

**CITY OF HUXLEY, IOWA**

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

**YEAR ENDED JUNE 30, 2006**

## Table of Contents

		<u>Page</u>
Officials		1
Independent Auditor’s Report		2-3
Management’s Discussion and Analysis		4-9
Basic Financial Statements:	<u>Exhibit</u>	
Government-wide Financial Statement:		
Statement of Activities and Net Assets – Cash Basis	A	10-11
Governmental Fund Financial Statements:		
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	B	12-15
Proprietary Fund Financial Statements:		
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	C	16
Notes to Financial Statements		17-26
Required Supplementary Information:		
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances – Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Funds		27-28
Notes to Required Supplementary Information – Budgetary Reporting		29
Other Supplementary Information:	<u>Schedule</u>	
Statement of Cash Receipts, Disbursements and Changes in Cash Balances – Nonmajor Governmental Funds	1	30-32
Schedule of Indebtedness	2	33-34
Bond and Note Maturities	3	35-37
Schedule of Receipts by Source and Disbursements by Function – All Governmental Funds	4	38
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		39-40
Schedule of Findings		41-42

**City of Huxley, Iowa**

**Officials**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>(Before January 2006)</b>		
Nels Nord	Mayor	Jan 2006
Craig Henry	Mayor Pro tem	Jan 2006
Richard Baldwin	Council Member	Jan 2006
Scott Meldrum	Council Member	Jan 2006
Leslee Beglinger	Council Member	Jan 2008
Chad Lovig	Council Member	Jan 2008
<b>(After January 2006)</b>		
Nels Nord	Mayor	Jan 2008
Craig Henry	Mayor Pro tem	Jan 2010
Marge Nerness	Council Member	Jan 2010
Mike Orgler	Council Member	Jan 2010
Leslee Beglinger	Council Member	Jan 2008
Chad Lovig	Council Member	Jan 2008
John Haldeman	City Administrator	Oct 2007
Lee Ruddick	City Clerk	Indefinite
John Hendricks	City Treasurer	Jan 2007
Anne Beattie	City Attorney	Jan 2007
Wade Greimen	City Engineer	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 aggregate remaining fund information of the City of Huxley, 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 Huxley'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 Huxley 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 March 5, 2007 on our consideration of the City of Huxley'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 the internal control over financial reporting or on 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 page 4 through 9 and 27 through 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 Huxley's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the year ended June 30, 2005. Other auditors previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the two years ended June 30, 2004 (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 the 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.

Cornwell, Frideres, Maher & Associates, P.L.C.  
Certified Public Accountants

March 5, 2007

**CITY OF HUXLEY, IOWA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2006**

Our discussion and analysis of the City of Huxley's financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2006, within the limitations of the City's modified cash basis of accounting. Please read it in conjunction with the City's financial statements that begin on page 10.

**USING THIS ANNUAL REPORT**

This annual report is presented in a format consistent with the presentation requirements of the Governmental Accounting Standards Board (GASB) Statement No. 34, as applicable to the City's modified cash basis of accounting.

**Report Components**

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

**Government-Wide Financial Statements:** The Statement of Net Assets and the Statement of Activities (on pages 10-11) provide information about the activities of the City government-wide (or "as a whole") and present an overall view of the City's finances.

**Fund Financial Statements:** Fund financial statements (starting on page 12) focus on the individual parts of the City government. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most significant ("major") funds. For *governmental activities*, these statements tell how these services were financed in the short term as well as what remains for future spending. For *proprietary activities*, these statements offer short-term and long-term financial information about the activities the City operates like business, such as the water and sewer services.

**Notes to the Financial Statements:** The notes to the financial statements are an integral part of the government-wide and fund financial statements and provide expanded explanation and detail regarding the information reported in the statement.

**Required Supplementary Information:** This Management's Discussion and Analysis and the General Fund Budgetary Comparison Schedule (starting on page 27) represent financial information required by GASB to be presented. Such information provides users of this report with additional data that supplements the government-wide statements, fund financial statements, and notes (referred to as "the basic financial statements").

**Other Supplementary Information:** This part of the annual report (starting on page 30) includes optional financial information. This other supplemental financial information is provided to address certain specific needs of various users of the City's annual report.

## BASIS OF ACCOUNTING

The City has elected to present its financial statements on a cash basis of accounting. The cash basis of accounting is a basis other than generally accepted accounting principles. Basis of accounting is a reference to when financial events are recorded, such as the timing for recognizing revenues, expenses and their related assets and liabilities. Under the City's cash basis of accounting, revenues and expenses are recorded when they result from cash transactions. As a result of the use of the cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods and services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements. 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 as a Whole**

#### *The City's Reporting Entity Presentation*

- This annual report includes all activities for which the City of Huxley City Council is fiscally responsible.

#### *The Government-Wide Statement of Net Assets and the Statement of Activities*

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 cash receipts, disbursements and changes in cash balances report information about the City as a whole and about its activities in a way that helps answer this question. These statements include all of the City's assets and liabilities resulting from the use of the modified cash basis of accounting.

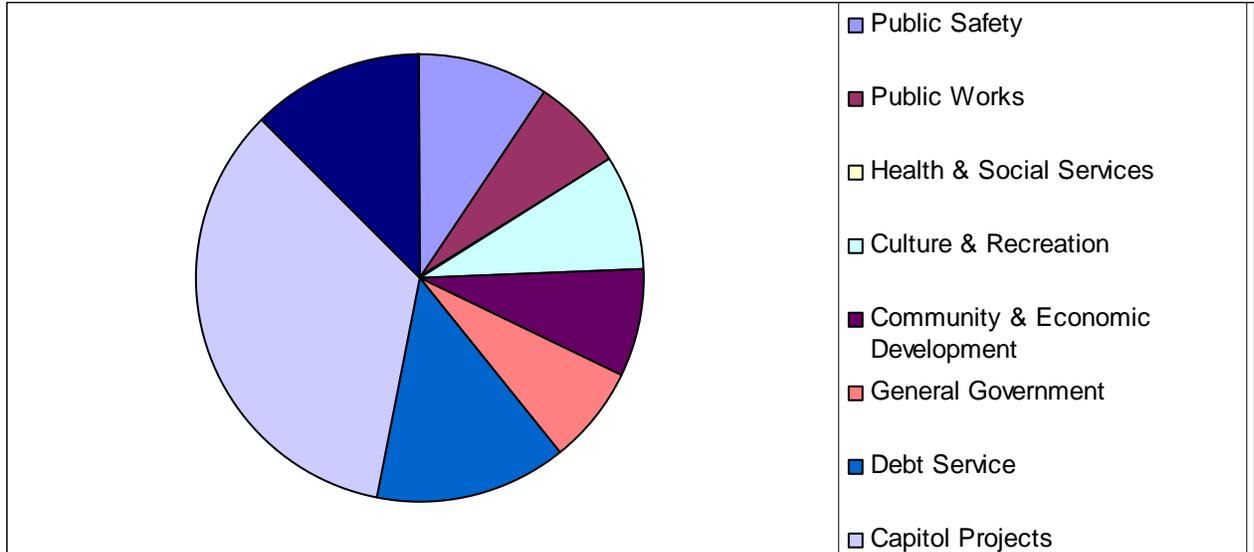
The Statement of cash receipts, disbursements and changes in cash balances report is divided into two kinds of activities:

