

CITY OF ROCKWELL, IOWA
FINANCIAL STATEMENTS
JUNE 30, 2005

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Officials

Name	Title	Term Expiration
Don Brown	Mayor	December 31, 2005
Mark Waite	Council Member	December 31, 2005
Ron Meints	Council Member	December 31, 2005
Doug Fredin	Council Member	December 31, 2005
Gary Akins	Council Member	December 31, 2007
Kelly Laudner	Council Member	December 31, 2007
Lorna Weier	City Clerk	July 31, 2006
John Duffy	Attorney	Indefinite

Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council
City of Rockwell, Iowa

We have audited the accompanying financial statements of the primary governmental activities, the business-type activities and each major fund of the City of Rockwell, 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's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

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 accounting principles generally accepted in the United States of America. Also, as permitted by the Code of Iowa, the financial statements of the City of Rockwell, Iowa, have not been audited for all prior years. Accordingly, we were unable to satisfy ourselves as to the distribution, by fund, of the total fund balance at July 1, 2004.

The financial statements referred to above do not include the cash transactions of the Rockwell Municipal Fire Department or the Rockwell City Library for the year ended June 30, 2005 which, in our opinion, should have been included to present the total cash transactions of the City's fund types. If the omitted transactions had been included in the financial statements, the effect would have been to increase general fund receipts, disbursements and ending fund balances by approximately \$48,000, \$57,000 and \$19,000, respectively.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution, by fund, of the total fund balance at July 1, 2004 and except for the exclusion of the Rockwell Municipal Fire Department and the Rockwell City Library, as discussed in the preceding paragraphs, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, business-type activities and each major fund of the City of Rockwell, Iowa, at June 30, 2005, and the respective changes in the cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

The primary government financial statements do not include the financial data of legally separate component units which accounting principles generally accepted in the United States of America require to be reported with the financial data of the City's primary government. As a result, the primary government financial statements do not purport to, and do not, present fairly the cash basis financial position of the reporting entity activities, business-type activities and each major fund of the City of Rockwell, Iowa, at June 30, 2005, and the respective changes in the cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

As described in Note 9, during the year ended June 30, 2005, the City adopted Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*; Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus*; Statement No. 38, *Certain Financial Statement Note Disclosures*; and Statement No. 41, *Budgetary Comparison Schedule - Perspective Differences*.

In accordance with *Government Auditing Standards*, we have also issued our reports dated July 20, 2005 on our consideration of the City of Rockwell, Iowa's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. The purpose of those reports 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. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on Pages 4 through 9 and Page 18 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have 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 an opinion on the financial statements that collectively comprise the City's basic financial statements. The supplemental information included on Pages 19 through 22 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.

HOGAN - HANSEN

HOGAN - HANSEN

Mason City, Iowa
July 20, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Rockwell 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

- Revenue of the City's governmental activities decreased 18%, or approximately \$88,000, from fiscal 2004 to fiscal 2005. Other City taxes decreased approximately \$57,000 and miscellaneous revenue decreased approximately \$32,000.
- Disbursements of the City's governmental activities decreased 12%, or approximately \$64,000, in fiscal 2005 from fiscal 2004. Public Safety, Public Works, Culture and Recreation, Community and Economic Development and General Government disbursements increased approximately \$42,000, \$30,000, \$23,000, \$28,000 and \$14,000, respectively, while capital projects disbursements decreased approximately \$201,000.
- The City's total cash basis net assets decreased 11%, or approximately \$79,000, from June 30, 2004 to June 30, 2005. Of this amount, the assets of the governmental activities decreased approximately \$76,000 and the assets of the business-type activities decreased by approximately \$3,000.

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 - Cash Basis. 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 the 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 other information.

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 accounting principles generally accepted in the United States of America. Therefore, when reviewing the financial information and discussion within this financial 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 - Cash Basis reports information which helps answer this question.

