050	224,402
Operating disbursements:			
Governmental activities:			
Business type activities - operating	61,402	62,868	124,270
Business type activities - capital project	565,082	-	565,082
Total operating disbursements	626,484	62,868	689,352
Excess of operating receipts over (under) operating disbursements	(487,132)	22,182	(464,950)
Non-operating receipts (disbursements):			
General obligation bond proceeds	585,684	-	585,684
Interest on investments	540	-	540
Total non-operating receipts (disbursements)	586,224	-	586,224
Excess receipts over disbursements	99,092	22,182	121,274
Operating transfers in	21,297	-	21,297
Operating transfers out	(60,638)	(20,000)	(80,638)
Net change in cash balances	59,751	2,182	61,933
Cash balances beginning of year	2,350	22,866	25,216
Cash balances end of year	$ 62,101	$ 25,048	$ 87,149
Cash Basis Fund Balance			
Reserved	$ -	$ -	$ -
Unreserved	62,101	25,048	87,149
Total cash basis fund balances	$ 62,101	$ 25,048	$ 87,149

See notes to financial statements.

CITY OF OSSIAN

RECONCILIATION OF THE STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES TO THE STATEMENT OF ACTIVITIES AND NET ASSETS - PROPRIETARY FUNDS

As of and for the year ended June 30, 2006

Total enterprise funds cash balances (page 13)	$ 87,149
Amounts reported for business type activities in the Statement of Activities and Net Assets are different because:	
Not applicable	-
Cash basis net assets of business type activities (page 10)	$ 87,149
Net change in cash balances (page 13)	$ 61,933
Amounts reported for business type activities in the Statement of Activities and Net Assets are different because:	
Not applicable	-
Change in cash balance of business type activities (page 10)	$ 61,933

See notes to financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Ossian is a political subdivision of the State of Iowa located in Winneshiek County. It was first incorporated in 1855 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, recreation, public improvements and general administrative services.

A. Reporting Entity

For financial reporting purposes, City of Ossian 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: Winneshiek County Emergency Management Commission, Winneshiek County Joint E911 Service Board, Winneshiek Economic Development Board, and Winneshiek County Assessors Conference Board.

B. Basis of Presentation

Government-wide Financial Statements – The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Government 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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Basis of Presentation (continued)

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 as are all remaining proprietary funds are aggregated and reported as nonmajor proprietary funds.

The City reports the following major governmental funds:

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

Special Revenue:

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

The Local Option Sales Tax is used to account for the additional sales tax assessed on taxable purchases voted in by local citizens.

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Basis of Presentation (continued)

The City reports the following major proprietary funds:
The Water Fund accounts for the operation and maintenance of the City's water system.

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

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

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 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 debt service function.

NOTE 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.

NOTE 2 - CASH AND POOLED INVESTMENTS (continued)

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.

Even though allowed by statute the City's investment policy only allows the following: Interest bearing savings, money market, and checking accounts at any bank, savings and loan association or credit union in the State of Iowa.

The City had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3, as amended by Statement No. 40.

NOTE 3 - BONDS AND NOTES PAYABLE

Annual debt service requirements to maturity for the City's debt are as follows:

Year Ending June 30,	General Obligation Bonds and Notes		Real Estate Contract		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2007	$ 139,954	$ 31,424	$ 10,000	$ -	$ 149,954	$ 31,424
2008	121,000	26,030	10,000	-	131,000	26,030
2009	127,000	20,840	10,000	-	137,000	20,840
2010	129,000	15,315	-	-	129,000	15,315
2011	61,000	9,660	-	-	61,000	9,660
2012 - 2016	261,000	19,830	-	-	261,000	19,830
	$ 838,954	$ 123,099	$ 30,000	$ -	$ 868,954	$ 123,099

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

The City entered into a contract on December 14, 2004 with Winneshiek County, Iowa to purchase several real estate lots. The contract payments are $10,000 annually with no interest. Final payment due July 1, 2008.

NOTE 4 - LEASES

The City leases antenna space on the water tower, a base station and transmission lines to several entities. The lease income is $300 per year per entity and can be terminated by either party with sixty day written notice.

