

CITY OF REINBECK

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
& SUPPLEMENTAL INFORMATION
SCHEDULE OF FINDINGS

June 30, 2005

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City of Reinbeck

Officials

<u>Name</u>	<u>Title</u> (Before January 2005)	<u>Term Expires</u>
Lon Larsen	Mayor	Dec 2007
Ron Petersen	Mayor Pro tem	Dec 2007
Mike Schick	Council Member	Dec 2005
Dave Heasley	Council Member	Dec 2005
Allen Stickfort	Council Member	Dec 2005
Beryl Manlick	Council Member	Dec 2007
(After January 2005)		
Lon Larsen	Mayor	Dec 2007
Ron Petersen	Mayor Pro tem	Dec 2007
Mike Schick	Council Member	Dec 2005
Dave Heasley	Council Member	Dec 2005
Allen Stickfort	Council Member	Dec 2005
Beryl Manlick	Council Member	Dec 2007
Quentin Mayberry	City Administrator	Indefinite
Janalyn Harris	Administrative Assistant	Indefinite
Kurt Leistikow	Attorney	Indefinite

Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

I have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Reinbeck, 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 Reinbeck's management. My responsibility is to express opinions on these financial statements based on my audit.

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

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In my 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 Reinbeck 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, I have also issued my reports dated September 28, 2005 on my consideration of the City of Reinbeck's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of this report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of my audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 11 and 22 through 23 are not required parts of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. I applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Reinbeck's basic financial statements. I previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 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 my audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Keith Oltrogge
Certified Public Accountant

September 28, 2005

City of Reinbeck
Management's Discussion and Analysis
June 30, 2005

The City of Reinbeck 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.

Basis of Accounting

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

Report Layout

This annual report is presented in a format consistent with the presentation requirements of the Governmental Accounting Standards Board (GASB) Statement No. 34. GASB 34 implements a new model of financial reporting for state and local governments designed to enhance the usefulness of the City's annual report. Besides the Management's Discussion and Analysis (MD&A), the report consists of government-wide statements, fund financial statements, notes to the financial statements, combining schedules of non-major funds and supplemental information. The first several statements are highly condensed and present a government-wide view of the City's finances. Within this view, all City operations are categorized and reported as either governmental or business-type activities. Governmental activities include basic services such as public safety, public works, health and social services, culture and recreation, community and economic development, general government administration, debt service, and capital projects. Business-type activities are water, sewer and telecommunication.

Reporting The City's Financial Activities

Government-wide Financial Statement

To aid in the understanding of the Statement of Activities, some additional explanation is given. First, all receipts and disbursements are categorized as either governmental activities or business-type activities. These are defined as follows:

Governmental Funds – Most of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. The City's major governmental funds are the General Fund, the Special Revenue Funds, such as Road Use Tax and Urban Renewal Tax Increment (TIF), Debt Service Fund, and the Capital Projects Fund. All other governmental funds are aggregated in a single column entitled Nonmajor governmental funds. Governmental funds are further broken down into the following activities:

Public Safety – This category includes police operations, fire protection, Ambulance service, and animal control services.

Public Works – This category includes roads, bridges, sidewalks, street lighting, and garbage.

Health and Social Services – This category includes water, air, and mosquito control and other health and social services.

Culture and Recreation – This category includes library services, museum, band, theater, park, recreation, cemetery and other culture and recreation.

Community and Economic Development – This category includes economic development.

General Government – This category includes mayor/council, clerk, treasurer, financial administrator, city hall, general buildings and tort liability.

