



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

David A. Vaudt, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

NEWS RELEASE

FOR RELEASE

February 16, 2007

Contact: Andy Nielsen
515/281-5834

Auditor of State David A. Vaudt today released an audit report on the City of Atlantic, Iowa.

The City's receipts totaled \$10,017,374 for the year ended June 30, 2006, a 16 percent increase over 2005. The receipts included \$2,487,545 in property tax, \$158,355 from tax increment financing, \$959,784 from charges for service, \$1,811,736 from operating grants, contributions and restricted interest, \$2,269,474 from capital grants, contributions and restricted interest, \$582,645 from local option sales tax, \$67,878 from unrestricted interest on investments, \$1,445,000 from bond, note and loan proceeds and \$234,957 from other general receipts.

Disbursements for the year totaled \$10,363,423, an 18 percent increase over the prior year, and included \$3,213,291 for capital projects, \$2,039,616 for public safety and \$1,228,839 for public works. Also, disbursements for business type activities totaled \$584,253.

The increases in receipts and disbursements over the prior year are due to increases in federal grants and note proceeds received and the use of the proceeds to pay for capital projects and grant programs.

A copy of the report is available for review in the City Clerk's office, in the Office of Auditor of State and on the Auditor of State's web site at <http://auditor.iowa.gov/reports/reports.htm>.

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CITY OF ATLANTIC

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

JUNE 30, 2006

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City of Atlantic

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January 2006)		
John Krogman	Mayor	Jan 2006
John Rueb	Council Member	Jan 2006
Mike Waters	Council Member	Jan 2006
Dave Wheatley	Council Member	Jan 2006
Dave Dunfee	Council Member	Jan 2008
David Jones	Council Member	Jan 2008
Kern Miller	Council Member	Jan 2008
Pat Simmons	Council Member	Jan 2008
(After January 2006)		
John Krogman	Mayor	Jan 2010
Dave Dunfee	Council Member	Jan 2008
David Jones	Council Member	Jan 2008
Kern Miller	Council Member	Jan 2008
Pat Simmons	Council Member	Jan 2008
John Rueb	Council Member	Jan 2010
Dave Wheatley	Council Member	Jan 2010
Steve Livengood	Council Member	Jan 2010
Ron Crisp	Administrator	Indefinite
Debbie L. Wheatley Field	Clerk	Jan 2008
Sue Muri	Treasurer	Jan 2008
James C. VanGinkel	Attorney	Jan 2006
Brian Daiker	Attorney	Jan 2008

City of Atlantic



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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 Atlantic, 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 Atlantic's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the discretely presented component unit. Those financial statements were audited by another auditor whose report has been furnished to us. Our opinion, insofar as it relates to the condensed financial information included in Note 13 for the discretely presented component unit, is based on the report of the other auditor.

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 and the report of the other auditor provide 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.

As described in Note 13, the City has chosen to present condensed financial information for its discretely presented component unit since complete financial statements of the component unit for the year ended December 31, 2005 have been audited by another auditor and are available from the component unit. The report of the other auditor, dated February 10, 2006, expressed an unqualified opinion on the financial statements.

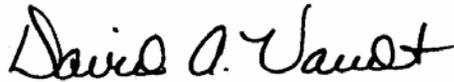
In our opinion, based on our audit and the report of the other auditor, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Atlantic 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 November 16, 2006 on our consideration of the City of Atlantic'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.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 12 and 34 through 36 are not required parts of the basic financial statements, but are 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements of the City of Atlantic. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the five years 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 6, 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.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

November 16, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Atlantic 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 and transfers of the City's governmental activities increased 17%, or approximately \$1,378,000, from fiscal 2005 to fiscal 2006. Property tax increased approximately \$54,000 and operating and capital grants and contributions increased approximately \$1,018,000.
- Disbursements of the City's governmental activities increased 17.6%, or approximately \$1,462,000, in fiscal 2006 from fiscal 2005. Public safety, community and economic development, debt service and capital projects disbursements increased (decreased) approximately \$590,000, \$372,000, \$(159,000) and \$328,000, respectively.
- The City's total cash basis net assets decreased 9.5%, or \$346,000, from June 30, 2005 to June 30, 2006. Of this amount, the assets of the governmental activities decreased approximately \$340,000 and the assets of the business type activities decreased by approximately \$6,000.

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. In addition, the Schedule of Expenditures of Federal Awards provides details of various federal programs benefiting the City.

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, readers 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, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the storm water 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 Sales Tax, 3) the Debt Service Fund and 4) the Capital Projects 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 statement for governmental funds is a statement of cash receipts, disbursements and changes in cash balances.

2) Proprietary funds account for the City's Enterprise Funds and its Internal Service Funds. Enterprise Funds are used to report business type activities. The City maintains two Enterprise Funds to provide separate information for the storm water and sewer funds, considered to be major funds of the City. Internal Service Funds are an accounting device used to accumulate and allocate costs internally among the City's various functions.

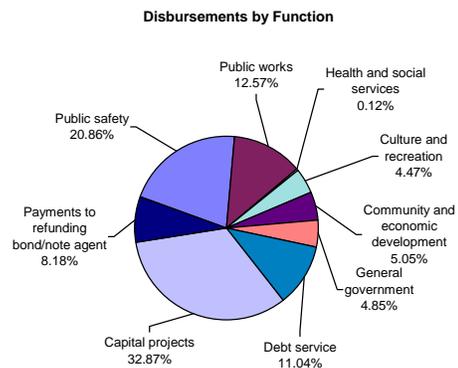
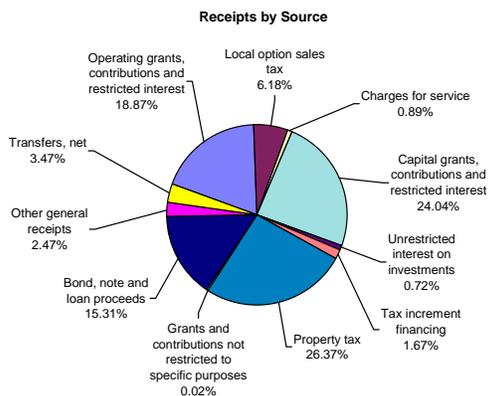
The required financial statement for proprietary funds is a statement of cash receipts, disbursements and changes in cash balances.

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased from a year ago, decreasing from \$3 million to \$2.65 million. The analysis that follows focuses on the changes in cash basis net assets of governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities (Expressed in Thousands)		
	Year ended June 30,	
	2006	2005
Receipts and transfers:		
Program receipts:		
Charges for service	\$ 84	72
Operating grants, contributions and restricted interest	1,781	1,272
Capital grants, contributions and restricted interest	2,269	1,760
General receipts:		
Property tax	2,488	2,434
Tax increment financing	158	212
Local option sales tax	583	534
Grants and contributions not restricted to specific purposes	2	5
Unrestricted interest on investments	68	24
Bond, note and loan proceeds	1,445	1,332
Other general receipts	233	133
Transfers, net	328	283
Total receipts and transfers	<u>9,439</u>	<u>8,061</u>
Disbursements:		
Public safety	2,040	1,450
Public works	1,229	970
Health and social services	12	22
Culture and recreation	437	403
Community and economic development	494	122
General government	474	426
Debt service	1,080	1,239
Capital projects	3,213	2,885
Payments to refunding bond/note agent	800	800
Total disbursements	<u>9,779</u>	<u>8,317</u>
Decrease in cash basis net assets	(340)	(256)
Cash basis net assets beginning of year	2,990	3,246
Cash basis net assets end of year	<u>\$ 2,650</u>	<u>2,990</u>



The City's total receipts and transfers for governmental activities increased by 17%, or approximately \$1,378,000. The total cost of all programs and services increased by approximately \$1,462,000, or 17.6%, with no new programs added this year. The significant increase in receipts was primarily the result of operating and capital grants received in the current year.

