

CITY OF LARCHWOOD  
INDEPENDENT AUDITOR'S REPORTS  
BASIC FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION  
SCHEDULE OF FINDINGS  
JUNE 30, 2006

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**CITY OF LARCHWOOD**

**OFFICIALS**

<u>NAME</u>	<u>TITLE</u>	<u>TERM EXPIRES</u>
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**(Before January 2006)**

Leonard Vanden Bosch	Mayor	January 1, 2006
Mike Metzger	Council Member	January 1, 2006
Ken Kerkvliet	Council Member	January 1, 2006
Dean Snyders	Council Member	January 1, 2008
Ted Underberg	Council Member	January 1, 2008
Betty Smith	Council Member	January 1, 2008

**(After January 2006)**

Leonard Vanden Bosch	Mayor	January 1, 2009
Mike Metzger	Council Member	January 1, 2009
Josh Feucht	Council Member	January 1, 2009
Dean Snyders	Council Member	January 1, 2008
Ted Underberg	Council Member	January 1, 2008
Betty Smith	Council Member	January 1, 2008
La Vonne Reinke	Clerk/Treasurer	January 1, 2006
Lachlan Murphy Bonander	Attorney	January 1, 2006

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**HEARD HALSE & CO.**

Certified Public Accountants  
710 SOUTH UNION STREET, P.O. BOX 108  
ROCK RAPIDS, IOWA 51246

**INDEPENDENT AUDITORS' REPORT**

To the Honorable Mayor and  
Members of the City Council

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Larchwood, 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 Larchwood'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 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 are 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 Larchwood as of June 30, 2006, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our reports dated October 24, 2006 on our consideration of the City of Larchwood's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 6 through 11 and 26 through 30 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Larchwood's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2005 (none of which are presented herein) and expressed unqualified opinions on those financial statements which were prepared in conformity an other comprehensive basis of accounting. Other supplementary information included in Schedules 1 through 3, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Heard Halse & Co.

October 24, 2006

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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

### 2006 FINANCIAL HIGHLIGHTS

- Revenues of the City's governmental activities decreased 37.2%, or approximately \$201,000, from fiscal 2005 to fiscal 2006. Transfers from the electric fund decreased by \$130,000.
- Disbursements decreased 20.8%, or approximately \$101,000, in fiscal 2006 from fiscal 2005. Public works, culture and recreation disbursements decreased and community and economic development and, general government increased with public safety remaining about the same.
- The City's total cash basis net assets increased 73%, or approximately \$138,000, from June 30 2005 to June 30, 2006. Of this amount, the assets of the governmental activities decreased approximately \$38,000 and the assets of the business type activities increased by approximately \$179,000.

### USING THIS ANNUAL REPORT

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

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

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

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

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

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

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

### Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued

items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

## **REPORTING THE CITY'S FINANCIAL ACTIVITIES**

### *Government-wide Financial Statement*

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information, 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 electric, garbage, water, and 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 Urban Renewal Tax Increment. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

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

- 2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains four Enterprise Funds to provide separate information for the electric, garbage, water, and sanitary sewer system funds. Electric and water funds are 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.

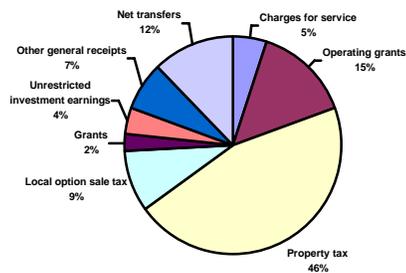
Reconciliations between the government-wide statement and the fund financial statements follow the fund financial statements.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

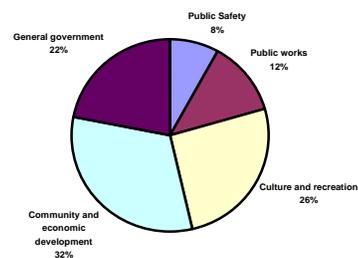
Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased from a year ago, increasing from \$55,428 to \$14,692. The analysis that follows focuses on the changes in cash balances for governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities (Expressed in Thousands)		
	Year ended June 30,	
	2006	2005
Receipts and transfer:		
Program receipts:		
Charges for service	\$ 22	\$ 14
Operating grants, contributions and restricted interest	66	66
Capital grants, contributions and restricted interest	-	-
General receipts:		
Property tax	205	198
Local option sales tax	41	40
Grants and contributions not restricted to specific purposes	11	12
Unrestricted investment earnings	17	14
Bond proceeds	-	-
Other general receipts	33	3
Transfers, net	(55)	194
Total receipts and transfers	<u>340</u>	<u>541</u>
Disbursements:		
Public safety	31	31
Public works	47	182
Health and social services	-	-
Culture and recreation	99	129
Community and economic development	120	55
General government	84	62
Debt service	-	22
Capital projects	-	-
Total disbursements	<u>381</u>	<u>481</u>
Increase (decrease) in cash basis net assets	(41)	60
Cash basis net assets beginning of year	56	(4)
Cash basis net assets end of year	<u>\$ 15</u>	<u>\$ 56</u>