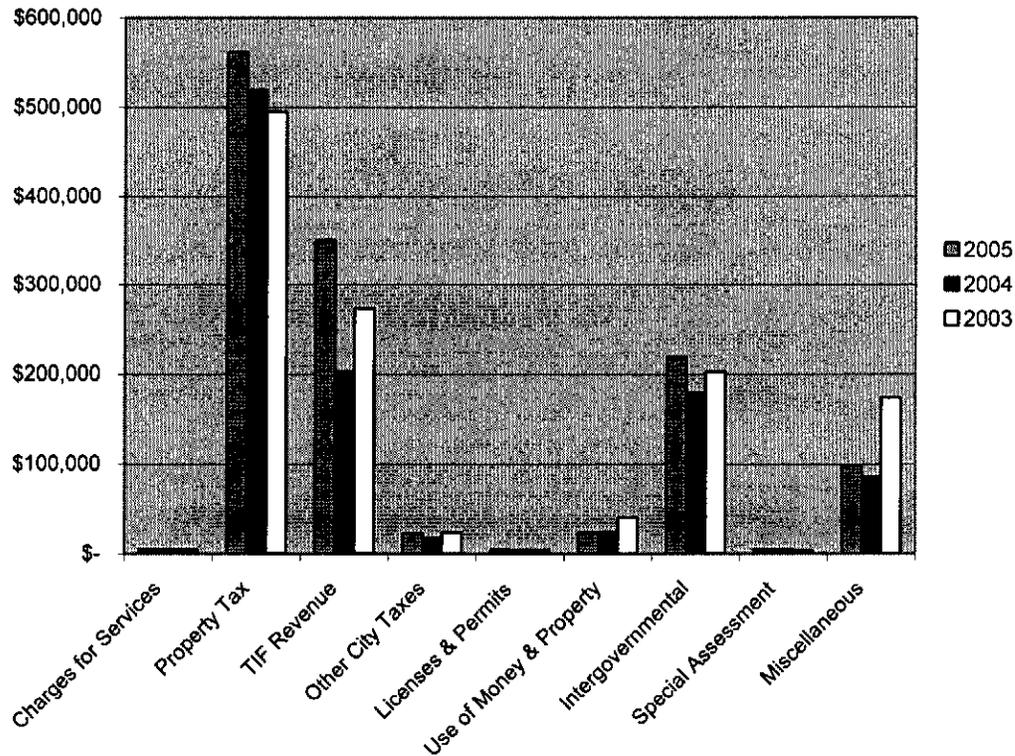
Debt Service – This category includes general, TIF and road use debt service.

Capital Projects – This category includes any capital project that is being currently built, such as the pool, sewer plant, or telecommunication plant.

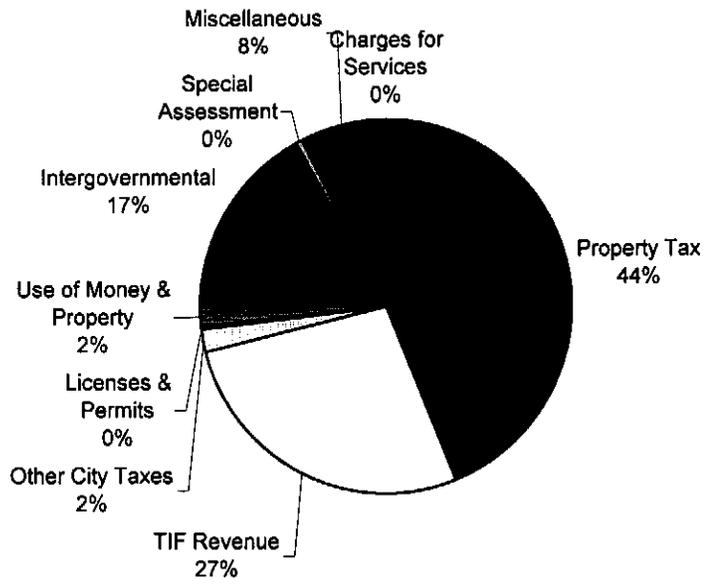
Business-Type (Proprietary) Funds – When the City charges customers for the services it provides, these services are generally reported in business-type or proprietary funds. These are self-sufficient funds. The City’s business-type funds are water utility, sewer utility and telecommunication utility. This also includes all debt service and capital projects associated specifically with the above listed utilities.