- Governmental Activities include public safety, streets, 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 (proprietary funds) type activities. The City charges a fee to customers to help it cover all or most of the cost of certain services it provides. The City's water and sewer systems are reported here. The City maintains two Enterprise Funds to provide separate information for the water and sewer funds, considered to be major funds of the City.

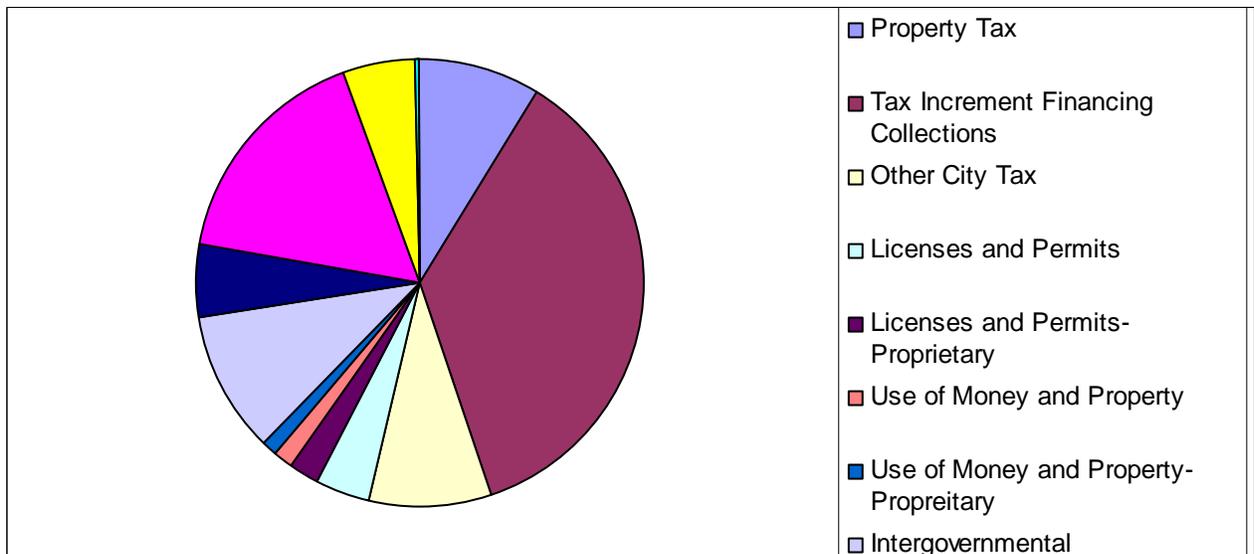
These two statements report the City's net assets and changes in them. Keeping in mind the limitations of the modified cash basis of accounting, you can think of the City's net assets-the difference between assets and liabilities-as one way to measure the City's financial health or financial position. Over time, increases or decreases in the City's net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider other non-

financial factors, however, such as changes in the City's sales tax base and the condition of the City's roads, to assess the overall health of the City.

