

CITY OF BRITT

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

JUNE 30, 2006

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CITY OF BRITT

OFFICIALS

(Before January 2006)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
James Nelson	Mayor	Jan 2006
Michael Ostercamp	Mayor Pro tem	Jan 2006
Nathan Lemmon	Council Member	Jan 2006
Gary Gelner	Council Member	Jan 2008
Ben Muller	Council Member	Jan 2006
Patricia Byers	Council Member	Jan 2008
Jean Purvis	City Clerk	Jan 2006
Darcy Eisenman	Deputy City Clerk	Jan 2006
Jane Swenson	Treasurer	Jan 2006
Earl Hill	Attorney	Jan 2006

(After January 2006)

James Nelson	Mayor	Jan 2008
Patricia Byers	Mayor Pro tem	Jan 2008
Gary Gelner	Council Member	Jan 2008
Dwight Leerar	Council Member	Jan 2008
Nathan Lemmon	Council Member	Jan 2010
Douglas Weiland	Council Member	Jan 2010
Jean Purvis	City Clerk	Jan 2007
Darcy Eisenman	Deputy City Clerk	Jan 2007
Jane Swenson	Treasurer	Jan 2007
Earl Hill	Attorney	Jan 2007

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Members of the City Council:

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

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Britt 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 reports dated October 27, 2006 on our consideration of the City of Britt'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 6 through 15, 28 and 29 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the 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 Britt'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 (none of which are presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 4 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

October 27, 2006

Renner & Birchem, P.C.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Britt 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

- Revenues of the City's governmental activities increased 83.6% approximately \$978,300, from fiscal 2005 to fiscal 2006. Property tax increased approximately \$76,700 and short-term borrowing increased approximately \$818,000.
- Disbursements increased 52.2% or approximately \$671,000 in fiscal 2006 from fiscal 2005. Public works disbursements decreased approximately \$96,000. Capital projects, general government and community and economic development disbursements increased approximately \$603,000, \$58,500 and \$38,500 respectively.
- The City's total cash basis net assets increased 11.7%, or approximately \$149,000, from June 30, 2005 to June 30, 2006. Of this amount, the assets of the governmental activities increased approximately \$193,000 and the assets of the business type activities decreased by approximately \$44,000.

USING THIS ANNUAL REPORT

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

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

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

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial

statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

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

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

Other Supplementary Information provides detailed information about the nonmajor governmental funds.

Basis of Accounting

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

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

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

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 waterworks and the sanitary sewer system. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

- 1) Governmental funds account for most of the City’s basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Revolving Loan, 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 statements for governmental funds include a statement of cash receipts, disbursements and changes in cash balances.

- 2) Proprietary funds account for the City’s Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains four Enterprise Funds to provide separate information for the water and sewer funds, considered to be major funds of the City.

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

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 increased from a year ago, increasing from \$857,075 to \$1,050,248. The analysis that follows focuses on the changes in cash balances for governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities		
	Year ended June 30,	
	2006	2005
Receipts and transfers:		
Program receipts:		
Charges for service	\$38,844	43,713
Operating grants, contributions and restricted interest	188,280	184,730
Capital grants, contributions and restricted interest	82,346	80,037
General receipts:		
Property tax	586,934	498,759
Local option sales tax	142,126	122,940
Unrestricted investment earnings	3,742	11,024
Other general receipts	178,385	104,159
Transfers, net	110,000	125,300
Short-term borrowing	818,313	
Total receipts and transfers	<u>2,148,970</u>	<u>1,170,662</u>

Disbursements:		
Public safety	246,957	215,160
Public works	285,894	381,731
Culture and recreation	164,626	153,489
Community and economic development	156,537	117,946
General government	223,085	164,539
Debt Service	183,818	159,815
Capital projects	694,880	91,982
Total disbursements	<u>1,955,797</u>	<u>1,284,662</u>
Increase (decrease) in cash basis net assets	193,173	(114,000)
Cash basis net assets beginning of year	<u>857,075</u>	<u>971,075</u>
Cash basis net assets end of year	<u><u>\$1,050,248</u></u>	<u><u>857,075</u></u>

The City's total receipts for governmental activities increased by 83.57% or \$978,308. The total cost of all programs and services increased by approximately \$671,135, or 52.24%, with no new programs added this year.