The Statement of Activities and Net Assets - Cash Basis 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 - Cash Basis 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 taxes and state grants finance most of these activities.
- Business-Type Activities include the water works 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 the General Fund and the Special Revenue Fund (Road Use Tax). 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.

- Proprietary funds account for the City’s Enterprise Funds. 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.

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City’s cash balance for governmental activities decreased sharply from a year ago, from \$508,547 to \$433,070. The analysis that follows focuses on the changes in cash balances for governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities	
	Year Ended June 30, 2005
Receipts and Transfers:	
Program Receipts:	
Charges for service	\$ 42,754
Operating grants, contributions and restricted interest	92,922
General Receipts:	
Property taxes	143,450
Other city tax	3,027
Local option sales taxes	107,434
Grants and contributions not restricted to specific purposes	907
Unrestricted investment earnings	3,338
Total Receipts and Transfers	<u>393,832</u>
Disbursements:	
Public Safety	101,720
Public Works	162,839
Health and Social Services	1,416
Culture and Recreation	69,735
Community and Economic Development	44,588
General Government	89,011
Total Disbursements	<u>469,309</u>
Decrease in Cash Basis Net Assets	(75,477)
Cash Basis Net Assets - Beginning of Year	<u>508,547</u>
Cash Basis Net Assets - End of Year	<u>\$ 433,070</u>

The City's total receipts for governmental activities decreased by 18%, or \$87,781. The total cost of all programs and services decreased approximately \$64,000, or 12%, with no new programs added this year. The significant decrease in receipts was primarily the result of the City having received 13 local option tax payments in 2004 and only 11 in 2005 and the City received hail insurance reimbursements in 2004.

Based on increases in the total assessed valuation, property tax receipts are budgeted to increase \$11,250 next year.

The cost of all governmental activities this year was \$469,309. However, as shown in the Statement of Activities and Net Assets - Cash Basis on Page 10, the amount taxpayers ultimately financed for these activities was only \$333,633 because some of the cost was paid by those directly benefited from the programs (\$42,754) or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest (\$92,922). The City paid for the remaining "public benefit" portion of governmental activities with approximately \$254,000 in taxes (some of which could only be used from certain programs) with other receipts, such as interest and general entitlements, and with cash reserves generated from previous year local option tax receipts.

Changes in Cash Basis Net Assets of Business-Type Activities	
	Year Ended June 30, 2005
Receipts:	
Program Receipts:	
Charges for Service:	
Water	\$ 80,374
Sewer	55,938
General Receipts:	
Unrestricted investment earnings	<u>1,079</u>
Total Receipts	<u>137,391</u>
Disbursements:	
Water	83,948
Sewer	<u>56,831</u>
Total Disbursements	<u>140,779</u>
Decrease in Cash Basis Net Assets	(3,388)
Cash Basis Net Assets - Beginning of Year	<u>238,887</u>
Cash Basis Net Assets - End of Year	<u>\$ 235,499</u>

Total business-type activities receipts for the fiscal year were approximately \$137,000 compared to \$119,000 last year. The increase was due primarily to the increases in the rates for services. The cash balance decreased by approximately \$3,000 from the prior year because the City implemented new rates for services but replaced many of the meters. Total disbursements for the fiscal year increased by 10% to a total of \$141,000.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Rockwell completed the year, its governmental funds reported a combined fund balance of \$433,070, a decrease of \$75,477 from last year's total of \$508,547. 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 by \$68,306 from the prior year to \$349,809. Approximately \$57,000 of this decrease was due to a reduction in the amount received from local option tax.
- The Road Use Tax Fund cash balance decreased by \$7,171 to \$83,261 during the fiscal year. This decrease was attributable to several street improvement projects. The City intends to use this money to make street improvements in future years.