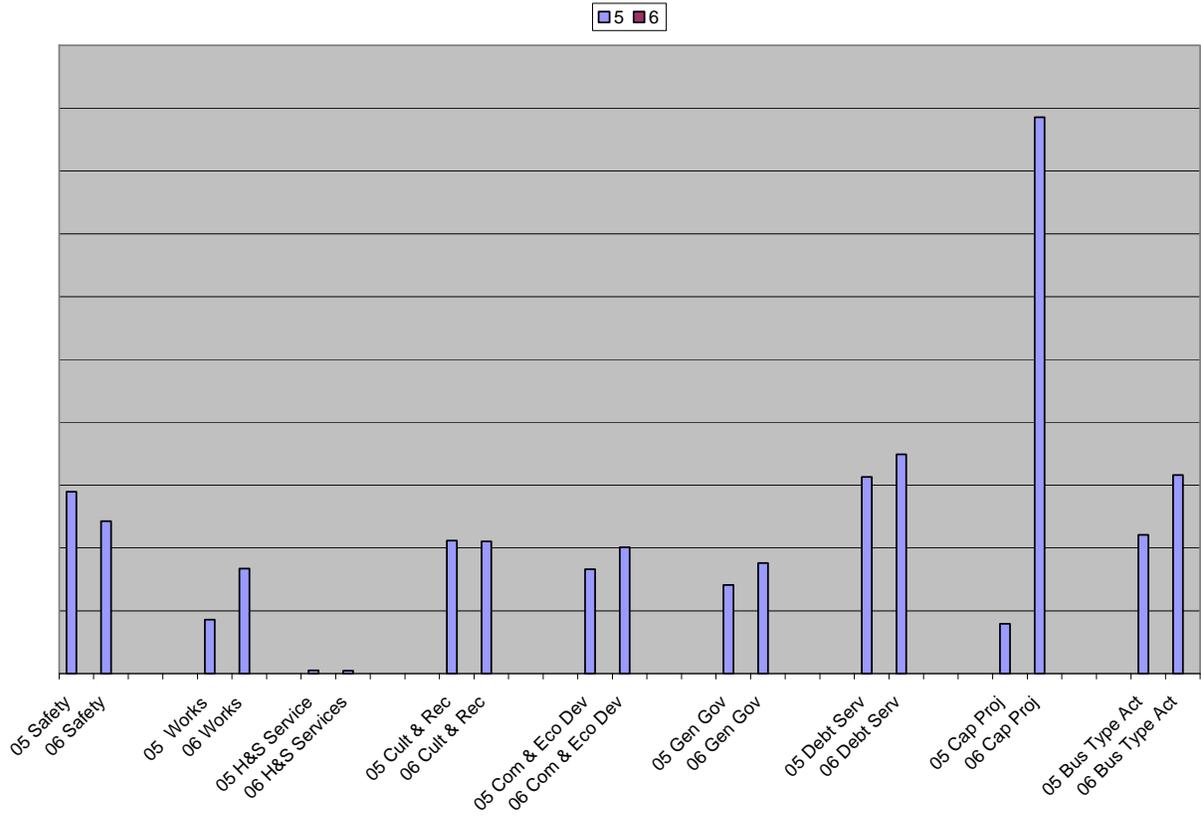
Total Disbursements by Program



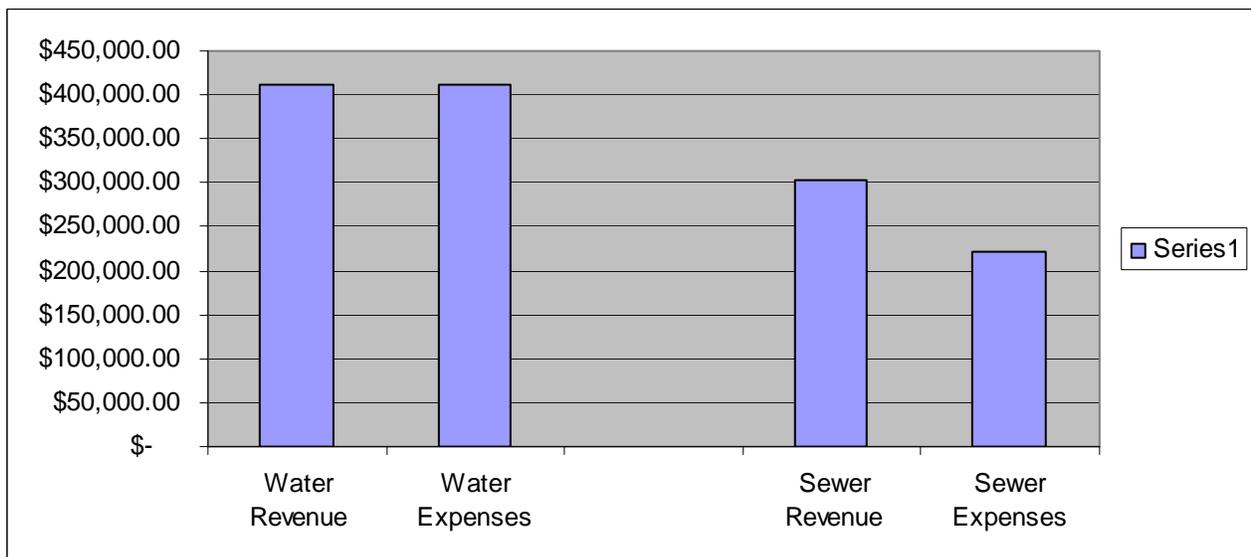
Revenue Total By Source



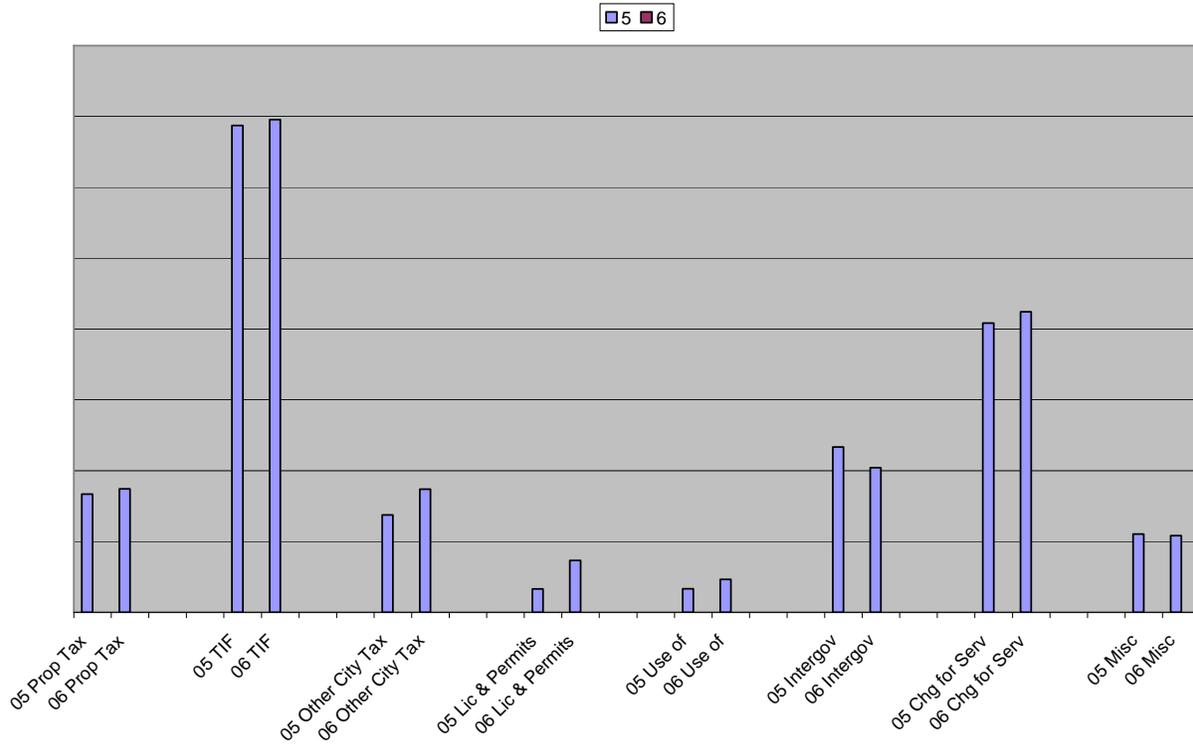
### 2005/2006 Disbursement Comparisons



### Water and Sewer Revenues and Expenses



**05/06 Revenue Comparisons**



**DEBT ADMINISTRATION**

At June 30, 2006, the City had approximately \$5,352,000 in bonds and other long-term debt, compared to approximately \$5,536,000 last year, as shown below

Outstanding Debt at Year End		
	June 30, 2006	June 30, 2005
General Obligation Bonds	\$ 420,000	440,000
Water Improvement Bond, Series 2003		
General Obligation	3,090,000	3,490,000
Refunding Bonds 2004		
Corporate Purpose Bonds	310,000	
State Revolving Fund Loan	1,532,000	1,606,000
<b>Total</b>	<b>5,352,000</b>	<b>5,536,000</b>

## **CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the City Clerk's office at 515 North Main Ave., Huxley, IA 50124 or telephone 515-597-2561.