The City decreased property tax rates for 2006 by an average of 2.8 percent. This decrease, in conjunction with an increase in taxable valuation, raised the City's property tax receipts by approximately \$28,000 in 2006. Based on increases in the total taxable valuation for 2007, property tax receipts are budgeted to increase by an additional \$134,000 next year.

The cost of all governmental activities this year was \$9.8 million compared to \$8.3 million last year. However, as shown in the Statement of Activities and Net Assets on pages 14-15, the amount taxpayers ultimately financed for these activities was only \$4.8 million because some of the cost was paid by those directly benefited from the programs (\$84,000) or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest (\$4,050,000). The City paid for the remaining "public benefit" portion of governmental activities with approximately \$5,300,000 in tax (some of which could only be used for certain programs) and with other receipts, such as interest, general entitlements and note proceeds.

Changes in Cash Basis Net Assets of Business Type Activities		
(Expressed in Thousands)		
	Year ended June 30,	
	2006	2005
Receipts:		
Program receipts:		
Charges for service:		
Storm water	\$ 189	173
Sewer	687	646
Operating grants, contributions and restricted interest	31	12
Total receipts	<u>907</u>	<u>831</u>
Disbursements and transfers:		
Storm water	22	30
Sewer	563	425
Transfers	328	283
Total disbursements and transfers	<u>913</u>	<u>738</u>
Change in cash basis net assets	(6)	93
Cash basis net assets beginning of year	646	553
Cash basis net assets end of year	<u>\$ 640</u>	<u>646</u>

Total business type activities receipts for the fiscal year were \$907,000 compared to \$831,000 last year. This significant increase was due primarily to the sewer rental rate increase in 2005. The cash balance decreased by approximately \$6,000 from the prior year because the sewer revenue notes due in fiscal year 2006 were \$125,000 more than those due in fiscal year 2005. Total disbursements and transfers for the fiscal year increased by 23.7% to a total of \$913,000.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Atlantic completed the year, its governmental funds reported a combined fund balance of \$2,619,466, a decrease of approximately \$290,000 below last year's total of \$2,909,322. 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 increased \$247,299 over the prior year to \$1,208,044. Total receipts increased 30.7% and total disbursements increased 24.4%. Transfers

from other funds increased approximately \$192,000, resulting in a significant increase in the year end fund balance. Other factors include an increase in federal grants for the Fusion Center of \$326,000 and donations to the Fire Department increasing \$110,000 due to the State Convention receipts. Disbursements increased for the Fusion Center by \$217,000 and for fire equipment purchases of \$124,422.

- The Road Use Tax Fund cash balance decreased by \$28,941 to \$422,258 during the fiscal year. This decrease was attributable to an increase in disbursements, primarily due to major improvements to the street maintenance building totaling \$55,768, the purchase of a boom truck for \$36,000 and the price of gasoline and asphalt increased substantially in this fiscal year. The City intends to use this money to continue funding the street department operations, street maintenance programs and replacement of equipment.
- The Local Option Sales Tax Fund was established to account for special sales taxes collected. At the end of the fiscal year, the cash balance was \$242,180, a decrease of \$142,856 from the previous year. An increase in disbursements was due primarily to the first year of principal and interest payments associated with the new Recreation Center and disbursement of \$35,592 for a yard waste site. Local option sales tax collections increased during the year by \$38,545.
- The Debt Service Fund cash balance increased by \$112,125 to \$133,967 during the fiscal year. This increase was due to an increase in property tax collections of \$72,213 and a reimbursement of \$22,000 received from the County for radios and pagers.
- The Capital Projects Fund cash balance decreased by \$323,407 to \$244,495 during the fiscal year. The decrease was due to the funding of the Airport Improvement projects and some of the grant funds not being received until the end of the fiscal year.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Storm Water Fund was established to accumulate funds to be used for storm water management and flood protection capital projects. At the end of the fiscal year, the cash balance decreased by \$67,389 to \$241,128. Transfers to other funds increased by \$191,197, due primarily to the funding of various storm water projects.
- The Sewer Fund cash balance increased by \$66,810 to \$396,973. An increase in sewer rental rates during the prior year resulted in a full year's collection at the new rate, amounting to \$41,195. Debt service payments increased \$121,738 to \$227,820.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget once. The amendment was approved on May 17, 2006 and resulted in an increase of \$1,294,618 in operating disbursements related to the purchase of additional equipment, an increase in worker's compensation and health insurance premiums and a tax increment financing project. The City received federal grants, sold bonds and notes and had sufficient cash balances to absorb these additional costs.

The City's receipts were \$1,642,553 more than budgeted. This was primarily due to the City receiving more in intergovernmental receipts than anticipated due to Fusion Center and airport grants and in miscellaneous receipts due to collections by the fire department for a State Convention, even after the amendments.

With the amendment, total disbursements were \$685,561 less than the amended budget. However, the actual disbursements for the health and social services, community and economic development and capital projects functions were \$385, \$4,793 and \$261,960, respectively, more than the amended budget. The budget overage in the capital projects function was primarily due to airport project activity. The budget overages in the other functions were not significant.

DEBT ADMINISTRATION

At June 30, 2006, the City had \$6,310,000 in bonds and notes and other long-term debt outstanding, compared to \$6,670,000 last year, as shown below.

	Outstanding Debt at Year-End	
	June 30,	
	2006	2005
General obligation notes	\$ 3,315,000	3,610,000
Tax increment financing (TIF) revenue bonds	620,000	445,000
Local option sales and services tax revenue bonds	1,150,000	1,190,000
Sewer revenue notes	425,000	625,000
General obligation project anticipation notes	800,000	800,000
Total	<u>\$ 6,310,000</u>	<u>6,670,000</u>

Debt decreased as a result of issuing less than was redeemed during the year.

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all property within the City's corporate limits. The City's outstanding general obligation, TIF, LOST revenue and general obligation project anticipation debt of \$5,885,000 is below its constitutional debt limit of \$12,134,000.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City of Atlantic's elected and appointed officials and citizens considered many factors when setting the fiscal year 2007 budget, tax rates and fees charged for various City activities.

These factors were taken into account when adopting the budget for fiscal year 2007. Amounts available for appropriation in the operating budget are \$2.6 million, an increase of 5% over the final 2006 budget. Property tax (benefiting from the 2006 rate decreases and increases in taxable valuations) are expected to lead this increase. The City will use these increases in receipts to finance programs we currently offer. Budgeted disbursements are expected to increase by approximately \$3,120,000. The increase is due to capital project payments. No debt issues will be refunded and the City has added no major new programs or initiatives to the 2007 budget.

If these estimates are realized, the City's budgeted cash balance is expected to increase by approximately \$916,000 by the close of 2007. The City will be using accumulated cash for projects rather than issuing additional debt.

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 Deb Wheatley Field, City Clerk, 23 East 4th Street, City of Atlantic, Iowa.

Basic Financial Statements

City of Atlantic

Statement of Activities and Net Assets – Cash Basis

As of and for the year ended June 30, 2006

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions/Programs:				
Governmental activities:				
Public safety	\$ 2,039,616	15,199	688,212	50,281
Public works	1,228,839	-	1,011,078	-
Health and social services	12,385	-	-	-
Culture and recreation	437,131	38,074	37,619	-
Community and economic development	494,547	2,310	8,238	-
General government	473,719	28,432	-	-
Debt service	1,079,642	-	35,703	-
Capital projects	3,213,291	-	-	2,219,193
Total governmental activities	8,979,170	84,015	1,780,850	2,269,474
Business type activities:				
Storm water	21,222	188,657	9,413	-
Sewer	563,031	687,112	21,473	-
Total business type activities	584,253	875,769	30,886	-
Total	\$ 9,563,423	959,784	1,811,736	2,269,474

General Receipts:

Property and other city tax levied for:
 General purposes
 Tax increment financing
 Debt service
 Local option sales tax
 Grants and contributions not restricted to specific purpose
 Unrestricted interest on investments
 Bond, note and loan proceeds, net of \$10,000 discount
 Payments to refunding note agent
 Miscellaneous

Transfers

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
 Local option sales tax
 Debt service
 Capital projects
 Other purposes

Unrestricted

Total cash basis net assets

See notes to financial statements.