INDIVIDUAL MAJOR BUSINESS-TYPE FUND ANALYSIS

- The Water Fund cash balance decreased by \$3,454 to \$128,277 due primarily to increasing rates and increased disbursements for replacing meters.
- The Sewer Fund cash balance increased by \$66.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget one time. The amendment was approved on May 18, 2005 to provide for additional disbursements in certain City departments. The City had sufficient cash balances to absorb these additional costs. The City over expended its budget in the Public Safety, Public Works, Health and Social Services, Culture and Recreation, General Government and Business-Type Activities functions.

DEBT ADMINISTRATION

At June 30, 2005, the City had \$169,031 in revenue bonds outstanding, compared to \$185,960 last year, as shown below.

<hr/> Outstanding Debt at Year End <hr/>	
	Year Ended June 30, 2005
Sewer Revenue Bonds	<u>\$ 169,031</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City of Rockwell'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. One of those factors is the economy. During the budget preparation, the consumer price index was listed at 2.1%. In addition, the employees were granted a 3% wage increase for the 2005 calendar year. Since the budget was approved, fuel prices have increased sharply.

These indicators were taken into account when adopting the budget for fiscal year 2006. Amounts available for appropriation in the operating budget are \$658,854. Included in this amount are \$90,000 of fund transfers between different funds of the City. Net of transfers, total amounts available for appropriation are \$568,854, an increase of 4% from the final 2005 budget. The majority of the increase is due to expected property tax proceeds of approximately \$11,000 along with an increase in charges for services of approximately \$17,000. The City will use these increases in receipts to finance programs we currently offer, complete a street asphalt project and to defray a portion of the costs of providing water and sewer services. Budgeted disbursements (net of transfers between different funds of the City) are expected to decrease by \$44,197 from the 2005 budget. The decrease is due mainly to an expected reduction in spending for business-type activities. The City has added no major new programs or initiatives to the 2006 budget.

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 Lorna Weier, City Clerk, 114 Third Street North, P.O. Box 446, Rockwell, Iowa 50469.

Basic Financial Statements

Statement of Activities and Net Assets - Cash Basis

Year Ended June 30, 2005

Functions/Programs	Disbursements	Program Receipts		Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Governmental Activities	Business-Type Activities	Total
Governmental Activities						
Public Safety	\$ 101,720	\$ —	\$ 3,964	\$ (97,756)	\$ —	\$ (97,756)
Public Works	162,839	40,684	83,486	(38,669)	—	(38,669)
Health and Social Services	1,416	—	—	(1,416)	—	(1,416)
Culture and Recreation	69,735	—	—	(69,735)	—	(69,735)
Community and economic development	44,588	—	—	(44,588)	—	(44,588)
General government	89,011	2,070	5,472	(81,469)	—	(81,469)
Total Governmental Activities	469,309	42,754	92,922	(333,633)	—	(333,633)
Business-Type Activities						
Water.....	83,948	80,374	—	—	(3,574)	(3,574)
Sewer.....	56,831	55,938	—	—	(893)	(893)
Total Business-Type Activities.....	140,779	136,312	—	—	(4,467)	(4,467)
Total.....	\$ 610,088	\$ 179,066	\$ 92,922	(333,633)	(4,467)	(338,100)
General Receipts						
Property tax levied for general purposes				143,450	—	143,450
Other city tax				3,027	—	3,027
Local option sales tax				107,434	—	107,434
Grants and contributions not restricted to specific purpose				907	—	907
Unrestricted interest on investments.....				3,338	1,079	4,417
Total General Receipts				258,156	1,079	259,235
Decrease in Cash Basis Net Assets						
Cash Basis Net Assets - Beginning of Year				508,547	238,887	747,434
Cash Basis Net Assets - End of Year				\$ 433,070	\$ 235,499	\$ 668,569
Cash Basis Net Assets						
Restricted						
Streets.....				\$ 83,261	\$ —	\$ 83,261
Other purposes				308,703	—	308,703
Unrestricted.....				41,106	235,499	276,605
Total Cash Basis Net Assets				\$ 433,070	\$ 235,499	\$ 668,569

See accompany notes to the financial statements.

