



**OFFICE OF AUDITOR OF STATE  
STATE OF IOWA**

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**NEWS RELEASE**

FOR RELEASE March 29, 2007

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

The City's receipts totaled \$10,697,814 for the year ended June 30, 2006, an 83 percent increase over 2005. The receipts included \$2,076,660 in property tax, \$425,836 from tax increment financing, \$629,348 from charges for service, \$876,325 from operating grants, contributions and restricted interest, \$785,872 from capital grants, contributions and restricted interest, \$534,797 from local option sales tax, \$116,039 from hotel/motel tax, \$326,315 from grants and contributions not restricted to specific purpose, \$4,645,445 from bond and loan proceeds and \$281,177 from other general receipts.

Disbursements for the year totaled \$11,147,837, a 40 percent increase over the prior year, and included \$5,682,712 for capital projects, \$1,269,071 for public safety and \$1,242,378 for debt service. Also, disbursements for business type activities totaled \$305,910.

The significant increase in receipts and disbursements is due primarily to the issuance of general obligation and revenue bonds in the current year and disbursements for capital projects in progress in the current year.

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 DENISON**

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

**JUNE 30, 2006**

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**City of Denison**

**Officials**

| <u>Name</u>                  | <u>Title</u>   | <u>Term Expires</u> |
|------------------------------|----------------|---------------------|
| <b>(Before January 2006)</b> |                |                     |
| Ken Livingston               | Mayor          | Jan 2006            |
| Earl McCollough              | Mayor Pro tem  | Jan 2008            |
| Garry Chapman                | Council Member | Jan 2006            |
| Keith Greder                 | Council Member | Jan 2006            |
| Dan Leinen                   | Council Member | Jan 2006            |
| Joel Franken                 | Council Member | (Resigned)          |
| Raymond Reynolds             | Council Member | Jan 2008            |
| <b>(After January 2006)</b>  |                |                     |
| Nathan Mahrt                 | Mayor          | Jan 2008            |
| Earl McCollough              | Mayor Pro tem  | Jan 2008            |
| Raymond Reynolds             | Council Member | (Resigned)          |
| Gordon Hough                 | Council Member | Jan 2008            |
| Garry Chapman                | Council Member | Jan 2010            |
| Eric Skoog                   | Council Member | Jan 2010            |
| Cecil Blum, Jr.              | Council Member | Jan 2010            |
| Al Roder                     | City Manager   | Indefinite          |
| Marcia L. Bretey             | Clerk          | Indefinite          |
| Rick Franck                  | Attorney       | Indefinite          |

**City of Denison**



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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, the discretely presented component unit and the aggregate remaining fund information of the City of Denison, 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 Denison'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, and our opinion, insofar as it relates to the condensed financial information included in Note 8 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 provides a reasonable basis for our opinions.

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

As described in Note 8, the City has chosen to present condensed financial information for its discretely presented component unit since complete financial statements of the component unit have been audited by another auditor and are available from the component unit. The report of the other auditor, dated August 25, 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, the discretely presented component unit and the aggregate remaining fund information of the City of Denison 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 January 4, 2007 on our consideration of the City of Denison'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 8 through 13 and 32 through 34 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 City of Denison's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three 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 4 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, 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

January 4, 2007

**City of Denison**

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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

### 2006 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities increased 87.7%, or approximately \$4,849,000, from fiscal 2005 to fiscal 2006. Property and other city tax decreased approximately \$6,000 and bond and loan proceeds used for convention center, streetscape and levee projects increased \$4,645,000.
- Disbursements increased 41.4%, or approximately \$3,177,000, in fiscal 2006 from fiscal 2005. Public works, debt service and capital projects disbursements increased approximately \$115,000, \$391,000 and \$2,549,000, respectively.
- The City's total cash basis net assets decreased 13.6%, or approximately \$450,000, from June 30, 2005 to June 30, 2006. Of this amount, the assets of the governmental activities decreased approximately \$462,000 and the assets of the business type activities increased approximately \$12,000.

### 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 special revenue funds.

## **BASIS OF ACCOUNTING**

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, 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 solid waste system. This activity is 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, Employee Benefits, Local Option Sales Tax and Urban Renewal Tax Increment, 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.

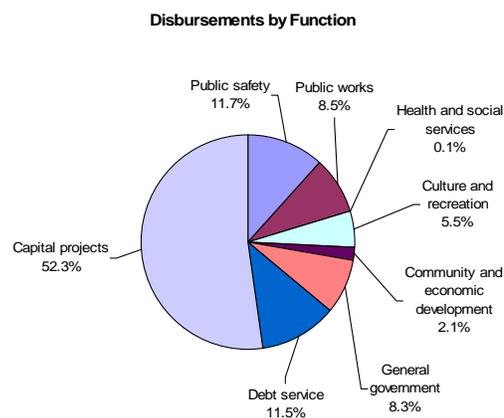
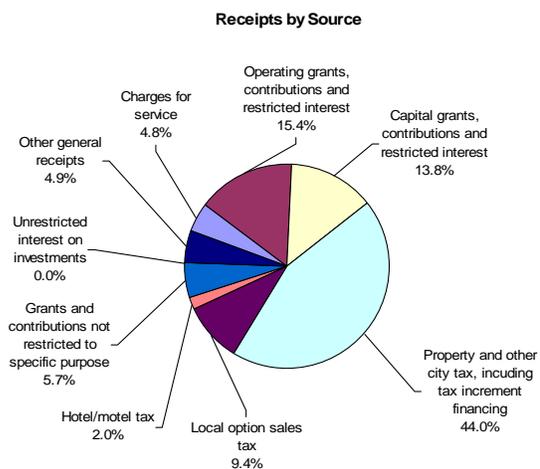
2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains one Enterprise Fund to provide information for the solid waste fund, which is considered to be a major fund of the City.

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

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased from a year ago, decreasing from \$3.3 million to \$2.8 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<br>June 30, |         |
|  | 2006                   | 2005    |
| Receipts and transfers:  |                        |         |
| Program receipts:  |                        |         |
| Charges for service  | \$ 272                 | 286     |
| Operating grants, contributions and restricted interest        | 876                    | 836     |
| Capital grants, contributions and restricted interest          | 786                    | 795     |
| General receipts:  |                        |         |
| Property and other city tax, including tax increment financing | 2,503                  | 2,509   |
| Local option sales tax   | 535                    | 490     |
| Hotel/motel tax  | 116                    | 86      |
| Grants and contributions not restricted to specific purpose    | 326                    | 397     |
| Unrestricted interest on investments                           | -                      | 23      |
| Bond/loan proceeds   | 4,645                  | -       |
| Other general receipts   | 281                    | 59      |
| Transfers, net   | 40                     | 50      |
| Total receipts and transfers                                   | 10,380                 | 5,531   |
| Disbursements:   |                        |         |
| Public safety  | 1,269                  | 1,216   |
| Public works   | 917                    | 802     |
| Health and social services                                     | 11                     | 6       |
| Culture and recreation   | 593                    | 521     |
| Community and economic development                             | 227                    | 247     |
| General government   | 900                    | 888     |
| Debt service   | 1,242                  | 851     |
| Capital projects   | 5,683                  | 3,134   |
| Total disbursements  | 10,842                 | 7,665   |
| Increase in cash basis net assets                              | (462)                  | (2,134) |
| Cash basis net assets beginning of year                        | 3,258                  | 5,392   |
| Cash basis net assets end of year                              | \$ 2,796               | 3,258   |



The City's total receipts and transfers for governmental activities increased by 87.7%, or \$4,849,000. The total cost of all programs and services increased approximately \$3,177,000, or 41.4%, with no new programs added this year. The significant increase in receipts and disbursements was primarily the result of bond/loan proceeds received and the related debt service and capital projects disbursed in the current year.

The City decreased property tax rates for 2006 by an average of .125 percent. This decrease, in conjunction with an increase in assessed valuation, lowered the City's property tax receipts by approximately \$6,000 in 2006. Based on increases in the total assessed valuation for 2007, property tax receipts are budgeted to increase by \$106,000 next year.