**Receipts by source**



**Disbursements by Function**



The City's total receipts for governmental activities decreased by 37.2%, or \$201,000. The total cost of all programs and services decreased by approximately \$100,000, or 20.8%, with no new programs added this year. The significant decrease in receipts was primarily the result of the transfer of funds from the electric fund in the prior year.

The City property tax rates remained the same for 2006 but an increase in property valuations increased the amount received by approximately \$7,000 in 2006. Based on decreases in the total assessed valuation, property tax receipts are budgeted to increase by approximately \$3,000 next year.

The cost of all governmental activities this year was \$381,000 compared to \$481,000 last year. However, as shown in the Statement of Activities and Net Assets on pages 14-15, the amount taxpayers ultimately financed for these activities was only \$293,713 because some of the cost was paid by those directly benefited from the programs or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest (\$88,013). Overall, the City's governmental activities receipts, including intergovernmental aid and fees for service, increased in 2006 from approximately \$80,000 to approximately \$88,000, principally due to increase in recreation membership fees and with other receipts, such as interest and general entitlements.

Changes in Cash Basis Net Assets of Business Type Activities (Expressed in Thousands)		
	Year ended June 30,	
	2006	2005
Receipts and transfer:		
Program receipts:		
Charges for service		
Electric	\$ 486	\$ 416
Water	109	98
Other nonmajor	133	129
General receipts:		
Unrestricted investment earnings	3	2
Miscellaneous income	-	43
Bond proceeds	-	-
Total receipts	731	688
Disbursements:		
Electric	355	327
Water	115	95
Other nonmajor	137	118
Debt Service	70	-
Transfers	(55)	165
Total disbursements	622	705
Increase (decrease) in cash basis net assets	109	(17)
Cash basis net assets beginning of year	401	418
Cash basis net assets end of year	\$ 510	\$ 401

Total business type activities receipts for the fiscal year were \$731,000 compared to \$688,000 last year. This increase was due primarily to increases in Electric and Water fund receipts. The cash balance increased by approximately \$179,000 from the prior year because fewer funds were transferred to general government to cover cost of improvements to the infrastructure. Total disbursements and transfers for the fiscal year decreased by \$153,000.

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

As City of Larchwood completed the year, its governmental funds reported a combined fund balance of \$14,692, a decrease of more than \$40,700 below last year's total of \$55,429). The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance decreased \$2,610 from the prior year to \$19,474. This decrease was due to increase disbursements in general government and culture and recreation.
- The Road Use Tax Fund cash balance increased by \$33,644 to \$(72,422) during the fiscal year. This increase was attributable to the transfer of funds from TIP to defer the cost of improvements completed during the year.
- The Urban Renewal Tax Increment Fund was established to account for urban renewal projects within the City's business district. At the end of the fiscal year, the cash balance was \$16,526, a decrease of \$43,326 from the previous year due to several projects started during the year.

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

- The Electric Fund cash balance increased by \$108,774 to \$512,572, due primarily to less funds being transferred to other funds to pay for improvements.
- The Water Fund cash balance increased by \$16,668 to \$132,940, due primarily to an increase in the receipts of charges for services which will be used to pay for the Lyon and Sioux Rural Water System hook up.
- The Sewer Fund cash balance increased by \$51,440 to \$(75,160), due primarily to the increase in fees to cover the cost of the sewer lagoon system.
- The Garbage Fund cash balance increased by \$1,810 to \$8,980, due primarily to the receipts in the current year being higher than the expenditures this year.

### **BUDGETARY HIGHLIGHTS**

Over the course of the year, the City needs to reduce expenditures due to substantial reduction in intergovernmental revenues and revenues from charges for services. Even with the reduction of expenditures the City exceeded its budget.

## DEBT ADMINISTRATION

At June 30, 2006, the City had approximately \$958,221 in bonds and other long-term debt, compared to approximately \$991,640 last year, as shown below.

