

CITY OF NASHUA, IOWA
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2006

- Prepared By -

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CITY OF NASHUA, IOWA

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CITY OF NASHUA, IOWA

OFFICIALS

| <u>NAME</u> | <u>TITLE</u> | <u>TERM EXPIRES</u> |
|------------------------------|----------------|---------------------|
| (Before January 2006) | | |
| Robert Welter | Mayor | January 2006 |
| Clinton Betsinger | Mayor pro tem | January 2006 |
| Scott Cerwinske | Council Member | January 2008 |
| Rolland Cagley | Council Member | January 2008 |
| Barbara Jensen | Council Member | January 2006 |
| Richard Baldwin | Council Member | January 2008 |
| (After January 2006) | | |
| Tim Baldwin | Mayor | January 2010 |
| Richard Baldwin | Mayor pro tem | January 2008 |
| Scott Cerwinske | Council Member | January 2008 |
| Rolland Cagley | Council Member | January 2008 |
| Dawn Garbes | Council Member | January 2010 |
| Nathaniel Sinnwell | Council Member | January 2010 |
| Rebecca Neal | City Clerk | Indefinite |
| Evelyn Thompson | Treasurer | Indefinite |
| Dave Skilton | Attorney | Indefinite |



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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Members of the City Council:

I 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 Nashua, 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 Nashua's management. My responsibility is to express opinions on these financial statements based on my audit.

I conducted my 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 I 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. I believe my audit provides a reasonable basis for my opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles. Also, as permitted by the Code of Iowa, the accounting records of the City have not been audited for all prior years. Accordingly, I was unable to satisfy myself as to the distribution of the total fund balance at July 1, 2005.

In my opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had I been able to verify the distribution by fund of the total fund balance at July 1, 2005, as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Nashua 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, I have also issued my report dated August 1, 2006 on my consideration of the City of Nashua's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is to describe the scope of my 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 my audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 8 and 23 through 25 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Nashua's basic financial statements. Other supplementary information included in Schedules 1 through 4 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in my audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in cursive script, appearing to read "Larry Pump".

August 1, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Nashua 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. I 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 57%, or approximately \$416,000 from fiscal 2005 to fiscal 2006. Charges for services increased approximately \$25,000 and capital grants, contributions and restricted assets increased \$133,000.

Disbursements increased 30%, or approximately \$242,000, in fiscal 2006 from fiscal 2005. Public safety, culture and recreation and community and economic development disbursements increased approximately \$73,000, \$22,000 and \$152,000, respectively.

The City's total cash basis net assets increased 20%, or approximately \$155,000, from June 30, 2005 to June 30, 2006. Of this amount, the assets of the governmental activities increased approximately \$101,000 and the assets of the business type activities decreased by approximately \$54,000.

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 Statement tells how governmental services were financed in the short term as well as what remains for future spending. The Fund financial statement reports 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 and proprietary 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 which helps answer this question.

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

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

Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.

Business Type Activities include the 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 Tax Increment Financing, 3) the Debt Service Fund, 4) the Capital Projects Fund and 5) the Permanent Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

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

2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains three Enterprise Funds to provide separate information for the water, sewer and sewer improvement 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 \$695,000 to \$796,000. The analysis that follows focuses on the changes in cash balances for governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities
(Expressed in Thousands)

| | Year ended June 30, | |
|---|---------------------|---------------|
| | 2006 | 2005 |
| Receipts and transfers: | | |
| Program receipts: | | |
| Charges for service | \$ 100 | \$ 75 |
| Operating grants, contributions and restricted interest | 195 | 174 |
| Capital grants, contributions and restricted assets | 133 | - |
| General receipts: | | |
| Property tax | 319 | 313 |
| Local option sales tax | 105 | 97 |
| Unrestricted investment earnings | 10 | 8 |
| Other general receipts | 20 | 60 |
| Bond proceeds | 125 | - |
| Sale of asset | 136 | - |
| Total receipts and transfers | <u>\$1,143</u> | <u>\$ 727</u> |
| Disbursements: | | |
| Public safety | \$ 264 | \$ 191 |
| Public works | 145 | 225 |
| Health and social service | 9 | 3 |
| Culture and recreation | 143 | 121 |
| Community and economic development | 295 | 143 |
| General government | 108 | 92 |
| Debt service | 78 | 25 |
| Total disbursements | <u>\$1,042</u> | <u>\$ 800</u> |
| Increase (decrease) in cash basis net assets | \$ 101 | \$ (73) |
| Cash basis net assets beginning of year | <u>695</u> | <u>768</u> |
| Cash basis net assets end of year | <u>\$ 796</u> | <u>\$ 695</u> |

The City's total receipts for governmental activities increased 57%, or \$416,000. The total cost of all programs and services increased by approximately \$242,000, or 30%, with no new programs added this year. The increase in disbursements was primarily the result of increased public safety disbursements.