The cost of all governmental activities this year was \$10.84 million compared to \$7.67 million last year. However, as shown in the Statement of Activities and Net Assets on pages 16-17, the amount taxpayers ultimately financed for these activities was only \$8.9 million because some of the cost was paid by those directly benefited from the programs (\$272,000) or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest (\$1,662,000). The City paid for the remaining "public benefit" portion of governmental activities with approximately \$8,400,000 in tax (some of which could only be used for certain programs) and with other receipts, such as interest, general entitlements and bond/loan proceeds.

| Changes in Cash Basis Net Assets of Business Type Activities<br>(Expressed in Thousands) |                     |      |
|--|---------------------|------|
|  | Year ended June 30, |      |
|  | 2006                | 2005 |
| Receipts:  |                     |      |
| Program receipts:  |                     |      |
| Charges for service:   |                     |      |
| Solid waste  | \$ 358              | 351  |
| Disbursements and transfers:   |                     |      |
| Solid waste  | 306                 | 304  |
| Transfers  | 40                  | 50   |
| Total disbursements and transfers  | 346                 | 354  |
| Increase (decrease) in cash basis net assets   | 12                  | (3)  |
| Cash basis net assets beginning of year  | 44                  | 47   |
| Cash basis net assets end of year  | \$ 56               | 44   |

Total business type activities receipts for the fiscal year were \$358,000 compared to \$351,000 last year. The cash balance increased by approximately \$12,000 from the prior year. Total disbursements for the fiscal year increased by .66% to a total of \$305,910.

#### **INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS**

As the City of Denison completed the year, its governmental funds reported a combined fund balance of \$2,795,792, a decrease of more than \$460,000 below last year's total of \$3,257,587. 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 \$158,328 from the prior year to \$637,543. Total receipts decreased 4.5% and total disbursements decreased 2.9%. Net transfers from other funds increased approximately \$156,000, resulting in a significant increase in the year end fund balance. Other factors include a decrease in CDBG grant receipts of \$57,000 and the amount the Denison Municipal Utilities paid in lieu of taxes decreased by \$52,000. Disbursements decreased due to a decrease of \$14,000 in the amount paid to Denison Municipal Utilities for services and insurance premiums paid decreased \$38,000.
- The Road Use Tax Fund cash balance decreased \$113,515 to \$737,922 during the fiscal year. This decrease was attributable to an increase in disbursements, primarily due to street equipment purchases totaling \$55,000 and the City had 27 pay periods in this fiscal year. The City intends to use the money in this fund to continue street department operations, street maintenance programs and equipment replacement.
- The Employee Benefits Fund cash balance increased \$1,789 to \$585,297 during the fiscal year. The increase was not significant and the cash balance would have been significantly less at year end due to having one more pay period than normal, but the City saved money by changing health insurance carriers.
- 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 \$505,419, a decrease of \$486,014 from the previous year. An increase in disbursements was due primarily to contributions to economic development, the child care center, fair board and the new conference center. Net transfers from the Local Option Sales Tax Fund increased by \$468,095, mainly due to transfers for debt payments, General Fund shortfalls and for capital projects. Local option sales tax collections increased during the current year by \$44,451.
- The Urban Renewal Tax Increment Fund cash balance increased \$76,258 to \$854,279 during the fiscal year. The increase in the fund balance was due to a decrease in transfers out of the fund. Transfers decreased by \$330,035 from the previous year, mainly due to fewer transfers to the Capital Project Fund in the current year.
- The Debt Service Fund cash balance increased \$1,090 to \$7,574 during the fiscal year. This increase was not significant. However, debt payments increased by \$326,374 over the previous year due to several new debt issues, but was offset by an increase in transfers into the Debt Service Fund from other funds to pay for debt.
- The Capital Projects Fund cash balance decreased \$65,509 to (\$724,512) during the fiscal year. The decrease was due to funds not transferred from the Urban Renewal Tax Increment Fund and other projects started during the fiscal year for which funding has not yet been received from various sources.

#### **INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS**

The Solid Waste Fund cash balance increased \$11,772 to \$55,580, due primarily to a decrease in transfers to the General Fund to reimburse salaries paid.

#### **BUDGETARY HIGHLIGHTS**

Over the course of the year, the City amended its budget one time. The amendment was approved on April 17, 2006 and resulted in an increase in operating disbursements related primarily to community and economic development and general government of approximately \$594,000 to cover project and debt expenses. The City had sufficient cash balances to absorb these additional costs.

City's receipts were \$327,128 more than budgeted. This was primarily due to the City receiving more in other city tax than anticipated, collecting \$119,797 more in local option sales tax and \$14,563 more in hotel/motel tax than budgeted. Also, actual intergovernmental receipts were \$587,864 less than budgeted, special assessments of \$111,173 were not budgeted and miscellaneous receipts were \$497,628 more than budgeted, mainly due to donations exceeding expectations.

With the amendment, total disbursements were \$4,486,561 less than the amended budget. The actual disbursements for the community and economic development and capital projects functions were \$288,608 and \$3,907,288, respectively, less than the amended budget. This was primarily due to amending the budget for economic grants that were not received or paid during the year and budgeting for capital projects in excess of actual disbursements.

The City also exceeded the amount budgeted in the debt service functions by \$43,084 for the year ended June 30, 2006. This was primarily due to paying off one debt issue early.

**DEBT ADMINISTRATION**

At June 30, 2006, the City had \$10,404,000 in bonds and other long-term debt outstanding, compared to \$6,635,000 last year, as shown below.

| Outstanding Debt at Year-End<br>(Expressed in Thousands) |                  |              |
|--|------------------|--------------|
|  | June 30,         |              |
|  | 2006             | 2005         |
| General obligation bonds/notes                           | \$ 8,190         | 5,935        |
| Revenue bonds/notes                                      | 1,895            | 700          |
| Bank loan  | 319              | -            |
| <b>Total</b>   | <b>\$ 10,404</b> | <b>6,635</b> |

Debt increased as a result of issuing \$4,330,000 in bonds while redeeming \$880,202 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 and TIF debt of \$9,819,000 is below its constitutional debt limit of \$10,772,000.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES**

The City of Denison'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. One of these factors is the increase in property valuations used to calculate tax askings and levy rates. Property valuations for fiscal year 2007 increased \$5,645,330, which resulted in a tax asking increase of \$105,676 overall.

These factors were taken into account when adopting the budget for fiscal year 2007. The City will use these increases in receipts to finance programs we currently offer. Budgeted disbursements are expected to decrease approximately \$2,820,000. The decrease is due to a decrease in budgeted capital projects. 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 decrease by approximately \$2,593,000 by the close of 2007. The City will be using accumulated cash, intergovernmental grants and proceeds of debt for projects.

**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 Marcia Bretey, City Clerk, 111 North Main Street, City of Denison, Iowa 51442-0668.

**City of Denison**

## **Basic Financial Statements**

City of Denison

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 |
| <b>Functions/Programs:</b>                                  |               |                     |   |   |
| Governmental activities:                                    |               |                     |   |   |
| Public safety   | \$ 1,269,071  | 48,246              | 54,158  | 64,367  |
| Public works  | 916,930       | -                   | 636,237   | -   |
| Health and social services                                  | 10,398        | -                   | -   | -   |
| Culture and recreation                                      | 592,860       | 167,264             | 44,307  | -   |
| Community and economic development                          | 227,392       | -                   | 84,807  | 105,730   |
| General government  | 900,186       | 56,156              | 3,870   | -   |
| Debt service  | 1,242,378     | -                   | 46,046  | -   |
| Capital projects  | 5,682,712     | -                   | 6,900   | 615,775   |
| Total governmental activities                               | 10,841,927    | 271,666             | 876,325   | 785,872   |
| Business type activities:                                   |               |                     |   |   |
| Solid waste   | 305,910       | 357,682             | -   | -   |
| Total   | \$ 11,147,837 | 629,348             | 876,325   | 785,872   |
| <b>General Receipts:</b>                                    |               |                     |   |   |
| Property tax levied for:                                    |               |                     |   |   |
| General purposes  |               |                     |   |   |
| Tax increment financing                                     |               |                     |   |   |
| Debt service  |               |                     |   |   |
| Local option sales tax                                      |               |                     |   |   |
| Hotel/motel tax   |               |                     |   |   |
| Grants and contributions not restricted to specific purpose |               |                     |   |   |
| Bond proceeds, net of \$70,555 discount                     |               |                     |   |   |
| Bank loan proceeds  |               |                     |   |   |
| 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                           |               |                     |   |   |
| <b>Cash Basis Net Assets</b>                                |               |                     |   |   |
| Restricted:   |               |                     |   |   |
| Streets   |               |                     |   |   |
| Urban renewal purposes                                      |               |                     |   |   |
| Debt service  |               |                     |   |   |
| Other purposes  |               |                     |   |   |
| Unrestricted  |               |                     |   |   |
| <b>Total cash basis net assets</b>                          |               |                     |   |   |