	Outstanding Debt at Year-End	
	(Expressed in Thousands)	
	June 30,	
	2006	2005
General obligation loans	\$ 434,607	\$ 439,026
Capital Revenue Notes	523,614	552,614
Total	\$ 958,221	\$ 991,640

Debt decreased \$33,419. 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 \$958,221 is above its constitutional debt limit of \$860,448.

## ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

City of Larchwood'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. The City's population growth during 2000-2005, averaging per year gains of four houses built each year bringing in about 20 new people.

Inflation in the State continues to be somewhat lower than the national Consumer Price Index increase. The State's CPI increase was 3.2 percent for fiscal year 2006 compared with the national rate of 3.4 percent. Inflation has been modest here due in part to the slowing of the residential housing market and modest increases in energy prices in 2006.

These indicators were taken into account when adopting the budget for fiscal year 2007. Amounts available for appropriation in the operating budget are \$1.26 million, an increase of 23.0% over the final 2006 budget. Budgeted disbursements are expected to go up approximately \$176,000. Decreases in public works represent the largest decreases. The City has added no major new programs or initiatives to the 2007 budget.

If these estimates are realized, the City's budgeted cash balance is expected to increase by approximately \$28,000 by the close of 2007.

## 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 LaVonne Reinke, City Clerk, 909 Broadway, Larchwood, Iowa, 51241-0216.

**City of Larchwood, Iowa**

## **Basic Financial Statements**

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

Functions/Programs	Program Revenues			
	Disbursements	Charges for Service	Operating Grants Contributions and Restricted Interest	Capital Grants Contributions and Restricted Interest
<b>Governmental activities:</b>				
Public safety	\$ 31,314	\$ -	\$ -	\$ -
Public works	47,332	-	65,976	-
Culture and recreation	98,831	20,092	-	-
Community and economic development	120,291	-	-	-
General government	83,958	1,945	-	-
Total governmental activities	381,726	22,037	65,976	-
<b>Business type activities:</b>				
Electric	355,258	486,392	-	-
Water	115,125	108,802	-	-
Other nonmajor	137,412	132,982	-	-
Total business type activities	607,795	728,176	-	-
<b>Total</b>	989,521	750,213	65,976	-
<b>General Receipts:</b>				
Property tax levied for:				
General purposes				
Tax incremental financing				
Local option sales tax				
Grants and contributions not restricted to specific purpose				
Unrestricted investment earnings				
Miscellaneous				
Sale of assets				
Transfers				
Total general receipts and transfers				
Change in cash basis net assets				
Cash basis net assets beginning of year, as restated				
Cash basis net assets end of year				
<b>Cash Basis Net Assets</b>				
Restricted:				
Streets				
Urban renewal purposes				
Local Option Sales Tax				
Unrestricted				
<b>Total cash basis net assets</b>				

See notes to financial statements.

Net (Expense) Revenue  
and Changes in Net Assets

Governmental Activities	Business Type Activities	Total
\$ (31,314)	\$ -	\$ (31,314)
18,644	-	18,644
(78,739)	-	(78,739)
(120,291)	-	(120,291)
(82,013)	-	(82,013)
<u>(293,713)</u>	<u>-</u>	<u>(293,713)</u>
-	131,134	131,134
-	(6,323)	(6,323)
-	(4,430)	(4,430)
<u>-</u>	<u>120,381</u>	<u>120,381</u>
<u>(293,713)</u>	<u>120,381</u>	<u>(173,332)</u>
103,670	-	103,670
101,755	-	101,755
40,605	-	40,605
11,579	-	11,579
17,571	3,194	20,765
7,728	-	7,728
25,186	-	25,186
(55,118)	55,118	-
<u>252,976</u>	<u>58,312</u>	<u>311,288</u>
(40,737)	178,693	137,956
55,429	400,639	456,068
<u>\$ 14,692</u>	<u>\$ 579,332</u>	<u>\$ 594,024</u>
\$ (72,422)		\$ (72,422)
16,526		16,526
51,114		51,114
19,474	579,332	598,806
<u>\$ 14,692</u>	<u>\$ 579,332</u>	<u>\$ 594,024</u>

See notes to financial statements.