The City leases approximately 2 acres of land to Union Produce Cooperative to store grain. The annual lease income is $150 per year but is negotiable every year. The leasee needs to notify the City 30 days prior to the end of the annual lease if it intends to rent the land for the upcoming year.

NOTE 4 - LEASES (continued)

The City leases a copier for library operations at $25 per month. The lease term is monthly.

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 plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of annual covered 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, 2005, and 2004 were $6,919, $6,709, and $6,538, respectively, equal to the required contributions for each year.

NOTE 6 - COMPENSATED ABSENCES

City employees' vacation accumulates for use in the year earned. Upon termination, retirement, or death, payment is made for the amount earned to that date in that year. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned sick leave termination payments payable to employees at June 30, 2006, primarily relating to the General Fund is $22,248.

NOTE 7 - INTERFUND TRANSFERS

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

Transfer to	Amount	Transfer from	Amount
		Special Revenue:	
		Road Use	$ 17,600
		Local Option Sales Tax	51,940
		Enterprise:	
		Water	60,638
		Sewer	20,000
Debt Service	$ 150,178		$ 150,178
Enterprise		Special Revenue:	
Water	$ 21,297	Local Option Sales Tax	$ 21,297

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

NOTE 8 - RELATED PARTY TRANSACTIONS

The City had business transactions between the City and City employees and officials totaling $114 during the year ended June 30, 2006.

NOTE 9 - HOSPICE FACILITY REVENUE BONDS

The City has issued a total of $200,000 of hospice facility revenue bonds under the provisions of Chapter 419 of the Code of Iowa, of which $44,408 is outstanding at June 30, 2006. The bonds and related interest are payable solely from operations of the hospice and the bond principal and interest do not constitute liabilities of the City.

NOTE 10 - RISK MANAGEMENT

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

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

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

The City's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The City's annual contributions to the Pool for the year ended June 30, 2006 were $10,431.

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

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

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

The City also carries commercial insurance purchased from other insurers for coverage associated with workers' compensation and employee blanket bond. The City assumes liability for any deductibles, and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE 11 - ACCOUNTING CHANGE

Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus; Statement No 38, Certain Financial Statement Note Disclosures and Statement No 41, Budgetary Comparison Schedule – Perspective Differences were implemented for the year ended June 30, 2006. The statements create new basic financial statements for reporting the City's financial activities. The financial statements now include a government-wide financial statement and fund financial statements which present information for individual major funds rather than by fund type.

Implementation of these standards had no effect on the beginning balances of the City.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF OSSIAN

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

REQUIRED SUPPLEMENTARY INFORMATION

As of and for the year ended June 30, 2006

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds Not Required to be Budgeted	Total	Budgeted Amounts Original	Budgeted Amounts Final	Final to Total Variance
Receipts							
Property tax	$ 190,319	$ -	$ -	$ 190,319	$ 190,480	$ 190,480	$ (161)
Other city tax	80,695	-	-	80,695	76,568	76,568	4,127
Licenses and permits	3,745	-	-	3,745	2,725	2,725	1,020
Use of money and property	6,037	-	-	6,037	2,810	2,810	3,227
Intergovernmental	88,098	-	-	88,098	83,952	84,597	3,501
Charges for service	59,516	217,981	-	277,497	245,918	267,818	9,679
Special assessments	1,948	-	-	1,948	175	175	1,773
Miscellaneous	6,455	6,421	-	12,876	6,350	7,750	5,126
Total receipts	436,813	224,402	-	661,215	608,978	632,923	28,292
Disbursements							
Public safety	28,100	-	-	28,100	28,100	28,100	-
Public works	165,627	-	-	165,627	181,697	188,697	(23,070)
Culture and recreation	52,494	-	-	52,494	47,005	56,205	(3,711)
General government	52,900	-	-	52,900	62,039	63,239	(10,339)
Debt service	190,178	-	-	190,178	100,303	100,303	89,875
Business type activities	-	689,352	-	689,352	833,851	837,851	(148,499)
Total disbursements	489,299	689,352	-	1,178,651	1,252,995	1,274,395	(95,744)
Excess of receipts over (under) disbursements	(52,486)	(464,950)	-	(517,436)	(644,017)	(641,472)	124,036
Other financing sources, net	59,341	526,883	-	586,224	600,000	600,000	(13,776)
Excess of receipts and other financing sources over (under) disbursements and other financing uses	6,855	61,933	-	68,788	(44,017)	(41,472)	110,260
Balances beginning of year	112,225	25,216	-	137,441	150,160	138,244	(803)
Balances end of year	$ 119,080	$ 87,149	$ -	$ 206,229	$ 106,143	$ 96,772	$ 109,457

See accompanying independent auditor's report.