See notes to financial statements.

| Net (Disbursements) Receipts and<br>Changes in Cash Basis Net Assets |                             |             |
|--|-----------------------------|-------------|
| Governmental<br>Activities   | Business Type<br>Activities | Total       |
| (1,102,300)  | -                           | (1,102,300) |
| (280,693)  | -                           | (280,693)   |
| (10,398)   | -                           | (10,398)    |
| (381,289)  | -                           | (381,289)   |
| (36,855)   | -                           | (36,855)    |
| (840,160)  | -                           | (840,160)   |
| (1,196,332)  | -                           | (1,196,332) |
| (5,060,037)  | -                           | (5,060,037) |
| (8,908,064)  | -                           | (8,908,064) |
| -  | 51,772                      | 51,772      |
| (8,908,064)  | 51,772                      | (8,856,292) |
| \$ 1,850,137   | -                           | 1,850,137   |
| 425,836  | -                           | 425,836     |
| 226,523  | -                           | 226,523     |
| 534,797  | -                           | 534,797     |
| 116,039  | -                           | 116,039     |
| 326,315  | -                           | 326,315     |
| 4,259,445  | -                           | 4,259,445   |
| 386,000  | -                           | 386,000     |
| 281,177  | -                           | 281,177     |
| 40,000   | (40,000)                    | -           |
| 8,446,269  | (40,000)                    | 8,406,269   |
| (461,795) <sup>¶</sup>   | 11,772                      | (450,023)   |
| 3,257,587  | 43,808                      | 3,301,395   |
| \$ 2,795,792   | 55,580                      | 2,851,372   |
| \$ 387,754   | -                           | 387,754     |
| 734,599  | -                           | 734,599     |
| 477,422  | -                           | 477,422     |
| 1,297,940  | -                           | 1,297,940   |
| (101,923)  | 55,580                      | (46,343)    |
| \$ 2,795,792   | 55,580                      | 2,851,372   |

City of Denison

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<br>Tax | Employee<br>Benefits | Local<br>Option Sales<br>Tax | Urban<br>Renewal<br>Tax Increment |
| <b>Receipts:</b>   |                 |                 |                      |                              |                                   |
| Property tax   | \$ 1,263,687    | -               | 549,303              | -                            | -                                 |
| Tax increment financing                                    | -               | -               | -                    | -                            | 425,836                           |
| Other city tax   | 26,822          | -               | 894                  | 534,797                      | -                                 |
| Licenses and permits                                       | 37,570          | -               | -                    | -                            | -                                 |
| Use of money and property                                  | 77,967          | -               | -                    | 30,124                       | -                                 |
| Intergovernmental  | 382,725         | 614,461         | -                    | -                            | -                                 |
| Charges for service  | 205,820         | -               | -                    | -                            | -                                 |
| Special assessments  | -               | -               | -                    | -                            | -                                 |
| Miscellaneous  | 108,494         | -               | 4,223                | 7,100                        | 5,214                             |
| Total receipts   | 2,103,085       | 614,461         | 554,420              | 572,021                      | 431,050                           |
| <b>Disbursements:</b>                                      |                 |                 |                      |                              |                                   |
| Operating:   |                 |                 |                      |                              |                                   |
| Public safety  | 989,762         | -               | 278,327              | 982                          | -                                 |
| Public works   | 115,746         | 643,766         | 124,986              | 32,432                       | -                                 |
| Health and social services                                 | 9,839           | -               | 559                  | -                            | -                                 |
| Culture and recreation                                     | 492,266         | -               | 90,750               | 9,684                        | -                                 |
| Community and economic development                         | 2,417           | -               | -                    | -                            | -                                 |
| General government   | 604,184         | -               | 46,770               | 235,846                      | -                                 |
| Debt service   | -               | 36,410          | -                    | -                            | -                                 |
| Capital projects   | -               | -               | -                    | -                            | -                                 |
| Total disbursements  | 2,214,214       | 680,176         | 541,392              | 278,944                      | -                                 |
| Excess (deficiency) of receipts over (under) disbursements | (111,129)       | (65,715)        | 13,028               | 293,077                      | 431,050                           |
| <b>Other financing sources (uses):</b>                     |                 |                 |                      |                              |                                   |
| Sale of property   | -               | -               | -                    | -                            | -                                 |
| Bond proceeds, net of \$70,555 discount                    | -               | -               | -                    | -                            | -                                 |
| Bank loan proceeds   | -               | -               | -                    | -                            | -                                 |
| Operating transfers in                                     | 282,348         | -               | -                    | 12,428                       | -                                 |
| Operating transfers out                                    | (12,891)        | (47,800)        | (11,239)             | (791,519)                    | (354,792)                         |
| Total other financing sources (uses)                       | 269,457         | (47,800)        | (11,239)             | (779,091)                    | (354,792)                         |
| Net change in cash balances                                | 158,328         | (113,515)       | 1,789                | (486,014)                    | 76,258                            |
| Cash balances beginning of year                            | 479,215         | 851,437         | 583,508              | 991,433                      | 778,021                           |
| Cash balances end of year                                  | \$ 637,543      | 737,922         | 585,297              | 505,419                      | 854,279                           |
| <b>Cash Basis Fund Balances</b>                            |                 |                 |                      |                              |                                   |
| Reserved for debt service                                  | \$ -            | 350,168         | -                    | -                            | -                                 |
| Unreserved:  |                 |                 |                      |                              |                                   |
| General fund   | 637,543         | -               | -                    | -                            | -                                 |
| Special revenue funds                                      | -               | 387,754         | 585,297              | 505,419                      | 854,279                           |
| Capital projects fund                                      | -               | -               | -                    | -                            | -                                 |
| Total cash basis fund balances                             | \$ 637,543      | 737,922         | 585,297              | 505,419                      | 854,279                           |

See notes to financial statements.

| Debt Service | Capital Projects | Nonmajor Special Revenue | Total       |
|--------------|------------------|--------------------------|-------------|
| 226,156      | -                | 34,145                   | 2,073,291   |
| -            | -                | -                        | 425,836     |
| 367          | -                | 83,641                   | 646,521     |
| -            | -                | -                        | 37,570      |
| -            | 17,697           | 2,588                    | 128,376     |
| -            | 187,595          | 25,561                   | 1,210,342   |
| -            | 6,551            | -                        | 212,371     |
| -            | 111,173          | -                        | 111,173     |
| 46,046       | 299,658          | 165,447                  | 636,182     |
| 272,569      | 622,674          | 311,382                  | 5,481,662   |
| -            | -                | -                        | 1,269,071   |
| -            | -                | -                        | 916,930     |
| -            | -                | -                        | 10,398      |
| -            | -                | 160                      | 592,860     |
| -            | -                | 224,975                  | 227,392     |
| -            | -                | 13,386                   | 900,186     |
| 1,139,347    | -                | 66,621                   | 1,242,378   |
| -            | 5,682,712        | -                        | 5,682,712   |
| 1,139,347    | 5,682,712        | 305,142                  | 10,841,927  |
| (866,778)    | (5,060,038)      | 6,240                    | (5,360,265) |
| 213,025      | -                | -                        | 213,025     |
| -            | 4,259,445        | -                        | 4,259,445   |
| -            | 386,000          | -                        | 386,000     |
| 654,843      | 390,692          | 19,169                   | 1,359,480   |
| -            | (41,608)         | (59,631)                 | (1,319,480) |
| 867,868      | 4,994,529        | (40,462)                 | 4,898,470   |
| 1,090        | (65,509)         | (34,222)                 | (461,795)   |
| 6,484        | (659,003)        | 226,492                  | 3,257,587   |
| 7,574        | (724,512)        | 192,270                  | 2,795,792   |
| 7,574        | -                | -                        | 357,742     |
| -            | -                | -                        | 637,543     |
| -            | -                | 192,270                  | 2,525,019   |
| -            | (724,512)        | -                        | (724,512)   |
| 7,574        | (724,512)        | 192,270                  | 2,795,792   |