City of Larchwood  
Statement of Cash Receipts, Disbursements and Changes in  
Cash Balances - Governmental Funds  
As of and for the year ended June 30, 2006

	General	Road Use Tax	Local Option Sales Tax	Urban Renewal Tax Increment
<b>Receipts:</b>				
Property tax	\$ 103,670	\$ -	\$ -	\$ -
Tax increment financing collections	-	-	-	101,755
Other city tax	-	-	40,605	-
Licenses and permits	1,945	-	-	-
Use of money and property	16,293	-	1,067	211
Intergovernmental	11,579	65,976	-	-
Charges for service	20,092	-	-	-
Miscellaneous	7,728	-	-	-
Total Receipts	<u>161,307</u>	<u>65,976</u>	<u>41,672</u>	<u>101,966</u>
<b>Disbursements:</b>				
<b>Operating:</b>				
Public safety	31,314	-	-	-
Public works	-	47,332	-	-
Culture and recreation	98,831	-	-	-
Community and economic developmen	-	-	-	120,291
General government	83,958	-	-	-
Debt service	-	-	-	-
Capital projects	-	-	-	-
Total Disbursements	<u>214,103</u>	<u>47,332</u>	<u>-</u>	<u>120,291</u>
Excess of receipts over disbursements	<u>(52,796)</u>	<u>18,644</u>	<u>41,672</u>	<u>(18,325)</u>
<b>Other financing sources (uses):</b>				
Operating transfers out	25,000	15,000	(70,118)	(25,000)
Total other financing sources (uses)	<u>50,186</u>	<u>15,000</u>	<u>(70,118)</u>	<u>(25,000)</u>
Net change in cash balances	<u>(2,610)</u>	<u>33,644</u>	<u>(28,446)</u>	<u>(43,325)</u>
Cash balances beginning of year	<u>22,084</u>	<u>(106,066)</u>	<u>79,560</u>	<u>59,851</u>
Cash balances end of year	<u>\$ 19,474</u>	<u>\$ (72,422)</u>	<u>\$ 51,114</u>	<u>\$ 16,526</u>
<b>Cash Basis Fund Balances</b>				
<b>Reserved:</b>				
Debt service	-	-	-	-
<b>Unreserved:</b>				
General fund	19,474	-	-	-
Special revenue funds	-	(72,422)	51,114	16,526
Total cash basis fund balances	<u>19,474</u>	<u>(72,422)</u>	<u>51,114</u>	<u>16,526</u>

See notes to financial statements.

City of Larchwood, Iowa  
 Reconciliation of the Statement of Cash Receipts, Disbursements and  
 Changes in Cash Balances to the Statement of Activities and  
 Net Assets - Governmental Funds  
 As of and for the year ended June 30, 2006

Exhibit C

**Total governmental funds cash balances (page 17)** \$ 14,692

**Amounts reported for governmental activities in the  
 Statements of Net Assets are different because:**

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

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**Cash basis net assets of governmental activities (page 15)** \$ 14,692

**Net change in cash balances (page 17)** \$ (40,737)

**Amounts reported for governmental activities in the  
 Statements of Net Assets are different because:**

The Internal Service Fund is used by management to charge the costs of employee health benefits to individual funds. The change on net assets of the Internal Service Fund is reported with governmental activities

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**Change in cash balance of governmental activities (page 15)** \$ (40,737)

See notes to financial statements.

City of Larchwood, Iowa  
Statement of Cash Receipts, Disbursements and Changes in  
Cash Balances - Proprietary Funds  
As of and for the year ended June 30, 2006

Exhibit D

	Enterprise Funds			Total
	Electric	Water	Other Nonmajor Enterprise	
Operating receipts:				
Use of money and property	\$ 2,640	\$ -	\$ 554	\$ 3,194
Licenses and permits	-	1,000	1,370	2,370
Charge for service	486,392	107,802	131,612	725,806
Miscellaneous	-	-	-	-
Total operating receipts	<u>489,032</u>	<u>108,802</u>	<u>133,536</u>	<u>731,370</u>
Operating disbursements:				
Governmental activities:				
Public safety	-	-	-	-
Public works	-	-	-	-
Health and social services	-	-	-	-
Culture and recreation	-	-	-	-
Community and economic development	-	-	-	-
General government	-	-	-	-
Capital projects	-	-	-	-
Business type activities	355,258	92,133	90,286	537,677
Total operating disbursements	<u>355,258</u>	<u>92,133</u>	<u>90,286</u>	<u>537,677</u>
Excess (deficiency) of operating receipts over (under)	<u>133,774</u>	<u>16,669</u>	<u>43,250</u>	<u>193,693</u>
Non-operating receipts (disbursements):				
Intergovernmental	-	-	-	-
Interest on investments	-	-	-	-
Miscellaneous	-	-	-	-
General obligation bond proceeds	-	-	-	-
Debt service	-	(22,992)	(47,126)	(70,118)
Total non-operating receipts (disbursements)	<u>-</u>	<u>(22,992)</u>	<u>(47,126)</u>	<u>(70,118)</u>
Excess (deficiency) of receipts over (under) disbursement	133,774	(6,323)	(3,876)	123,575
Operating transfers out	(25,000)	22,992	57,126	55,118
Net change in cash balances	108,774	16,669	53,250	178,693
Cash balances beginning of year	403,798	116,271	(119,430)	400,639
Cash balances end of year	<u>\$ 512,572</u>	<u>\$ 132,940</u>	<u>\$ (66,180)</u>	<u>\$ 579,332</u>
<b>Cash Basis Fund Balances</b>				
Reserved for debt service	\$ -	\$ -	\$ -	\$ -
Unreserved	512,572	132,940	(66,180)	579,332
Total cash basis fund balances	<u>\$ 512,572</u>	<u>\$ 132,940</u>	<u>\$ (66,180)</u>	<u>\$ 579,332</u>