Statement of Cash Receipts, Disbursements and Changes in Cash

Balances - Governmental Funds

Year Ended June 30, 2005

	General	<u>Special Revenue</u> Road Use Tax	Total
Receipts			
Property tax	\$ 143,450	\$ —	\$ 143,450
Other city tax	110,461	—	110,461
Licenses and permits.....	982	—	982
Use of money and property	5,408	—	5,408
Intergovernmental.....	907	82,433	83,340
Charges for service	42,754	—	42,754
Miscellaneous.....	<u>7,366</u>	<u>71</u>	<u>7,437</u>
Total Receipts	<u>311,328</u>	<u>82,504</u>	<u>393,832</u>
Disbursements			
Operating			
Public Safety	101,720	—	101,720
Public Works	73,164	89,675	162,839
Health and Social Services	1,416	—	1,416
Culture and Recreation	69,735	—	69,735
Community and Economic Development	44,588	—	44,588
General Government	<u>89,011</u>	<u>—</u>	<u>89,011</u>
Total Disbursements	<u>379,634</u>	<u>89,675</u>	<u>469,309</u>
Receipts Under Disbursements	(68,306)	(7,171)	(75,477)
Cash Balances - Beginning of Year.....	<u>418,115</u>	<u>90,432</u>	<u>508,547</u>
Cash Balances - End of Year	<u>\$ 349,809</u>	<u>\$ 83,261</u>	<u>\$ 433,070</u>
Cash Basis Fund Balances			
Reserved			
Local option tax.....	\$ 308,703	\$ —	\$ 308,703
Unreserved			
General fund	41,106	—	41,106
Special revenue fund	<u>—</u>	<u>83,261</u>	<u>83,261</u>
Total Cash Basis Fund Balances	<u>\$ 349,809</u>	<u>\$ 83,261</u>	<u>\$ 433,070</u>

See accompanying notes to the financial statements.

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

Year Ended June 30, 2005

	Water	Sewer	Total
Operating Receipts			
Use of money and property	\$ 120	\$ 959	\$ 1,079
Charges for service	<u>80,374</u>	<u>55,938</u>	<u>136,312</u>
Total Operating Receipts	<u>80,494</u>	<u>56,897</u>	<u>137,391</u>
Operating Disbursements			
Business-type activities	<u>83,948</u>	<u>56,831</u>	<u>140,779</u>
Operating Receipts Over (Under)			
Operating Disbursements	(3,454)	66	(3,388)
Cash Balances - Beginning of Year.....	<u>131,731</u>	<u>107,156</u>	<u>238,887</u>
Cash Balances - End of Year	<u>\$ 128,277</u>	<u>\$ 107,222</u>	<u>\$ 235,499</u>
Cash Basis Fund Balances			
Unreserved	<u>\$ 128,277</u>	<u>\$ 107,222</u>	<u>\$ 235,499</u>

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies and Other Matters

The City of Rockwell is a political subdivision of the State of Iowa located in Cerro Gordo County. It was first incorporated in 1870 and operates under the Home Rule Provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council members elected on a non-partisan basis. The City provides numerous services to citizens including Public Safety, Public Works, Culture and Recreation, Health and Social Services, Community and Economic Development, Public Improvements and General Administrative Services.

Reporting Entity

Except as noted below, for financial reporting purposes, the City of Rockwell 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 elected to exclude the Rockwell Municipal Fire Department (Fire Department) and the Rockwell City Library (Library) from the financial statements. Because of the significance of their operational and financial relationships with the City, both the Fire Department and the Library should be included as part of the City's reporting entity. Separate financial statements are not available for either of these entities.

Jointly Governed Organizations

The City also participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Cerro Gordo County Assessor's Conference Board, Cerro Gordo County Emergency Management Commission and Cerro Gordo County Joint E911 Service Board.