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
Governmental Activities	Business Type Activities	Total
(1,285,924)	-	(1,285,924)
(217,761)	-	(217,761)
(12,385)	-	(12,385)
(361,438)	-	(361,438)
(483,999)	-	(483,999)
(445,287)	-	(445,287)
(1,043,939)	-	(1,043,939)
(994,098)	-	(994,098)
(4,844,831)	-	(4,844,831)
-	176,848	176,848
-	145,554	145,554
-	322,402	322,402
(4,844,831)	322,402	(4,522,429)
1,734,429	-	1,734,429
158,355	-	158,355
753,116	-	753,116
582,645	-	582,645
2,054	-	2,054
67,878	-	67,878
1,445,000	-	1,445,000
(800,000)	-	(800,000)
232,903	-	232,903
327,987	(327,987)	-
4,504,367	(327,987)	4,176,380
(340,464)	(5,585)	(346,049)
2,990,027	645,698	3,635,725
\$ 2,649,563	640,113	3,289,676
\$ 422,258	-	422,258
177,775	-	177,775
214,372	95,035	309,407
244,495	-	244,495
378,295	-	378,295
1,212,368	545,078	1,757,446
\$ 2,649,563	640,113	3,289,676

City of Atlantic

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

As of and for the year ended June 30, 2006

	Special Revenue		
	General	Road Use Tax	Local Option Sales Tax
Receipts:			
Property tax	\$ 1,200,249	-	-
Tax increment financing	-	-	-
Other city tax	175,350	-	188,001
Licenses and permits	28,382	-	1,500
Use of money and property	88,716	-	5,248
Intergovernmental	894,351	612,691	-
Charges for service	41,544	-	-
Special assessments	-	-	-
Miscellaneous	294,167	4,172	3,181
Total receipts	2,722,759	616,863	197,930
Disbursements:			
Operating:			
Public safety	1,619,943	-	-
Public works	396,992	603,419	52,062
Health and social services	-	12,385	-
Culture and recreation	353,126	-	4,588
Community and economic development	76,696	-	61,459
General government	349,774	-	23,354
Debt service	-	-	99,323
Capital projects	-	-	-
Total disbursements	2,796,531	615,804	240,786
Excess (deficiency) of receipts over (under) disbursements	(73,772)	1,059	(42,856)
Other financing sources (uses):			
Bond and note proceeds, net of \$10,000 discount	-	-	-
Loan proceeds	25,000	-	-
Payments to refunding note agent	-	-	-
Operating transfers in	303,440	-	-
Operating transfers out	(7,369)	(30,000)	(100,000)
Total other financing sources (uses)	321,071	(30,000)	(100,000)
Net change in cash balances	247,299	(28,941)	(142,856)
Cash balances beginning of year	960,745	451,199	385,036
Cash balances end of year	\$ 1,208,044	422,258	242,180
Cash Basis Fund Balances			
Reserved for debt service	\$ -	-	64,405
Unreserved:			
General fund	1,208,044	-	-
Special revenue funds	-	422,258	177,775
Capital projects fund	-	-	-
Total cash basis fund balances	\$ 1,208,044	422,258	242,180

See notes to financial statements.

Debt Service	Capital Projects	Nonmajor	Total
738,534	-	500,525	2,439,308
-	-	158,355	158,355
14,582	307,608	10,142	695,683
-	-	-	29,882
13,192	17,696	10,482	135,334
-	2,115,050	-	3,622,092
-	-	-	41,544
-	729	-	729
22,510	85,718	44,756	454,504
788,818	2,526,801	724,260	7,577,431
-	-	345,151	1,965,094
-	-	142,393	1,194,866
-	-	-	12,385
-	-	66,282	423,996
-	-	356,392	494,547
-	-	83,325	456,453
868,660	-	111,659	1,079,642
-	3,213,291	-	3,213,291
868,660	3,213,291	1,105,202	8,840,274
(79,842)	(686,490)	(380,942)	(1,262,843)
796,000	369,000	255,000	1,420,000
-	-	-	25,000
(800,000)	-	-	(800,000)
195,967	159,757	90,177	749,341
-	(165,674)	(118,311)	(421,354)
191,967	363,083	226,866	972,987
112,125	(323,407)	(154,076)	(289,856)
21,842	567,902	522,598	2,909,322
133,967	244,495	368,522	2,619,466
133,967	-	16,000	214,372
-	-	-	1,208,044
-	-	352,522	952,555
-	244,495	-	244,495
133,967	244,495	368,522	2,619,466

City of Atlantic

City of Atlantic

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 17) \$ 2,619,466

***Amounts reported for governmental activities in the Statement of
Activities and Net Assets are different because:***

The Internal Service Funds are used by management to charge the costs of payroll and partial self funding of the City's health insurance benefit plan to individual funds. A portion of the assets of the Internal Service Funds are included in governmental activities in the Statement of Net Assets.

30,097

Cash basis net assets of governmental activities (page 15) \$ 2,649,563

Net change in cash balances (page 17) \$ (289,856)

***Amounts reported for governmental activities in the Statement of
Activities and Net Assets are different because:***

The Internal Service Funds are used by management to charge the costs of payroll and partial self funding of the City's health insurance benefit plan to individual funds. A portion of the change in net assets of the Internal Service Funds is reported with governmental activities.

(50,608)

Change in cash basis net assets of governmental activities (page 15) \$ (340,464)

See notes to financial statements.

Exhibit D

City of Atlantic

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

As of and for the year ended June 30, 2006

	Enterprise			Internal Service
	Storm Water	Sewer	Total	
Operating receipts:				
Charges for service	\$ 188,657	687,113	875,770	2,000,758
Miscellaneous	-	5,585	5,585	96,310
Total operating receipts	<u>188,657</u>	<u>692,698</u>	<u>881,355</u>	<u>2,097,068</u>
Operating disbursements:				
Governmental activities:				
Public safety	-	-	-	1,030,241
Public works	-	-	-	367,572
Culture and recreation	-	-	-	269,789
General government	-	-	-	288,555
Business type activities	21,222	321,594	342,816	197,113
Total operating disbursements	<u>21,222</u>	<u>321,594</u>	<u>342,816</u>	<u>2,153,270</u>
Excess (deficiency) of operating receipts over (under) operating disbursements	<u>167,435</u>	<u>371,104</u>	<u>538,539</u>	<u>(56,202)</u>
Non-operating receipts (disbursements):				
Interest on investments	9,413	7,276	16,689	588
Debt service	-	(227,820)	(227,820)	-
Total non-operating receipts (disbursements)	<u>9,413</u>	<u>(220,544)</u>	<u>(211,131)</u>	<u>588</u>
Excess (deficiency) of receipts over (under) disbursements	176,848	150,560	327,408	(55,614)
Other financing uses:				
Operating transfers out	(244,237)	(83,750)	(327,987)	-
Net change in cash balances	(67,389)	66,810	(579)	(55,614)
Cash balances beginning of year	308,517	330,163	638,680	87,723
Cash balances end of year	<u>\$ 241,128</u>	<u>396,973</u>	<u>638,101</u>	<u>32,109</u>
Cash Basis Fund Balances				
Reserved for debt service	\$ -	95,035	95,035	-
Unreserved	241,127	301,939	543,066	32,109
Total cash basis fund balances	<u>\$ 241,127</u>	<u>396,974</u>	<u>638,101</u>	<u>32,109</u>

See notes to financial statements.