See notes to financial statements.

City of Larchwood, Iowa  
 Reconciliation of the Statement of Cash Receipts, Disbursements and  
 Changes in Cash Balances to the Statement of Activities and  
 Net Assets - Proprietary Funds  
 Year ended June 30, 2006

Exhibit E

**Total enterprise funds cash balances (page 21)** \$ 579,332

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

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

-

**Cash basis net assets of business type activities (page 15)** \$ 579,332

**Net change in cash balances (page 21)** \$ 178,693

**Amounts reported for business type activities in the  
 Statements of Net Assets are different because:**

The Internal Service Fund is used by management to charge the costs of partial self funding of the City's health insurance benefit to individual funds. The change on net assets of the Internal Service Fund is reported with business type activities.

-

**Change in cash balance of business type activities (page 15)** \$ 178,693

See notes to financial statements.

City of Larchwood  
Larchwood, Iowa  
Notes to Financial Statements  
June 30, 2006

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

The City of Larchwood is a political subdivision of the State of Iowa located in Lyon County. It was first incorporated in 1872 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, culture, recreation, public improvements and general administrative services.

**A. Reporting Entity**

For financial reporting purposes, City of Larchwood has included all funds. The City has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the City.

The City of Larchwood had no component units that were included in the period covered by this audit.

**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.

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

The Local Option Sales Tax Fund is used to account for the sales tax receipts to be used for payments of the long-term debt.

The City reports the following major proprietary funds:

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

The Electric Fund accounts for the operation and maintenance of the City's electricity and generator substation system.

The City also reports the following additional proprietary funds:

A Sewer and Garbage Funds are utilized to account for the sewer and garbage services provided by the City.

#### C. Measurement Focus and Basis of Accounting

The City of Larchwood maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of

operations of the funds in accordance with U.S. generally accepted accounting principles.

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

#### D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2006, disbursements exceeded the amounts budgeted in the general government and business type activities functions.

### (2) **Cash and Pooled Investments**

The City's deposits 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 are categorized to give an indication of the level of risk assumed by the City at year-end. The City's investments are all category 1 which means that the investments are insured or registered or the securities are held by the City or its agent in the City's name.

The City's investments consist of savings accounts and certificates of deposits all held within the State of Iowa.

### (3) **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.

Plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of annual covered salary. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2006, 2005 and 2003 were \$5,603, \$4,878 and \$4,385, respectively, equal to the required contributions for each year.

**(4) Compensated Absences**

City employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation leave termination payments payable to employees at June 30, 2006, is \$23,558. The City's approximate liability for sick leave termination payments payable to employees at June 30, 2006, is \$2,380. These liabilities have been computed based on rates of pay as of June 30, 2006.

**(5) Related Party Transactions**

The City had business transactions between the City and City officials or spouses totaling \$12,904 during the year ended June 30, 2006.

**(6) Notes Payable**

On June 20, 2005, the City obtained a 20-year loan note to cover construction costs of a sewer lagoon system with Sewer Revenue Capital Loan Note Series 2005 were entered into with Iowa Finance Authority. The interest rate is 3% and requires semi-annual interest payments and annual principal payments.

The City has entered into an agreement with Lyon and Sioux Rural Water System, Inc. to provide water to the City. The System will provide potable treated water not to exceed 200,000 gallons per day. The City transferred their city well and other considerations. The City is paying a connection fee of \$441,869 that started October 1, 2005 making monthly payments of \$1,916 including interest at 4.25% until 2044.