**City of Denison**

City of Denison  
Statement of Cash Receipts, Disbursements  
and Changes in Cash Balances

Proprietary Funds

As of and for the year ended June 30, 2006

|   | Enterprise<br>Solid Waste |
|---|---------------------------|
| Operating receipts:                                       |                           |
| Charges for service                                       | \$ 357,682                |
| Operating disbursements:                                  |                           |
| Business type activities                                  | 305,910                   |
| Excess of operating receipts over operating disbursements | 51,772                    |
| Operating transfers out                                   | (40,000)                  |
| Net change in cash balances                               | 11,772                    |
| Cash balances beginning of year                           | 43,808                    |
| Cash balances end of year                                 | \$ 55,580                 |
| <b>Cash Basis Fund Balances</b>                           |                           |
| Unreserved  | \$ 55,580                 |

See notes to financial statements.

City of Denison

Notes to Financial Statements

June 30, 2006

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

The City of Denison is a political subdivision of the State of Iowa located in Crawford County. It was first incorporated in 1875 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.

A. Reporting Entity

For financial reporting purposes, the City of Denison 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.

Blended Component Unit

The Denison Foundation has been incorporated under the provisions of the Iowa Nonprofit Corporation Act to operate for charitable purposes and economic development in the City of Denison. The Foundation is governed by a seven-member board appointed by the Mayor and approved by the City Council. In accordance with criteria set by the Governmental Accounting Standards Board, the Foundation meets the definition of a component unit which should be blended. The financial activity of the component unit has been blended as a Special Revenue Fund of the City.

Discretely Presented Component Unit

The Denison Municipal Utilities was established under Chapter 388 of the Code of Iowa to operate the City's municipal utilities. 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 Municipal Utilities meets the definition of a component unit which should be discretely presented. Condensed financial information presented in Note 8 was prepared on the accrual basis of accounting in conformity with U.S. generally accepted accounting principles. Complete financial statements can be obtained from the Denison Municipal Utilities, W. Broadway & 7<sup>th</sup> St., P.O. Box 518, Denison, Iowa 51442.

## Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Crawford County Assessor's Conference Board, Crawford County Emergency Management Commission, Crawford County Joint E911 Service Board and Crawford County Area Solid Waste 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 special revenue 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 Employee Benefits Fund is used to account for the collection and use of tax for pension, retirement and insurance benefits.

The Local Option Sales Tax Fund is utilized to account for the collection and use of the local option sales tax.

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

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

The Capital Projects fund is utilized to account for all resources used in the acquisition and construction of capital facilities.

The City also reports the following major proprietary fund:

The Solid Waste Fund accounts for the operation and maintenance of the City's garbage operations.

C. Measurement Focus and Basis of Accounting

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

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

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2006, disbursements exceeded the amount budgeted in the debt service function.

**(2) Cash and Pooled Investments**

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

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

The City had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$2,401,166 pursuant to Rule 2a-7 under the Investment Company Act of 1940. The investment in the Iowa Public Agency Investment Trust is unrated for credit risk purposes.

**(3) Bonds/Notes Payable**

Annual debt service requirements to maturity for general obligation bonds/notes and revenue bonds/notes are as follows:

| Year<br>Ending<br>June 30, | General Obligation<br>Bonds/Notes |           | Revenue<br>Bonds/Notes |          | Total      |           |
|----------------------------|-----------------------------------|-----------|------------------------|----------|------------|-----------|
|                            | Principal                         | Interest  | Principal              | Interest | Principal  | Interest  |
| 2007                       | \$ 615,000                        | 338,445   | 105,000                | 80,054   | 720,000    | 418,499   |
| 2008                       | 820,000                           | 294,170   | 105,000                | 76,457   | 925,000    | 370,627   |
| 2009                       | 685,000                           | 263,990   | 115,000                | 72,714   | 800,000    | 336,704   |
| 2010                       | 710,000                           | 239,217   | 115,000                | 68,499   | 825,000    | 307,716   |
| 2011                       | 650,000                           | 212,598   | 120,000                | 64,142   | 770,000    | 276,740   |
| 2012 - 2016                | 3,155,000                         | 692,445   | 690,000                | 242,054  | 3,845,000  | 934,499   |
| 2017 - 2021                | 1,555,000                         | 164,197   | 645,000                | 74,204   | 2,200,000  | 238,401   |
| Total                      | \$ 8,190,000                      | 2,205,062 | 1,895,000              | 678,124  | 10,085,000 | 2,883,186 |

During the year ended June 30, 2006, \$3,020,000 of general obligation bonds and \$1,310,000 of revenue bonds were issued and \$765,202 of general obligation bonds/notes and \$115,000 of revenue bonds/notes were retired.

General Obligation Economic Development Note

On August 5, 1996, the City entered into an agreement with the Crawford County Trust and Savings Bank in Denison for an economic development note up to \$600,000 to provide an economic development grant to the Crawford County Development Corporation for a speculation building in the Denison Urban Renewal Area. Interest was 5% per annum on the unpaid balance. During the year ended June 30, 2006, the City paid the entire balance of \$200,202 and interest of \$1,025.

### Childhood Center Revenue Notes

On July 1, 2001, the City entered into a revenue note agreement with United Bank of Iowa in Ida Grove to borrow \$350,000 to construct a building to be leased to the Crawford County Early Childhood Center. The resolution providing for the issuance of the revenue notes includes the following provisions:

- (a) The notes will only be redeemed from the revenues received by the City from the Crawford County Early Childhood Center (Childhood Center) and the note holder holds a lien on the future earnings of the Childhood Center.
- (b) Sufficient amounts shall be set aside in a separate revenue note sinking account for the purpose of making the note principal and interest payments when due.

### Road Use Tax Revenue Notes

On May 1, 2004, the City entered into a revenue note agreement with Ruan Securities Corporation to borrow \$395,000 to purchase equipment for the street department and street improvement projects. The resolution providing for the issuance of the revenue notes includes the following provisions:

- (1) The notes will only be redeemed from the road use tax funds received from the State of Iowa.
- (2) At the time of the delivery of the notes, a separate reserve account of \$39,275 shall be established.
- (3) Sufficient monthly transfers shall be made to a separate road use tax revenue sinking account for the purpose of making note principal and interest payments when due.
- (4) All funds remaining in the road use tax fund after payment of road related improvements and services authorized by state law and required transfers shall be placed in a surplus revenue account. This account is restricted to payments to the sinking and reserve accounts if these accounts are in default. If the sinking and reserve accounts are fully funded the surplus may be used for road related improvements and services authorized by state law.

### Urban Renewal Tax Increment Revenue Bonds

Urban renewal tax increment revenue bonds were issued for the purpose of paying costs of an urban renewal project, consisting of constructing a new community conference center. The bonds are payable solely from the income and proceeds of the urban renewal project in accordance with Chapter 403.19 of the Code of Iowa. The proceeds of the bonds shall 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, but the debt is subject to the constitutional debt limitation of the City. The resolution providing for the issuance of the bonds includes the following provisions:

- (1) The bonds will only be redeemed from the urban renewal tax increment revenue funds received from the county. The City accounts for this activity within the Special Revenue, Urban Renewal Tax Increment Fund.
- (2) A separate reserve fund shall be established to maintain a required debt service reserve. The City is to deposit bond proceeds of \$119,680 into this reserve fund. This fund is restricted for the purpose of paying principal and interest when funds in the urban renewal tax increment fund are inadequate. The City has not established this fund.

Crawford County Fair Association Loan Guarantee

On May 6, 2002, the City entered into an agreement with Wells Fargo Bank Iowa, N.A. (the lender) to guarantee a \$150,900 loan from the lender to the Crawford County Fair Association. The loan is to be paid by the Association to the lender under the conditions of a promissory note with an interest rate of 7.75% per annum and a final maturity of December 31, 2007. In the event the Association is unable to pay the lender, the City guarantees payment from incremental property taxes generated from the Denison Urban Renewal Area. On September 9, 2002, the Bank further agreed the City would be dismissed of any liability when the loan reaches a principal amount of \$70,000.