The City increased property tax rates for 2006 by an average of 17.67%. This increase raised the City's property tax receipts by approximately \$88,175 in 2006.

The cost of all governmental activities this year was \$1.956 million compared to \$1.285 million last year. However, as shown in the Statement of Activities and Net Assets on page 17, the amount taxpayers ultimately financed for these activities was only \$1.646 million because some of the cost was paid by those directly benefited from the programs (\$38,844) or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest (\$270,626). Overall, the City's governmental activities receipts, including intergovernmental aid and fees for service totaled approximately \$2,149,000. The City paid for the remaining "public benefit" portion of governmental activities with approximately \$1,646,000 in tax (some of which could only be used for certain programs) and with other receipts, such as interest and general entitlements.

Changes in Cash Basis Net Assets of Business Type Activities		
	Year ended June 30,	
	2006	2005
Receipts:		
Program receipts:		
Charges for service:		
Water	\$131,987	130,218
Sewer	147,133	142,707
Capital grants, contributions and restricted interest		
General receipts:		
Unrestricted interest on investments		6,468
Other general receipts	19,032	15,153
Total receipts	<u>298,152</u>	<u>294,546</u>
Disbursements and transfers:		
Water	86,397	73,370
Sewer	145,833	121,488
Transfers	110,000	125,300
Total disbursements and transfers	<u>342,230</u>	<u>320,158</u>
Increase (decrease) in cash basis net assets	(44,078)	(25,612)
Cash basis net assets beginning of year	<u>419,961</u>	<u>445,573</u>
Cash basis net assets end of year	<u><u>\$375,883</u></u>	<u><u>419,961</u></u>

Total business type activities receipts for the fiscal year were \$298,152 compared to \$294,546 last year. Total disbursements and transfers for the fiscal year increased by 6.89% to a total of \$342,230. The cash balance decreased by \$44,078 during the fiscal year compared to a decrease of \$25,612 last year.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Britt completed the year, its governmental funds reported a combined fund balance of \$1,050,248, an increase of \$193,173 above last year's total of \$857,075. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance decreased \$92,834 from the prior year to \$179,114.
- The Road Use Tax Fund cash balance decreased by \$44,700 to \$103,526 during the fiscal year. This decrease was attributable to a major street projects this fiscal year.
- The Revolving Loan Fund was established to provide low interest loans to new and existing businesses upon the recommendation of the Revolving Loan

Committee. During the fiscal year the City made one loan of \$25,000 and collected principal and interest payments of \$37,445, for a net increase in the fund cash balance of \$12,445.

- The Local Option Tax Fund cash balance increased by \$26,173 to \$338,874 during the fiscal year.
- The Capital Projects Fund cash balance increased by \$214,861 to \$286,467 during the fiscal year. The increase was mainly due to the timing of receipts and disbursements. The City intends to use this money for project bills not yet paid at fiscal year end.
- The Debt Service Fund cash balance decreased by \$18,341.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance decreased by \$13,915 to \$170,173 during the fiscal year.
- The Sewer Fund cash balance decreased by \$30,566 to \$113,487 during the fiscal year.
- The Sewer Utility Sinking Fund cash balance increased \$403 to \$20,223 during the fiscal year.
- There was no change in the Sewer Reserve Fund cash balance. The balance remained at \$72,000.

BUDGETARY HIGHLIGHTS

The City amended its budget on May 1, 2006. The amendment resulted in an increase in intergovernmental and other financing sources of \$58,000 and \$818,312 respectively and an increase in expenditures of \$803,120.