The following is the payment schedule for both debts:

Year Ending June 30,	Connection Fee		Capital Loan Notes		Totals	
	Principal	Interest	Principal	Interest	Principal	Interest
2007	\$ 4,610	\$ 18,382	\$ 29,000	\$ 15,708	\$ 33,610	\$ 34,090
2008	4,810	18,182	30,000	14,838	34,810	33,020
2009	5,019	17,973	31,000	13,938	36,019	31,911
2010	5,236	17,756	32,000	13,008	37,236	30,764
2011	5,463	17,529	33,000	12,048	38,463	29,577
2012 - 2016	31,078	83,882	180,000	44,790	211,078	128,672
2017 - 2021	38,423	76,537	188,614	16,110	227,037	92,647
2022 - 2026	47,501	67,459	-	-	47,501	67,459
2027 - 2031	58,725	56,235	-	-	58,725	56,235
2032 - 2036	72,603	42,357	-	-	72,603	42,357
2037 - 2041	89,760	25,200	-	-	89,760	25,200
2042 - 2045	71,379	5,304	-	-	71,379	5,304
Totals	\$ 434,607	\$ 446,796	\$ 523,614	\$ 130,440	\$ 958,221	\$ 577,236

**(7) Risk Management**

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

**(8) Budget Overexpenditure**

Per the Code of Iowa, disbursements may not legally exceed budgeted appropriations at the functional level. During the year ended June 30, 2003, disbursements in the community and economic development and debt service exceeded the amounts budgeted.

**(9) Deficit Fund Balance**

The Special Fund – Road Use Tax had a deficit balance of \$72,422 and Sewer fund had a deficit balance of \$75,160 at June 30, 2006.

## **Required Supplementary Information**

City of Larchwood, Iowa  
 Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances -  
 Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Fund  
 Required Supplementary Information  
 Year ended June 30, 2006

	Governmental Funds Actual	Proprietary Funds Actual
Receipts:		
Property tax	\$ 103,670	\$ -
Tax increment financing collections	101,755	-
Other city tax	40,605	-
Licenses and permits	1,945	2,370
Use of money and property	17,571	3,194
Intergovernmental	77,555	-
Charges for service	20,092	725,806
Special assessments	-	-
Miscellaneous	7,728	-
Total receipts	<u>370,921</u>	<u>731,370</u>
Disbursements:		
Public safety	31,314	-
Public works	47,332	-
Health and social services	-	-
Culture and recreation	98,831	-
Community and economic development	120,291	-
General government	83,958	-
Debt service	-	70,118
Capital projects	-	-
Business type activities	-	537,677
Total disbursements	<u>381,726</u>	<u>607,795</u>
Excess of receipts over disbursements	(10,805)	123,575
Other financing sources, net	<u>(29,932)</u>	
Excess of receipts and other financing sources over disbursements and other financing uses	(40,737)	123,575
Balances beginning of year	<u>55,429</u>	<u>400,639</u>
Balances end of year	<u>\$ 14,692</u>	<u>\$ 524,214</u>

See accompanying independent auditor's report.

Less Funds not Required to be Budgeted	Total Actual	Budgeted Amounts		Final to Actual Variance
		Original	Final	
\$ -	\$ 103,670	\$ 103,555	\$ 103,555	\$ 115
-	101,755	60,000	100,000	1,755
-	40,605	36,000	36,000	4,605
-	4,315	1,945	1,945	2,370
-	20,765	3,950	9,350	11,415
-	77,555	66,390	78,890	(1,335)
-	745,898	742,150	742,150	3,748
-	-	-	-	-
-	7,728	41,500	69,200	(61,472)
-	1,102,291	1,055,490	1,141,090	(38,799)
-	31,314	34,059	36,559	(5,245)
-	47,332	123,350	123,350	(76,018)
-	-	-	-	-
-	98,831	99,444	109,944	(11,113)
-	120,291	30,000	30,000	90,291
-	83,958	118,950	146,450	(62,492)
-	70,118	30,000	30,000	40,118
-	-	-	-	-
-	537,677	617,615	679,115	(141,438)
-	989,521	1,053,418	1,155,418	(165,897)
-	112,770	2,072	(14,328)	127,098
-	(29,932)	-	-	(29,932)
-	82,838	2,072	(14,328)	97,166
-	456,068	561,052	456,067	1
\$ -	\$ 538,906	\$ 563,124	\$ 441,739	\$ 97,167

See accompanying independent auditor's report.

City of Larchwood, 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 non-program. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, two budget amendments increased budgeted revenues by \$85,600 and disbursements by \$102,000. The budget amendments are reflected in the final budgeted amounts.