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 revenue, 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. Total restricted net assets at June 30, 2005 were \$391,964.

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.

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies and Other Matters

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.

The City reports the following major governmental funds:

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

Special Revenue

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

The City reports the following major proprietary funds:

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

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

Basis of Accounting

The City of Rockwell 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 accounting principles generally accepted in the United States of America.

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

Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as required supplementary information. During the year ended June 30, 2005, the City exceeded the amounts budgeted in the Public Safety, Public Works, Health and Social Services, Culture and Recreation, General Government and Business-Type Activities functions.

Notes to the Financial Statements

(2) Deposits and Investments

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.

City investments are categorized to give an indication of the level of risk assumed by the City at year end. The City had no investments at June 30, 2005.

(3) Bonds Payable

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

Year Ending June 30,	Revenue Bonds	
	Principal	Interest
2006.....	\$ 7,284	\$ 8,446
2007.....	7,656	8,074
2008.....	8,048	7,682
2009.....	8,460	7,270
2010.....	8,893	6,837
2011-15	51,773	26,877
2016-20	66,441	12,209
2021.....	10,476	334
	<u>\$ 169,031</u>	<u>\$ 77,729</u>

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

1. The bonds will only be redeemed from the future earnings of the sewer rental activity and the bond holders hold a lien on the future earnings of the funds.
2. Sufficient monthly transfers shall be made to a sewer note sinking account for the purpose of making the bond and note principal and interest payments when due.
3. Additional monthly transfers shall be made to a sewer revenue reserve account for the purpose of making the maximum amount of principal and interest coming due in any succeeding fiscal year.
4. All funds remaining in the sewer rental account after the payment of all maintenance and operating expenses and required transfers may be used for the purpose of paying for any improvement, extension or repair to the system, or for bond and interest payments which the other accounts might be unable to make.

Notes to the Financial Statements

(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 3.7% of their annual 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 8.9%, 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 contribution to IPERS for the years ended June 30, 2005, 2004 and 2003 were \$10,557, \$7,870 and \$7,517, respectively, equal to the required contributions for each year.

(5) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use. Vacation benefits are payable in full when used or upon termination, retirement or death. Sick leave hours are payable in full when used but are not paid upon termination or death. Sick leave benefits may be paid, at the option of the City, to retiring employees at the rate of \$10 per day of sick leave accrued.

These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation and sick leave termination payments payable to employees at June 30, 2005, primarily relating to the General Fund Type was as follows:

Type of Benefit	Amount
Vacation.....	\$ 5,170
Sick leave	<u>2,320</u>
Total	<u>\$ 7,490</u>

This liability has been computed based on rates of pay as of June 30, 2005.

(6) Budget Overexpenditure

In accordance with the Code of Iowa, disbursements may not legally exceed budgeted appropriations at the program level. During the year ended June 30, 2005, disbursements in the Public Safety, Public Works, Health and Social Services, Culture and Recreation, General Government and Business-Type Activities functions exceeded the amounts budgeted.

Notes to the Financial Statements

(7) Risk Management

The City of Rockwell 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) Commitments

At June 30, 2005, the City had entered into contracts for street and utility improvements as shown below:

Vendor	Total Contract	Paid Through June 30, 2005	Approximate Remaining Commitment
Heartland Asphalt.....	\$ 259,442	\$ 52,221	\$ 207,221
National Waterworks	28,292	—	28,292
CE Contracting	122,875	—	122,875

(9) Accounting Change

Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*; Statement Number 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments; Omnibus*; Statement Number 38, *Certain Financial Statement Note Disclosures*; and Statement No. 41, *Budgetary Comparison Schedule - Perspective Differences* were implemented for the year ended June 30, 2005. The statements create new basic financial statements for reporting the City's financial activities. The financial statements now include a government-wide financial statement and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

There was no effect on previously reported fund balances as a result of adopting these new standards.