## **Basic Financial Statements**

City of Huxley, Iowa  
Statement of Activities and Net Assets - Cash Basis  
As of and for the year ended June 30, 2006

	<u>Disbursements</u>	<u>Charges for Services</u>	<u>Program Receipts Operating Grants, Contributions, and Restricted Interest</u>
<b>Functions/Programs:</b>			
Governmental activities:			
Public safety	\$ 485,408	54,028	73,291
Public works	334,468	-	178,837
Health and social services	9,150	-	-
Culture and recreation	420,765	180,474	141,418
Community and economic development	401,808	-	-
General government	351,975	110,772	-
Debt service	698,250	-	-
Capital projects	1,771,258	-	-
Total governmental activities	4,473,082	345,274	393,546
Business type activities:			
Water	411,162	411,985	-
Sewer	220,787	302,988	-
Total business type activities	631,949	714,973	-
Total	\$ 5,105,031	1,060,247	393,546

**General Receipts:**

Property tax levied for:	
General purposes	
Tax increment financing	
Debt service	
Local option sales tax	
Unrestricted interest on investments	
Loan repayment	
Bond proceeds	
Miscellaneous	
Sale of Assets	
Grants and contributions not restricted to specific purpose	
Transfers	
Refunding bond proceeds	
Payment to refunded bond escrow agent	
Adjustments	
Total general receipts and transfers	
Change in cash basis net assets	
Cash basis net assets beginning of year	
Cash basis net assets end of year	

**Cash Basis Net Assets**

Restricted:	
Streets	
Urban renewal purposes	
Debt services	
Unrestricted	

**Total cash basis net assets**

See notes to financial statements.

Exhibit A

<u>Governmental</u> <u>Activities</u>	<u>Business Type</u> <u>Activities</u>	<u>Total</u>
(358,089)	-	(358,089)
(155,631)	-	(155,631)
(9,150)	-	(9,150)
(98,873)	-	(98,873)
(401,808)	-	(401,808)
(241,203)	-	(241,203)
(698,250)	-	(698,250)
<u>(1,771,258)</u>	<u>-</u>	<u>(1,771,258)</u>
<u>(3,734,262)</u>	<u>-</u>	<u>(3,734,262)</u>
-	823	823
<u>-</u>	<u>82,201</u>	<u>82,201</u>
<u>-</u>	<u>83,024</u>	<u>83,024</u>
<u>(3,734,262)</u>	<u>83,024</u>	<u>(3,651,238)</u>
197,008	-	197,008
1,391,187	-	1,391,187
169,827	-	169,827
227,634	-	227,634
43,466	34,932	78,398
36,000	-	36,000
457,664	-	457,664
280,815	1,650	282,465
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-
<u>2,803,601</u>	<u>36,582</u>	<u>2,840,183</u>
(930,661)	119,606	(811,055)
1,660,957	1,350,934	3,011,891
<u>\$ 730,296</u>	<u>\$ 1,470,540</u>	<u>2,200,836</u>
\$ 269,819	-	269,819
1,770,059	-	1,770,059
18,487	-	18,487
<u>(1,328,069)</u>	<u>1,470,540</u>	<u>142,471</u>
<u>\$ 730,296</u>	<u>1,470,540</u>	<u>2,200,836</u>

City of Huxley, Iowa

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

As of and for the year ended June 30, 2006

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects SE Annexation Project</u>	<u>Special Revenue Tax Increment Financing</u>
Receipts:				
Property tax	\$ 183,540	165,147	-	-
Tax increment financing collections	-	-	-	1,391,187
Other city tax	100,106	4,681	-	-
Licenses and permits	95,823	-	-	-
Use of money and property	29,558	-	-	28,149
Intergovernmental	229,722	-	-	-
Charges for services	196,482	-	-	-
Miscellaneous	202,731	-	-	-
Total receipts	<u>1,037,962</u>	<u>169,828</u>	<u>-</u>	<u>1,419,336</u>
Disbursements:				
Operating:				
Public safety	485,408	-	-	-
Public works	26,696	-	-	-
Health and social services	9,150	-	-	-
Culture and recreation	420,765	-	-	-
Community and economic development	177,699	-	-	224,109
General government	351,975	-	-	-
Debt service	-	698,250	-	-
Capital projects	-	-	740,648	-
Total disbursements	<u>1,471,693</u>	<u>698,250</u>	<u>740,648</u>	<u>224,109</u>
Excess (deficiency) of receipts over (under) disbursements	<u>(433,731)</u>	<u>(528,422)</u>	<u>(740,648)</u>	<u>1,195,227</u>

Exhibit B

Other Nonmajor Governmental <u>Funds</u>	<u>Total</u>
-	348,687
-	1,391,187
227,634	332,421
-	95,823
-	57,707
193,908	423,630
-	196,482
89	202,820
<u>421,631</u>	<u>3,048,757</u>
-	485,408
307,772	334,468
-	9,150
-	420,765
-	401,808
-	351,975
-	698,250
<u>1,030,610</u>	<u>1,771,258</u>
<u>1,338,382</u>	<u>4,473,082</u>
<u>(916,751)</u>	<u>(1,424,325)</u>

(continued)

City of Huxley, Iowa

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

As of and for the year ended June 30, 2006

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects SE Annexation Project</u>	<u>Special Revenue Tax Increment Financing</u>
Other financing sources (uses):				
Economic development loan repayment received	-	-	-	2,000
Operating transfers in	297,705	540,825	-	-
Operating transfers out	(15,071)	(55,000)	-	(540,825)
Loan proceeds	327,764	-	-	-
Total financing sources (uses)	<u>610,398</u>	<u>485,825</u>	<u>-</u>	<u>(538,825)</u>
Net change in cash balances	176,667	(42,597)	(740,648)	656,402
Cash balances beginning of year	<u>286,565</u>	<u>61,085</u>	<u>-</u>	<u>1,113,657</u>
Cash balances end of year	<u>\$ 463,232</u>	<u>18,488</u>	<u>(740,648)</u>	<u>1,770,059</u>
<b>Cash Basis Fund Balances</b>				
Reserved:				
Debt service	\$ -	18,488	-	-
Unreserved:				
General funds	463,232	-	-	-
Special revenue funds	-	-	-	1,770,059
Capital project funds	-	-	(740,648)	-
Permanent fund	-	-	-	-
Total cash basis fund balances	<u>\$ 463,232</u>	<u>18,488</u>	<u>(740,648)</u>	<u>1,770,059</u>

See notes to financial statements.