DEBT ADMINISTRATION

At June 30, 2006, the City had \$1,255,000 in general obligation and revenue bonds, compared to \$645,000 at the end of the prior year, as shown below.

	Outstanding Debt at Year-End	
	June 30,	
	2006	2005
General obligation bonds and short-term borrowing	\$980,000	310,000
Revenue notes	275,000	335,000
Total	<u>\$1,255,000</u>	<u>645,000</u>

Debt increased as a result of \$825,000 in short-term borrowing 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 taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$980,000 is significantly below its constitutional debt limit of approximately \$1,500,000.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

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

These among other economic factors were taken into account when adopting the budget for fiscal year 2007. Amounts available for appropriation in the operating budget are \$1,656,879, a decrease of 32.5 % from the final 2006 budget. Budgeted disbursements are expected to decrease by approximately \$616,000.

If these estimates are realized, the City's budgeted cash balance is expected to decrease approximately \$343,600 by the close of 2007. Actual amounts can and usually do differ from budgeted amounts.

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 Jeanie Purvis, City Clerk, 170 Main Avenue South, Britt, Iowa.

BASIC FINANCIAL STATEMENTS

Statement of Activities and Net Assets - Cash Basis

As of and for the year ended June 30, 2006

	Program Receipts			Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
	Disbursements	Charges	Operating Grants,	Capital Grants,	Business Type	Total
		for Service	Contributions and Restricted interest	Contributions and Restricted interest		
Functions / Programs:						
Governmental activities:						
Public safety	\$ 246,957	5,223	16,475		(225,259)	(225,259)
Public works	285,894	26,741	171,805		(87,348)	(87,348)
Culture and recreation	164,626	6,880			(157,746)	(157,746)
Community and economic development	156,537				(156,537)	(156,537)
General government	223,085				(223,085)	(223,085)
Debt service	183,818				(183,818)	(183,818)
Capital projects	694,880			82,346	(612,534)	(612,534)
Total governmental activities	1,955,797	38,844	188,280	82,346	(1,646,327)	(1,646,327)
Business type activities:						
Water	86,397	131,987			45,590	45,590
Sewer	145,833	147,133			1,300	1,300
Total business type activities	232,230	279,120			46,890	46,890
Total	\$ 2,188,027	317,964	188,280	82,346	(1,646,327)	(1,599,437)
General Receipts:						
Property tax levied for:						
General purposes					\$ 298,222	298,222
Tax increment financing					57,755	57,755
Employee benefits and insurance					87,553	87,553
Debt service					143,404	143,404
Local option sales tax					142,126	142,126
Unrestricted interest on investments					3,742	3,742
Miscellaneous					178,385	19,032
Transfers					110,000	(110,000)
Short-term borrowing					818,313	818,313
Total general receipts					1,839,500	(90,968)
Change in cash basis net assets					193,173	(44,078)
Cash basis net assets beginning of year					857,075	419,961
Cash basis net assets end of year					\$ 1,050,248	375,883
Cash Basis Net Assets						
Restricted:						
Streets					\$ 58,826	58,826
Urban renewal purposes					286,467	286,467
Debt service					(11,702)	92,223
Other purposes					161,180	161,180
Unrestricted					555,477	283,660
Total cash basis net assets					\$ 1,050,248	375,883

See notes to financial statements.

