CITY OF ROCKWELL CITY, IOWA

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

AS OF AND FOR THE YEAR ENDED JUNE 30, 2005

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City of Rockwell City, Iowa

Officials

Name	Title	Term Expires
Phil Heinlen	Mayor	Jan 2006
Gerri McCurdy	Mayor Pro Tem	Jan 2006
John Hepp	Council Member	Jan 2006
JoAnn Hendricks	Council Member	Jan 2008
Paul Kutz	Council Member	Jan 2008
Mark Lange	Council Member	Jan 2008
Kimberly Kelly	City Clerk	Jan 2006
Joni Hepp	Deputy Clerk/Treasurer	Jan 2006
Steve Hendricks	Attorney	Indefinite

Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Rockwell City, Iowa, as of and for the year ended June 30, 2005, 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 Rockwell City's management. Our responsibility is to express an opinion 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 is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Rockwell City as of June 30, 2005, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated October 19, 2005 on our consideration of the City of Rockwell City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on page 4 through 7 and 25 through 27 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 required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Rockwell City'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 two years ended June 30, 2004 (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 5, including the accompanying Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, 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.

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

October 19, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

Rockwell City 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, 2005. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2005 FINANCIAL HIGHLIGHTS

- Revenues of the City's governmental activities increased 5%, or approximately $57,430, from fiscal 2004 to fiscal 2005. Disbursements increased 3.9%, or approximately $42,120, in fiscal 2005 from fiscal 2004.

- Revenues of the City's proprietary activities increased 28%, while disbursements increased nearly 40% from fiscal 2004 to fiscal 2005. The substantial increase in revenues and disbursements is primarily due to the well project.

- The City's total cash basis net assets increased 2.5%, or approximately $66,300, from June 30 2004 to June 30, 2005. Of this amount, the assets of the governmental activities increased approximately $38,000 and the assets of the business type activities increased by approximately $28,300.

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. In addition, the Schedule of Expenditures

of Federal Awards provides details of various federal programs benefiting the City.

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 Urban Renewal Tax Increment, 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 and for the Internal Service Fund. Enterprise Funds are used to report business type activities. The City maintains two Enterprise Funds to provide separate information for the water and sewer funds, considered to be major funds of the City. Internal Service Funds are

an accounting device used to accumulate and allocate costs internally among the City's various functions.

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 increased slightly from a year ago, increasing from $1.243 million to $1.281 million. Included within this report is an analysis that focuses on the changes in cash balances for governmental activities.

The City's total receipts for governmental activities increased by 5%, or $57,429 from 2004 to 2005. The total cost of all programs and services also increased, by approximately $42,120, or 3.9%, with no new programs added this year.

The City increased property tax rates for 2005 by approximately 10%, primarily to offset the $3 million decline in taxable valuation within the city.

Year	Property Tax Receipts	City Levy
FY03	$528,904	18.10664
FY04	$554,487	19.15335
FY05	$544,924	21.12691

The cost of all governmental activities this year was $1.127 million compared to $1.086 million last year. However, as shown in the Statement of Activities and Net Assets, the amount taxpayers ultimately financed for these activities was only $572,564 because some of the cost was paid by those directly benefited from the programs ($227,377) or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest ($327,924). Overall, the City's governmental activities receipts, including intergovernmental aid and fees for service, decreased in 2005 from approximately $1.108 million to approximately $1.166 million.

Total business type activities receipts for the fiscal year were $1,532,630 compared to $669,849 last year. Total disbursements for the fiscal year increased by approximately $877,496. These substantial increases in both revenues and expenditures are primarily due to the drilling of a new well. The propriety cash balance increased during the year by approximately $28,255.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As Rockwell City completed the year, its governmental funds reported a combined fund balance of $1,281,118, an increase of nearly $38,000 above last year's total of $1,243,163 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 $26,668 from the prior year to $935,731.

- The Road Use Tax Fund cash balance decreased slightly to $201,848 during the fiscal year. More than $70,000 of these reserves has been committed to financing the city's share of reconstruction of First Street which was completed in 2003.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance increased by $57,261 to $1,151,169.
- The Sewer Fund cash balance decreased by $29,006 to $284,445. A rate increase will be established in the near future to aid in meeting debt payment requirements.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget twice, with approval on September 7, 2004 and May 23, 2005. The budget amendments covered several changes, including the well project, firefighter grant program, mosquito control, First Street Project, tree plantings, library state funds, ambulance operations, new storm sirens, airport and pool improvements, and wastewater repairs.