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

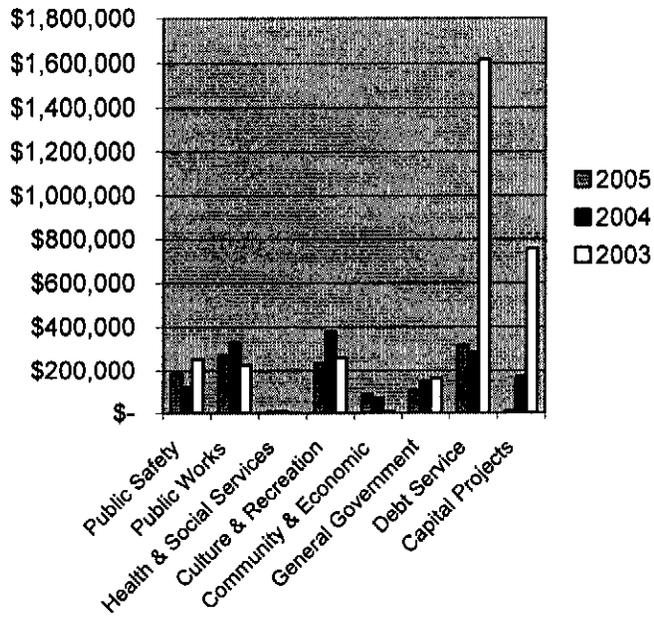
Revenue From Governmental Services



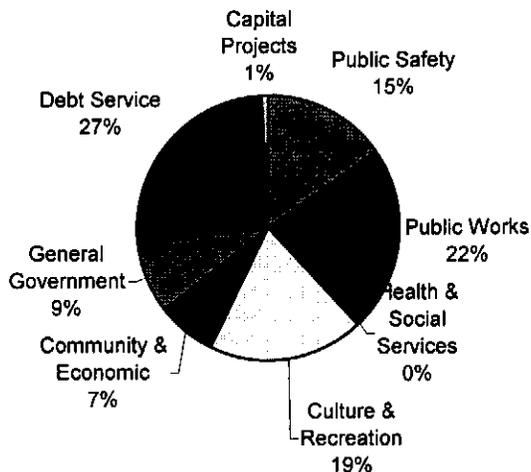
Revenue From Governmental Activities 2005



Disbursement By Function



Disbursements by Function 2005



The fire department received a grant from the federal government for air packs. This amount was not initially budgeted as neither an income nor expense item in the general fund.

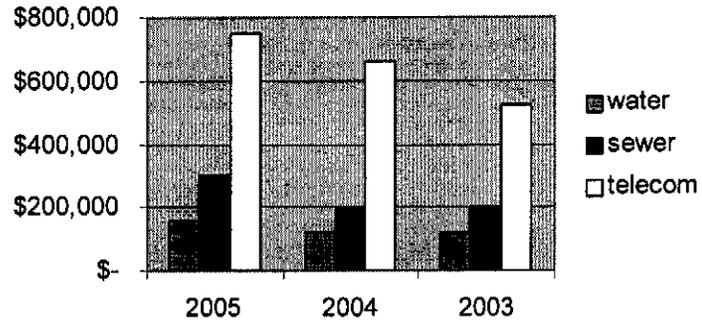
The street department purchased a new caterpillar backhoe. It was purchased with money borrowed from the general fund and will be paid back with Road Use Tax money.

The expense for our solid waste budget was down due to the decision of the Grundy County Solid Waste Commission to forgive the Landfill User Fees for 04/05. This charge was reinstated for 05/06.

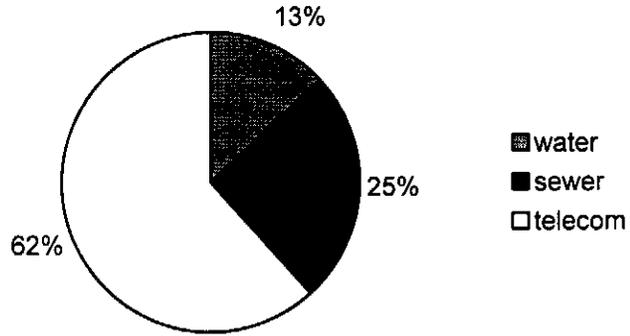
The pool fundraising expenses continue to be paid by the general fund, though, they are reimbursable. The pool bidding process will be completed in FY06 and a capital project fund will be established for the pool. It is expected to open in July of 06.