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

## **Other Supplementary Information**

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

Obligation	Date of Issue	Interest Rate	Amount Originally Issued	Balance Beginning of Year
General obligation debt:				
Lyon & Sioux Rural Water	9/1/2004	4.25%	441,869	\$ 439,026
Total				<u>439,026</u>
Capital Revenue Loan Notes:				
Sewer Capital Loan	6/28/2002	3%	633,614	552,614
Totals				<u>\$ 552,614</u>

See accompanying independent auditor's report.

Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
\$ -	\$ 4,419	\$ 434,607	\$ 18,573	\$ 1,129
-	4,419	434,607	18,573	1,129
-	29,000	523,614	16,578	2,487
\$ -	\$ 29,000	\$ 523,614	\$ 16,578	\$ 2,487

See accompanying independent auditor's report.

City of Larchwood, Iowa  
Bond and Note Maturities  
June 30, 2006

Schedule 2

<b>Capital Loan Notes</b>			<b>General Obligation Debt</b>		
<b>Sewer Project</b>			<b>Lyon &amp; Sioux Rural Water</b>		
<b>Issued June 28, 2002</b>			<b>Issued September 1, 2004</b>		
<b>Year Ending June 30</b>	<b>Interest Rates</b>	<b>Amounts</b>	<b>Year Ending June 30</b>	<b>Interest Rates</b>	<b>Amounts</b>
2007	3.00%	29,000	2007	4.25%	4,610
2008	3.00%	30,000	2008	4.25%	4,810
2009	3.00%	31,000	2009	4.25%	5,019
2010	3.00%	32,000	2010	4.25%	5,236
2011	3.00%	33,000	2011	4.25%	5,463
2012	3.00%	34,000	2012	4.25%	5,700
2013	3.00%	35,000	2013	4.25%	5,947
2014	3.00%	36,000	2014	4.25%	6,204
2015	3.00%	37,000	2015	4.25%	6,473
2016	3.00%	38,000	2016	4.25%	6,754
2017	3.00%	39,000	2017	4.25%	7,047
2018	3.00%	41,000	2018	4.25%	7,352
2019	3.00%	42,000	2019	4.25%	7,671
2020	3.00%	43,000	2020	4.25%	8,003
2021	3.00%	23,614	2021	4.25%	8,350
2022	3.00%	-	2022	4.25%	8,712
<b>TOTAL</b>		<b>\$ 523,614</b>	2023	4.25%	9,089
			2024	4.25%	9,483
			2025	4.25%	9,894
			2026	4.25%	10,323
			2027	4.25%	10,770
			2028	4.25%	11,237
			2029	4.25%	11,724
			2030	4.25%	12,232
			2031	4.25%	12,762
			2032	4.25%	13,315
			2033	4.25%	13,892
			2034	4.25%	14,495
			2035	4.25%	15,123
			2036	4.25%	15,778
			2037	4.25%	16,462
			2038	4.25%	17,175
			2039	4.25%	17,920
			2040	4.25%	18,696
			2041	4.25%	19,507
			2042	4.25%	20,352
			2043	4.25%	21,234
			2044	4.25%	22,154
			2045	4.25%	7,639
			2046	4.25%	-
			<b>TOTAL</b>		<b>\$ 434,607</b>

See accompanying independent auditor's report.

City of Larchwood, Iowa  
Schedule of Revenues by Source and Expenditures by Function -  
All Governmental Funds  
For the Last Four Years

Schedule 3

	2006	2005	2004	2003
<b>Receipts:</b>				
Property tax	\$ 103,670	\$ 100,279	\$ 99,407	\$ 105,244
Tax increment financing collections	101,755	97,735	70,327	50,669
Other city tax	40,605	40,189	37,911	31,530
Licenses and permits	1,945	1,945	1,945	2,139
Use of money and property	17,571	14,039	6,309	6,614
Intergovernmental	77,555	106,569	79,121	100,788
Charges for service	20,092	12,046	11,093	29,346
Special assessments	-	-	-	-
Miscellaneous	7,728	3,282	12,674	19,098
Total	<u>370,921</u>	<u>376,084</u>	<u>318,787</u>	<u>345,428</u>
<b>Disbursements:</b>				
<b>Operating:</b>				
Public safety	31,314	31,164	35,023	34,372
Public works	47,332	182,225	80,830	116,844
Health and social services	-	-	-	-
Culture and recreation	98,831	128,950	86,577	162,917
Community and economic development	120,291	55,294	-	-
General government	83,958	62,168	64,093	84,750
Debt service	-	21,518	-	-
Capital projects	-	-	111,124	79,622
Total	<u>\$ 381,726</u>	<u>\$ 481,319</u>	<u>\$ 377,647</u>	<u>\$ 478,505</u>

See accompanying independent auditor's report.