DEBT ADMINISTRATION

As of June 30, 2005, the City had approximately $2,654,151 in bonds and other long-term debt, compared to approximately $2,447,000 last year. Debt increased as a result of water revenue bonds issued for the drilling of a new well. 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 $365,000 is significantly below its constitutional debt limit.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Rockwell City's elected and appointed officials and citizens considered many factors when setting the fiscal year 2006 budget, tax rates, and fees that will be charged for various City activities. Due to the loss of state funds and stagnant/declining property values, city officials have been forced to cut departmental budgets during recent years. Each year cuts are forced which are resulting in the provision of fewer services to taxpayers. City officials have implemented incentives for development, such as residential and commercial tax abatement and an urban renewal/TIF district.

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 Kimberly Kelly, City Clerk, 335 Main Street, Rockwell City, Iowa 50579.

Basic Financial Statements

City of Rockwell City, Iowa
Statement of Activities and Net Assets - Cash Basis
As of and for the year ended June 30, 2005

		Program Receipts		
	Disbursements	Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions/Programs:				
Governmental activities:				
Public safety	$ 436,336	77,051	16,688	93,570
Public works	335,467	113,778	187,256	-
Health and social services	6,200	-	3,519	-
Culture and recreation	134,989	33,297	25,891	-
Community and economic development	2,195	-	1,000	-
General government	102,024	3,251	-	-
Debt service	110,654	-	-	-
Capital projects	-	-	-	-
Total governmental activities	1,127,865	227,377	234,354	93,570
Business type activities:				
Water	1,220,358	373,692	-	441,664
Sewer	284,017	248,695	-	-
Total business type activities	1,504,375	622,387	-	441,664
Total	$ 2,632,240	849,764	234,354	535,234

General Receipts:
Property tax levied for:
General purposes
Debt service
Grants and contributions not restricted to specific purpose
Unrestricted interest on investments
Bond proceeds
Miscellaneous
Total general receipts
Change in cash basis net assets
Cash basis net assets beginning of year
Cash basis net assets end of year

Cash Basis Net Assets
Restricted:
Streets
Employee benefits
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		
Governmental Activities	Business Type Activities	Total
(249,027)	-	(249,027)
(34,433)	-	(34,433)
(2,681)	-	(2,681)
(75,801)	-	(75,801)
(1,195)	-	(1,195)
(98,773)	-	(98,773)
(110,654)	-	(110,654)
-	-	-
(572,564)	-	(572,564)
-	(405,002)	(405,002)
-	(35,322)	(35,322)
-	(440,324)	(440,324)
(572,564)	(440,324)	(1,012,888)
434,785	-	434,785
110,139	-	110,139
5,892	-	5,892
23,274	28,088	51,362
-	440,491	440,491
36,430	-	36,430
610,520	468,579	1,079,099
37,956	28,255	66,211
1,243,162	1,407,359	2,650,521
$ 1,281,118	1,435,614	2,716,732
$ 201,848	-	201,848
32,329	-	32,329
52,880	223,204	276,084
58,330	-	58,330
935,731	1,212,410	2,148,141
$ 1,281,118	1,435,614	2,716,732

City of Rockwell City, Iowa

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

As of and for the year ended June 30, 2005

		Special Revenue	
	General	Road Use Tax	Employee Benefits
Receipts:			
Property tax	$ 246,338	-	161,028
Other city tax	16,487	-	10,932
Licenses and permits	3,250	-	-
Use of money and property	28,897	-	-
Intergovernmental	132,130	184,916	-
Charges for service	228,905	-	-
Miscellaneous	39,938	-	-
Total receipts	695,945	184,916	171,960
Disbursements:			
Operating:			
Public safety:			
Police	138,567	-	71,088
Civil defense	2,617	-	-
Fire	125,308	-	2,902
Ambulance	86,339	-	9,160
	352,831	-	83,150
Public works:			
Street lighting	-	25,070	-
Airport	13,989	-	-
Solid waste	91,072	-	715
Roadway maintenance	-	162,654	41,967
	105,061	187,724	42,682
Health and social services:			
Mosquito control	6,200	-	-
Culture and recreation:			
Library	51,355	-	8,205
Park	12,994	-	2,464
Swimming pool	40,451	-	3,853
Cemetery	12,172	-	479
	116,972	-	15,001