Exhibit B

Other Nonmajor Governmental <u>Funds</u>	<u>Total</u>
34,000	36,000
15,071	853,601
(242,705)	(853,601)
<u>129,900</u>	<u>457,664</u>
<u>(63,734)</u>	<u>493,664</u>
(980,485)	(930,661)
<u>199,650</u>	<u>1,660,957</u>
<u>(780,835)</u>	<u>730,296</u>
-	18,487
-	463,232
284,889	2,054,948
(1,066,043)	(1,806,690)
<u>319</u>	<u>319</u>
<u>(780,834)</u>	<u>730,296</u>

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

As of and for the year ended June 30, 2006

	Proprietary Funds		Other Nonmajor Meter	Total
	Water	Sewer	Deposits	
Operating receipts:				
Permits	\$ 26,685	23,650	-	50,335
Use of money and property	17,832	17,100	-	34,932
Charges for services	372,544	278,208	3,298	654,050
Miscellaneous	12,756	1,130	-	13,886
Total operating receipts	429,817	320,088	3,298	753,203
Operating disbursements:				
Business type activities	284,967	220,787	1,648	507,402
Total operating disbursements	284,967	220,787	1,648	507,402
Excess (deficiency) of operating receipts over (under) operating disbursements	144,850	99,301	1,650	245,801
Non-operating receipts (disbursements):				
Debt services	(126,195)	-	-	(126,195)
Total non-operating receipts (disbursements)	(126,195)	-	-	(126,195)
Net change in cash balances	18,655	99,301	1,650	119,606
Cash balances beginning of year	747,331	574,468	29,135	1,350,934
Cash balances end of year	\$ 765,986	673,769	30,785	1,470,540
<b>Cash Basis Fund Balances</b>				
Reserved for debt service	\$ 5,269	-	-	5,269
Unreserved	760,717	673,769	30,785	1,465,271
Total cash basis fund balances	\$ 765,986	673,769	30,785	1,470,540

See notes to financial statements

City of Huxley, Iowa

Notes to Financial Statements

June 30, 2006

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

The City of Huxley (the City) is a political subdivision of the State of Iowa located in Story County. It was first incorporated in 1902 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, health and social services, culture and recreation, community and economic development, and general government services. The City also provides water and sewer utilities for its citizens.

**A. Reporting Entity**

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

**Jointly Governed Organizations**

The City 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: Story County Assessor's Conference Board, Story County Joint E911 Service Board and Story County Emergency Management Commission.

The City also participates in the Ames Story County Affordable Housing Partnership, a jointly governed organization established pursuant to Chapter 28E of the Code of Iowa.

City of Huxley, Iowa

Notes to Financial Statements

June 30, 2006

B. Basis of Presentation

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

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

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

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

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

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

City of Huxley, Iowa

Notes to Financial Statements

June 30, 2006

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 through other funds.

Special Revenue:

The Tax Increment Financing Revenues Fund is used to account for revenues from the tax authorized by ordinance in the urban renewal district and used to pay the principal and interest on the general obligation capital loan notes and other indebtedness incurred for urban renewal redevelopment projects.

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

Capital Projects:

The SE Annexation project accounts for the construction costs of the Southeast Annexation area.

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 Huxley, Iowa

Notes to Financial Statements

June 30, 2006

C. Measurement Focus and Basis of Accounting

The City of Huxley 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 and disbursements.

Proprietary funds distinguish operating receipts and disbursements from nonoperating 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 nonoperating 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 culture and recreation and community and economic development functions.

City of Huxley, Iowa

Notes to Financial Statements

June 30, 2006

**(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's investments at June 30, 2006 are as follows:

	<u>Carrying Amount</u>	<u>Market Value</u>
U.S. Savings Bonds	\$ 12,853 =====	\$ 12,853 =====

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

City of Huxley, Iowa

Notes to Financial Statements

June 30, 2006

**(3) Bonds and Notes Payable**

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

Year Ending <u>June 30,</u>	General Obligation Bonds		State Revolving Fund Revenue Bonds		Total	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2007	\$ 581,000	121,255	76,000	45,960	657,000	167,215
2008	452,000	105,278	78,000	43,680	530,000	148,958
2009	472,000	92,872	81,000	41,340	553,000	134,212
2010	478,000	78,798	83,000	38,910	561,000	117,708
2011	493,000	63,665	86,000	36,420	579,000	100,085
2012	514,000	47,140	88,000	33,840	602,000	80,980
2013	530,000	28,955	91,000	31,200	621,000	60,155
2014	46,000	9,460	94,000	28,470	140,000	37,930
2015	46,000	7,860	96,000	25,650	142,000	33,510
2016	27,000	6,240	99,000	22,770	126,000	29,010
2017	28,000	5,430	102,000	19,800	130,000	25,230
2018	29,000	4,590	105,000	16,740	134,000	21,330
2019	30,000	3,720	108,000	13,590	138,000	17,310
2020	31,000	2,820	112,000	10,350	143,000	13,170
2021	32,000	1,890	115,000	6,990	147,000	8,880
2022	<u>31,000</u>	<u>930</u>	<u>118,000</u>	<u>3,540</u>	<u>149,000</u>	<u>4,470</u>
Totals	\$ 3,820,000 =====	580,903 =====	1,532,000 =====	419,250 =====	5,352,000 =====	1,000,153 =====

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

- (a) The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the funds.
- (b) Sufficient monthly transfers shall be made to a water revenue note sinking account within the Enterprise Funds for the purpose of making the note principal and interest payments when due.

City of Huxley, Iowa

Notes to Financial Statements

June 30, 2006

**(4) Pension and Retirement Benefits**

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

Most regular plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contribution to IPERS for the years ended June 30, 2006, 2005 and 2004 were \$48,310, \$44,676 and \$42,996, respectively, which is equal to the required contribution for each year.