The cost of all governmental activities this year was \$1,042,000 compared to \$800,000 last year. However, as shown in the Statement of Activities and Net Assets on pages 9-12, the amount taxpayers ultimately financed for these activities was only \$614,000 because some of the cost was paid by those directly benefited from the programs (\$100,000) or by other governments and organizations that subsidized certain programs with grants, contributions, and restricted interest \$(328,000). The City paid for the remaining "public benefit" portion of governmental activities with approximately \$424,000 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
(Expressed in Thousands)

| | <u>Year ended June 30,</u> | |
|--|----------------------------|---------------|
| | <u>2006</u> | <u>2005</u> |
| Receipts: | | |
| Program receipts: | | |
| Charges for service: | | |
| Water | \$ 130 | \$ 132 |
| Sewer | 183 | 182 |
| Other | 3 | - |
| General receipts: | | |
| Bond proceeds | - | 120 |
| Unrestricted interest on investments | 1 | 1 |
| Total receipts | <u>\$ 317</u> | <u>\$ 435</u> |
| Disbursements and transfers: | | |
| Water | \$ 110 | \$ 232 |
| Sewer | 151 | 284 |
| Other | 2 | - |
| Total disbursements and transfers | <u>\$ 263</u> | <u>\$ 516</u> |
| Increase (decrease) in cash basis net assets | \$ 54 | \$ (81) |
| Cash basis net assets beginning of year | <u>72</u> | <u>153</u> |
| Cash basis net assets end of year | <u>\$ 126</u> | <u>\$ 72</u> |

Total business type activities receipts for the fiscal year were \$317,000 compared to \$435,000 last year. This decrease was due primarily to bond proceeds received in 2005. Total disbursements for the fiscal year decreased by 49% to a total of \$263,000 because of water and sewer construction expenses in 2005.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Nashua completed the year, its governmental funds reported a combined fund balance of \$796,111, an increase of \$101,026 from last year's total of \$695,085. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

The General Fund cash balance increased \$99,476 from the prior year to \$663,925. This increase was due mainly to contributions being collected for the welcome center.

The Road Use Tax Fund cash balance increased by \$16,083 to \$44,842 during the fiscal year. This increase was attributable to timing of the completion of certain road projects for the upcoming fiscal year.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

The Water Fund cash balance increased by \$20,597 to \$22,099, due primarily to a decrease in operating expenses.

The Sewer Fund cash balance increased by \$33,293 to \$100,721, due primarily to a decrease in operating expenses.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget once on May 1, 2006. This resulted in an increase in operating disbursements related to public safety, health and social services, culture and recreation and debt service invoices of approximately \$81,200. The City had sufficient cash balances to absorb these additional costs.

DEBT ADMINISTRATION

At June 30, 2006, the City had approximately \$148,000 in bonds and other long-term debt, compared to approximately \$96,000 last year, as follows:

Outstanding Debt at Year-End
(Expressed in Thousands)

| | June 30, | |
|--------------------------|---------------|--------------|
| | 2006 | 2005 |
| General obligation bonds | <u>\$ 148</u> | <u>\$ 96</u> |

The City incurred new debt during 2006 of \$125,000. Principal and interest payments were made as scheduled. 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 \$148,000 is significantly below its constitutional debt limit of \$2,259,699.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City of Nashua'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. One of those factors is the economy.

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 Becky Neal, City Clerk, City of Nashua.

CITY OF NASHUA, IOWA
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2006

| | <u>Disbursements</u> | <u>Program Receipts</u> | | |
|---------------------------------------|----------------------|------------------------------------|--|--|
| | | <u>Charges for Service</u> | <u>Contributions and Restricted Interest</u> | <u>Operating Grants, Capital Grants, Contributions and Restricted Interest</u> |
| FUNCTIONS/PROGRAMS: | | | | |
| Governmental activities: | | | | |
| Public safety | \$ 264,122 | \$ 54,601 | \$ - | \$ 4,318 |
| Public works | 145,264 | 2,710 | 135,468 | - |
| Health and social services | 9,096 | - | - | - |
| Culture and recreation | 142,762 | 41,614 | 16,281 | - |
| Community and economic development | 294,485 | 1,088 | 43,033 | 128,555 |
| General government | 107,745 | - | - | - |
| Debt service | <u>78,254</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total governmental activities | <u>\$1,041,728</u> | <u>\$ 100,013</u> | <u>\$ 194,782</u> | <u>\$ 132,873</u> |
| Business type activities: | | | | |
| Water | \$ 109,613 | \$ 130,210 | \$ - | \$ - |
| Sewer rental | 150,965 | 183,238 | - | - |
| Other | <u>1,850</u> | <u>2,366</u> | <u>-</u> | <u>-</u> |
| Total business type activities | <u>\$ 262,428</u> | <u>\$ 315,814</u> | <u>\$ -</u> | <u>\$ -</u> |
| Total | <u>\$1,304,156</u> | <u>\$ 415,827</u> | <u>\$ 194,782</u> | <u>\$ 132,873</u> |