Other Nonmajor Governmental Funds	Total
103,137	510,503
7,002	34,421
-	3,250
52	28,949
2,154	319,200
-	228,905
655	40,593
113,000	1,165,821
355	210,010
-	2,617
-	128,210
-	95,499
355	436,336
-	25,070
-	13,989
-	91,787
-	204,621
-	335,467
-	6,200
3,016	62,576
-	15,458
-	44,304
-	12,651
3,016	134,989

(continued)

City of Rockwell City, Iowa

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

As of and for the year ended June 30, 2005

		Special Revenue	
	General	Road Use Tax	Employee Benefits
Community and economic development:			
Economic development	1,600	-	-
Community beautification	595	-	-
	2,195	-	-
General government:			
Policy administration	41,055	-	16,006
Tort liability	44,963	-	-
	86,018	-	16,006
Debt service	-	-	-
Total disbursements	669,277	187,724	156,839
Net change in cash balances	26,668	(2,808)	15,121
Cash balances beginning of year	909,063	204,656	17,208
Cash balances end of year	$ 935,731	201,848	32,329
Cash Basis Fund Balances			
Reserved:			
Debt service	$ -	-	-
Unreserved:			
General fund	935,731	-	-
Special revenue funds	-	201,848	32,329
Permanent fund	-	-	-
Total cash basis fund balances	$ 935,731	201,848	32,329

See notes to financial statements.

Other Nonmajor Governmental Funds	Total
-	1,600
-	595
-	2,195
-	57,061
-	44,963
-	102,024
110,654	110,654
114,025	1,127,865
(1,025)	37,956
112,235	1,243,162
111,210	1,281,118
52,880	52,880
-	935,731
4,580	238,757
53,750	53,750
111,210	1,281,118

City of Rockwell City, Iowa

Exhibit C

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

As of and for the year ended June 30, 2005

	Enterprise Funds		
	Water	Sewer	Total
Operating receipts:			
Charges for service	$ 373,154	245,818	618,972
Miscellaneous	538	2,877	3,415
Total operating receipts	373,692	248,695	622,387
Operating disbursements:			
Business type activities:			
Personal services	76,215	66,427	142,642
Contractual services	21,311	16,410	37,721
Utilities	17,702	20,454	38,156
Repairs and maintenance	8,015	28,148	36,163
Other supplies and expenses	69,241	7,090	76,331
Capital outlay	896,645	5,656	902,301
Total operating disbursements	1,089,129	144,185	1,233,314
Excess (deficiency) of operating receipts over (under) operating disbursements	(715,437)	104,510	(610,927)
Non-operating receipts (disbursements):			
Bond proceeds	440,491	-	440,491
Intergovernmental	441,664	-	441,664
Interest on investments	21,772	6,316	28,088
Debt service:			
Principal redemption	(82,000)	(71,000)	(153,000)
Interest payments	(42,543)	(62,146)	(104,689)
Lease payments	(6,686)	(6,686)	(13,372)
Total non-operating receipts (disbursements)	772,698	(133,516)	639,182
Net change in cash balances	57,261	(29,006)	28,255
Cash balances beginning of year	1,093,908	313,451	1,407,359
Cash balances end of year	$ 1,151,169	284,445	1,435,614
Cash Basis Fund Balances			
Reserved for improvements	$ 233,514	-	233,514
Reserved for debt service	58,204	165,000	223,204
Unreserved	859,451	119,445	978,896
Total cash basis fund balances	$ 1,151,169	284,445	1,435,614

See notes to financial statements.

(1) Summary of Significant Accounting Policies

The City of Rockwell City is a political subdivision of the State of Iowa located in Calhoun County. It was first incorporated in 1876 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, health and social services, culture and recreation, community and economic development, and general government services. The City also provides water and sewer utilities for its citizens.