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

As of and for the year ended June 30, 2006

	Special Revenue							Total
	General	Road Use Tax	Revolving Loan	Local Option	Debt Service	Capital Projects	Nonmajor	
Receipts:								
Property tax	\$ 298,222				143,404		87,553	529,179
Tax increment financing collections							57,755	57,755
Other city tax				142,126				142,126
Licenses and permits	2,651							2,651
Use of money and property	7,787							7,787
Intergovernmental	38,445	171,805				82,346		292,596
Charges for services	38,844							38,844
Miscellaneous	75,223	3,421	37,445			31,155		147,244
Total receipts	461,172	175,226	37,445	142,126	143,404	113,501	145,308	1,218,182
Disbursements:								
Operating:								
Public safety	212,917						34,040	246,957
Public works	30,968	254,926						285,894
Culture and recreation	158,419						6,207	164,626
Community and economic development	25,584		25,000	105,953				156,537
General government	203,593						19,492	223,085
Debt service					161,745	22,073		183,818
Capital projects						694,880		694,880
Total disbursements	631,481	254,926	25,000	105,953	161,745	716,953	59,739	1,955,797
Excess (deficiency) of receipts over (under) disbursements	(170,309)	(79,700)	12,445	36,173	(18,341)	(603,452)	85,569	(737,615)
Other financing sources (uses):								
Short-term borrowing						818,313		818,313
Sale of capital assets	2,475							2,475
Operating transfers in	75,000	35,000					10,000	120,000
Operating transfers out				(10,000)				(10,000)
Total other financing sources (uses)	77,475	35,000		(10,000)		818,313	10,000	930,788
Net change in cash balances	(92,834)	(44,700)	12,445	26,173	(18,341)	214,861	95,569	193,173
Cash balances beginning of year	179,114	103,526	91,705	338,874	6,639	71,606	65,611	857,075
Cash balances end of year	\$ 86,280	58,826	104,150	365,047	(11,702)	286,467	161,180	1,050,248
Cash Basis Fund Balances								
Reserved:								
Debt service					(11,702)			(11,702)
Unreserved:								
General fund	\$ 86,280							86,280
Special revenue funds		58,826	104,150	365,047			161,180	689,203
Capital projects						286,467		286,467
Total cash basis fund balances	\$ 86,280	58,826	104,150	365,047	(11,702)	286,467	161,180	1,050,248

See notes to financial statements.

City of Britt

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

As of and for the year ended June 30, 2006

	Enterprise Funds				Total
	Water	Sewer	Sewer Utility Sinking	Sewer Reserve	
Operating receipts:					
Charges for service	\$ 131,987	147,133			279,120
Miscellaneous	15,495	3,537			19,032
Total operating receipts	147,482	150,670			298,152
Operating disbursements:					
Business type activities	86,397	66,553			152,950
Total operating disbursements	86,397	66,553			152,950
Excess of operating receipts over operating disbursements	61,085	84,117			145,202
Non-operating (disbursements):					
Debt service		(79,280)			(79,280)
Excess of receipts over disbursements	61,085	4,837			65,922
Operating transfers out	(75,000)	(35,403)	403		(110,000)
Net change in cash balances	(13,915)	(30,566)	403		(44,078)
Cash balance beginning of year	184,088	144,053	19,820	72,000	419,961
Cash balances end of year	\$ 170,173	113,487	20,223	72,000	375,883
Cash Basis Fund Balances					
Reserved for debt service			20,223	72,000	92,223
Unreserved	\$ 170,173	113,487			283,660
Total cash basis fund balances	\$ 170,173	113,487	20,223	72,000	375,883

See notes to financial statements.

CITY OF BRITT

Notes to Financial Statements

June 30, 2006

(1) Summary of Significant Accounting Policies

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

A. Reporting Entity

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

Jointly Governed Organizations

The City also participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Hancock County Assessor's Conference Board and Hancock County Development Commission, Hancock County Disaster/911 and Hancock County Task Force.

B. Basis of Presentation

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

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

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

CITY OF BRITT

Notes to Financial Statements (continued)

June 30, 2006

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

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

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

The City reports the following major governmental funds:

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

Special Revenue:

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

The Revolving Loan Fund is used to account for loan funds set aside for economic development.

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

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 used to account for all resources used in the acquisition and construction of capital facilities.

The City reports the following major proprietary funds:

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

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

CITY OF BRITT

Notes to Financial Statements (continued)

June 30, 2006

C. Measurement Focus and Basis of Accounting

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

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

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2006, disbursements exceeded the amounts budgeted in the public safety, public works, culture and recreation, and debt service functions.