City of Atlantic

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 20) \$ 638,101

Amounts reported for business type activities in the Statement of Activities and Net Assets are different because:

The Internal Service Funds are used by management to charge the costs of payroll and partial self funding of the City's health insurance benefit plan to individual funds. A portion of the assets of the Internal Service Funds are included in business type activities in the Statement of Net Assets.

2,012

Cash basis net assets of business type activities (page 15) \$ 640,113

Net change in cash balances (page 20) \$ (579)

Amounts reported for business type activities in the Statement of Activities and Net Assets are different because:

The Internal Service Funds are used by management to charge the costs of payroll and partial self funding of the City's health insurance benefit plan to individual funds. A portion of the change in net assets of the Internal Service Funds is reported with business type activities.

(5,006)

Change in cash basis net assets of business type activities (page 15) \$ (5,585)

See notes to financial statements.

City of Atlantic

Notes to Financial Statements

June 30, 2006

(1) Summary of Significant Accounting Policies

The City of Atlantic is a political subdivision of the State of Iowa located in Cass County. It was first incorporated in 1868 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, health and social services, culture and recreation, community and economic development and general government services. The City also provides storm water and sewer utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Atlantic 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.

Discretely Presented Component Unit

The Atlantic Municipal Utilities Board, established under Chapter 388 of the Code of Iowa, is legally separate from the City, but has the potential to provide specific benefits to or impose specific burdens on the City. The Municipal Utilities is governed by a five-member board appointed by the Mayor and approved by the City Council. In accordance with criteria set by the Governmental Accounting Standards Board, the Utility meets the definition of a component unit which should be discretely presented. Condensed financial statements presented in Note 13 were prepared on the accrual basis of accounting in conformity with U.S. generally accepted accounting principles. Complete financial statements, for the year ended December 31, 2005 can be obtained from the Municipal Utilities administrative office, P.O. Box 517, 15 West Third Street, Atlantic, Iowa 50022.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of or appoint representatives to the following boards and commissions: Cass County Assessor's Conference Board, Cass County Environmental Control Agency, Cass County Emergency Management Commission, Cass County E911 Joint Service Board, SWIPCO – Regional Planning Commission and Cass County Public Safety Commission.

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 service.

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 not meeting 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 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 Fund is used to account for projects financed by local option sales tax.

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

The Capital Projects Fund is utilized to account for all resources used in the acquisition and construction of capital facilities, with the exception of those financed through Enterprise Funds.

The City reports the following major proprietary funds:

The Storm Water Fund accumulates funds to be used for storm water management and flood protection.

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

The City reports the following additional proprietary funds:

Internal Service Funds are utilized to account for the financing of goods or services purchased by one department of the City and provided to other departments or agencies on a cost reimbursement basis.

C. Measurement Focus and Basis of Accounting

The City of Atlantic 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 incurred, 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 health and social services, community and economic development and capital projects 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.

At June 30, 2006, the City had the following investments:

Type	Carrying Amount	Fair Value	Maturity
U.S. Treasury Notes	\$ 5,000	5,027	February 2007

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) to 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.

(3) Bonds and Notes Payable

Annual debt service requirements to maturity for general obligation notes, tax increment financing (TIF) revenue bonds, local option sales and services tax revenue bonds and sewer revenue notes are as follows:

Year Ending June 30,	General Obligation Notes		Tax Increment Financing (TIF) Revenue Bonds		Local Option Sales and Services Tax Revenue Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest
2007	\$ 705,000	141,556	109,500	38,092	50,000	32,890
2008	395,000	118,932	95,500	30,799	54,404	53,900
2009	390,000	101,355	97,000	24,748	61,056	51,169
2010	400,000	84,157	83,000	18,562	62,786	48,075
2011	335,000	66,018	64,500	12,897	64,600	44,887
2012-2016	1,090,000	120,975	170,500	27,319	283,403	176,407
2017-2021	-	-	-	-	288,740	111,280
2022-2025	-	-	-	-	285,011	35,003
Total	\$ 3,315,000	632,993	620,000	152,417	1,150,000	553,611

Year Ending June 30,	Sewer Revenue Notes		Total	
	Principal	Interest	Principal	Interest
2007	\$ 210,000	19,020	1,074,500	231,558
2008	215,000	9,675	759,904	213,306
2009	-	-	548,056	177,272
2010	-	-	545,786	150,794
2011	-	-	464,100	123,802
2012-2016	-	-	1,543,903	324,701
2017-2021	-	-	288,740	111,280
2022-2025	-	-	285,011	35,003
Total	\$ 425,000	28,695	5,510,000	1,367,716

Tax Increment Financing (TIF) Revenue Bonds – These were issued for the purpose of defraying a portion of the cost of carrying out urban renewal projects of the City. The bonds are payable solely from the income and proceeds of the individual urban renewal tax increment financing funds and the taxes to be paid into the funds in accordance with Chapter 403.19 of the Code of Iowa. The proceeds of the tax increment financing revenue bonds are to be expended only for purposes 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 the constitutional debt limitation of the City.

Local Option Sales and Services Tax Revenue Bonds – These were issued for the purpose of defraying a portion of the cost of constructing street improvements and repaying the local option sales and services tax bond anticipation notes used for the recreation and wellness center. The bonds are payable solely from the proceeds of the local option sales and services tax received by the City in accordance with Chapter 422B.12(3) of the Code of Iowa. The bonds are not a general obligation of the City. However, the debt is subject to the constitutional debt limitation of the City.

The resolution providing for the issuance of the local option sales and services tax revenue bonds includes the following provisions:

- (a) The bonds will only be redeemed from the future local option sales tax revenue received by the City and the bond holders hold a lien on the future revenues received.
- (b) A local option sales tax revenue bond sinking account shall be established to account for 15% of the local option sales tax revenue collected.
- (c) Sufficient quarterly deposits shall be made to the sinking account for the purpose of making the bond principal and interest payments when due.
- (d) Additional quarterly deposits of \$2,500 shall be made to a reserve account until \$30,000 has been accumulated. This account is restricted for the purpose of correcting any deficiencies in the sinking account.

Sewer Revenue Notes – The resolution providing for the issuance of the sewer revenue 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 funds.
- (b) Sufficient monthly transfers shall be made to a sewer revenue note sinking account for the purpose of making the note principal and interest payments when due.
- (c) A sewer reserve account shall be established with \$85,000 in note proceeds. This account is restricted for the purpose of paying for principal and interest when funds in the sinking account are inadequate.
- (d) A sewer surplus account is required, into which all of the net revenues remaining after first making the required payments into the sinking and reserve accounts shall be deposited.

(4) Anticipation Notes

On March 1, 2005, the City issued an \$800,000 general obligation airport improvement project anticipation note to pay the costs of an airport runway expansion project. The note bears interest at 2.50% per annum and matures on March 1, 2006. The note was refunded by issuance of a note dated February 28, 2006 which bears interest at 3.50% per annum and matures on March 1, 2007. The note will be repaid through issuance of long term general obligation debt. Interest of \$20,000 was paid during the year ended June 30, 2006.

(5) Pension and Retirement Benefits

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

Most regular plan members are required to contribute 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, 2005 and 2004 were \$113,231, \$103,404 and \$89,332, respectively, equal to the required contributions for each year.

Chapter 410 Police and Fire Pension – Chapter 410 of the Code of Iowa creates a retirement system for police officers and fire fighters of any City qualified to participate under this Chapter. Any duly appointed member of the police and fire departments whose appointment occurred before March 2, 1934 or police and fire fighters who had been making payments of membership fees and assessments prior to July 1, 1971 may be a member of the system. The pension plan is accounted for by the City in the Special Revenue, Police and Fire Pension Funds.

The plan is administered by the Police Pension Board of Trustees and the Fire Pension Board of Trustees and provides retirement, disability and death benefits. The benefits are established under state statute and provide for full retirement benefits at age 50 with 22 years or more of service. Full benefits are equal to fifty percent of the monthly salary at retirement or disability and twenty-five percent of the monthly salary at death.