Business-Type Activities

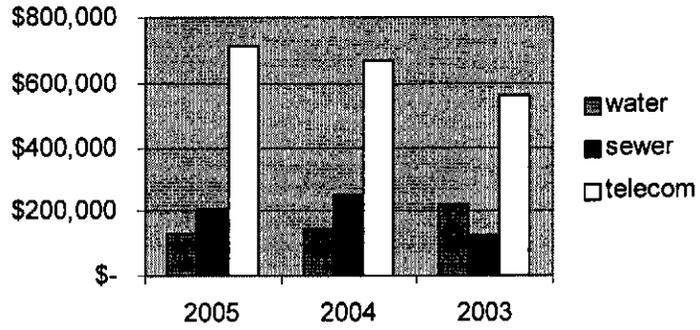
Receipts



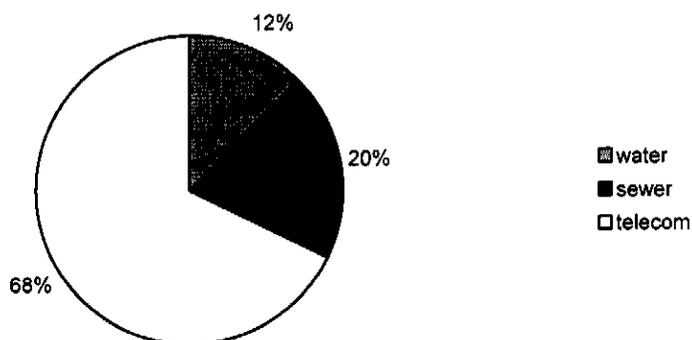
Receipts 2005



Disbursements



Disbursements 2005



Total business type activities had an increase in income due to the telecommunications system continuing to add customers. The sewer fund had a sharp increase in income due to the increase in rates. No payment for the new sewer plant was made in 04/05, so net income was inflated. Next year, a \$200,000 payment will be due. With the sewer fund still not showing that kind of profit, another increase will be upcoming. Any capital projects for sewer infrastructure will be coming out of reserves. Our expenses for any enterprise fund include any revenue bond interest and principle payment.

It will take at least a year to determine the cost of running the new sewer plant vs. the old one. We have had to hire a grade III water operator part time for the new sewer plant until our operator achieves his grade III license, which will be at least two years. Also, the Iowa DNR is developing new rules that may increase the cost of sewage treatment.

Morrison, Iowa is moving ahead with plans to pipe their sewage to our plant for treatment. This will increase our expenses as well as our income. This project is expected to be completed in the spring of 06.

Individual Major Governmental Fund Analysis

Our revenue for general fund use dropped due to cutbacks of state funding and the roll back on residential property tax. Though, we did have increased valuations, this was mostly in our TIF district, so no general fund increase was realized. Our TIF fund did increase and we used some of it for our Elmwood Park improvements. Also, \$500,000 of TIF money was committed to the new pool. Any money needed to complete the project, or needed prior to pledge funds coming in, will be borrowed by the city from private sources.

Costs for the operation of the new aquatic center will be higher than the old pool. Budget requests for next year will be based on other area aquatic centers and engineer estimates. It is hoped that increased revenue will help offset this increase.

Individual Major Business Type Fund Analysis

The grant money from the State Revolving Fund was deposited into the debt service section of the proprietary sewer fund. This is a revenue bond, so all interest and principle payments will come out of the sewer fund.

The sewer plant should be completed before the end of FY06. We also should have a person on hand with a grade II wastewater license that will allow us to cut back on the hours of our part-time grade III operator.

Budgetary Highlights

A budget amendment was approved on May 23, 2005. We amended our income to reflect a grant received by the fire department, our increased asking for the sewer plant, and additional TIF revenues.

Our expenses increased due to the spending of the fire department grant, purchase of a backhoe, improvements at the park, an anticipated capital expense for the telecommunication system, and additional funding needed for the sewer plant. The City of Reinbeck used their reserves to cover the additional expense over income.

Debt Administration

At June 30, 2005, the City had approximately \$6,281,787 in bonds and other long-term debt, compared to approximately \$4,233,896 last year, as shown below.

	Outstanding Debt at Year-End (Expressed in Thousands)		
	Year Ended June 30		
	2005	2004	2003
General Obligation Bonds	1960	2195	2395
Special Assessment	16	19	0
Revenue Bonds	<u>4305</u>	<u>2020</u>	<u>1810</u>
TOTAL	6281	4234	4205

The revenue notes are a product of the telecommunication system and our sewer plant and the special assessment is for the curb and gutter on Pioneer Road. The City's GO constitutional debt limit is \$3,490,226 compared to our debt of \$1,960,000.

Economic Factors And Next Year's Budgets And Rates

The City's elected and appointed officials and citizens consider many factors when setting the fiscal year 2006 budget, tax rates, and fees that will be charged for various City activities. These factors included the state's decision to discontinue reimbursement of property tax credits and the bank franchise fee. We also had a reduction in property tax revenue due to the rollback. Along with this came requests for increases in wages, utility costs, insurance costs and mandated insurance programs. The City requested more funds from the special revenue levies and asked the departments to cut back on general fund requests. The City is using TIF funds to continue the growth in amenities that they have started and still provide the quality services that the citizens have expected.