**(5) Compensated Absences**

City employees accumulate earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, retirement or death. Employees may carry unused time forward to the next benefit year. If the total amount of unused vacation time exceeds two times the annual vacation amount at the end of any calendar year, excess vacation time will be lost. Sick leave has no maximum accumulation and is paid at the rate of 25% of the accrued sick leave at time of retirement, at the age the employee is entitled to social security benefits or at death. These accumulations are not recognized as disbursements until used or paid. The City's approximate liability for earned compensated absences for vacation hours payable to employees totaled \$50,500 at June 30, 2006, primarily relating to the General Fund. This liability has been computed based on rates of pay as of June 30, 2006.

City of Huxley, Iowa

Notes to Financial Statements

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: Local Option Tax	\$ 227,634
	Debt Service	55,000
Debt Service	Special Revenue: Tax Increment Financing	<u>540,825</u>
Total		\$ 823,459 =====

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

**(7) Commitments**

In 1996, the City of Huxley entered into a 28E agreement with the City of Ames (Ames) to participate in a waste reclamation, recycling and solid waste disposal system. Ames governs, controls, administers and operates the system and determines the amount of current and future debt required to operate the system.

The City is obligated to pay its proportionate share of the operating costs plus debt service less income until June 30, 2014 unless both parties agree to terminate. The share is determined based on the ratio that the population of the City bears to the total of the population of all the participants. The City's share is presently 3.24% of the total and the payment for the year ended June 30, 2006 was \$24,318.

In 2001, the City entered into a 28E agreement with the Ballard Community School District (Ballard) for the construction and operation of a community center and a library. The center is jointly operated and governed by the City and Ballard. The City was responsible for the construction of the building. Each party is responsible for certain equipment required in the operation of the center and maintenance required. The City is obligated on the agreement until June 30, 2051 unless both parties agree to terminate.

City of Huxley, Iowa

Notes to Financial Statements

June 30, 2006

The City has committed to East 1<sup>st</sup> Street construction project of approximately 1.9 million to be paid from issuance of bonds.

The City has bought land to expand Centennial park. This project will be implemented in phases at a total cost of approximately 4 million. The Park Board is trying to raise funds to help pay for this project.

The City has approved an annexation project for approximately 4.3 million. As of June 30, 2006 \$740,648 has been spent on this project. This project will be financed by issuance of Bond Proceeds.

The City has approved improvements to its wastewater treatment plant for approximately \$4-5 million. As of the date of the audit report this project is in the final design phase. This project will be funded with state revolving loan and tax increment financing funds.

**(8) Economic Development**

Economic development is a public purpose for which the City may provide grants, loans, guarantees and other financial assistance to or for the benefit of private persons as provided by Section 15A.1 of the Code of Iowa.

The City entered into the following loan agreements in which the borrower has applied to the City for financial assistance under this section of the Code in connection with the borrower's plan to locate and enlarge its business enterprise within the City's corporate limits. The proceeds of the loans were considered disbursements in the tax increment financing fund in the appropriate fiscal years. These are forgivable loans which do not have to be paid back if all requirements are met.

<u>Borrower</u>	<u>Date of Loan</u>	<u>Amount Expended</u>
Whistle Stop Daycare	January 1, 2001	\$ 10,000
Blumster's on Main	February 1, 2002	6,000
CAS Enterprises, Inc. d/b/a Kreg Tool Co.	August 10, 2001	<u>15,000</u>
Total		\$ 31,000 =====

City of Huxley, Iowa

Notes to Financial Statements

June 30, 2006

**(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 from independent third parties. The City assumes liability for any deductible and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**(10) Deficit Fund Balances**

The Capital Projects Funds, SE Annexation Project had a deficit balance of \$740,648 and other non-major capital projects had deficit balances of \$1,806,690 at June 30, 2006. The deficits are a result of ongoing capital projects, these deficits will be eliminated by a variety of sources namely TIF taxes, bond proceeds, donations, and funds on hand.

**(11) Litigation**

The City is subject to pending litigation seeking compensation of approximately \$58,000. The verdict has been handed down in the City's favor twice, and it is now in appeal. There is also an outstanding lawsuit against a city official with the outcome indeterminable at this time.

## **Required Supplementary Information**

City of Huxley, Iowa

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 <u>Actual</u>	Proprietary Funds <u>Actual</u>
Receipts:		
Property tax	\$ 348,687	-
Tax increment financing collections	1,391,187	-
Other city tax	332,421	-
Licenses and permits	95,823	50,335
Use of money and property	57,707	34,932
Intergovernmental	423,630	-
Charges for services	196,482	654,050
Miscellaneous	202,820	13,886
Total receipts	<u>3,048,757</u>	<u>753,203</u>
Disbursements:		
Public safety	485,408	-
Public works	334,468	-
Health and social services	9,150	-
Culture and recreation	420,765	-
Community and economic development	401,808	-
General government	351,975	-
Debt service	698,250	-
Capital projects	1,771,258	-
Business type activities	-	633,597
Total disbursements	<u>4,473,082</u>	<u>633,597</u>
Excess (deficiency) of receipts over (under) disbursements	(1,424,325)	119,606
Other financing sources, net	<u>493,664</u>	-
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing sources	(930,661)	119,606
Balances beginning of year	<u>1,660,957</u>	<u>1,350,934</u>
Balances end of year	<u>\$ 730,296</u>	<u>1,470,540</u>

See accompanying independent auditor's report.

<u>Net</u>	<u>Budgeted Amounts</u>		<u>Final to Net Variance</u>
	<u>Original</u>	<u>Final</u>	
348,687	346,649	346,649	2,038
1,391,187	1,372,000	1,372,000	19,187
332,421	255,228	255,228	77,193
146,158	29,950	109,950	36,208
92,639	38,850	78,850	13,789
423,630	519,000	519,000	(95,370)
850,532	765,200	765,200	85,332
216,706	63,800	119,800	96,906
<u>3,801,960</u>	<u>3,390,677</u>	<u>3,566,677</u>	<u>235,283</u>
485,408	392,610	504,760	19,352
334,468	263,340	467,240	132,772
9,150	8,900	9,900	750
420,765	430,405	441,905	21,140
401,808	130,500	490,500	88,692
351,975	264,165	356,665	4,690
698,250	503,100	503,100	(195,150)
1,771,258	-	1,975,000	203,742
633,597	645,300	729,300	95,703
<u>5,106,679</u>	<u>2,638,320</u>	<u>5,478,370</u>	<u>371,691</u>
(1,304,719)	752,357	(1,911,693)	606,974
<u>493,664</u>	<u>160,000</u>	<u>457,000</u>	<u>36,664</u>
(811,055)	912,357	(1,454,693)	643,638
<u>3,011,891</u>	<u>2,711,540</u>	<u>2,711,540</u>	<u>300,351</u>
<u>2,200,836</u>	<u>3,623,897</u>	<u>1,256,847</u>	<u>943,989</u>

City of Huxley, Iowa

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. 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 nonprogram. 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, one budget amendment increased budgeted disbursements by \$284,050. The budget amendment is reflected in the final budgeted amounts.