There are no active participants. Two retirees and certain beneficiaries are currently receiving benefits from the plan. The unfunded past service liability has not been determined.

(6) Compensated Absences

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

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$ 109,000
Compensatory time	<u>47,000</u>
Total	<u>\$ 156,000</u>

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

(7) Interfund Transfers

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

Transfer to	Transfer from	Amount
General	Special Revenue:	
	Road Use Tax	\$ 30,000
	Emergency	47,766
	Capital Projects	165,674
	Enterprise:	
	Storm Water	30,000
	Sewer	30,000
		<u>303,440</u>
Special Revenue:	Special Revenue:	
	Police Pension	10,177
	Economic Development	40,000
	Grant Match	40,000
		<u>90,177</u>
Debt Service	Special Revenue:	
	Tax Increment Financing	60,368
	Enterprise:	
	Storm Water	81,849
	Sewer	53,750
		<u>195,967</u>
Capital Projects	General	7,369
	Special Revenue:	
	Local Option Sales Tax	20,000
	Enterprise:	
	Storm Water	132,388
		<u>159,757</u>
Total		<u>\$ 749,341</u>

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

(8) 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 contributions to the Pool for the year ended June 30, 2006 were \$93,497.

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 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 airport liability. 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.

(9) Employee Health Insurance Plan

The City's Internal Service, Medical Benefit Self Insurance Fund was established to account for the partial self funding of the City's health insurance benefit plan. The plan is funded by both employee and City contributions and is administered through a service agreement with Marsh Advantage America. The agreement is subject to automatic renewal provisions. The City assumes liability for claims up to the individual stop loss limitation of \$35,000. Claims in excess of coverage are insured through purchase of stop loss insurance.

Monthly payments of service fees and plan contributions to the Internal Service, Medical Benefit Self Insurance Fund are recorded as disbursements from the operating funds. Under the administrative services agreement, monthly payments of service fees and claims processed are paid to Marsh Advantage America from the City's Internal Service, Medical Benefit Self Insurance Fund. The City's contribution to the fund for the year ended June 30, 2006 was \$349,531.

(10) Commitments

The City has entered into various construction contracts for street, bridge replacement, airport improvements, sidewalk improvements and construction of a recreation and wellness center totaling \$3,644,622. At June 30, 2006, \$932,378 remains unpaid and will be paid as work on the projects progresses. The projects will be funded through bond/note proceeds, grants, donations and local sources, as necessary.

(11) Deficit Balance

The Special Revenue, Tax Increment Financing (TIF) Fund had a deficit balance of \$9,773 at June 30, 2006. The deficit balance was a result of the payment of debt prior to the collection of funds.

(12) Subsequent Events

In July 2006, the City entered into a contract for the Olive Street Bridge Project totaling \$198,566. In August 2006, the City issued \$150,000 of general obligation bonds.

(13) Atlantic Municipal Utilities

The Atlantic Municipal Utilities (Utility) provides water and electric services for the City of Atlantic, Iowa. As permitted by GASB Statement No. 34, the City has opted to present condensed financial information for its discretely presented component unit. Following is the condensed financial information for the Utility for the year ended December 31, 2005.

Condensed Statements of Net Assets		
	Electric Department	Water Department
Assets		
Current assets	\$ 4,363,858	528,867
Capital assets, net of accumulated depreciation	14,112,211	4,185,470
Other	3,976,547	971,182
Total assets	22,452,616	5,685,519
Liabilities		
Current liabilities	1,900,000	1,690,487
Other liabilities	1,609,739	415,552
Total liabilities	3,509,739	2,106,039
Net Assets		
Invested in capital assets, net of related debt	11,632,211	2,326,694
Restricted - expendable	1,253,338	753,636
Contributions in aid of construction	-	661,455
Unrestricted	6,057,328	(162,305)
Total net assets	\$18,942,877	3,579,480

Condensed Statements of Income		
	Electric Department	Water Department
Operating revenues:		
Electric sales	\$ 7,267,100	-
Water sales	-	1,009,869
Other	74,766	13,744
Total operating revenues	<u>7,341,866</u>	<u>1,023,613</u>
Operating expenses:		
Production - power/water costs	2,900,861	163,201
Transmission and distribution	947,140	182,869
General and administrative	2,080,213	526,470
Total operating expenses	<u>5,928,214</u>	<u>872,540</u>
Operating income	<u>1,413,652</u>	<u>151,073</u>
Non-operating revenues (expenses):		
Interest income	142,979	25,965
Interest expense	(105,575)	(73,243)
Other non-operating expenses	(16,216)	(3,750)
Total non-operating revenues (expenses)	<u>21,188</u>	<u>(51,028)</u>
Net income	<u>1,434,840</u>	<u>100,045</u>

Condensed Statements of Changes in Net Assets		
	Electric Department	Water Department
Net assets beginning of year	\$ 17,741,854	3,547,073
Net income	1,434,840	100,045
Contributions in aid of construction	-	8,545
Distribution to the City	<u>(233,817)</u>	<u>(76,183)</u>
Net assets end of year	<u>\$ 18,942,877</u>	<u>3,579,480</u>

City of Atlantic

Required Supplementary Information

City of Atlantic
 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	Less Funds not Required to be Budgeted
Receipts:			
Property tax	\$ 2,439,308	-	-
Tax increment financing	158,355	-	-
Other city tax	695,683	-	-
Licenses and permits	29,882	-	-
Use of money and property	135,334	17,277	588
Intergovernmental	3,622,092	-	-
Charges for service	41,544	2,876,528	2,000,758
Special assessments	729	-	-
Miscellaneous	454,504	101,895	96,310
Total receipts	<u>7,577,431</u>	<u>2,995,700</u>	<u>2,097,656</u>
Disbursements:			
Public safety	1,965,094	1,030,241	1,030,241
Public works	1,194,866	367,572	367,572
Health and social services	12,385	-	-
Culture and recreation	423,996	269,789	269,789
Community and economic development	494,547	-	-
General government	456,453	288,555	288,555
Debt service	1,079,642	227,820	-
Capital projects	3,213,291	-	-
Business type activities	-	539,929	197,113
Total disbursements	<u>8,840,274</u>	<u>2,723,906</u>	<u>2,153,270</u>
Excess (deficiency) of receipts over (under) disbursements	(1,262,843)	271,794	(55,614)
Other financing sources (uses), net	972,987	(327,987)	-
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(289,856)	(56,193)	(55,614)
Balances beginning of year	<u>2,909,322</u>	<u>726,403</u>	<u>87,723</u>
Balances end of year	<u>\$ 2,619,466</u>	<u>670,210</u>	<u>32,109</u>

See accompanying independent auditor's report.

Net	Budgeted Amounts		Final to Net Variance
	Original	Final	
2,439,308	2,415,251	2,415,251	24,057
158,355	162,130	162,130	(3,775)
695,683	757,999	757,999	(62,316)
29,882	84,750	84,750	(54,868)
152,023	51,650	85,268	66,755
3,622,092	1,798,426	2,259,426	1,362,666
917,314	813,100	813,100	104,214
729	-	-	729
460,089	254,998	254,998	205,091
<u>8,475,475</u>	<u>6,338,304</u>	<u>6,832,922</u>	<u>1,642,553</u>
1,965,094	1,708,810	1,974,922	9,828
1,194,866	1,195,188	1,270,094	75,228
12,385	12,000	12,000	(385)
423,996	435,720	447,120	23,124
494,547	364,754	489,754	(4,793)
456,453	456,298	463,498	7,045
1,307,462	1,084,606	1,884,606	577,144
3,213,291	2,951,331	2,951,331	(261,960)
342,816	593,146	603,146	260,330
<u>9,410,910</u>	<u>8,801,853</u>	<u>10,096,471</u>	<u>685,561</u>
(935,435)	(2,463,549)	(3,263,549)	2,328,114
645,000	375,000	1,175,000	(530,000)
(290,435)	(2,088,549)	(2,088,549)	1,798,114
<u>3,548,002</u>	<u>2,929,599</u>	<u>2,929,599</u>	<u>618,403</u>
<u>3,257,567</u>	<u>841,050</u>	<u>841,050</u>	<u>2,416,517</u>

City of Atlantic

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. 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 Fund and the Enterprise 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, one budget amendment increased budgeted disbursements by \$1,294,618. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2006, disbursements exceeded the amounts budgeted in the health and social services, community and economic development and capital projects functions.