CITY OF OSSIAN

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 City had no Internal Service or Fiduciary Funds for the year ended June 30, 2006. 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, Special Revenue Funds, Debt Service Fund, 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 budget was amended once to increase disbursements by $21,400. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2006, disbursements exceeded the amounts budgeted in the debt service, function.

OTHER SUPPLEMENTARY INFORMATION

CITY OF OSSIAN

SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
NONMAJOR GOVERNMENTAL FUNDS

As of and for the year ended June 30, 2006

	Special Revenue			Permanent	
	Employee Benefits	Emergency	Library Trust	Cemetery Perpetual Care	Total
Receipts					
Property tax	$ 7,268	$ 30	$ -	$ -	$ 7,298
Other city tax	162	-	-	-	162
Miscellaneous	-	-	2,158	150	2,308
Total receipts	7,430	30	2,158	150	9,768
Disbursements					
Operating					
Public works	4,800	-	-	-	4,800
Culture and recreation	-	-	386	-	386
General government	2,400	-	-	-	2,400
Total disbursements	7,200	-	386	-	7,586
Excess receipts over disbursements	230	30	1,772	150	2,182
Other financing sources (uses)					
Operating transfers in	-	-	-	-	-
Operating transfers out	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-
Net change in cash balances	230	30	1,772	150	2,182
Cash balances beginning of year	(75)	-	2,562	10,767	13,254
Cash balances end of year	$ 155	$ 30	$ 4,334	$ 10,917	$ 15,436
Cash Basis Fund Balances					
Unreserved					
Special revenue funds	$ 155	$ 30	$ 4,334	$ -	$ 4,519
Permanent fund	-	-	-	10,917	10,917
Total cash basis fund balances	$ 155	$ 30	$ 4,334	$ 10,917	$ 15,436

See accompanying independent auditor's report.

Schedule 2

CITY OF OSSIAN

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
General Obligation Bonds								
Utility Improvement	March 1, 2000	4.90-5.55%	$ 580,000	$ 325,000	$ -	$ 60,000	$ 265,000	$ 17,600
Water Improvement	July 22, 2005	3.00	600,000	-	600,000	52,000	548,000	7,348
Total				325,000	600,000	112,000	813,000	24,948
General Obligation Notes								
Sewer Extension	Nov 9, 2001	4.30	100,000	42,621	-	21,383	21,238	1,417
Water/Sewer Extension	May 7, 2003	5.25	53,000	23,080	-	18,364	4,716	776
Total				65,701	-	39,747	25,954	2,193
Real Estate Contract	Dec 14,2004	0	48,330	40,000	-	10,000	30,000	-
				$ 430,701	$ 600,000	$ 161,747	$ 868,954	$ 27,141

See accompanying independent auditor's report.

CITY OF OSSIAN

BOND AND NOTE MATURITIES

Year ended June 30, 2006

Year Ending June 30,	GENERAL OBLIGATION BONDS AND NOTES			
	Utility Improvement Issued March 2000		Water Improvement Issued July 2005	
	Interest Rates	Amount	Interest Rates	Amount
2007	5.35%	60,000	3.00%	$ 54,000
2008	5.40	65,000	3.00	56,000
2009	5.45	70,000	3.00	57,000
2010	5.55	70,000	3.00	59,000
2011		-	3.00	61,000
2012		-	3.00	63,000
2013		-	3.00	64,000
2014		-	3.00	66,000
2015		-	3.00	68,000
		$ 265,000		$ 548,000

Year Ending June 30,	Sewer Extension Issued Nov 2001		Water/Sewer Extension Issued May 2003		
	Interest Rates	Amount	Interest Rates	Amount	Total
2007	4.30%	$ 21,238	5.25%	$ 4,716	$ 139,954
2008		-		-	121,000
2009		-		-	127,000
2010		-		-	129,000
2011		-		-	61,000
2012		-		-	63,000
2013		-		-	64,000
2014		-		-	66,000
2015		-		-	68,000
		$ 21,238		$ 4,716	$ 838,954

Year Ending June 30,	Real Estate Contract Issued Dec 14, 2004	
	Interest Rates	Amount
2007	0.00%	$ 10,000
2008	0.00	10,000
2009	0.00	10,000
		$ 30,000

See accompanying independent auditor's report.