(2) Cash and Pooled Investments

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

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

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

CITY OF BRITT

Notes to Financial Statements (continued)

June 30, 2006

(3) Bonds Payable

Annual debt service requirements to maturity for general obligation and revenue bonded indebtedness are as follows:

Year Ending June 30,	General Obligation Bonds		Revenue Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2007	\$ 980,000	29,321	65,000	15,890	220,000	19,223
2008			65,000	12,185	65,000	12,185
2009			70,000	8,447	70,000	8,447
2010			<u>75,000</u>	<u>4,388</u>	<u>75,000</u>	<u>4,388</u>
Total	<u>\$ 980,000</u>	<u>29,321</u>	<u>275,000</u>	<u>40,910</u>	<u>430,000</u>	<u>44,243</u>

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

- (a) The bonds will only be redeemed from the future earnings of the enterprise activity and the bond holders hold a lien on the future earnings of the funds.
- (b) Sufficient monthly transfers shall be made to the sewer revenue bond sinking fund for the purpose of making the bond principal and interest payments when due.
- (c) \$720,000 of sewer revenue capital loan notes were issued April 1, 1997, payable until April 2010. A reserve fund of \$72,000 has been established to be used solely for the purpose of paying principal at maturity of or interest on the notes and parity obligations for the payment of which insufficient money shall be available in the sinking fund.

General obligation bonds total includes \$825,000 of short-term borrowing for a housing development project. The balance is due June 1, 2007 and will be redeemed with a bond issuance.

(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.

CITY OF BRITT

Notes to Financial Statements (continued)

June 30, 2006

(4) Pension and Retirement Benefits (con't)

Most regular plan members are required to contribute 3.70% of their annual salary and the City is required to contribute 5.75% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contribution to IPERS for the years ended June 30, 2006, 2005 and 2004 were \$22,189, \$22,568, and \$18,954 respectively, equal to the required contribution for each year.

(5) Compensated Absences

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

<u>Type of Benefit</u>	<u>Amount June 30, 2006</u>
Vacation and Comp Time	\$ <u>7,793</u>

This liability has been computed based on rates of pay as of 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 Fund	Enterprise: Water	\$ <u>75,000</u>
Road Use Tax	Enterprise: Sewer	<u>35,000</u>
Employee Benefits	Special Revenue: Local Option Tax	<u>10,000</u>
Total		<u>\$120,000</u>

CITY OF BRITT

Notes to Financial Statements (continued)

June 30, 2006

(7) Related Party Transactions

No transactions between the City and City officials occurred during the year ended June 30, 2006.

(8) Risk Management

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

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

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

The City's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The City's annual contributions to the Pool for the year ended June 30, 2006 were \$37,581.

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

CITY OF BRITT

Notes to Financial Statements (continued)

June 30, 2006

(8) Risk Management (con't)

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

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

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

(9) Deficit Balance

The Debt Service Fund had a deficit balance of \$11,702 at June 30, 2006. The deficit will be eliminated upon receipt of property tax.

REQUIRED SUPPLEMENTARY INFORMATION

City of Britt

Budgetary Comparison Schedule
of Receipts, Disbursements, and Changes in Balances –
Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Funds