During the year ended June 30, 2006, the City paid \$15,000 to be applied to interest and principal on the loan. The remaining balance on the loan at June 30, 2006 was \$108,848.

**(4) Pension and Retirement Benefits**

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

Most plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of annual covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2006, 2005 and 2004 were \$95,401, \$86,332 and \$81,098, respectively, equal to the required contributions for each year.

**(5) Compensated Absences**

City employees accumulate a limited amount of earned but unused vacation, compensatory and sick leave hours for subsequent use or for payment upon termination, retirement or death. Employees who have accumulated at least 90 days sick leave may elect to convert earned sick leave above 90 days to cash at one-half of their rate of pay or may elect to convert sick leave to additional vacation time at a rate of one-half day of vacation time for each day of sick leave converted.

These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation, compensatory leave and sick leave payments payable to employees at June 30, 2006, primarily relating to the General Fund, is as follows:

| Type of Benefit    | Amount           |
|--------------------|------------------|
| Vacation           | \$ 17,000        |
| Compensatory leave | 20,000           |
| Sick leave         | <u>24,000</u>    |
| Total              | <u>\$ 61,000</u> |

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

**(6) Interfund Transfers**

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

| <u>Transfer to</u>     | <u>Transfer from</u>         | <u>Amount</u>       |
|------------------------|------------------------------|---------------------|
| General                | Special Revenue:             |                     |
|                        | Emergency                    | \$ 34,077           |
|                        | Local Option Sales Tax       | 186,323             |
|                        | Capital Projects             | 21,948              |
|                        | Enterprise:                  |                     |
|                        | Solid Waste                  | 40,000              |
|                        |                              | <u>282,348</u>      |
| Special Revenue:       | Special Revenue:             |                     |
| Local Option Sales Tax | Tourism - Hotel/Motel        | 12,428              |
| Payroll Section 125    | General                      | 7,930               |
| Dental Plan Trust      | Special Revenue:             |                     |
|                        | Employee Benefits            | 11,239              |
|                        |                              | <u>31,597</u>       |
| Debt Service           | General                      | 4,799               |
|                        | Special Revenue:             |                     |
|                        | Road Use Tax                 | 2,800               |
|                        | Local Option Sales Tax       | 321,950             |
|                        | Urban Renewal Tax Increment  | 305,634             |
|                        | Capital Projects             | 19,660              |
|                        |                              | <u>654,843</u>      |
| Capital Projects       | General                      | 162                 |
|                        | Special Revenue:             |                     |
|                        | Road Use Tax                 | 45,000              |
|                        | Local Option Sales Tax       | 283,246             |
|                        | Urban Renewal Tax Increment  | 49,158              |
|                        | Pledge Obligations           | 544                 |
|                        | Northside Recreational Trust | 12,582              |
|                        |                              | <u>390,692</u>      |
| Total                  |                              | <u>\$ 1,359,480</u> |

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

**(7) Construction Commitments**

The City entered into construction contracts for building and street projects during the year ended June 30, 2006. The unpaid contract balances at June 30, 2006 totaled \$1,310,698.

**(8) Denison Municipal Utilities**

The Denison Municipal Utilities provides electric, sewer, water and joint treatment for industrial waste services to the City of Denison. 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 Municipal Utilities for the year ended June 30, 2006.

| Condensed Statement of Net Assets                 |                      |
|---|----------------------|
| Assets:   |                      |
| Current and other assets                          | \$ 10,093,300        |
| Capital assets                                    | 26,214,793           |
| Total assets                                      | <u>36,308,093</u>    |
| Liabilities:                                      |                      |
| Long-term debt                                    | 5,861,423            |
| Other liabilities                                 | 1,797,140            |
| Total liabilities                                 | <u>7,658,563</u>     |
| Net assets:                                       |                      |
| Invested in capital assets, net of related debt   | 19,868,675           |
| Restricted for debt service and customer deposits | 1,138,041            |
| Unrestricted                                      | 7,642,814            |
| Total municipal equity                            | <u>\$ 28,649,530</u> |

| Condensed Statement of Revenues, Expenses and Changes in Net Assets |                      |
|---|----------------------|
| Operating revenues:   |                      |
| Sales to customers  | \$ 10,072,366        |
| Other   | 28,813               |
| Total operating revenues  | <u>10,101,179</u>    |
| Operating expenses:   |                      |
| Electric  | \$ 5,551,339         |
| Water   | 1,089,705            |
| Sewer   | 589,304              |
| Joint treatment   | 633,672              |
| Depreciation  | 1,236,368            |
| Operating income  | <u>9,100,388</u>     |
| Non-operating revenues (expenses):                                  |                      |
| Miscellaneous   | 160,298              |
| Interest income   | 297,886              |
| Interest expense  | (235,758)            |
| Economic development  | (68,234)             |
| Total non-operating revenues (expenses)                             | <u>154,192</u>       |
| Net income  | 1,154,983            |
| Net assets beginning of year  | <u>27,494,547</u>    |
| Net assets end of year  | <u>\$ 28,649,530</u> |

**(9) Risk Management**

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

**(10) Deficit Balances**

The Special Revenue, Payroll Section 125 and Trees Forever Funds had deficit balances of \$15 and \$14,939, respectively, at June 30, 2006. The Capital Projects Fund had a deficit balance of \$724,512 at June 30, 2006. The deficits will be eliminated through transfers from the Special Revenue, Local Option Sales Tax and the Special Revenue, Urban Renewal Tax Increment Funds, future grant proceeds and note proceeds.

**(11) Subsequent Events**

In September 2006, the City issued \$650,000 of general obligation bonds and entered into a construction contract totaling \$111,382 for a traffic signal project.

**Required Supplementary Information**

City of Denison  
 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<br>Funds<br>Actual | Proprietary<br>Funds<br>Actual |
|--|---------------------------------|--------------------------------|
| Receipts:  |                                 |                                |
| Property tax   | \$ 2,073,291                    | -                              |
| Tax increment financing  | 425,836                         | -                              |
| Other city tax   | 646,521                         | -                              |
| Licenses and permits   | 37,570                          | -                              |
| Use of money and property  | 128,376                         | -                              |
| Intergovernmental  | 1,210,342                       | -                              |
| Charges for service  | 212,371                         | 357,682                        |
| Special assessments  | 111,173                         | -                              |
| Miscellaneous  | 636,182                         | -                              |
| Total receipts   | <u>5,481,662</u>                | <u>357,682</u>                 |
| Disbursements:   |                                 |                                |
| Public safety  | 1,269,071                       | -                              |
| Public works   | 916,930                         | -                              |
| Health and social services   | 10,398                          | -                              |
| Culture and recreation   | 592,860                         | -                              |
| Community and economic development   | 227,392                         | -                              |
| General government   | 900,186                         | -                              |
| Debt service   | 1,242,378                       | -                              |
| Capital projects   | 5,682,712                       | -                              |
| Business type activities   | -                               | 305,910                        |
| Total disbursements  | <u>10,841,927</u>               | <u>305,910</u>                 |
| Excess (deficiency) of receipts<br>over (under) disbursements  | (5,360,265)                     | 51,772                         |
| Other financing sources (uses), net  | 4,898,470                       | (40,000)                       |
| Excess (deficiency) of receipts and other financing sources<br>over (under) disbursements and other financing uses | (461,795) <sup>F</sup>          | 11,772                         |
| Balances beginning of year   | <u>3,257,587</u>                | <u>43,808</u>                  |
| Balances end of year   | <u>\$ 2,795,792</u>             | <u>55,580</u>                  |

See accompanying independent auditor's report.