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

## **Other Supplementary Information**

City of Huxley, Iowa

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

As of and for the year ended June 30, 2006

	Special Revenue Funds		
	Road Use Tax	Local Option Sales Tax	Huxley Townhomes, L.C. Loan
Receipts:			
Other city tax	\$ -	227,634	-
Intergovernmental	193,908	-	-
Miscellaneous	89	-	-
Total receipts	<u>193,997</u>	<u>227,634</u>	<u>-</u>
Disbursements:			
Operating:			
Public works	307,772	-	-
Capital projects	-	-	-
Total disbursements	<u>307,772</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of receipts over (under) disbursements	<u>(113,775)</u>	<u>227,634</u>	<u>-</u>
Other financing sources (uses):			
Loan repayment	-	-	34,000
Operating transfers (in)	-	15,071	-
Operating transfers (out)	-	(242,705)	-
Loan proceeds	129,900	-	-
Total other financing sources (uses)	<u>129,900</u>	<u>(227,634)</u>	<u>34,000</u>
Net change in cash balances	16,125	-	34,000
Cash balances beginning of year	<u>268,764</u>	<u>-</u>	<u>(34,000)</u>
Cash balances end of year	<u>\$ 284,889</u>	<u>-</u>	<u>-</u>
<b>Cash Basis Fund Balances</b>			
Unreserved:			
Special revenue funds	284,889	-	-
Capital project funds	-	-	-
Trust fund	-	-	-
Total cash basis fund balances	<u>\$ 284,889</u>	<u>-</u>	<u>-</u>

See accompanying independent auditor's report.

Capital Projects						
Wastewater Facility Project	US 69 Centennial Drive Project	Entryway Project	Street Construction	Oak Blvd. Extension	Centennial Park Expansion	Timberlane Northview Project
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
250,734	410,395	1,750	55,645	49,633	52,254	197,151
250,734	410,395	1,750	55,645	49,633	52,254	197,151
(250,734)	(410,395)	(1,750)	(55,645)	(49,633)	(52,254)	(197,151)
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
(250,734)	(410,395)	(1,750)	(55,645)	(49,633)	(52,254)	(197,151)
(27,640)	(1,168)	(6,625)	-	-	-	-
(278,374)	(411,563)	(8,375)	(55,645)	(49,633)	(52,254)	(197,151)
-	-	-	-	-	-	-
(278,374)	(411,563)	(8,375)	(55,645)	(49,633)	(52,254)	(197,151)
-	-	-	-	-	-	-
(278,374)	(411,563)	(8,375)	(55,645)	(49,633)	(52,254)	(197,151)

City of Huxley, Iowa

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

As of and for the year ended June 30, 2006

	<u>Trust Funds</u>		
	2006		
	<u>Comprehensive</u>	<u>Commemorative</u>	<u>Total</u>
	<u>Plan Project</u>	<u>Tree</u>	
Receipts:			
Other city tax	\$ -	-	227,634
Intergovernmental	-	-	193,908
Miscellaneous	-	-	89
Total receipts	<u>-</u>	<u>-</u>	<u>421,631</u>
Disbursements:			
Operating:			
Public works	-	-	307,772
Capital projects	13,048	-	1,030,610
Total disbursements	<u>13,048</u>	<u>-</u>	<u>1,338,382</u>
Excess (deficiency) of receipts over (under) disbursements	<u>(13,048)</u>	<u>-</u>	<u>(916,751)</u>
Other financing sources (uses):			
Loan repayment	-	-	34,000
Operating transfers (in)	-	-	15,071
Operating transfers (out)	-	-	(242,705)
Loan proceeds	-	-	129,900
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>(63,734)</u>
Net change in cash balances	(13,048)	-	(980,485)
Cash balances beginning of year	<u>-</u>	<u>319</u>	<u>199,651</u>
Cash balances end of year	<u>\$ (13,048)</u>	<u>319</u>	<u>(780,833)</u>
<b>Cash Basis Fund Balances</b>			
Unreserved:			
Special revenue funds	-	-	284,889
Capital project funds	(13,048)	-	(1,066,042)
Trust fund	<u>-</u>	<u>319</u>	<u>319</u>
Total cash basis fund balances	<u>\$ (13,048)</u>	<u>319</u>	<u>(780,833)</u>

See accompanying independent auditor's report

City of Huxley, Iowa  
Schedule of Indebtedness  
Year ended June 30, 2006

<u>Obligation</u>	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount Originally Issued</u>
General obligation bonds:			
Water Improvement Bond, Series 2003	Apr 16, 2003	3.00%	\$ 500,000
Corporate Purpose Bonds	Apr 15, 2006	3.35-4.2%	465,000
Refunding Bonds	Nov 1, 2004	1.85-3.70%	3,725,000
Total			
Water revenue bonds	Feb 8, 2002	3.00%	\$ 1,816,000

See accompanying independent auditor's report.

Schedule 2

<u>Balance Beginning of Year</u>	<u>Issued During Year</u>	<u>Redeemed During Year</u>	<u>Balance End of Year</u>	<u>Interest Paid</u>	<u>Interest Due and Unpaid</u>
\$ 440,000	-	20,000	420,000	13,200	-
-	465,000	155,000	310,000	2,125	-
<u>3,490,000</u>	<u>-</u>	<u>400,000</u>	<u>3,090,000</u>	<u>106,020</u>	<u>-</u>
<u>\$ 3,930,000</u>	<u>465,000</u>	<u>575,000</u>	<u>3,820,000</u>	<u>121,345</u>	<u>-</u>
<u>\$ 1,606,000</u>	<u>-</u>	<u>74,000</u>	<u>1,532,000</u>	<u>48,180</u>	<u>-</u>

City of Huxley, Iowa

Schedule 3

Bond and Note Maturities

June 30, 2006

Year Ending <u>June 30,</u>	State Revolving Fund Revenue Bonds <u>Issued Feb 8, 2002</u>	
	<u>Interest Rates</u>	<u>Amount</u>
2007	3.00	76,000
2008	3.00	78,000
2009	3.00	81,000
2010	3.00	83,000
2011	3.00	86,000
2012	3.00	88,000
2013	3.00	91,000
2014	3.00	94,000
2015	3.00	96,000
2016	3.00	99,000
2017	3.00	102,000
2018	3.00	105,000
2019	3.00	108,000
2020	3.00	112,000
2021	3.00	115,000
2022	3.00	118,000
Total		<u>\$ 1,532,000</u>

See accompanying independent auditor's report.