Required Supplemental Information

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

Year Ended June 30, 2005

	Govern- mental Funds Actual	Propri- etary Funds Actual	Net	Budgeted Amounts		Final To Net Variance
				Original	Final	
Receipts						
Property tax.....	\$ 143,450	\$ —	\$ 143,450	\$ 141,212	\$ 141,212	\$ 2,238
Other city tax.....	110,461	—	110,461	133,937	133,937	(23,476)
Licenses and permits	982	—	982	2,925	2,925	(1,943)
Use of money and property	5,408	1,079	6,487	7,500	7,500	(1,013)
Intergovernmental	83,340	—	83,340	88,080	88,080	(4,740)
Charges for service	42,754	136,312	179,066	168,525	168,525	10,541
Miscellaneous	7,437	—	7,437	2,500	2,500	4,937
Total Receipts	393,832	137,391	531,223	544,679	544,679	(13,456)
Disbursements						
Public Safety	101,720	—	101,720	59,740	97,740	(3,980)
Public Works	162,839	—	162,839	140,390	150,390	(12,449)
Health and Social Services.....	1,416	—	1,416	1,200	1,200	(216)
Culture and Recreation ...	69,735	—	69,735	59,200	69,200	(535)
Community and Economic Development .	44,588	—	44,588	63,000	68,000	23,412
General Government.....	89,011	—	89,011	73,350	73,350	(15,661)
Business-Type Activities ..	—	140,779	140,779	116,430	136,430	(4,349)
Total Disbursements ..	469,309	140,779	610,088	513,310	596,310	(13,778)
Receipts Over (Under) Disbursements.....	(75,477)	(3,388)	(78,865)	31,369	(51,631)	(27,234)
Other Financing Sources, Net.....	—	—	—	—	83,000	(83,000)
Receipts and Other Financing Sources Over (Under) Disbursements and Other Financing Uses ..	(75,477)	(3,388)	(78,865)	31,369	31,369	(110,234)
Balances - Beginning of Year.....	508,547	238,887	747,434	1,062,763	1,062,763	(315,329)
Balances - End of Year ..	\$ 433,070	\$ 235,499	\$ 668,569	\$ 1,094,132	\$ 1,094,132	\$ (425,563)

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

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: Public Safety, Public Works, Health and Social Services, Culture and Recreation, Community and Economic Development, General Government, Debt Service, Capital Projects, Business-Type Activities and Nonprogram. Function disbursements required to be budgeted include disbursements for the general fund, special revenue funds, debt service fund, capital projects funds and proprietary funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$83,000. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2005, disbursements exceeded the amounts budgeted in the Public Safety, Public Works, Health and Social Services, Culture and Recreation, General Government and Business-Type Activities functions.

Other Supplementary Information 

Schedule of Indebtedness

Year Ended June 30, 2005

	Amount Originally Issued	Date of Issue	Interest Rates
Water Capital Loan Notes	<u>\$ 90,000</u>	8-1-95	6.05%
Sewer Revenue Bonds	<u>\$ 265,300</u>	4-28-82	5.00%

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
<u>\$ 10,000</u>	<u>\$ —</u>	<u>\$ 10,000</u>	<u>\$ —</u>	<u>\$ 605</u>	<u>\$ —</u>
<u>\$ 175,960</u>	<u>\$ —</u>	<u>\$ 6,929</u>	<u>\$ 169,031</u>	<u>\$ 8,801</u>	<u>\$ —</u>

Schedule of Bond Maturities

At June 30, 2005

Year Ending June 30,	Revenue Bonds	
	Sewer	
	Issued 4-28-82	
	Interest Rates	Amount
2006.....	5.00%	\$ 7,284
2007.....	5.00	7,656
2008.....	5.00	8,048
2009.....	5.00	8,460
2010.....	5.00	8,893
2011.....	5.00	9,348
2012.....	5.00	9,826
2013.....	5.00	10,329
2014.....	5.00	10,857
2015.....	5.00	11,413
2016.....	5.00	11,996
2017.....	5.00	12,610
2018.....	5.00	13,255
2019.....	5.00	13,934
2020.....	5.00	14,646
2021.....	5.00	10,476
Totals		<u>\$ 169,031</u>