CITY OF OSSIAN

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

For the Last Two Years

	Years ended June 30,	
	2006	2005
		(Unaudited)
Receipts		
Property tax	$ 190,319	$ 183,036
Other city tax	80,695	84,839
Licenses and permits	3,745	2,690
Use of money and property	6,037	3,651
Intergovernmental	88,098	89,296
Charges for service	59,516	54,639
Special assessments	1,948	1,063
Miscellaneous	6,455	4,793
Total	436,813	424,007
Disbursements		
Operating		
Public safety	28,100	26,124
Public works	165,627	167,720
Health and social services	-	-
Culture and recreation	52,494	44,969
Community and economic development	-	-
General government	52,900	51,759
Debt service	190,178	158,879
Capital projects	-	-
Total	$ 489,299	$ 449,451

See accompanying independent auditor's report.

Hagen & Kallevang PC
CERTIFIED PUBLIC ACCOUNTANTS

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 Ossian, 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 October 26, 2006. Our report on the financial statements, which were prepared in conformity with an other comprehensive basis of accounting, expressed a qualified opinion since we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2005. Except as noted in the Independent Auditor's Report, 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 Ossian'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 Ossian's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part II of the accompanying Schedule of Findings.

A material weakness is a 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 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 item II-A-06 is a material weakness.

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Compliance

As part of obtaining reasonable assurance about whether the City of Ossian'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 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 III of the accompanying Schedule of Findings.

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

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

Hagen + Kallevang, P.C.

October 26, 2006

CITY OF OSSIAN

SCHEDULE OF FINDINGS

Year ended June 30, 2006

Part I: Summary of the Independent Auditor's Results

a. A qualified opinion was issued on the financial statements since we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2005. The 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.

b. A reportable condition in internal control over financial reporting was disclosed by the audit of the financial statements, including a material weakness.

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

d. The City received and expended less than $500,000 in Federal Awards, therefore a Single Audit was not required.

Part II: Findings Related to the Financial Statements

Reportable conditions

II-A-06

Segregation of Duties - The City is not large enough to permit an adequate segregation of duties for an effective system of internal control. The concentration of closely related duties and responsibilities such as the handling of cash receipts and disbursements, recording of the cash transactions and preparing various reports by a small staff makes it impossible to establish an adequate system of automatic checks for good internal control.

Recommendation - We realize this condition will be difficult to improve on. However, we do believe it is important that Council be aware this condition does exist and make changes when appropriate and cost effective.

Response - Numerous reports are done to check and balance the financial activity. Approximately ¼ of the utility bills collected are debited directly from their checking account which limits the amount of cash handled by the City Clerk.

Conclusion - Response accepted.

Instances of Non-Compliance

No matters were reported

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 debt service function. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

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

Part III: Other Findings Related to Statutory Reporting (continued)

III-A-06 (continued)

Response - The Budget prepared by the City Clerk pays debt from the fund where the debt was created. When the auditor prepared the financial report, transfers were made from various funds to the Debt Service Fund. These transfers caused the Debt Service Fund to go over budget. The City Clerk will take the Auditor's recommendation in preparing future budgets to make transfers from the various funds to the Debt Service Fund to pay all General Obligation Debt.

Conclusion - Response accepted.

III-B-06

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

IIII-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 or employees are detailed as follows:

Name, Title, and Business Connection	Transaction Description	Amount
Thomas Bushman, Council Member Owner of Bushman Insurance & Real Estate Inc.	Insurance Premium	$ 114

In accordance with Chapter 362.5(10) of the Code of Iowa, the transactions with the City official does not appear to represent a conflict of interest since total transaction was less than $1,500 during the fiscal year.

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 we believe should have been approved in the Council minutes but were not.

III-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.

III-H-06

Revenue Bonds and Notes - At this time the City has no Revenue bonds or notes.