Other Supplementary Information

City of Atlantic

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

As of and for the year ended June 30, 2006

	Special		
	Employees' Benefits	Cafeteria Plan	Police Pension
Receipts:			
Property tax	\$ 426,315	-	18,473
Tax increment financing	-	-	-
Other city tax	8,564	-	410
Use of money and property	547	-	-
Miscellaneous	36,524	8,232	-
Total receipts	<u>471,950</u>	<u>8,232</u>	<u>18,883</u>
Disbursements:			
Operating:			
Public safety	301,111	-	29,060
Public works	142,393	-	-
Culture and recreation	66,282	-	-
Community and economic development	-	-	-
General government	73,365	9,960	-
Debt service	-	-	-
Total disbursements	<u>583,151</u>	<u>9,960</u>	<u>29,060</u>
Excess (deficiency) of receipts over (under) disbursements	<u>(111,201)</u>	<u>(1,728)</u>	<u>(10,177)</u>
Other financing sources (uses):			
Bond proceeds	-	-	-
Operating transfers in	-	-	10,177
Operating transfers out	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>10,177</u>
Net change in cash balances	(111,201)	(1,728)	-
Cash balances beginning of year	<u>120,526</u>	<u>5,115</u>	<u>-</u>
Cash balances end of year	<u>\$ 9,325</u>	<u>3,387</u>	<u>-</u>
Cash Basis Fund Balances			
Reserved for debt service	\$ -	-	-
Unreserved:			
Special revenue funds	<u>9,325</u>	<u>3,387</u>	<u>-</u>
Total	<u>\$ 9,325</u>	<u>3,387</u>	<u>-</u>

See accompanying independent auditor's report.

Revenue							
Fire Pension	Emergency	Tax Increment Financing	Economic Development Revolving Loan	Economic Development	Grant Matching	Total	
18,473	37,264	-	-	-	-	500,525	
-	-	158,355	-	-	-	158,355	
410	758	-	-	-	-	10,142	
4,512	-	-	5,423	-	-	10,482	
-	-	-	-	-	-	44,756	
23,395	38,022	158,355	5,423	-	-	724,260	
14,980	-	-	-	-	-	345,151	
-	-	-	-	-	-	142,393	
-	-	-	-	-	-	66,282	
-	-	288,892	60,000	7,500	-	356,392	
-	-	-	-	-	-	83,325	
-	-	111,659	-	-	-	111,659	
14,980	-	400,551	60,000	7,500	-	1,105,202	
8,415	38,022	(242,196)	(54,577)	(7,500)	-	(380,942)	
-	-	255,000	-	-	-	255,000	
-	-	-	-	40,000	40,000	90,177	
(10,177)	(47,766)	(60,368)	-	-	-	(118,311)	
(10,177)	(47,766)	194,632	-	40,000	40,000	226,866	
(1,762)	(9,744)	(47,564)	(54,577)	32,500	40,000	(154,076)	
129,100	14,145	37,791	215,921	-	-	522,598	
127,338	4,401	(9,773)	161,344	32,500	40,000	368,522	
-	-	16,000	-	-	-	16,000	
127,338	4,401	(25,773)	161,344	32,500	40,000	352,522	
127,338	4,401	(9,773)	161,344	32,500	40,000	368,522	

Schedule 2

City of Atlantic

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Internal Service Funds

As of and for the year ended June 30, 2006

	Payroll Revolving	Medical Benefit Self Insurance	Total
Operating receipts:			
Charges for service:			
Personal service costs from operating funds	\$ 1,651,227	349,531	2,000,758
Miscellaneous:			
Refunds	-	96,310	96,310
Total operating receipts	<u>1,651,227</u>	<u>445,841</u>	<u>2,097,068</u>
Operating disbursements:			
Governmental activities:			
Public safety	785,125	245,116	1,030,241
Public works	255,824	111,748	367,572
Culture and recreation	226,587	43,202	269,789
General government	231,763	56,792	288,555
Business type activities	151,928	45,185	197,113
Total operating disbursements	<u>1,651,227</u>	<u>502,043</u>	<u>2,153,270</u>
Deficiency of operating receipts under operating disbursements	-	(56,202)	(56,202)
Non-operating receipts:			
Use of money and property	-	588	588
Net change in cash balances	-	(55,614)	(55,614)
Balance beginning of year	-	87,723	87,723
Balance end of year	<u>\$ -</u>	<u>32,109</u>	<u>32,109</u>

See accompanying independent auditor's report.

City of Atlantic

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

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation notes:			
Economic development	Feb 1, 1994	4.75-7.00%	\$ 225,000
Economic development	Sep 1, 1997	6.75-7.35	200,000
Airport improvement	Aug 1, 1999	4.40-5.20	150,000
Swimming pool improvement	Mar 1, 2001	4.40-5.40	700,000
Corporate purpose	Apr 1, 2002	3.00-5.10	1,710,000
Corporate purpose	Apr 1, 2003	1.40-3.70	300,000
Economic development	Sep 1, 2003	2.15-4.60	110,000
Refunding	Apr 1, 2004	1.25-1.95	1,070,000
Street improvements	Jul 1, 2004	2.00-4.35	500,000
Corporate purpose	Feb 15, 2006	3.50-4.10	375,000
Total			
Tax increment financing (TIF) revenue bonds:			
Skyjack (TIF)	Dec 1, 1994	8.25-9.10%	\$ 145,000
Cargill (TIF)	Dec 1, 1994	8.25-9.05	100,000
Skyjack (TIF)	Dec 1, 1995	6.70-7.30	115,000
Skyjack (TIF)	Jun 1, 1997	7.65-8.15	90,000
Southeast urban renewal	Feb 1, 1998	4.40-5.15	175,000
Country Oaks Addition	Jul 1, 2001	4.30-5.20	200,000
North urban renewal business park	Mar 21, 2006	5.75	255,000
Total			
Revenue bonds:			
Local option sales and services tax	Sep 1, 1997	4.70-5.65%	\$ 300,000
Local option sales and services tax	Mar 1, 2004	4.80	1,000,000
Total			
Revenue notes:			
Sewer	Dec 1, 1998	4.10-4.50%	\$ 850,000
Loan agreements with Atlantic Municipal Utilities:			
Equipment	Jun 29, 2006	-	\$ 25,000
General obligation project anticipation notes:			
Airport improvement project	Mar 1, 2005	2.50%	\$ 800,000
Airport improvement project	Feb 28, 2006	3.50	800,000
Total			

See accompanying independent auditor's report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
95,000	-	15,000	80,000	6,560
75,000	-	25,000	50,000	5,475
80,000	-	15,000	65,000	4,032
620,000	-	25,000	595,000	31,700
1,295,000	-	150,000	1,145,000	59,330
250,000	-	30,000	220,000	7,623
100,000	-	10,000	90,000	3,832
640,000	-	315,000	325,000	11,378
455,000	-	45,000	410,000	16,712
-	375,000	40,000	335,000	4,168
\$ 3,610,000	375,000	670,000	3,315,000	150,810
70,000	-	10,000	60,000	6,347
25,000	-	10,000	15,000	2,253
65,000	-	10,000	55,000	4,360
50,000	-	10,000	40,000	4,050
80,000	-	20,000	60,000	4,010
155,000	-	20,000	135,000	7,625
-	255,000	-	255,000	3,014
\$ 445,000	255,000	80,000	620,000	31,659
190,000	-	20,000	170,000	10,430
1,000,000	-	20,000	980,000	48,893
\$ 1,190,000	-	40,000	1,150,000	59,323
625,000	-	200,000	425,000	27,820
-	25,000	25,000	-	-
800,000	-	800,000	-	20,000
-	800,000	-	800,000	-
\$ 800,000	800,000	800,000	800,000	20,000