(Continued)

**Net (Disbursements) Receipts and
Changes in Cash Basis Net Assets**

| Governmental Activities | Business Type Activities | Total |
|------------------------------------|-------------------------------------|--------------|
| \$ (205,203) | \$ - | \$ (205,203) |
| (7,086) | - | (7,086) |
| (9,096) | - | (9,096) |
| (84,867) | - | (84,867) |
| (121,809) | - | (121,809) |
| (107,745) | - | (107,745) |
| (78,254) | - | (78,254) |
| | | |
| \$ (614,060) | \$ - | \$ (614,060) |
| | | |
| \$ - | \$ 20,597 | \$ 20,597 |
| - | 32,273 | 32,273 |
| - | 516 | 516 |
| | | |
| \$ - | \$ 53,386 | \$ 53,386 |
| | | |
| \$ (614,060) | \$ 53,386 | \$ (560,674) |

CITY OF NASHUA, IOWA
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2006

General Receipts:

Property and other city tax levied for:
 General purposes
 Tax increment financing
 Debt service
Local option sales tax
Unrestricted interest on investments
Miscellaneous
Bond proceeds
Sale of assets

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:

 Urban renewal purposes
 Debt service
 Other purposes

Unrestricted

Total cash basis net assets

See Notes to Financial Statements.

**Net (Disbursements) Receipts and
Changes in Cash Basis Net Assets**

| <u>Governmental Activities</u> | <u>Business Type Activities</u> | <u>Total</u> |
|------------------------------------|-------------------------------------|--------------------------|
| \$ 283,039 | \$ - | \$ 283,039 |
| 10,790 | - | 10,790 |
| 25,251 | - | 25,251 |
| 104,916 | - | 104,916 |
| 10,414 | 1,020 | 11,434 |
| 19,996 | - | 19,996 |
| 125,000 | - | 125,000 |
| <u>135,680</u> | <u>-</u> | <u>135,680</u> |
| <u>\$ 715,086</u> | <u>\$ 1,020</u> | <u>\$ 716,106</u> |
| \$ 101,026 | \$ 54,406 | \$ 155,432 |
| <u>695,085</u> | <u>72,127</u> | <u>767,212</u> |
| <u>\$ 796,111</u> | <u>\$ 126,533</u> | <u>\$ 922,644</u> |
| | | |
| \$ 11,907 | \$ - | \$ 11,907 |
| 52,582 | - | 52,582 |
| 67,697 | 3,713 | 71,410 |
| <u>663,925</u> | <u>122,820</u> | <u>786,745</u> |
| <u>\$ 796,111</u> | <u>\$ 126,533</u> | <u>\$ 922,644</u> |

CITY OF NASHUA, IOWA
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES
GOVERNMENTAL FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2006