A. Reporting Entity

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

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Calhoun County E911 Service Board and Calhoun County Ambulance Authority.

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.

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 Employee Benefits Fund is used to account for the City's share of employee taxes and insurance for governmental fund employees.

The City reports the following major proprietary funds:

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

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

C. Measurement Focus and Basis of Accounting

The City of Rockwell 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.

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, 2005, disbursements exceeded the amounts budgeted in the debt service function.

(2) Cash

The City's deposits in banks at June 30, 2005 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

The City had no investments at June 30, 2005. During the year ended June 30, 2005 the City invested its excess funds in savings accounts and certificates of deposit.

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 and Notes Payable

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

Year Ending June 30,	General Obligation Bonds		General Obligation Notes	
	Principal	Interest	Principal	Interest
2006	$ 50,000	18,718	35,000	1,540
2007	90,000	15,917	-	-
2008	95,000	10,878	-	-
2009	95,000	5,462	-	-
2010	-	-	-	-
2011	-	-	-	-
2012	-	-	-	-
2013	-	-	-	-
2014	-	-	-	-
2015	-	-	-	-
2016	-	-	-	-
2017	-	-	-	-
2018	-	-	-	-
2019	-	-	-	-
2020	-	-	-	-
2021	-	-	-	-
2022	-	-	-	-
2023	-	-	-	-
2024	-	-	-	-
Total	$ 330,000	50,975	35,000	1,540

Revenue Bonds		Revenue Notes		Total	
Principal	Interest	Principal	Interest	Principal	Interest
92,000	71,646	70,000	27,195	247,000	119,099
95,000	67,976	75,000	23,345	260,000	107,238
100,000	64,179	75,000	19,145	270,000	94,202
104,000	60,183	85,000	14,908	284,000	80,553
108,000	56,017	85,000	10,062	193,000	66,079
112,000	51,695	90,000	5,175	202,000	56,870
116,000	47,203	-	-	116,000	47,203
121,000	42,555	-	-	121,000	42,555
126,000	37,707	-	-	126,000	37,707
131,000	32,648	-	-	131,000	32,648
136,000	27,389	-	-	136,000	27,389
141,000	21,932	-	-	141,000	21,932
147,000	16,263	-	-	147,000	16,263
153,000	10,352	-	-	153,000	10,352
26,000	4,200	-	-	26,000	4,200
27,000	3,420	-	-	27,000	3,420
28,000	2,610	-	-	28,000	2,610
29,000	1,770	-	-	29,000	1,770
17,151	900	-	-	17,151	900
1,809,151	620,645	480,000	99,830	2,654,151	772,990

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

a. The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the funds.

b. Sufficient monthly transfers shall be made to separate water and sewer revenue sinking accounts for the purpose of making the note principal and interest payments when due.

c. Additional monthly transfers equal to 25% of the monthly transfers to the water sinking account shall be made to a water reserve account. This account is restricted for the purpose of paying principal and interest should a deficiency exist in the water sinking account.

d. A water improvement fund shall be maintained requiring a monthly payment of $2,000; provided, however, that when the amount of said deposits in said fund shall equal or exceed $75,000, no further monthly deposits need to be made except to maintain it at such level.

e. The waste water treatment system shall maintain net revenues at a level not less than 110% of the amount of principal and interest on the revenue bond.

The City's wastewater treatment system did not maintain net revenues of 110% of the principal
and interest due on the sewer revenue bond as stated in the loan agreement.

(4) Pension and Retirement Benefits

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

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 payroll, except for police employees, in which case the percentages are 6.16% and 9.23%, respectively. For the year ended June 30, 2004, the contribution rates for police employees and the City were 5.93% and 8.907%,

respectively, and for the year ended June 30, 2003, the contribution rates for police employees and the City were 6.04% and 9.07%, respectively. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2005, 2004 and 2003 were $25,758, $25,143 and $25,547, respectively, equal to the required contributions for each year.

(5) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation, holiday, and comp time hours for subsequent use or for payment upon termination, retirement or death. Sick leave hours accumulate and are paid only when used. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned benefit payments payable to employees at June 30, 2005, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Vacation, holiday and comp time	$ 19,800

This liability has been computed based on rates of pay in effect at June 30, 2005.