City of Atlantic
Bond and Note Maturities
June 30, 2006

General Obligation Notes													
Year Ending June 30,	Economic Development		Economic Development		Airport Improvement		Swimming Pool Improvement		Corporate Purpose		Corporate Purpose		
	Issued Feb 1, 1994		Issued Sep 1, 1997		Issued Aug 1, 1999		Issued Mar 1, 2001		Issued Apr 1, 2002		Issued Apr 1, 2003		
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	
2007	6.85%	\$ 20,000	7.30%	\$ 25,000	4.95%	\$ 15,000	4.85%	\$ 45,000	4.20%	\$ 160,000	2.45%	\$ 30,000	
2008	6.90	20,000	7.35	25,000	5.00	15,000	4.90	50,000	4.40	165,000	2.80	30,000	
2009	6.95	20,000	-	-	5.10	15,000	4.95	50,000	4.60	180,000	3.00	30,000	
2010	7.00	20,000	-	-	5.20	20,000	5.00	55,000	4.70	180,000	3.20	30,000	
2011	-	-	-	-	-	-	5.05	60,000	4.80	150,000	3.40	30,000	
2012	-	-	-	-	-	-	5.10	60,000	4.90	165,000	3.55	35,000	
2013	-	-	-	-	-	-	5.20	65,000	5.00	70,000	3.70	35,000	
2014	-	-	-	-	-	-	5.25	65,000	5.10	75,000	-	-	
2015	-	-	-	-	-	-	5.30	70,000	-	-	-	-	
2016	-	-	-	-	-	-	5.40	75,000	-	-	-	-	
2017	-	-	-	-	-	-	-	-	-	-	-	-	
2018	-	-	-	-	-	-	-	-	-	-	-	-	
2019	-	-	-	-	-	-	-	-	-	-	-	-	
2020	-	-	-	-	-	-	-	-	-	-	-	-	
2021	-	-	-	-	-	-	-	-	-	-	-	-	
2022	-	-	-	-	-	-	-	-	-	-	-	-	
2023	-	-	-	-	-	-	-	-	-	-	-	-	
2024	-	-	-	-	-	-	-	-	-	-	-	-	
2025	-	-	-	-	-	-	-	-	-	-	-	-	
Total		<u>\$ 80,000</u>		<u>\$ 50,000</u>		<u>\$ 65,000</u>		<u>\$ 595,000</u>		<u>\$1,145,000</u>		<u>\$ 220,000</u>	

Tax Increment Financing (TIF) Revenue Bonds

Year Ending June 30,	Skyjack (TIF)		Cargill (TIF)		Skyjack (TIF)		Skyjack (TIF)	
	Issued Dec 1, 1994		Issued Dec 1, 1994		Issued Dec 1, 1995		Issued Jun 1, 1997	
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount
2007	9.05%	\$ 15,000	9.05%	\$ 15,000	7.20%	\$ 10,000	8.05%	\$ 10,000
2008	9.10	15,000	-	-	7.25	10,000	8.10	10,000
2009	9.10	15,000	-	-	7.30	10,000	8.15	10,000
2010	9.10	15,000	-	-	7.30	10,000	8.15	10,000
2011	-	-	-	-	7.30	15,000	-	-
2012	-	-	-	-	-	-	-	-
2013	-	-	-	-	-	-	-	-
2014	-	-	-	-	-	-	-	-
2015	-	-	-	-	-	-	-	-
2016	-	-	-	-	-	-	-	-
2017	-	-	-	-	-	-	-	-
2018	-	-	-	-	-	-	-	-
2019	-	-	-	-	-	-	-	-
2020	-	-	-	-	-	-	-	-
2021	-	-	-	-	-	-	-	-
2022	-	-	-	-	-	-	-	-
2023	-	-	-	-	-	-	-	-
2024	-	-	-	-	-	-	-	-
2025	-	-	-	-	-	-	-	-
Total		<u>\$ 60,000</u>		<u>\$ 15,000</u>		<u>\$ 55,000</u>		<u>\$ 40,000</u>

Schedule 4

City of Atlantic
Bond and Note Maturities
June 30, 2006

Year Ending June 30,	Revenue Bonds					Revenue Notes	
	Local Option Sales and Services Tax		Local Option Sales and Services Tax		Total	Sewer	
	Issued Sep 1, 1997		Issued Mar 1, 2004			Issued Dec 1, 1998	
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	
2007	5.35%	\$ 20,000	4.80%	\$ 30,000	50,000	4.45%	\$ 210,000
2008	5.40	20,000	4.80	34,404	54,404	4.50	215,000
2009	5.45	25,000	4.80	36,056	61,056		-
2010	5.50	25,000	4.80	37,786	62,786		-
2011	5.55	25,000	4.80	39,600	64,600		-
2012	5.60	25,000	4.80	41,501	66,501		-
2013	5.65	30,000	4.80	43,493	73,493		-
2014		-	4.80	45,580	45,580		-
2015		-	4.80	47,768	47,768		-
2016		-	4.80	50,061	50,061		-
2017		-	4.80	52,464	52,464		-
2018		-	4.80	54,982	54,982		-
2019		-	4.80	57,621	57,621		-
2020		-	4.80	60,387	60,387		-
2021		-	4.80	63,286	63,286		-
2022		-	4.80	66,323	66,323		-
2023		-	4.80	69,507	69,507		-
2024		-	4.80	72,843	72,843		-
2025		-	4.80	76,338	76,338		-
Total		<u>\$ 170,000</u>		<u>\$ 980,000</u>	<u>1,150,000</u>		<u>\$ 425,000</u>

See accompanying independent auditor's report.

City of Atlantic

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

For the Last Six Years

	2006	2005	2004	2003	2002	2001
Receipts:						
Property tax	\$ 2,439,308	2,377,815	2,330,119	2,342,037	2,018,353	1,933,724
Tax increment financing	158,355	212,041	177,535	178,049	132,195	163,000
Other city tax	695,683	653,490	737,569	660,723	587,392	526,872
Licenses and permits	29,882	26,464	27,075	19,802	18,572	19,343
Use of money and property	135,334	74,608	61,512	80,735	116,095	172,681
Intergovernmental	3,622,092	2,603,514	1,670,043	2,119,797	899,730	1,084,953
Charges for service	41,544	33,986	52,715	45,899	44,919	48,656
Special assessments	729	7,624	10,858	12,909	12,260	15,425
Miscellaneous	454,504	497,487	1,305,812	2,135,906	462,629	412,381
Total	\$ 7,577,431	6,487,029	6,373,238	7,595,857	4,292,145	4,377,035
Disbursements:						
Operating:						
Public safety	\$ 1,965,094	1,468,009	1,199,522	1,199,427	1,228,883	1,126,155
Public works	1,194,866	977,604	1,120,237	937,371	737,446	777,057
Health and social services	12,385	21,873	2,980	-	2,411	3,374
Culture and recreation	423,996	405,853	421,150	430,953	360,410	366,234
Community and economic development	494,547	121,653	103,790	100,569	229,574	290,920
General government	456,453	429,838	429,845	438,215	391,533	365,498
Debt service	1,079,642	1,239,380	2,042,651	1,118,732	883,710	786,226
Capital projects	3,213,291	2,885,382	3,574,090	4,297,777	2,809,890	1,075,539
Total	\$ 8,840,274	7,549,592	8,894,265	8,523,044	6,643,857	4,791,003

See accompanying independent auditor's report.