*Dan Heard, CPA*  
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*Aleene Williams, CPA*

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ROCK RAPIDS, IOWA 51246

**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 Larchwood, Iowa as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements listed in the table of contents and have issued our report thereon dated October 24, 2006. Our report expressed an unqualified opinion on the financial statements, which were prepared in conformity with another comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the City of Larchwood's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described as items II-A-06 in the accompanying Schedule of Findings.

A material weakness is a condition in which the design or operation of one or more the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal

course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item II-A-06 is a material weakness.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Larchwood's financial statements are free of material misstatement, we 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 object of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of non-compliance that are required to be reported under Government Auditing Standards and which are described in Part I 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 is 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 for the information and use of the officials, employees and citizens City of Larchwood and other parties to whom the City of Larchwood 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 the personnel of the City of Larchwood 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.

Heard Halse & Co.

October 24, 2006

City of Larchwood, Iowa  
Schedule of Findings  
Year ended June 30, 2006

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

**REPORTABLE CONDITION:**

I-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. The same employee performs all duties.

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

Response - We will investigate this.

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

City of Larchwood, Iowa  
 Schedule of Findings  
 Year ended June 30, 2006

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

- II-A-06 Official Depositories – A resolution naming official depositories has been approved by the City. The maximum deposit amounts stated in the resolution were not exceeded during the fiscal year ended June 30, 2006.
- II-B-06 Certified Budget - Disbursements during the year ended June 30, 2006, exceeded the amount budgeted in the Community and economic development and Debt service programs after budget was amended. 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 – The budget will be amended in the future, if applicable.  
Conclusion - Response accepted.
- II-C-06 Questionable Disbursements - No disbursements of City money for questionable disbursements were noted.
- II-D-06 Travel and Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- II-E-06 Business Transaction – Business transactions between the City and City officials or employees during the year ending June 30, 2006 are as follows:

Name, Title, and Business Connection	Transaction Description	Amount
Leonard Vanden Bosch, Mayor, Owner of D & L Masonry	Sewer line work, per bid	\$ 3,733
Mike Metzger, Council Member, Owner of Metzger Construction	Remodeling of City Hall, per bid	\$9,171

The transactions with the Mayor and the Council Member do not appear to represent a conflict of interest since they were entered into through competitive bidding.

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

City of Larchwood, Iowa  
Schedule of Findings  
Year ended June 30, 2006

- II-H-06    Deposits and Investments - We noted no instance of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy.
- II-I-06    Revenue Bonds and Notes – The City has complied with the revenue bond and note resolutions.
- II-J-06    Financial Condition – The Special Fund - Road Use Tax and Sewer Fund have a deficit fund balance of \$72,422 and \$75,160 respectively as of June 30, 2006.  
Recommendation - Fund balances should be periodically reviewed and appropriate transfers made to maintain adequate fund balances.  
Response - We will do this.  
Conclusion - Response accepted.
- II-I-06    Payment of General Obligation Debt – Certain general obligation debt was paid from the Enterprise Fund, Sewer Account and Water Account. Chapter 384.4 of the Code of Iowa state in part “Moneys pledged or available to service general obligation bonds and received from sources other than property tax, must be deposited in the Debt Service Fund.”  
Recommendation – The City should transfer from the Enterprise Fund, Sewer Account and Water Account to the Debt Service Fund, General Obligation Bonds Account for future funding contributions. Payments of the bonds should then be disbursed from the Debt Service Fund.  
Response - We will transfer in the future as recommended.  
Conclusion - Response accepted.
- II-J-06    Constitution limits of indebtedness – In accordance with the Iowa Constitution Article XI.3 “No county, or other political or municipal corporation be allowed to become indebted in any manner, or for any purpose, to an amount, in the aggregate, exceeding five per centum on the value of the taxable property within such county or corporation—to be ascertained by the last state and county tax lists, previous to the incurring of such indebtedness.” The City's total debt is currently \$958,220. The property taxable valuation for debt is \$17,208,965 and the limit of debt is \$860,448.  
Recommendation – The City should take steps to bring the indebtedness within the constitutional limits.  
Response - We will work towards correcting this as so as we are able to do so.  
Conclusion - Response accepted.