(6) Related Party Transactions

The City had business transactions between the City and City officials totaling $4,949 during the year ended June 30, 2005.

(7) Risk Management

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

(8) Capital Leases

The City entered into a capital lease for the purchase of a dump truck. This lease is from November 1, 2000 through November 1, 2004. During the year ended June 30, 2005 the City disbursed $13,372 for this lease.

The City entered into a capital lease for the purchase of a new street sweeper. This lease is from November 1, 2000 through November 1, 2004. During the year ended June 30, 2005 the City disbursed $18,188 for this lease.

The City entered into a capital lease for the purchase of an end loader. This lease is from May 25, 2005 through May 25, 2010. During the year ended June 30, 2005 the City disbursed no funds for this lease.

Future minimum lease payments are as follows:

Year Ending	Principal	Interest	Total
June 30, 2006	$ 17,228	557	17,785
June 30, 2007	14,693	3,092	17,785
June 30, 2008	15,412	2,373	17,785
June 30, 2009	16,165	1,620	17,785
June 30, 2010	16,956	829	17,785
Total	$ 80,454	8,471	88,925

The City entered into a capital lease for the purchase of an ambulance. This lease is from May 3, 2004 through May 3, 2007. During the year ended June 30, 2005 the City disbursed $18,117 for this lease.

Future minimum lease payments are as follows:

Year Ending	Principal	Interest	Total
June 30, 2006	$ 16,657	1,460	18,117
June 30, 2007	17,371	746	18,117
Total	$ 34,028	2,206	36,234

(9) Litigation

There is one outstanding lawsuit against the City of Rockwell City. As of the date of the audit report, the City does not feel it has any liability, but the case has not been resolved.

Required Supplementary Information

City of Rockwell City, 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, 2005

	Governmental Funds Actual	Proprietary Funds Actual
Receipts:		
Property tax	$ 510,503	-
Other city tax	34,421	-
Licenses and permits	3,250	-
Use of money and property	28,949	28,088
Intergovernmental	319,200	441,664
Charges for service	228,905	618,972
Miscellaneous	40,593	3,415
Total receipts	1,165,821	1,092,139
Disbursements:		
Public safety	436,336	-
Public works	335,467	-
Health and social services	6,200	-
Culture and recreation	134,989	-
Community and economic development	2,195	-
General government	102,024	-
Debt service	110,654	-
Business type activities	-	1,504,375
Total disbursements	1,127,865	1,504,375
Excess (deficiency) of receipts over (under) disbursements	37,956	(412,236)
Other financing sources, net	-	440,491
Excess (deficiency) of receipts and other financing sources over (under) disbursements	37,956	28,255
Balances beginning of year	1,243,162	1,407,359
Balances end of year	$ 1,281,118	1,435,614

See accompanying independent auditor's report.

Net	Budgeted Amounts Original	Budgeted Amounts Final	Final to Net Variance
510,503	510,467	510,467	36
34,421	36,275	36,275	(1,854)
3,250	3,317	3,317	(67)
57,037	51,075	51,075	5,962
760,864	220,048	1,252,531	(491,667)
847,877	824,450	839,450	8,427
44,008	21,300	33,200	10,808
2,257,960	1,666,932	2,726,315	(468,355)
436,336	316,277	446,614	10,278
335,467	339,171	430,771	95,304
6,200	-	6,250	50
134,989	133,431	139,585	4,596
2,195	2,000	3,000	805
102,024	103,957	108,357	6,333
110,654	110,556	110,556	(98)
1,504,375	647,816	1,644,961	140,586
2,632,240	1,653,208	2,890,094	257,854
(374,280)	13,724	(163,779)	(210,501)
440,491	-	-	440,491
66,211	13,724	(163,779)	229,990
2,650,521	2,600,439	2,650,521	-
2,716,732	2,614,163	2,486,742	229,990

City of Rockwell City, Iowa

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2005

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 disbursements by $1,236,886 and budgeted receipts by $1,059,383. The budget amendments are reflected in the final budgeted amount.

During the year ended June 30, 2005, disbursements exceeded the amounts budgeted in the debt service function.