| | <u>Special Revenue</u> | | |
|---|--------------------------|-------------------------|-------------------------|
| | <u>General</u> | <u>Road Use Tax</u> | <u>Nonmajor</u> |
| RECEIPTS: | | | |
| Property tax | \$ 232,747 | \$ - | \$ 75,543 |
| Tax increment financing | - | - | 10,790 |
| Other city tax | 52,458 | - | 52,458 |
| Use of money and property | 11,442 | - | 59 |
| Licenses and permits | 2,314 | - | - |
| Intergovernmental | 69,778 | 135,468 | - |
| Charges for service | 57,469 | - | - |
| Miscellaneous | 181,548 | - | - |
| Total receipts | <u>\$ 607,756</u> | <u>\$ 135,468</u> | <u>\$ 138,850</u> |
| DISBURSEMENTS: | | | |
| Operating: | | | |
| Public safety | \$ 217,955 | \$ - | \$ 46,167 |
| Public works | 25,676 | 119,385 | 203 |
| Health and social services | 9,096 | - | - |
| Culture and recreation | 137,008 | - | 5,754 |
| Community and economic development | 294,422 | - | 63 |
| General government | 91,791 | - | 15,954 |
| Debt service | - | - | 78,254 |
| Total disbursements | <u>\$ 775,948</u> | <u>\$ 119,385</u> | <u>\$ 146,395</u> |
| Excess (deficiency) of receipts over (under) disbursements | <u>\$ (168,192)</u> | <u>\$ 16,083</u> | <u>\$ (7,545)</u> |
| Other financing sources (uses): | | | |
| Bond proceeds | \$ 125,000 | \$ - | \$ - |
| Sale of capital assets | 135,680 | - | - |
| Operating transfers in | 10,790 | - | 3,802 |
| Operating transfers out | (3,802) | - | (10,790) |
| Total other financing sources (uses) | <u>\$ 267,668</u> | <u>\$ -</u> | <u>\$ (6,988)</u> |
| Net change in cash balances | \$ 99,476 | \$ 16,083 | \$ (14,533) |
| Cash balances beginning of year | <u>564,449</u> | <u>28,759</u> | <u>101,877</u> |
| Cash balances end of year | <u>\$ 663,925</u> | <u>\$ 44,842</u> | <u>\$ 87,344</u> |
| Cash Basis Fund Balances: | | | |
| Reserved: | | | |
| Debt service | \$ - | \$ - | \$ 52,582 |
| Unreserved: | | | |
| General fund | 663,925 | - | - |
| Special revenue funds | <u>-</u> | <u>44,842</u> | <u>34,762</u> |
| Total cash basis fund balances | <u>\$ 663,925</u> | <u>\$ 44,842</u> | <u>\$ 87,344</u> |

See Notes to Financial Statements.

| <u>Total</u> | |
|--------------|----------------|
| \$ | 308,290 |
| | 10,790 |
| | 104,916 |
| | 11,501 |
| | 2,314 |
| | 205,246 |
| | 57,469 |
| | <u>181,548</u> |
| \$ | <u>882,074</u> |

| | |
|----|------------------|
| \$ | 264,122 |
| | 145,264 |
| | 9,096 |
| | 142,762 |
| | 294,485 |
| | 107,745 |
| | <u>78,254</u> |
| \$ | <u>1,041,728</u> |

| | |
|----|------------------|
| \$ | <u>(159,654)</u> |
|----|------------------|

| | |
|----|-----------------|
| \$ | 125,000 |
| | 135,680 |
| | 14,592 |
| | <u>(14,592)</u> |
| \$ | <u>260,680</u> |

| | |
|----|-----------------------|
| \$ | 101,026 |
| | <u>695,085</u> |
| \$ | <u><u>796,111</u></u> |

| | |
|----|-----------------------|
| \$ | 52,582 |
| | 663,925 |
| | <u>79,604</u> |
| \$ | <u><u>796,111</u></u> |

CITY OF NASHUA, IOWA
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND
CHANGES IN CASH BALANCES
PROPRIETARY FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2006

| | <u>Enterprise Funds</u> | | |
|--|-------------------------|--------------------------|------------------------|
| | <u>Water</u> | <u>Sewer Rental</u> | <u>Nonmajor</u> |
| Operating receipts: | | | |
| Charges for service | \$ 130,210 | \$ 183,238 | \$ 2,366 |
| Operating disbursements: | | | |
| Business type activities | <u>109,613</u> | <u>150,965</u> | <u>1,850</u> |
| Excess of operating receipts over operating disbursements | \$ 20,597 | \$ 32,273 | \$ 516 |
| Non-operating receipts: | | | |
| Interest on investments | <u>-</u> | <u>1,020</u> | <u>-</u> |
| Net change in cash balances | \$ 20,597 | \$ 33,293 | \$ 516 |
| Cash balances beginning of year | <u>1,502</u> | <u>67,428</u> | <u>3,197</u> |
| Cash balances end of year | <u>\$ 22,099</u> | <u>\$ 100,721</u> | <u>\$ 3,713</u> |
| Cash Basis Fund Balances | | | |
| Reserved for other | \$ - | \$ - | \$ 3,713 |
| Unreserved | <u>22,099</u> | <u>100,721</u> | <u>-</u> |
| Total cash basis fund balances | <u>\$ 22,099</u> | <u>\$ 100,721</u> | <u>\$ 3,713</u> |

See Notes to Financial Statements.

| |
|-------------------|
| <u>Total</u> |
| \$ 315,814 |
| <u>262,428</u> |
| \$ 53,386 |
| <u>1,020</u> |
| \$ 54,406 |
| <u>72,127</u> |
| <u>\$ 126,533</u> |
| |
| \$ 3,713 |
| <u>122,820</u> |
| <u>\$ 126,533</u> |

CITY OF NASHUA, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

(1) Summary of Significant Accounting Policies

The City of Nashua is a political subdivision of the State of Iowa located in Chickasaw County. It was first incorporated in 1869 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 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 of Nashua 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 Chickasaw County Assessor's Conference Board and Chickasaw County Emergency Management Commission.