Required Supplementary Information

Year ended June 30, 2006

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds not Required to be Budgeted	Net	Budgeted Amounts		Final to Net Variance
					Original	Final	
Receipts:							
Property tax	\$ 529,179			529,179	493,312	493,312	35,867
Tax increment financing collections	57,755			57,755	32,000	32,000	25,755
Other city tax	142,126			142,126	154,504	154,504	(12,378)
Licenses and permits	2,651			2,651	3,760	3,760	(1,109)
Use of money and property	7,787			7,787	4,500	4,500	3,287
Intergovernmental	292,596			292,596	379,928	437,928	(145,332)
Charges for services	38,844	279,120		317,964	351,845	351,845	(33,881)
Miscellaneous	147,244	19,032	37,445	128,831	48,797	48,797	80,034
Total receipts	1,218,182	298,152	37,445	1,478,889	1,468,646	1,526,646	(47,757)
Disbursements:							
Public safety	246,957			246,957	180,136	210,561	(36,396)
Public works	285,894			285,894	267,925	269,245	(16,649)
Culture and recreation	164,626			164,626	144,800	155,800	(8,826)
Community and economic development	156,537		25,000	131,537	448,000	453,000	321,463
General government	223,085			223,085	247,562	255,937	32,852
Debt service	183,818	79,280		263,098	161,125	161,125	(101,973)
Capital projects	694,880			694,880		747,000	52,120
Business type activities		152,950		152,950	254,190	254,190	101,240
Total disbursements	1,955,797	232,230	25,000	2,163,027	1,703,738	2,506,858	343,831
Excess (deficiency) of receipts over (under) disbursements	(737,615)	65,922	12,445	(684,138)	(235,092)	(980,212)	296,074
Other financing sources, net	930,788	(110,000)		820,788		818,312	2,476
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	193,173	(44,078)	12,445	136,650	(235,092)	(161,900)	298,550
Balances beginning of year	857,075	419,961	1,210	1,275,826	1,398,688	1,398,688	(122,862)
Cash balances end of year	\$ 1,050,248	375,883	13,655	1,412,476	1,163,596	1,236,788	175,688

See accompanying independent auditor's report.

City of Britt

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2006

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, a budget amendment increased budgeted disbursements by \$803,120. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2006, disbursements exceeded the amounts budgeted in the public safety, public works, culture and recreation and debt service functions.

OTHER SUPPLEMENTARY INFORMATION

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

As of and for the year ended June 30, 2006

	Employee Benefits	Urban Renewal Tax Increment	Total
Receipts:			
Property tax	\$ 87,553		87,553
Tax increment financing collections		57,755	57,755
Total receipts	87,553	57,755	145,308
Disbursements:			
Public safety	34,040		34,040
Culture and recreation	6,207		6,207
General government	19,492		19,492
Total disbursements	59,739		59,739
Excess of receipts over disbursements	27,814	57,755	85,569
Other financing sources:			
Operating transfers in	10,000		10,000
Excess of receipts and other financing sources over disbursements and other financing uses	37,814	57,755	95,569
Cash balances beginning of year	(5,507)	71,118	65,611
Cash balances end of year	\$ 32,307	128,873	161,180
Cash Basis Fund Balances			
Unreserved:			
Special revenue funds	\$ 32,307	128,873	161,180

See accompanying independent auditor's report.

City of Britt

Schedule of Indebtedness

Year ended June 30, 2006

Obligation	Date of Issue	Rate of Interest	Amount Originally Issued	Balance Beginning of Year	Issued During the Year	Redeemed During Year	Balance End of Year	Interest Paid
General Obligation Bonds:								
Capital Loan (refinance)	4-1-04	1.35-2.15%	\$ 460,000	310,000		155,000	155,000	6,045
Short-term borrowing	7-28-05	3.15%	825,000		825,000		825,000	22,073
Total				310,000	825,000	155,000	980,000	28,118
Revenue Bond:								
Sewer	4-1-97	4.75-5.85%	\$ 720,000	335,000		60,000	275,000	19,280

See accompanying independent auditor's report.

City of Britt

Bond Maturities

June 30, 2006

Year Ending June 30,	General Obligation Bond			
	Capital Loan Issued April 1, 2004		Short-term Borrowing Issued July 28, 2005	
	Interest Rates	Amount	Interest Rates	Amount
2007	2.15 %	\$ 155,000	3.15 %	825,000
Total		\$ 155,000		825,000

Year Ending June 30,	Revenue Notes	
	Sewer Issued April 1, 1997	
	Interest Rates	Amount
2007	5.70%	\$ 65,000
2008	5.75	65,000
2009	5.80	70,000
2010	5.85	75,000
Total		\$ 275,000

See accompanying independent auditor's report.