Other Supplementary Information

City of Rockwell City, Iowa

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

As of and for the year ended June 30, 2005

	Special Revenue	
	Library Building Trust	DARE
Receipts:		
Property tax	$ -	-
Other city tax	-	-
Use of money and property	52	-
Intergovernmental	2,154	-
Miscellaneous	90	215
Total receipts	2,296	215
Disbursements:		
Operating:		
Public safety:		
Police	-	355
Culture and recreation:		
Library	3,016	-
Debt service	-	-
Total disbursements	3,016	355
Net change in cash balances	(720)	(140)
Cash balances beginning of year	4,768	672
Cash balances end of year	$ 4,048	532
Cash Basis Fund Balances		
Reserved:		
Debt service	$ -	-
Unreserved:		
Special revenue funds	4,048	532
Permanent fund	-	-
Total cash basis fund balances	$ 4,048	532

See accompanying independent auditor's report.

Debt Service	Permanent Cemetery Perpetual Care	Total
103,137	-	103,137
7,002	-	7,002
-	-	52
-	-	2,154
-	350	655
110,139	350	113,000
-	-	355
-	-	3,016
110,654	-	110,654
110,654	-	114,025
(515)	350	(1,025)
53,395	53,400	112,235
52,880	53,750	111,210
52,880	-	52,880
-	-	4,580
-	53,750	53,750
52,880	53,750	111,210

City of Rockwell City, Iowa

Schedule of Indebtedness

Year ended June 30, 2005

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation bonds:			
Swimming pool construction	Jun 1, 1989	6.75-7.10 %	$ 340,000
Emergency services construction	Jun 1, 2000	5.60-5.75	350,000
Total			
General obligation notes:			
Capital loan note	Mar 2, 1998	4.00-4.40 %	$ 220,000
Revenue bonds:			
Sewer revenue	Apr 19, 1999	4.23 %	$ 1,766,000
Water revenue	Apr 30, 2004	3.00 %	466,000
Total			
Revenue notes:			
Water construction	Jul 1, 1996	5.00-5.75 %	$ 905,000
Capital leases:			
Dump truck	Nov 1, 2000	5.80 %	$ 59,921
Street sweeper	Nov 1, 2000	5.80	81,500
Ambulance	May 3, 2004	4.29	50,000
End Loader	May 25, 2005	4.89	80,455
Total			

See accompanying independent auditor's report.

Schedule 2

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
45,000	-	45,000	-	3,195	-
335,000	-	5,000	330,000	18,998	-
$ 380,000	-	50,000	330,000	22,193	-
70,000	-	35,000	35,000	3,063	-
1,452,000	-	71,000	1,381,000	61,420	-
-	445,151	17,000	428,151	10,237	-
$ 1,452,000	445,151	88,000	1,809,151	71,657	-
545,000	-	65,000	480,000	30,705	-
12,639	-	12,639	-	733	-
17,191	-	17,191	-	997	-
50,000	-	15,972	34,028	2,145	-
-	80,455	-	80,455	-	-
$ 79,830	80,455	45,802	114,483	3,875	-

City of Rockwell City, Iowa

Schedule 3

Bond and Note Maturities

June 30, 2005

Year Ending June 30,	General Obligation Bonds Emergency Services Issued Jun 1, 2000 Interest Rates	Amount
2006	5.60 %	$ 50,000
2007	5.60	90,000
2008	5.70	95,000
2009	5.75	95,000
Total		$ 330,000

Year Ending June 30,	General Obligation Notes Capital Loan Notes Issued Mar 2, 1998 Interest Rates	Amount	Revenue Notes Water Construction Issued Jul, 1996 Interest Rates	Amount
2006	4.40 %	$ 35,000	5.50 %	$ 70,000
2007		-	5.60	75,000
2008		-	6.50	75,000
2009		-	5.70	85,000
2010		-	5.75	85,000
2011		-	5.75	90,000
Total		$ 35,000		$ 480,000

(continued)