B. Basis of Presentation

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

CITY OF NASHUA, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

(1) Summary of Significant Accounting Policies - continued

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

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

The City reports the following major governmental funds:

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

Special Revenue:

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

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

C. Measurement Focus and Basis of Accounting

The City of Nashua 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.

CITY OF NASHUA, IOWA
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2006

(1) Summary of Significant Accounting Policies - continued

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2006, disbursements exceeded the amount budgeted in the public works function prior to the amendment of the budget.

(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.

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.

(3) Bonds Payable

Annual debt service requirements to maturity for general obligations bonds are as follows:

| Year Ending June 30, | <u>General Obligation Bonds</u> | |
|----------------------------|-------------------------------------|------------------|
| | <u>Principal</u> | <u>Interest</u> |
| 2007 | \$ 49,000 | \$ 5,152 |
| 2008 | 49,000 | 3,588 |
| 2009 | 25,000 | 2,000 |
| 2010 | 25,000 | 1,000 |
| Total | <u>\$148,000</u> | <u>\$ 11,740</u> |

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

At the option of the City, the essential corporate purpose bonds issue of December 2, 2004 and September 21, 2005, are subject to redemption and prepayment on any date, in whole or from time to time in part, in any order of maturity and within an annual maturity by lot, at a price of par plus accrued interest to call date, by giving proper notice.

CITY OF NASHUA, 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 statement and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Most plan members are required to contribute 3.70% of their annual 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 year ended June 30, 2006, was \$21,991, which was equal to the required contribution for the year.

(5) **Compensated Absences**

City employees accumulate a limited amount of earned but unused vacation hours for subsequent use. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation payable to employees at June 30, 2006, primarily relating to the General Fund, is \$16,705.

This liability has been computed based on rates of pay as of June 30, 2006.

(6) **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 490 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 member's basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

CITY OF NASHUA, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

(6) Risk Management - continued

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 \$27,811.

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 \$250,000 per claim. Claims exceeding \$250,000 are reinsured in an amount not to exceed \$1,750,000 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. Automobile physical damage risks are retained by the Pool up to \$50,000 each accident, each location, with excess coverage reinsured on an individual-member basis. All property risks are also reinsured on an individual-member basis.

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

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon such 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 public employee dishonesty coverage and workers compensation coverage. 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 during the fiscal year ended June 30, 2006.

CITY OF NASHUA, IOWA
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2006

(7) **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: | |
| | Tax Increment Financing | \$ 10,790 |
| Special Revenue: | | |
| Tax Increment Financing | General | <u>3,802</u> |
| Total | | <u>\$ 14,592</u> |

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

(8) **Related Party Transactions**

The City had business transactions between the City and City officials totaling \$1,007 during the year ended June 30, 2006.

Required Supplementary Information

CITY OF NASHUA, 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> | Less Funds Not Required to be Budgeted |
|--|--|---------------------------------------|--|
| RECEIPTS: | | | |
| Property tax | \$ 308,290 | \$ - | \$ - |
| Tax increment financing collections | 10,790 | - | - |
| Other city tax | 104,916 | - | - |
| Licenses and permits | 2,314 | - | - |
| Use of money and property | 11,501 | 1,020 | - |
| Intergovernmental | 205,246 | - | - |
| Charges for service | 57,469 | 315,814 | - |
| Miscellaneous | 181,548 | - | - |
| Total receipts | <u>\$ 882,074</u> | <u>\$ 316,834</u> | <u>\$ -</u> |
| DISBURSEMENTS: | | | |
| Public safety | \$ 264,122 | \$ - | \$ - |
| Public works | 145,264 | - | - |
| Health and social services | 9,096 | - | - |
| Culture and recreation | 142,762 | - | - |
| Community and economic development | 294,485 | - | - |
| General government | 107,745 | - | - |
| Debt service | 78,254 | - | - |
| Business type activities | - | 262,428 | - |
| Total disbursements | <u>\$ 1,041,728</u> | <u>\$ 262,428</u> | <u>\$ -</u> |
| Excess (deficiency) of receipts over (under) disbursements | \$ (159,654) | \$ 54,406 | \$ - |
| Other financing sources, net | <u>260,680</u> | <u>-</u> | <u>-</u> |
| Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses | \$ 101,026 | \$ 54,406 | \$ - |
| Balance beginning of year | <u>695,085</u> | <u>72,127</u> | <u>-</u> |
| Balance end of year | <u>\$ 796,111</u> | <u>\$ 126,533</u> | <u>\$ -</u> |