| Total<br>Actual | Budgeted Amounts |              | Final to<br>Actual<br>Variance |
|-----------------|------------------|--------------|--------------------------------|
|                 | Original         | Final        |                                |
| 2,073,291       | 2,091,654        | 2,091,654    | (18,363)                       |
| 425,836         | 400,000          | 400,000      | 25,836                         |
| 646,521         | 486,622          | 486,622      | 159,899                        |
| 37,570          | 28,900           | 28,900       | 8,670                          |
| 128,376         | 36,880           | 36,880       | 91,496                         |
| 1,210,342       | 1,798,206        | 1,798,206    | (587,864)                      |
| 570,053         | 531,400          | 531,400      | 38,653                         |
| 111,173         | -                | -            | 111,173                        |
| 636,182         | 138,554          | 138,554      | 497,628                        |
| 5,839,344       | 5,512,216        | 5,512,216    | 327,128                        |
| 1,269,071       | 1,330,946        | 1,360,946    | 91,875                         |
| 916,930         | 1,010,196        | 1,010,196    | 93,266                         |
| 10,398          | 10,405           | 10,405       | 7                              |
| 592,860         | 622,953          | 632,953      | 40,093                         |
| 227,392         | 316,000          | 516,000      | 288,608                        |
| 900,186         | 923,304          | 948,304      | 48,118                         |
| 1,242,378       | 649,294          | 1,199,294    | (43,084)                       |
| 5,682,712       | 9,811,000        | 9,590,000    | 3,907,288                      |
| 305,910         | 366,300          | 366,300      | 60,390                         |
| 11,147,837      | 15,040,398       | 15,634,398   | 4,486,561                      |
| (5,308,493)     | (9,528,182)      | (10,122,182) | 4,813,689                      |
| 4,858,470       | 8,158,000        | 8,752,000    | (3,893,530)                    |
| (450,023)       | (1,370,182)      | (1,370,182)  | 920,159                        |
| 3,301,395       | 5,211,516        | 5,211,516    | (1,910,121)                    |
| 2,851,372       | 3,841,334        | 3,841,334    | (989,962)                      |

City of Denison

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 the discretely presented component unit. 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 Proprietary Fund. 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 \$594,000. The budget amendment is reflected in the final budgeted amounts.

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

**Other Supplementary Information**

City of Denison

Schedule of Cash Receipts, Disbursements  
and Changes in Cash Balances  
Nonmajor Special Revenue Funds

As of and for the year ended June 30, 2006

|   | Payroll<br>Section 125 | Emergency | Tourism -<br>Hotel/<br>Motel | Denison<br>Foundation | Trees<br>Forever |
|---|------------------------|-----------|------------------------------|-----------------------|------------------|
| Receipts:   |                        |           |                              |                       |                  |
| Property tax  | \$ -                   | 34,145    | -                            | -                     | -                |
| Other city tax  | -                      | 56        | 83,585                       | -                     | -                |
| Use of money and property                                     | -                      | -         | -                            | 1,962                 | -                |
| Intergovernmental   | -                      | -         | -                            | -                     | 25,561           |
| Miscellaneous   | -                      | -         | -                            | 82,845                | 6,104            |
| Total receipts  | -                      | 34,201    | 83,585                       | 84,807                | 31,665           |
| Disbursements:  |                        |           |                              |                       |                  |
| Operating:  |                        |           |                              |                       |                  |
| Culture and recreation  | -                      | -         | -                            | -                     | -                |
| Community and economic development                            | -                      | -         | 51,038                       | 128,000               | 45,937           |
| General government  | 7,609                  | -         | -                            | -                     | -                |
| Debt service  | -                      | -         | -                            | -                     | -                |
| Total disbursements   | 7,609                  | -         | 51,038                       | 128,000               | 45,937           |
| Excess (deficiency) of receipts<br>over (under) disbursements | (7,609)                | 34,201    | 32,547                       | (43,193)              | (14,272)         |
| Other financing sources (uses):                               |                        |           |                              |                       |                  |
| Operating transfers in  | 7,930                  | -         | -                            | -                     | -                |
| Operating transfers out                                       | -                      | (34,077)  | (12,428)                     | -                     | -                |
| Total other financing sources (uses)                          | 7,930                  | (34,077)  | (12,428)                     | -                     | -                |
| Net change in cash balances                                   | 321                    | 124       | 20,119                       | (43,193)              | (14,272)         |
| Cash balances beginning of year                               | (336)                  | 485       | 25,217                       | 85,779                | (667)            |
| Cash balances end of year                                     | \$ (15)                | 609       | 45,336                       | 42,586                | (14,939)         |
| <b>Cash Basis Fund Balances</b>                               |                        |           |                              |                       |                  |
| Unreserved:   |                        |           |                              |                       |                  |
| Special revenue funds   | \$ (15)                | 609       | 45,336                       | 42,586                | (14,939)         |

See accompanying independent auditor's report.

| Pledge Obligations | Food Pantry | Dental Plan Trust | Library Trust | Aquatic Trust | Northside          |                  | Total    |
|--------------------|-------------|-------------------|---------------|---------------|--------------------|------------------|----------|
|                    |             |                   |               |               | Recreational Trust | Memorial Gardens |          |
| -                  | -           | -                 | -             | -             | -                  | -                | 34,145   |
| -                  | -           | -                 | -             | -             | -                  | -                | 83,641   |
| -                  | -           | -                 | 626           | -             | -                  | -                | 2,588    |
| -                  | -           | -                 | -             | -             | -                  | -                | 25,561   |
| 74,065             | -           | -                 | 335           | 1,702         | -                  | 396              | 165,447  |
| 74,065             | -           | -                 | 961           | 1,702         | -                  | 396              | 311,382  |
| -                  | 160         | -                 | -             | -             | -                  | -                | 160      |
| -                  | -           | -                 | -             | -             | -                  | -                | 224,975  |
| -                  | -           | 5,777             | -             | -             | -                  | -                | 13,386   |
| 66,621             | -           | -                 | -             | -             | -                  | -                | 66,621   |
| 66,621             | 160         | 5,777             | -             | -             | -                  | -                | 305,142  |
| 7,444              | (160)       | (5,777)           | 961           | 1,702         | -                  | 396              | 6,240    |
| -                  | -           | 11,239            | -             | -             | -                  | -                | 19,169   |
| (544)              | -           | -                 | -             | -             | (12,582)           | -                | (59,631) |
| (544)              | -           | 11,239            | -             | -             | (12,582)           | -                | (40,462) |
| 6,900              | (160)       | 5,462             | 961           | 1,702         | (12,582)           | 396              | (34,222) |
| -                  | 160         | -                 | 97,667        | 5,581         | 12,582             | 24               | 226,492  |
| 6,900              | -           | 5,462             | 98,628        | 7,283         | -                  | 420              | 192,270  |
| 6,900              | -           | 5,462             | 98,628        | 7,283         | -                  | 420              | 192,270  |

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

| Obligation                      | Date of<br>Issue | Interest<br>Rates | Amount<br>Originally<br>Issued |
|---------------------------------|------------------|-------------------|--------------------------------|
| General obligation bonds/notes: |                  |                   |                                |
| Economic development            | Aug 5, 1996      | 5.00%             | \$ 319,255                     |
| Corporate purpose               | Dec 1, 1997      | 4.20-4.80         | 830,000                        |
| Corporate purpose               | May 1, 2000      | 5.00-5.60         | 1,020,000                      |
| Corporate purpose               | Aug 1, 2003      | 1.70-4.30         | 3,740,000                      |
| Corporate purpose - refunding   | Aug 1, 2003      | 1.90-3.00         | 820,000                        |
| Street Improvement              | May 1, 2004      | 1.65-4.15         | 650,000                        |
| Street Improvement              | Jan 15, 2006     | 3.65-4.30         | 1,320,000                      |
| Flood levee                     | May 15, 2006     | 3.80-4.55         | 1,700,000                      |
| Total                           |                  |                   |                                |
| Revenue bonds/notes:            |                  |                   |                                |
| Childhood center                | Jul 1, 2001      | 4.75-5.70%        | \$ 350,000                     |
| Road use tax                    | May 1, 2004      | 2.05-5.20         | 395,000                        |
| Urban renewal tax increment     | Aug 15, 2005     | 3.05-4.45         | 1,310,000                      |
| Total                           |                  |                   |                                |
| Bank loan:                      |                  |                   |                                |
| Conference center               | Feb 13, 2006     | 7.50-8.25%        | \$ 386,000                     |

See accompanying independent auditor's report.