Schedule of Sewer Rates

Year Ended June 30, 2005

Sewer Usage Level	Monthly Rate Per Thousand Gallons
First 2,000 gallons	\$4.00
2,001 to 4,000 gallons	1.25
4,001 to 11,000 gallons	1.15
11,001 to 34,000 gallons	1.05
More than 34,000 gallons	1.00
Minimum monthly charge	8.00

Schedule of Insurance Coverage

Year Ended June 30, 2005

Type of Coverage	Insurer	Expiration Date	Limits
Property	Homestate Companies	April 1, 2006	\$ 1,436,946
Liability	Homestate Companies	April 1, 2006	2,000,000
Crime	Homestate Companies	April 1, 2006	10,000
Inland Marine	Homestate Companies	April 1, 2006	115,881
Automobile	Homestate Companies	April 1, 2006	\$1,000,000 per vehicle
Workers' Compensation	Homestate Companies	April 1, 2006	500,000
Umbrella	Homestate Companies	April 1, 2006	2,000,000
Fidelity	Homestate Companies	April 1, 2006	\$50,000 per employee
Errors and Omissions	Homestate Companies	April 1, 2006	1,000,000

Independent Auditor's Report on Compliance and on Internal Control Over Financial Reporting

To the Honorable Mayor and
Members of the City Council
City of Rockwell, Iowa

We have audited the accompanying financial statements of the governmental activities, the business-type activities and each major fund of the City of Rockwell, 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 July 20, 2005. Our report expressed a qualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City of Rockwell, Iowa's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations and contracts, noncompliance 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 instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in Items 05-C-2, 05-C-7, 05-C-8, 05-C-9 and 05-C-10 below.

The following 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.

05-C-1 Official Depositories - A resolution naming an official depository has been approved by the City Council. The maximum deposit amount stated in the resolution was not exceeded during the year ended June 30, 2005.

05-C-2 Certified Budget

Finding - Before the budget was amended on May 18, 2005, it was exceeded in several functions. In addition, disbursements for the year ended June 30, 2005 exceeded the amounts budgeted in the Public Safety, Public Works, Health and Social Services, Culture and Recreation, General Government and Business-Type Activities functions. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

Auditor's Recommendation - The budget should be amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements are allowed to exceed the budget.

City's Response - The budget will be amended timely in the future, if applicable.

Auditor's Conclusion - Response accepted.

05-C-3 Questionable Disbursements - We noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

05-C-4 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

05-C-5 Business Transactions - No business transactions between the City and City officials or employees were noted.

05-C-6 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 ensure that coverage is adequate for current operations.

05-C-7 Council Minutes

Finding - A \$20,000 disbursement of Local option tax money was paid to Linn Grove Recreation for the swimming pool fund and was not approved in the minutes.

Auditor's Recommendation - The City should approve all disbursements in the minutes.

City's Response - While the disbursement was not specifically approved in the minutes, it was approved in the budgeting process. The City will approve all disbursements in the future.

Auditor's Conclusion - Response accepted.

05-C-8 Revenue Bonds Audit Requirement

Prior Year Finding and Recommendation - The City passed a resolution for the issuance of revenue bonds which require annual audits of the City's financial records and a report containing, among other things, the City's rates for sewer charges and the City's insurance coverage. The City has not had an audit for the years ended June 30, 2002, 2003 and 2004. The City should arrange for an annual audit or get a waiver from the bonding company stating that they will not require the audit.

Current Year Finding - We noted that the City did not receive a waiver from their revenue bonding company concerning having an annual audit.

Auditor's Recommendation - We reiterate our prior year recommendation.

City's Response - We will get the appropriate waiver or arrange for an annual audit.