See Accompanying Independent Auditor's Report.

| Net | Budgeted Amounts | | Final to Net Variance |
|--------------------------|--------------------------|--------------------------|--------------------------|
| | Original | Final | |
| \$ 308,290 | \$ 296,102 | \$ 296,102 | \$ 12,188 |
| 10,790 | 10,000 | 10,000 | 790 |
| 104,916 | 75,752 | 96,352 | 8,564 |
| 2,314 | 1,375 | 1,375 | 939 |
| 12,521 | 5,049 | 5,049 | 7,472 |
| 205,246 | 836,058 | 836,058 | (630,812) |
| 373,283 | 374,810 | 378,385 | (5,102) |
| 181,548 | 294,320 | 324,720 | (143,172) |
| <u>\$1,198,908</u> | <u>\$1,893,466</u> | <u>\$ 1,948,041</u> | <u>\$ (749,133)</u> |
| | | | |
| \$ 264,122 | \$ 246,759 | \$ 286,759 | \$ 22,637 |
| 145,264 | 187,153 | 187,153 | 41,889 |
| 9,096 | 2,905 | 9,105 | 9 |
| 142,762 | 138,638 | 148,638 | 5,876 |
| 294,485 | 1,070,717 | 1,070,717 | 776,232 |
| 107,745 | 127,639 | 127,639 | 19,894 |
| 78,254 | 60,500 | 85,500 | 7,246 |
| 262,428 | 543,890 | 543,890 | 281,462 |
| <u>\$1,304,156</u> | <u>\$2,378,201</u> | <u>\$ 2,459,401</u> | <u>\$1,155,245</u> |
| | | | |
| \$ (105,248) | \$ (484,735) | \$ (511,360) | \$ 406,112 |
| <u>260,680</u> | <u>150,000</u> | <u>176,625</u> | <u>84,055</u> |
| | | | |
| \$ 155,432 | \$ (334,735) | \$ (334,735) | \$ 490,167 |
| <u>767,212</u> | <u>704,268</u> | <u>704,268</u> | <u>62,944</u> |
| <u>\$ 922,644</u> | <u>\$ 369,533</u> | <u>\$ 369,533</u> | <u>\$ 553,111</u> |

CITY OF NASHUA, 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 except Internal Service Funds and Fiduciary 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 nonprogram. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, 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 \$81,200. The budget amendment is reflected in the final budgeted amounts.

Other Supplementary Information

CITY OF NASHUA, IOWA
SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES
NONMAJOR GOVERNMENTAL FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2006

| | <u>Special Revenue</u> | | |
|---|------------------------------|--|-------------------------|
| | <u>Employee Benefits</u> | <u>Tax Increment Financing</u> | <u>Debt Service</u> |
| RECEIPTS: | | | |
| Property tax | \$ 50,292 | \$ - | \$ 25,251 |
| Tax increment financing | - | 10,790 | - |
| Other city tax | - | - | 52,458 |
| Uses of money and property | - | 59 | - |
| Total receipts | <u>\$ 50,292</u> | <u>\$ 10,849</u> | <u>\$ 77,709</u> |
| DISBURSEMENTS: | | | |
| Operating: | | | |
| Public safety | \$ 46,167 | \$ - | \$ - |
| Public works | 203 | - | - |
| Culture and recreation | 5,754 | - | - |
| Community and economic development | 63 | - | - |
| General government | 15,954 | - | - |
| Debt service | - | - | 78,254 |
| Total disbursements | <u>\$ 68,141</u> | <u>\$ -</u> | <u>\$ 78,254</u> |
| Excess (deficiency) of receipts over (under) disbursements | <u>\$ (17,849)</u> | <u>\$ 10,849</u> | <u>\$ (545)</u> |
| Other financing sources (uses): | | | |
| Operating transfers in | \$ - | \$ 3,802 | \$ - |
| Operating transfers out | - | (10,790) | - |
| Total other financing sources (uses) | <u>\$ -</u> | <u>\$ (6,988)</u> | <u>\$ -</u> |
| Net change in cash balances | \$ (17,849) | \$ 3,861 | \$ (545) |
| Cash balances beginning of year | <u>40,704</u> | <u>8,046</u> | <u>53,127</u> |
| Cash balances end of year | <u>\$ 22,855</u> | <u>\$ 11,907</u> | <u>\$ 52,582</u> |
| Cash Basis Fund Balances: | | | |
| Reserved: | | | |
| Debt service | \$ - | \$ - | \$ 52,582 |
| Unreserved: | | | |
| Special revenue funds | 22,855 | 11,907 | - |
| Total cash basis fund balances | <u>\$ 22,855</u> | <u>\$ 11,907</u> | <u>\$ 52,582</u> |

Accompanying Independent Auditor's Report.