City of Britt

Schedule of Receipts by Source and Disbursements by Function –
All Governmental Funds

For the Last Four Years

	2006	2005	2004	2003
Receipts:				
Property tax	\$ 529,179	452,456	424,817	389,663
Tax increment financing collections	57,755	46,303	19,110	5,006
Other city tax	142,126	122,940	126,438	103,254
Licenses and permits	2,651	1,981	3,969	2,908
Use of money and property	7,787	22,930	25,352	35,481
Intergovernmental	292,596	262,084	321,789	222,874
Charges for service	38,844	43,713	36,732	40,487
Miscellaneous	147,244	92,955	116,808	86,600
Total	\$ 1,218,182	1,045,362	1,075,015	886,273
Disbursements:				
Operating:				
Public safety	\$ 246,957	215,160	210,273	313,600
Public works	285,894	381,731	180,968	244,085
Culture and recreation	164,626	153,489	117,531	145,769
Community and economic development	156,537	117,946	165,503	29,298
General government	223,085	164,539	78,845	70,043
Debt service	183,818	159,815	54,692	167,280
Capital project	694,880	91,982	126,410	16,512
Total	\$ 1,955,797	1,284,662	934,222	986,587

See accompanying independent auditor's report.

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

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Britt, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements listed in the table of contents and have issued our report thereon dated October 27, 2006. Our report expressed an unqualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Britt'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 certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of Britt's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statement. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Britt'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 of Britt'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 Britt and other parties to whom the City of Britt may report including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Britt 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.

October 27, 2006

Renner & Birchem, P.C.

City of Britt

Schedule of Findings

Year ended June 30, 2006

Part I: Findings Related to the Financial Statements:

Reportable Conditions:

- (A) Segregation of Duties - One important aspect of internal accounting control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the cash receipts functions and the cash disbursement functions are performed by the same person.

Recommendation - We realize that with a limited number of employees segregation of duties is difficult. However, the City should review its operating procedures to obtain the maximum internal control possible under the circumstances.

Response - We will investigate this.

Conclusion - Response acknowledged. The City should segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

- (B) Reconciliation of Utility Billings, Collections and Delinquencies – Utility billings, collections and delinquent accounts were not reconciled throughout the year. Also, utility collections were not reconciled to deposits.

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

Response – These procedures have been implemented as recommended.

Conclusion - Response accepted.

Instances of Non-compliance:

No matters were reported.

City of Britt

Schedule of Findings

Year ended June 30, 2006

Part II: Other Findings Related to Statutory Reporting:

- (1) Certified Budget – Disbursements during the year ended June 30, 2006, exceeded amounts budgeted in the public safety, public works, culture and recreation and debt service functions. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

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

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

Conclusion - Response accepted.

- (2) Questionable Disbursements - We noted certain disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 since the public benefits to be derived have not been clearly documented. These disbursements are detailed as follows:

<u>Paid to</u>	<u>Purpose</u>	<u>Amount</u>
Tom's Photo	Plaque	\$ <u>35.00</u>

According to the opinion, it is possible for such disbursements to meet the test of serving a public purpose under certain circumstances, although such items will certainly be subject to deserved close scrutiny.

Recommendation - The council should determine and document the public purpose served by these disbursements before authorizing any further payments. If this practice is continued, the City should establish written policies and procedures, including the requirement for proper documentation.

Response - We will review the type of disbursement more closely.

Conclusion - Response accepted.

- (3) Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- (4) Business Transactions - No transactions between the City and City officials were noted.
- (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 insure that 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.

City of Britt

Schedule of Findings

Year ended June 30, 2006

- (7) Deposits and Investments - We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy.
- (8) Revenue Bonds – The City has complied with the revenue bond resolutions.
- (9) Financial Condition – The Debt Service Fund has a deficit balance at June 30, 2006 of \$11,702.

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

Response – The deficit was subsequently eliminated.

Conclusion – Response accepted.