City of Rockwell City, Iowa

Bond and Note Maturities

June 30, 2005

Year Ending June 30,	Revenue Bonds: Sewer Revenue 1 Series 1999 Interest Rates	Amount	Sewer Revenue 2 Series 1999 Interest Rates	Amount
2006	4.23 %	$ 73,000	4.23 %	$ 1,000
2007	4.23	76,000	4.23	1,000
2008	4.23	79,000	4.23	2,000
2009	4.23	83,000	4.23	2,000
2010	4.23	86,000	4.23	2,000
2011	4.23	90,000	4.23	2,000
2012	4.23	93,000	4.23	2,000
2013	4.23	97,000	4.23	2,000
2014	4.23	102,000	4.23	2,000
2015	4.23	106,000	4.23	2,000
2016	4.23	110,000	4.23	2,000
2017	4.23	115,000	4.23	2,000
2018	4.23	120,000	4.23	2,000
2019	4.23	125,000	4.23	2,000
2020		-		-
2021		-		-
2022		-		-
2023		-		-
2024		-		-
Total		$ 1,355,000		$ 26,000

See accompanying independent auditor's report.

Schedule 3

Revenue Bonds			
Water Revenue Series 2004			
Interest Rates		Amount	Total
3.00	%	$ 18,000	92,000
3.00		18,000	95,000
3.00		19,000	100,000
3.00		19,000	104,000
3.00		20,000	108,000
3.00		20,000	112,000
3.00		21,000	116,000
3.00		22,000	121,000
3.00		22,000	126,000
3.00		23,000	131,000
3.00		24,000	136,000
3.00		24,000	141,000
3.00		25,000	147,000
3.00		26,000	153,000
3.00		26,000	26,000
3.00		27,000	27,000
3.00		28,000	28,000
3.00		29,000	29,000
3.00		17,151	17,151
		$ 428,151	1,809,151

City of Rockwell City, Iowa

Schedule 4

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

For the Last Three Years

	2005	2004	2003
Receipts:			
Property tax	$ 510,503	522,195	502,888
Other city tax	34,421	32,292	26,016
Licenses and permits	3,250	3,597	3,441
Use of money and property	28,949	19,401	26,941
Intergovernmental	319,200	302,489	448,393
Charges for service	228,905	206,066	201,104
Miscellaneous	40,593	22,352	12,728
Total	$ 1,165,821	1,108,392	1,221,511
Disbursements:			
Operating			
Public safety	$ 436,336	370,836	312,083
Public works	335,467	294,759	294,602
Health and social services	6,200	6,751	951
Culture and recreation	134,989	145,277	145,897
Community and economic development	2,195	36,149	159,191
General government	102,024	124,006	110,691
Debt service	110,654	104,965	115,561
Capital projects	-	3,001	15,779
Total	$ 1,127,865	1,085,744	1,154,755

See accompanying independent auditor's report.

City of Rockwell City, Iowa

Schedule 5

Schedule of Expenditures of Federal Awards

Year ended June 30, 2005

Grantor/Program	CFDA Number	Agency Pass-Through Number	Program Expenditures
Direct:			
Department of Homeland Security:			
Assistance to Firefighters	97.044	EMW-2003-F6-0919	$ 53,500
		EMW-2004-FG-11673	15,771
Total direct			69,271
Indirect:			
U.S. Department of Housing and Urban Development:			
Iowa Department of Economic Development:			
Community Development Block Grants/ State's Program	14.228	03-WS-050	449,597
Environmental Protection Agency:			
Iowa Department of Natural Resources:			
Capitalization Grants for Drinking Water State Revolving Funds	66.468	FS-13-01-DWSRF-013	363,218
Department of Homeland Security:			
Iowa Department of Public Defencse:			
Iowa Homeland Security and Emergency Management Division:			
Public Assistance Grants	97.036	DR-1518-IA	5,669
U.S. Department of the Interior:			
Iowa Department of Natural Resources, Forestry Bureau:			
Rural Fire Assistance	15.245	---	3,493
Total indirect			821,977
Total			$ 891,248

Basis of Presentation - The Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Rockwell City and is presented in conformity with an other comprehensive basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

See accompanying independent auditor's report.