Total

| | |
|-----------|----------------|
| \$ | 75,543 |
| | 10,790 |
| | 52,458 |
| | 59 |
| <u>\$</u> | <u>138,850</u> |

| | |
|-----------|----------------|
| \$ | 46,167 |
| | 203 |
| | 5,754 |
| | 63 |
| | 15,954 |
| | 78,254 |
| <u>\$</u> | <u>146,395</u> |

\$ (7,545)

| | |
|---------|-----------------|
| \$ | 3,802 |
| <u></u> | <u>(10,790)</u> |

\$ (6,988)

\$ (14,533)

101,877

\$ 87,344

| | |
|-----------|---------------|
| \$ | 52,582 |
| | 34,762 |
| <u>\$</u> | <u>87,344</u> |

Other Supplementary Information

CITY OF NASHUA, IOWA
 SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS AND
 CHANGES IN CASH BALANCES
 NONMAJOR PROPRIETARY FUNDS
 AS OF AND FOR THE YEAR ENDED JUNE 30, 2006

| | <u>Water Deposit</u> |
|---------------------------------|--------------------------|
| Operating Receipts: | |
| Charges for service | \$ 2,366 |
| Operating Disbursements: | |
| Business type activities | <u>1,850</u> |
| Net change in cash balance | \$ 516 |
| Cash balance beginning of year | <u>3,197</u> |
| Cash balance end of year | <u>\$ 3,713</u> |
| | |
| Cash Basis Fund Balance: | |
| Reserved for other | <u>\$ 3,713</u> |

See Accompanying Independent Auditor's Report.

CITY OF NASHUA, 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: | | | |
| Essential Corporate Purpose | 09-21-05 | 4% | \$ 125,000 |
| Essential Corporate Purpose | 12-02-04 | 1.85-2.45% | 120,000 |
| Total indebtedness | | | |

See Accompanying Independent Auditor's Report.

| <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> |
|--|-----------------------------------|-------------------------------------|------------------------------------|--------------------------|--|
| \$ - <u>96,000</u> | \$125,000 <u>-</u> | \$ 25,000 <u>48,000</u> | \$100,000 <u>48,000</u> | \$ 3,438 <u>1,816</u> | \$ - <u>-</u> |
| <u>\$ 96,000</u> | <u>\$125,000</u> | <u>\$ 73,000</u> | <u>\$148,000</u> | <u>\$ 5,254</u> | <u>\$ -</u> |

CITY OF NASHUA, IOWA
BOND MATURITIES
JUNE 30, 2006

| <u>Year</u> <u>Ending</u> <u>June 30,</u> | <u>GENERAL OBLIGATION BONDS</u> | | | | |
|---|---------------------------------|------------------|----------------------------------|------------------|------------------|
| | <u>Essential</u> | | <u>Essential</u> | | <u>Total</u> |
| | <u>Corporate Purpose</u> | | <u>Corporate Purpose</u> | | |
| | <u>Issued December 2, 2004</u> | | <u>Issued September 21, 2005</u> | | |
| | <u>Interest Rates</u> | <u>Amount</u> | <u>Interest Rate</u> | <u>Amount</u> | |
| 2007 | 2.25% | \$ 24,000 | 4.00% | \$ 25,000 | \$ 49,000 |
| 2008 | 2.35 | 24,000 | 4.00 | 25,000 | 49,000 |
| 2009 | | - | 4.00 | 25,000 | 25,000 |
| 2010 | | - | 4.00 | 25,000 | 25,000 |
| Total | | <u>\$ 48,000</u> | | <u>\$100,000</u> | <u>\$148,000</u> |

See Accompanying Independent Auditor's Report.