(continued)

City of Huxley, Iowa

Bond and Note Maturities

June 30, 2006

Year Ending June 30,	General Obligation Bonds			
	Water Improvement Bond Issued Apr 16, 2003		Refunding Bonds Issued Nov 1, 2004	
	Interest Rates	Amount	Interest Rates	Amount
2007	3.00	21,000	2.45	405,000
2008	3.00	22,000	2.70	415,000
2009	3.00	22,000	2.95	430,000
2010	3.00	23,000	3.15	435,000
2011	3.00	23,000	3.35	450,000
2012	3.00	24,000	3.55	470,000
2013	3.00	25,000	3.70	485,000
2014	3.00	26,000		
2015	3.00	26,000		
2016	3.00	27,000		
2017	3.00	28,000		
2018	3.00	29,000		
2019	3.00	30,000		
2020	3.00	31,000		
2021	3.00	32,000		
2022	3.00	31,000		
	Total	<u>\$ 420,000</u>		<u>\$ 3,090,000</u>

See accompanying independent auditor's report.

<u>Corporate Purpose Bonds</u>		
<u>Issued Apr 15, 2006</u>		
Interest		
<u>Rates</u>	<u>Amount</u>	<u>Total</u>
3.50	155,000	581,000
3.60	15,000	452,000
3.65	20,000	472,000
3.70	20,000	478,000
3.80	20,000	493,000
3.90	20,000	514,000
4.00	20,000	530,000
4.10	20,000	46,000
4.20	20,000	46,000
		27,000
		28,000
		29,000
		30,000
		31,000
		32,000
		31,000
	<u>\$ 310,000</u>	<u>\$ 3,820,000</u>

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

For the Last Four Years

	Year ended June 30,			
	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Receipts:				
Property tax	\$ 348,687	334,144	327,945	322,053
Tax increment financing taxes	<u>1,391,187</u>	<u>1,374,213</u>	<u>1,256,304</u>	<u>1,066,154</u>
Other city taxes:				
Local option sales tax	227,634	224,589	231,209	203,732
Mobile home tax	8,434	10,234	9,650	9,705
Utility tax replacement excise tax	9,715	10,192	8,817	11,558
Franchise fees	<u>86,638</u>	<u>30,008</u>	<u>8,020</u>	<u>5,366</u>
	<u>332,421</u>	<u>275,023</u>	<u>257,696</u>	<u>230,361</u>
Licenses and permits	<u>95,823</u>	<u>34,993</u>	<u>10,278</u>	<u>8,842</u>
Uses of money and property	<u>57,707</u>	<u>38,952</u>	<u>27,703</u>	<u>58,568</u>
Intergovernmental:				
Road use tax	193,908	192,566	192,894	188,553
State allocation	617	-	-	23,066
Grants	3,000	104,917	51,633	12,096
Bank franchise tax	-	944	7,170	6,227
Fire contracts	14,864	10,716	124,788	17,055
Ballard Community School	101,980	96,688	85,500	34,500
Police contracts	78,378	34,000	-	-
Miscellaneous	<u>30,883</u>	<u>26,764</u>	<u>-</u>	<u>-</u>
	<u>423,630</u>	<u>466,595</u>	<u>461,985</u>	<u>281,497</u>
Charges for service	196,482	201,695	224,594	146,124
Special assessments	-	-	-	1,359
Miscellaneous	<u>202,820</u>	<u>195,931</u>	<u>157,580</u>	<u>102,305</u>
Total	<u>\$ 3,048,757</u>	<u>2,921,546</u>	<u>2,724,085</u>	<u>2,217,263</u>
Disbursements:				
Operating:				
Public safety	\$ 485,408	579,136	573,322	297,008
Public works	334,468	172,008	163,792	174,176
Health and social services	9,150	10,070	6,470	5,860
Culture and recreation	420,765	423,321	390,593	196,352
Community and economic development	401,808	332,313	328,821	236,772
General government	351,975	282,191	241,381	222,706
Debt service	698,250	499,620	791,258	438,540
Capital projects	<u>1,771,258</u>	<u>158,420</u>	<u>224,306</u>	<u>5,385,093</u>
Total	<u>\$ 4,473,082</u>	<u>2,457,079</u>	<u>2,719,943</u>	<u>6,956,507</u>

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 Huxley, 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 March 5, 2007. 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's internal control over financial reporting in order to determine our 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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that 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. We noted no matters involving the internal control over financial reporting and its operations that we consider to be material weaknesses.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants 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 noncompliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of noncompliance that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. 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 Huxley, and other parties to whom the City of Huxley 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 Huxley 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.

Cornwell, Frideres, Maher & Associates, P.L.C.  
Certified Public Accountants

March 5, 2007

City of Huxley, Iowa

Schedule of Findings

Year ended June 30, 2006

**Part I: Findings Related to the Financial Statements:**

None

**Part II: Other Findings Related to the Statutory Reporting:**

II-A-06 Certified Budget - Disbursements during the year ended June 30, 2006, exceeded the amounts budgeted in the debt service function. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

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

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

Conclusion – Response accepted.

II-B-06 Questionable Disbursements – We noted no disbursements for parties, banquets or other entertainment expenses that do not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979.

II-C-06 Travel Expense – We noted no disbursements of City money for travel expenses of spouses of City officials or employees during the year.

City of Huxley, Iowa

Schedule of Findings

Year ended June 30, 2006

II-D-06 Business Transactions – No business transactions between the City and City officials or employees were noted.

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

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

II-G-06 Financial Condition – Note to the financial statements number 10 reported deficit fund balances at June 30, 2006.

Recommendation – The City should investigate alternatives to eliminate these deficits in order to return these accounts to a sound financial position.

Response – We are aware of the deficit balances. See footnote number 10 for further explanation.

Conclusion – Response accepted.

II-H-06 Deposits and Investments – No instances of noncompliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City's investment policy were noted.

II-I-06 Revenue Bonds/Notes – The City has complied with the revenue bond resolutions.