Schedule 6

City of Atlantic
 Schedule of Expenditures of Federal Awards
 Year ended June 30, 2006

Grantor/Program	CFDA Number	Agency Pass-through Number	Program Expenditures
Direct:			
U.S. Department of Transportation:			
Federal Aviation Administration Airports Division:			
Airport Improvement Program	20.106	3-19-0005-02	\$ 3,580
Airport Improvement Program	20.106	3-19-0005-03-2003	169,128
Airport Improvement Program	20.106	3-19-0005-04-2004	37,241
Airport Improvement Program	20.106	3-19-0005-05-2005	1,856,140
Airport Improvement Program	20.106	3-19-0005-06-2006	67,819
Total			<u>2,133,908</u>
U.S. Department of Homeland Security:			
Office for Domestic Preparedness:			
Assistance to Firefighters Grant	97.044	EMW-2004-FG-08281	103,500
Total direct			<u>2,237,408</u>
Indirect:			
U.S. Department of Housing and Urban Development:			
Iowa Department of Economic Development:			
Community Development Block Grants/State's Program	14.228	03-CF-020-01	122,095
U.S. Department of Homeland Security:			
Iowa Department of Public Defense:			
Iowa Homeland Security and Emergency Management Division:			
State Domestic Preparedness Equipment Support Program	97.004	FY2004-LETPP-LEIN4-04	202,713
Law Enforcement Terrorism Prevention Program (LETPP)	97.074	FY2005-LETPP-LEIN4-04	212,803
Total indirect			<u>537,611</u>
Total			<u>\$ 2,775,019</u>

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

See accompanying independent auditor's report.

**Independent Auditor's Report on Internal Control
over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards**

City of Atlantic



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

David A. Vaudt, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

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 Atlantic, 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 November 16, 2006. Our report expressed unqualified opinions 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 Atlantic's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted 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 Atlantic'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 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, we do not believe the reportable conditions are material weaknesses.

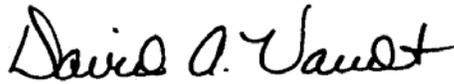
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Atlantic'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.

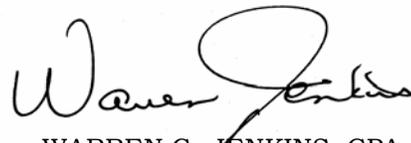
Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions 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 solely for the information and use of the officials, employees and citizens of the City of Atlantic and other parties to whom the City of Atlantic 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 Atlantic 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.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

November 16, 2006

**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**

City of Atlantic



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

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

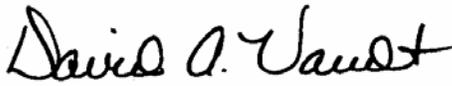
In our opinion, the City of Atlantic complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended June 30, 2006.

Internal Control Over Compliance

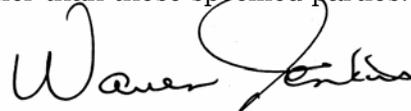
The management of the City of Atlantic is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered the City of Atlantic's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

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. 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 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. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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 Atlantic and other parties to whom the City of Atlantic 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.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

November 16, 2006

City of Atlantic
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, which were not considered to be material weaknesses.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) No material weaknesses in internal control over the major programs were noted.
- (e) An unqualified opinion was issued on compliance with requirements applicable to the major programs.
- (f) The audit did not disclose 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 as follows:
 - CFDA Number 20.106 – Airport Improvement Program
 - Homeland Security Cluster:
 - CFDA Number 97.004 – State Domestic Preparedness Equipment Support Program
 - CFDA 97.074 – Law Enforcement Terrorism Prevention Program (LETPP)
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) The City of Atlantic did not qualify as a low-risk auditee.

City of Atlantic
Schedule of Findings and Questioned Costs
Year ended June 30, 2006

Part II: Findings Related to the Financial Statements:

REPORTABLE CONDITIONS:

II-A-06 Separately Maintained Records – The Atlantic Volunteer Fire Department maintains separate accounting records pertaining to its operation. The financial transactions and resulting balances are not included in the City’s accounting records.

Recommendation – Chapter 384.20 of the Code of Iowa states, in part, “A City shall keep accounts which show an accurate and detailed statement of all public funds collected, received, or expended for any city purpose.” For better accountability, financial and budgetary control, the financial activity and balances of all City accounts should be included in the City’s accounting records and reported to the Council on a monthly basis.

Response – We have obtained financial reports for one of the department accounts and will request that they file financial reports for the convention account.

Conclusion – Response accepted.

II-B-06 Reconciliation of Storm Water Billings, Collections and Delinquencies – Storm water billings, collections and delinquent accounts were not reconciled throughout the year.

Recommendation – Procedures should be established to reconcile storm water billings, collections and delinquencies for each billing period. The Council or a Council-designated independent person should review the reconciliations and monitor delinquencies.

Response – We will reconcile the storm water billings to collections and delinquencies immediately.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

City of Atlantic
Schedule of Findings and Questioned Costs
Year ended June 30, 2006

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

No material weaknesses in internal control over the major programs were noted.

City of Atlantic

Schedule of Findings and Questioned Costs

Year ended June 30, 2006

Part IV: Other Findings Related to Required Statutory Reporting:

IV-A-06 Certified Budget – Disbursements during the year ended June 30, 2006 exceeded the amounts budgeted in the health and social services, community and economic development and capital projects functions. Chapter 384.20 of the Code of Iowa states, in part, “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 – We will amend the budget in adequate amounts in the future if needed.

Conclusion – Response accepted.

IV-B-06 Questionable Disbursements – No disbursements we believe may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 were noted.

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:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Mike Henningsen, Airport Commissioner, Owner of Henningsen Construction	Asphalt patch material and airport hangar roof repair, per bid	\$ 39,950

In accordance with Chapter 362.5 of the Code of Iowa, the transaction with the Airport Commissioner does not represent a conflict of interest since it was competitively bid.

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

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

IV-G-06 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City’s investment policy were noted.

City of Atlantic

Schedule of Findings and Questioned Costs

Year ended June 30, 2006

IV-H-06 Revenue Bonds and Notes – No instances of non-compliance with provisions of the revenue bond and note resolutions were noted.

IV-I-06 Notice of Public Hearing for Public Improvements – The City published a notice of public hearing and bid letting on the East Side Water and Sewer Extension project. However, the notice was not published as required by Chapters 384.102 and 362.3 of the Code of Iowa.

Recommendation – Before entering into any contract for public improvements where the cost is \$25,000 or more, the Council should give notice at least four but not more than twenty days prior to the hearing as provided in Chapter 362.3 of the Code of Iowa.

Response – The project engineer handles publications and may have inadvertently published the notices too early. We will contact them to make sure they publish notices properly in the future.

Conclusion – Response accepted.

IV-J-06 Financial Condition – The Special Revenue, Tax Increment Financing (TIF) Fund had a deficit balance at June 30, 2006 of \$9,773.

Recommendation – The City should investigate alternatives to eliminate this deficit in order to return this fund to a sound financial position.

Response – We had to pay some of the debt on a TIF project before the tax collections came in. We will eventually catch up with this to eliminate the deficit.

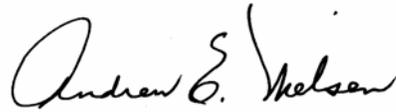
Conclusion – Response accepted.

City of Atlantic

Staff

This audit was performed by:

Pamela J. Bormann, CPA, Manager
Paul F. Kearney, CGFM, Senior Auditor
Tracy L. Haronik, Staff Auditor
Andrew J. Muff, Staff Auditor

A handwritten signature in black ink that reads "Andrew E. Nielsen". The signature is written in a cursive style with a large initial "A" and "N".

Andrew E. Nielsen, CPA
Deputy Auditor of State