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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:

I have audited the accompanying financial statements of the governmental activities, business type activities, each major fund and the aggregate remaining fund information of the City of Nashua, 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 my report thereon dated August 1, 2006. My report on the financial statements, which were prepared in conformity with an other comprehensive basis of accounting, expressed a qualified opinion since I was unable to satisfy myself as to the distribution by fund of the total fund balance at July 1, 2005. I conducted my 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 my audit, I considered the City of Nashua's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, I noted certain matters involving the internal control over financial reporting and its operation that I consider to be reportable conditions. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in my judgment, could adversely affect the City of Nashua's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part II of the accompanying Schedule of Findings.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, I believe item II-A-06 is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Nashua's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations and contracts, 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 my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, I noted certain immaterial instances of non-compliance or other matters that are described in Part IV 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 my audit of the financial statements of the City. Since my 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 Nashua and other parties to whom the City of Nashua may report. This report is not intended to be and should not be used by anyone other than these specified parties.

I would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Nashua during the course of my audit. Should you have any questions concerning any of the above matters, I shall be pleased to discuss them with you at your convenience.



August 1, 2006

CITY OF NASHUA, IOWA
Schedule of Findings
Year Ended June 30, 2006

Part I: Summary of the Independent Auditor's Results:

- (a) A qualified opinion was issued on the financial statements, which was prepared in conformity with an other comprehensive basis of accounting, since I was unable to satisfy myself as to the distribution by fund of the total fund balance at July 1, 2005.
- (b) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, including a material weakness.
- (c) The audit did not disclose any noncompliance which is material to the financial statements.

Part II: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

II-A-06 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. I noted that certain accounting functions are not properly segregated.

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

Response - We will review procedures and make changes to improve internal control where possible.

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.

II-B-06 Disaster Recovery Plan and Information Systems - During our review of internal control, the existing control activities in the City's computer based systems were evaluated in order to determine that activities, from a control standpoint, were designed to provide reasonable assurance regarding the achievement of objectives in the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.

I noted that the City does not have written policies for password privacy and confidentiality. Daily computer backups are not kept off-site.

Also, the City does not have a disaster recovery plan that should address specific details such as identification of critical applications, staff responsibilities, equipment and software inventory, use documentation, etc.

CITY OF NASHUA, IOWA
Schedule of Findings
Year Ended June 30, 2006

Part II: Findings Related to the Financial Statements: - continued

Recommendation - The City should develop written policies addressing the above items in order to improve the City's control over computer based systems.

Response - The City will look into this.

Conclusion - Response acknowledged.

II-C-06 Delinquent Utilities - The City has not been fully enforcing the ordinance pertaining to delinquent utilities. I noted that shut-offs were not being implemented when accounts become fully delinquent.

Recommendation - The City should comply with its ordinance pertaining to delinquent utilities. This will also result in improvement of cash flow by collecting delinquent accounts.

Response - We will look into this.

Conclusion - Response accepted.

Part III: Findings and Questioned Costs for Federal Awards:

Not applicable

Part IV: Other Findings Related to Statutory Reporting:

IV-A-06 Official Depositories - A resolution naming official depositories and maximum deposits has not been approved by the City.

Recommendation - The Council should approve a resolution in amounts sufficient to cover anticipated balances for all depositories.

Response - We will state an authorized depository and maximum amount.

Conclusion - Response accepted.

IV-B-06 Certified Budget - Disbursements during the year ended June 30, 2006, did not exceed the amounts budgeted. However, the budget was exceeded prior to amendment. 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 accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response - We will do this in the future.

Conclusion - Response accepted.

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

IV-D-06 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

CITY OF NASHUA, IOWA
 Schedule of Findings
 Year Ended June 30, 2006

Part IV: Other Findings Related to Statutory Reporting:

IV-E-06 Business Transactions - Business transactions between the City and City officials are detailed as follows:

| <u>Name, Title and Business Connection</u> | <u>Transaction Description</u> | <u>Amount</u> |
|---|------------------------------------|---------------|
| Clinton Betsinger, Council Member, owner of Nashua Plumbing and Heating | Repair & supplies | \$1,007 |

In accordance with chapter 362.5 (11) of the Code of Iowa, the transactions with Clinton Betsinger do not appear to represent a conflict of interest since total transactions were less than \$2,500 during the fiscal year.

IV-F-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.

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

The Council went into closed session on August 22, 2005. However, the minutes record did not document the specific information regarding the closed session as required by Chapter 21 of the Code of Iowa, commonly known as the open-meetings law.

Recommendation - The City should comply with Chapter 21 of the Code of Iowa.

Response - We will comply with the Code requirements for closed sessions.

Conclusion - Response accepted.

IV-H-06 Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.

IV-I-06 Local Option Sales Tax - The local option sales tax collected was recorded in the General Fund and Debt Service Fund instead of a Special Revenue Fund.

Recommendation - The local option sales tax should be recorded in a Special Revenue Fund and then transferred to the appropriate fund.

Response - We will set up a Special Revenue Fund for this.

Conclusion - Response accepted.