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

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Rockwell City, Iowa, as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements listed in the table of contents and have issued our report thereon dated October 19, 2005. Our report expressed an unqualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Rockwell City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of Rockwell 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 in Part II of the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial

statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item II-A-05 is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Rockwell City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2005 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Rockwell City and other parties to whom the City of Rockwell City may report including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

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

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

October 19, 2005

Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133

To the Honorable Mayor and
Members of the City Council:

Compliance

We have audited the compliance of the City of Rockwell City, Iowa, with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal program for the year ended June 30, 2005. City of Rockwell City's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to its major federal programs is the responsibility of the City of Rockwell City's management. Our responsibility is to express an opinion on the City of Rockwell City's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards, and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Rockwell City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City of Rockwell City's compliance with those requirements.

In our opinion, the City of Rockwell City complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2005.

Internal Control Over Compliance

The management of the City of Rockwell City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered the City of Rockwell City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. 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 non-compliance with applicable requirements of laws, regulations, contracts and grant agreements caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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 Rockwell City and other parties to whom the City of Rockwell City may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

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

October 19, 2005

City of Rockwell City, Iowa

Schedule of Findings and Questioned Costs

Year ended June 30, 2005

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

(a) An unqualified opinion was issued on the financial statements which 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.

(b) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, including material weaknesses.

(c) The audit did not disclose any non-compliance which is material to the financial statements.

(d) No material weaknesses in internal control over the major program were noted.

(e) An unqualified opinion was issued on compliance with requirements applicable to the major program.

(f) The audit disclosed audit findings which are required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).

(g) The major programs were CFDA Number 14.228 – Community Development Block/ Grants/States' Program and CFDA Number 66.468 – Capitalization Grants for Drinking Water State Revolving Funds.

(h) The dollar threshold used to distinguish between Type A and Type B programs was $300,000.

(i) The City of Rockwell City did not qualify as a low-risk auditee.

City of Rockwell City, Iowa

Schedule of Findings and Questioned Costs

Year ended June 30, 2005

Part II: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were notes.

REPORTABLE CONDITIONS:

II-A-05 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. We noted that certain functions are not entirely segregated, such as preparing receipts and posting utility billing.

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 feel we are doing the best we can with the limited personnel we have.

Conclusion – Response acknowledged.

Part III: Findings and Questioned Costs for Federal Awards:

INSTANCES OF NON-COMPLIANCE:

None

City of Rockwell City, Iowa

Schedule of Findings and Questioned Costs

Year ended June 30, 2005

Part IV: Other Findings Related to Statutory Reporting:

IV-A-05 Official Depositories – A resolution naming official depositories has been approved by the City Council. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2005.

IV-B-05 Certified Budget – Disbursements during the year ended June 30, 2005, exceeded the amounts budgeted in the debt service function. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

Recommendation – The budget should have been amended in sufficient amounts in accordance with Chapter 384.18 of the Code of Iowa.

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

Conclusion – Response accepted.

IV-C-05 Questionable Disbursements – No disbursements were noted that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

IV-D-05 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

City of Rockwell City, Iowa

Schedule of Findings and Questioned Costs

Year ended June 30, 2005

IV-E-05 Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
John Hepp, Council Member owns Johns Car Clinic	Repairs	$ 1,160
Phil Hammen, Employee, Self-employed	Skid Loader Rental	$ 256
Paul Kutz, Council Member owns lumber shop	Repairs	$ 3,524

In accordance with Chapter 362.5(10) of the Code of Iowa, the transactions with John Hepp and Phil Hammen do not appear to represent conflicts of interest since total transactions with each individual were less than $2,500 during the fiscal year. The transaction with Paul Kutz does not appear to represent a conflict of interest as bids were taken.

IV-F-05 Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage is reviewed annually to insure that coverage is adequate for current operations.

IV-G-05 Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not.

IV-H-05 Deposits and Investments - No instances of non-compliance with the deposit and investments provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.

City of Rockwell City, Iowa

Schedule of Findings and Questioned Costs

Year ended June 30, 2005

IV-I-05 Revenue Notes/Bonds – The City's wastewater treatment system did not maintain net revenues of 110% of the principal and interest due on the sewer revenue bond as stated in the loan agreement.

Recommendation – The City should consult legal counsel concerning this matter.

Response – We contacted our legal counsel and are in the process of increasing our sewer rates.

Conclusion – Response accepted.