| Balance<br>Beginning<br>of Year | Issued<br>During<br>Year | Redeemed<br>During<br>Year | Balance<br>End of<br>Year | Interest<br>Paid |
|---------------------------------|--------------------------|----------------------------|---------------------------|------------------|
| 200,202                         | -                        | 200,202                    | -                         | 1,025            |
| 285,000                         | -                        | 90,000                     | 195,000                   | 13,450           |
| 590,000                         | -                        | 105,000                    | 485,000                   | 32,482           |
| 3,610,000                       | -                        | 140,000                    | 3,470,000                 | 124,153          |
| 620,000                         | -                        | 205,000                    | 415,000                   | 16,550           |
| 630,000                         | -                        | 25,000                     | 605,000                   | 22,915           |
| -                               | 1,320,000                | -                          | 1,320,000                 | -                |
| -                               | 1,700,000                | -                          | 1,700,000                 | -                |
| <b>\$ 5,935,202</b>             | <b>3,020,000</b>         | <b>765,202</b>             | <b>8,190,000</b>          | <b>210,575</b>   |
| 325,000                         | -                        | 20,000                     | 305,000                   | 26,046           |
| 375,000                         | -                        | 20,000                     | 355,000                   | 16,010           |
| -                               | 1,310,000                | 75,000                     | 1,235,000                 | 40,024           |
| <b>\$ 700,000</b>               | <b>1,310,000</b>         | <b>115,000</b>             | <b>1,895,000</b>          | <b>82,080</b>    |
| -                               | 386,000                  | 66,621                     | 319,379                   | -                |

City of Denison  
Bond/Note Maturities  
June 30, 2006

| Year<br>Ending<br>June 30, | Corporate Purpose<br>Issued Dec 1, 1997 |                   | Corporate Purpose<br>Issued May 1, 2000 |                   | Corporate Purpose<br>Issued Aug 1, 2003 |                     |
|----------------------------|---|-------------------|---|-------------------|---|---------------------|
|                            | Interest                                |                   | Interest                                |                   | Interest                                |                     |
|                            | Rates                                   | Amount            | Rates                                   | Amount            | Rates                                   | Amount              |
| 2007                       | 4.70%                                   | \$ 95,000         | 5.45%                                   | \$ 110,000        | 2.30%                                   | \$ 130,000          |
| 2008                       | 4.80                                    | 100,000           | 5.50                                    | 120,000           | 2.60                                    | 155,000             |
| 2009                       |   | -                 | 5.55                                    | 125,000           | 2.80                                    | 315,000             |
| 2010                       |   | -                 | 5.60                                    | 130,000           | 3.00                                    | 325,000             |
| 2011                       |   | -                 |   | -                 | 3.20                                    | 340,000             |
| 2012                       |   | -                 |   | -                 | 3.40                                    | 355,000             |
| 2013                       |   | -                 |   | -                 | 3.60                                    | 365,000             |
| 2014                       |   | -                 |   | -                 | 3.75                                    | 375,000             |
| 2015                       |   | -                 |   | -                 | 3.90                                    | 205,000             |
| 2016                       |   | -                 |   | -                 | 4.00                                    | 210,000             |
| 2017                       |   | -                 |   | -                 | 4.10                                    | 220,000             |
| 2018                       |   | -                 |   | -                 | 4.20                                    | 230,000             |
| 2019                       |   | -                 |   | -                 | 4.30                                    | 245,000             |
| 2020                       |   | -                 |   | -                 |   | -                   |
| 2021                       |   | -                 |   | -                 |   | -                   |
| Total                      |   | <u>\$ 195,000</u> |   | <u>\$ 485,000</u> |   | <u>\$ 3,470,000</u> |

| General Obligation Bonds/Notes |                   |                    |                   |                     |                     |                     |                     |                  |
|--------------------------------|-------------------|--------------------|-------------------|---------------------|---------------------|---------------------|---------------------|------------------|
| Corporate                      |                   |                    |                   |                     |                     |                     |                     |                  |
| Purpose-Refunding              |                   | Street Improvement |                   | Street Improvement  |                     | Flood Levee         |                     |                  |
| Issued Aug 1, 2003             |                   | Issued May 1, 2004 |                   | Issued Jan 15, 2006 |                     | Issued May 15, 2006 |                     |                  |
| Interest Rates                 |                   | Interest Rates     |                   | Interest Rates      |                     | Interest Rates      |                     | Total            |
| 2.70%                          | \$ 205,000        | 2.55%              | \$ 40,000         |                     | \$ -                | 3.80%               | \$ 35,000           | 615,000          |
| 3.00                           | 210,000           | 2.90               | 35,000            | 3.65%               | 110,000             | 3.80                | 90,000              | 820,000          |
|                                | -                 | 3.15               | 35,000            | 3.70                | 115,000             | 3.85                | 95,000              | 685,000          |
|                                | -                 | 3.40               | 35,000            | 3.75                | 120,000             | 3.90                | 100,000             | 710,000          |
|                                | -                 | 3.60               | 85,000            | 3.80                | 125,000             | 3.95                | 100,000             | 650,000          |
|                                | -                 | 3.80               | 85,000            | 3.90                | 130,000             | 4.00                | 105,000             | 675,000          |
|                                | -                 | 3.95               | 90,000            | 3.95                | 130,000             | 4.10                | 110,000             | 695,000          |
|                                | -                 | 4.05               | 95,000            | 4.05                | 140,000             | 4.15                | 115,000             | 725,000          |
|                                | -                 | 4.15               | 105,000           | 4.10                | 145,000             | 4.20                | 120,000             | 575,000          |
|                                | -                 | -                  | -                 | 4.20                | 150,000             | 4.30                | 125,000             | 485,000          |
|                                | -                 | -                  | -                 | 4.30                | 155,000             | 4.35                | 130,000             | 505,000          |
|                                | -                 | -                  | -                 | -                   | -                   | 4.40                | 135,000             | 365,000          |
|                                | -                 | -                  | -                 | -                   | -                   | 4.45                | 140,000             | 385,000          |
|                                | -                 | -                  | -                 | -                   | -                   | 4.50                | 145,000             | 145,000          |
|                                | -                 | -                  | -                 | -                   | -                   | 4.55                | 155,000             | 155,000          |
|                                | <u>\$ 415,000</u> |                    | <u>\$ 605,000</u> |                     | <u>\$ 1,320,000</u> |                     | <u>\$ 1,700,000</u> | <u>8,190,000</u> |

**Schedule 3**

City of Denison  
 Bond/Note Maturities  
 June 30, 2006

| Year<br>Ending<br>June 30, | Revenue Bonds/Notes |                   |                    |                   |                     |                     |                  | Total |
|----------------------------|---------------------|-------------------|--------------------|-------------------|---------------------|---------------------|------------------|-------|
|                            | Childhood Center    |                   | Road Use Tax       |                   | Urban Renewal TIF   |                     |                  |       |
|                            | Issued Jul 1, 2001  |                   | Issued May 1, 2004 |                   | Issued Aug 15, 2005 |                     |                  |       |
|                            | Interest<br>Rates   | Amount            | Interest<br>Rates  | Amount            | Interest<br>Rates   | Amount              |                  |       |
| 2007                       | 5.10%               | \$ 15,000         | 2.95%              | \$ 20,000         | 3.20%               | \$ 70,000           | 105,000          |       |
| 2008                       | 5.15                | 15,000            | 3.30               | 20,000            | 3.30                | 70,000              | 105,000          |       |
| 2009                       | 5.15-5.20           | 15,000            | 3.55               | 25,000            | 3.40                | 75,000              | 115,000          |       |
| 2010                       | 5.20                | 15,000            | 3.80               | 25,000            | 3.50                | 75,000              | 115,000          |       |
| 2011                       | 5.25-5.30           | 15,000            | 4.00               | 25,000            | 3.60                | 80,000              | 120,000          |       |
| 2012                       | 5.35                | 20,000            | 4.20               | 25,000            | 3.70                | 80,000              | 125,000          |       |
| 2013                       | 5.40                | 20,000            | 4.35               | 25,000            | 3.80                | 85,000              | 130,000          |       |
| 2014                       | 5.45                | 20,000            | 4.50               | 30,000            | 3.90                | 90,000              | 140,000          |       |
| 2015                       | 5.50                | 25,000            | 4.65               | 30,000            | 4.00                | 90,000              | 145,000          |       |
| 2016                       | 5.55                | 25,000            | 4.80               | 30,000            | 4.10                | 95,000              | 150,000          |       |
| 2017                       | 5.55-5.60           | 25,000            | 4.95               | 30,000            | 4.15                | 100,000             | 155,000          |       |
| 2018                       | 5.60                | 25,000            | 5.10               | 35,000            | 4.25                | 105,000             | 165,000          |       |
| 2019                       | 5.65                | 25,000            | 5.20               | 35,000            | 4.35                | 110,000             | 170,000          |       |
| 2020                       | 5.65-5.70           | 25,000            |                    | -                 | 4.45                | 110,000             | 135,000          |       |
| 2021                       | 5.70                | 20,000            |                    | -                 |                     | -                   | 20,000           |       |
| Total                      |                     | <u>\$ 305,000</u> |                    | <u>\$ 355,000</u> |                     | <u>\$ 1,235,000</u> | <u>1,895,000</u> |       |

See accompanying independent auditor's report.