Auditor's Conclusion - Response accepted.

05-C-9 Revenue Bond Sinking and Reserve Fund Requirements

Finding - The Sewer Revenue Bond requires sinking and reserve funds to be set up in the City's chart of accounts and properly funded. While the money is set aside in separate savings accounts, the separate funds are not set up in the City's accounting system.

Auditor's Recommendation - We recommend the City set up the proper funds in their accounting system.

City's Response - We will set up the necessary funds.

Auditor's Conclusion - Response accepted.

05-C-10 Compliance with Laws and Regulations

Finding - The Code of Iowa does not allow interest income to be recorded in the Road Use Tax Fund but rather any interest earned on the funds should be recorded in the General Fund. The City recorded interest income in the Road Use Fund.

Auditor's Recommendation - We recommend that all interest earned on the Road Use Fund be transferred to and recorded in the General Fund.

City's Response - We will do so.

Auditor's Conclusions - Response accepted.

05-C-11 Deposits and Investments - We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Rockwell, Iowa'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 of Rockwell, Iowa'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 follows:

05-IC-1 Segregation of Duties

Prior Year Finding and Recommendation - 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 the cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal are all done by the same person. We realize that with a limited number of office employees, segregation of duties is difficult. However, we recommend that the City should review its control procedures to obtain the maximum internal control possible under the circumstances.

Current Year Finding - We noted that some effort is being made to segregate duties but more improvement is needed.

Auditor's Recommendation - We reiterate our prior year recommendation.

City's Response - We will consider this.

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

05-IC-2 Records of Accounts

Prior Year Finding and Recommendation - The Fire Department and Library maintain the accounting records pertaining to the operations of the Fire Department and Library. These transactions and the resulting balances are not recorded in the Clerk's records. Chapter 384.20 of the Code of Iowa states in part that "a city shall keep accounts which show an accurate and detailed statement of all public funds collected, received, or expended for any city purpose," we recommend that for better accountability, financial and budgetary control, the financial activity and balances of all City accounts should be recorded in the Clerk's records.

Current Year Finding - The records of the Fire Department and Library are still not recorded in the Clerk's records.

Auditor's Recommendation - We reiterate our prior year recommendation.

City's Response - We monitor the financial statements of the Fire Department and the Library. We will consider including the financial activity and balances of the Fire Department and Library in the City Clerk's records on an annual basis in the future.

Auditor's Conclusion - Response accepted.

05-IC-3 Reconciliation of Utility Billings, Collections and Delinquencies

Prior Year Finding and Recommendation - Utility billings and collections were not reconciled to outstanding accounts receivable balances throughout the year. Also, utility collections were not reconciled to deposits. We recommend that procedures be established to reconcile utility billings, collections and delinquencies for each billing period and also to reconcile collections to deposits. The Council or a Council-designated independent person should review the reconciliations.

Current Year Finding - We noted some effort is being made to reconcile and monitor receivables, but more improvement is needed.

Auditor's Recommendation - We reiterate our prior year recommendation.

City's Response - We will consider implementing the procedures that have been recommended.

Auditor's Conclusion - We believe that the City Council needs to monitor that improvement is made in the internal controls over this area to prevent and detect fraud.

05-IC-4 Past-Due Utility Accounts

Finding - The City has several past-due accounts for its water and sewer utility including three current employees.

Auditor's Recommendation - The City should implement collection activities, including shutting off service for past-due accounts.

City's Response - The City is aware of the past-due accounts and is working with the customers to collect the accounts. We don't believe it is necessary to shut off the accounts in order to collect the balances due.

Auditor's Conclusion - Response accepted; however, we believe that the City Council should continue to monitor this situation until all of the accounts are no longer delinquent.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. 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. We consider all of the reportable conditions described above 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, Iowa, and other parties to whom the 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.

HOGAN - HANSEN

HOGAN - HANSEN

Mason City, Iowa
July 20, 2005