## City of Denison

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

For the Last Four Years

|                                    | 2006                 | 2005             | 2004             | 2003             |
|------------------------------------|----------------------|------------------|------------------|------------------|
| Receipts:                          |                      |                  |                  |                  |
| Property tax                       | \$ 2,073,291         | 2,087,521        | 2,135,128        | 1,854,448        |
| Tax increment financing            | 425,836              | 417,671          | 319,292          | 519,558          |
| Other city tax                     | 646,521              | 604,991          | 532,164          | 523,997          |
| Licenses and permits               | 37,570               | 46,149           | 31,199           | 32,810           |
| Use of money and property          | 128,376              | 77,770           | 68,661           | 47,347           |
| Intergovernmental                  | 1,210,342            | 1,413,492        | 1,349,715        | 1,109,095        |
| Charges for service                | 212,371              | 197,352          | 235,334          | 411,741          |
| Special assessments                | 111,173              | 23,287           | 156,734          | -                |
| Miscellaneous                      | 636,182              | 612,662          | 537,069          | 176,427          |
| <b>Total</b>                       | <b>\$ 5,481,662</b>  | <b>5,480,895</b> | <b>5,365,296</b> | <b>4,675,423</b> |
| Disbursements:                     |                      |                  |                  |                  |
| Operating:                         |                      |                  |                  |                  |
| Public safety                      | \$ 1,269,071         | 1,216,268        | 1,212,053        | 1,231,143        |
| Public works                       | 916,930              | 802,145          | 863,252          | 855,477          |
| Health and social services         | 10,398               | 6,406            | 9,489            | 11,392           |
| Culture and recreation             | 592,860              | 521,236          | 543,157          | 540,320          |
| Community and economic development | 227,392              | 246,706          | 209,126          | 76,026           |
| General government                 | 900,186              | 887,499          | 478,426          | 544,350          |
| Debt service                       | 1,242,378            | 850,961          | 638,433          | 495,734          |
| Capital projects                   | 5,682,712            | 3,133,687        | 3,690,442        | 859,204          |
| <b>Total</b>                       | <b>\$ 10,841,927</b> | <b>7,664,908</b> | <b>7,644,378</b> | <b>4,613,646</b> |

See accompanying independent auditor's report.

**City of Denison**



**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, the discretely presented component unit and the aggregate remaining fund information of the City of Denison, 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 January 4, 2007. 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 Denison'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 a matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. 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 Denison's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying Schedule of Findings.

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

## Compliance and Other Matters

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

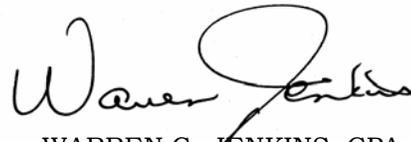
Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions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

January 4, 2007

City of Denison

Schedule of Findings

Year ended June 30, 2006

**Findings Related to the Financial Statements:**

**REPORTABLE CONDITION:**

Information Systems – The City does not have a disaster recovery plan.

Recommendation – The City should develop a written disaster recovery plan.

Response – We have completed a rough draft and will complete the policy soon.

Conclusion – Response accepted.

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

City of Denison

Schedule of Findings

Year ended June 30, 2006

**Other Findings Related to Required Statutory Reporting:**

- (1) Certified Budget – Disbursements during the year ended June 30, 2006 exceeded the amount budgeted in the debt service function. 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 considered payments made on the bank loan as other expense and not debt service because pledges are used to pay the loan. We will consider these as debt payments in the future.

Conclusion – Response accepted.

- (2) 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.
- (3) Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- (4) Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

| <u>Name, Title, and<br/>Business Connection</u>      | <u>Transaction<br/>Description</u> | <u>Amount</u> |
|--|------------------------------------|---------------|
| Nancy McKinnon, wife of Fire<br>Chief, owner of NRFM | Cleaning                           | \$ 1,080      |

In accordance with Chapter 362.5(10) of the Code of Iowa, the transaction with the Fire Chief’s wife does not appear to represent a conflict of interest since the total amount was less than \$1,500 during the fiscal year.

- (5) 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.
- (6) Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.
- (7) 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 Denison

Schedule of Findings

Year ended June 30, 2006

- (8) Revenue Bonds/Notes – The City has not complied with the urban renewal revenue bond resolution which requires the City to establish an Urban Renewal Reserve Fund and deposit \$119,680 of bond proceeds to this fund. Also, the City is required to pay bonds and interest when due from the Urban Renewal Tax Increment Fund. For the fiscal year ended June 30, 2006, the City paid this debt from the Debt Service Fund and transferred from the Urban Renewal Tax Increment Fund to reimburse the Debt Service Fund.

Recommendation – The City should establish a separate Urban Renewal Reserve Fund and transfer \$119,680 from the Urban Renewal Tax Increment Fund to establish the Urban Renewal Reserve Fund. In addition, the City should pay bonds and interest from the Urban Renewal Tax Increment Fund, as required.

Response – We will establish the Urban Renewal Reserve Fund immediately and transfer the \$119,680 from the Urban Renewal Tax Increment Fund to the Urban Renewal Reserve Fund. We will pay bonds and interest on the urban renewal bonds from the Urban Renewal Tax Increment Fund in the future, as required.

Conclusion – Response accepted.

- (9) Urban Renewal Tax Increment Fund – The Urban Renewal Tax Increment Fund balance at June 30, 2006 is \$854,279 and appears to be an excessive amount. The City included capital projects on the TIF Debt Certificate beginning in the fiscal year ended June 30, 2000 which were subsequently funded with bond proceeds. This provided the City tax increment financing revenues which were not used to pay the capital projects certified as tax increment financing debt, resulting in an excessive balance in the Urban Renewal Tax Increment Fund. In addition, the City has overstated several recent TIF Debt Certificates.

Recommendation – The City should call the corporate purpose notes dated May 1, 2000 which become callable in June 2007 using the excess Urban Renewal Tax Increment Fund balance. The City should reduce future TIF Debt Certificate amounts to correct this overage.

Response – We will use excess Urban Renewal Tax Increment Fund balance to call notes issued for the TIF projects and will adjust future TIF Debt Certificate to correct overages which caused the TIF fund excess balance.

Conclusion – Response accepted.

- (10) Financial Condition – The Capital Projects Fund had a deficit balance of \$724,512 at June 30, 2006.

Recommendation – The City should evaluate the reasons for the deficit and investigate alternatives to eliminate the deficit in order to return the fund to a sound financial position.

Response – The City is aware of the deficit balance and will eliminate the deficit through transfers from the Special Revenue, Local Option Sales Tax and the Special Revenue, Urban Renewal Tax Increment Funds, future grant proceeds and bond proceeds.

Conclusion – Response accepted.

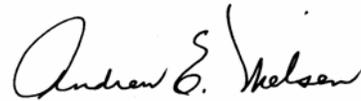
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City of Denison

Staff

This audit was performed by:

Steven M. Nottger, CPA, Manager  
Paul F. Kearney, CGFM, Senior Auditor  
Matt R. Ritchey, Assistant 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