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 Quentin Mayberry, City Administrator, 414 Main, Reinbeck, Iowa 50669. Phone (319)-788-6404

Basic Financial Statements

City of Reinbeck

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, & Restricted Interest	Capital Grants, Contributions & Restricted Interest
Functions/Programs:				
Governmental activities:				
Public safety	\$ 187,490	\$ 8,707	\$ 7,621	\$ 45,360
Public works	272,893	4,346	145,588	-
Health and social services	5,474	-	-	-
Culture and recreation	234,317	27,940	28,480	-
Community and economic development	87,771	-	-	-
General government	105,876	-	-	-
Debt service	316,422	-	-	-
Capital projects	10,574	-	-	-
Total governmental activities	\$ 1,220,817	\$ 40,993	\$ 181,689	\$ 45,360
Business type activities:				
Water	\$ 131,139	\$ 159,076	\$ -	\$ -
Sewer	207,434	304,635	-	-
Solid waste	-	78,908	-	-
Cable TV	170,708	148,724	-	-
Internet	66,816	71,563	-	-
Telephone	473,897	529,286	-	-
Sewer plant	2,731,679	-	-	-
Total business type activities	\$ 3,781,673	\$ 1,292,192	\$ -	\$ -
Total	\$ 5,002,490	\$ 1,333,185	\$ 181,689	\$ 45,360
General Receipts:				
Property tax levied for:				
General purposes				
Tax increment financing				
Debt service				
Grants & contributions not restricted to specific purposes				
Unrestricted interest on investments				
Miscellaneous				
Transfers				
Loan proceeds				
Total general receipts and transfers				
Change in cash basis net assets				
Cash basis net assets beginning of year				
Cash basis net assets end of year				
Cash Basis Net Assets				
Restricted: Debt service				
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
\$ -125,802	\$ -	\$ -125,802
-122,959	-	-122,959
-5,474	-	-5,474
-177,897	-	-177,897
-87,771	-	-87,771
-105,876	-	-105,876
-316,422	-	-316,422
-10,574	-	-10,574
<u>\$ -952,775</u>	<u>\$ -</u>	<u>\$ -952,775</u>
\$ -	\$ 27,937	\$ 27,937
-	97,201	97,201
-	78,908	78,908
-	-21,984	-21,984
-	4,747	4,747
-	55,389	55,389
-	-2,731,679	-2,731,679
<u>\$ -</u>	<u>\$ -2,489,481</u>	<u>\$ -2,489,481</u>
<u>\$ -952,775</u>	<u>\$ -2,489,481</u>	<u>\$ -3,442,256</u>
\$ 342,547	\$ -	\$ 342,547
350,402	-	350,402
241,978	-	241,978
1,806	-	1,806
19,174	268	19,442
61,763	6,995	68,758
-2,551,706	2,551,706	-
2,670,940	-	2,670,940
<u>\$ 1,136,904</u>	<u>\$ 2,558,969</u>	<u>\$ 3,695,873</u>
\$ 184,129	\$ 69,488	\$ 253,617
925,804	333,113	1,258,917
<u>\$ 1,109,933</u>	<u>\$ 402,601</u>	<u>\$ 1,512,534</u>
\$ -49,304	\$ -	\$ -49,304
1,159,237	402,601	1,561,838
<u>\$ 1,109,933</u>	<u>\$ 402,601</u>	<u>\$ 1,512,534</u>

City of Reinbeck

**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	Urban Renewal Tax Increment
Receipts:			
Property tax	\$ 232,047	\$ -	\$ -
Tax increment financing collections	-	-	350,402
Other city tax	14,190	-	-
Licenses and permits	4,301	-	-
Use of money and property	22,161	-	-
Intergovernmental	71,770	145,588	82
Charges for service	4,038	-	-
Special assessments	-	-	-
Miscellaneous	97,580	-	-
Total receipts	\$ 446,087	\$ 145,588	\$ 350,484
Disbursements:			
Operating:			
Public safety	\$ 187,490	\$ -	\$ -
Public works	152,024	108,167	-
Health and social services	5,474	-	-
Culture and recreation	219,531	-	-
Community and economic development	12,267	-	75,000
General government	100,190	-	-
Debt service	-	-	-
Capital projects	-	-	-
Total disbursements	\$ 676,976	\$ 108,167	\$ 75,000
Excess (deficiency) of receipts over (under) disbursements	\$ -230,889	\$ 37,421	\$ 275,484
Other financing sources (uses):			
Loan proceeds net	\$ -	\$ -	\$ -
Operating transfers in	432,134	-	-
Operating transfers out	-84,406	-11,693	-164,302
Total other financing sources (uses)	\$ 347,728	\$ -11,693	\$ -164,302
Net change in cash balances	\$ 116,839	\$ 25,728	\$ 111,182
Cash balances beginning of year	590,300	25,630	-8,769
Cash balances end of year	\$ 707,139	\$ 51,358	\$ 102,413
Cash Basis Fund Balances			
Reserved:			
Debt service	\$ -	\$ -	\$ -
Unreserved:			
General fund	707,139	-	-
Special revenue funds	-	51,358	102,413
Capital projects fund	-	-	-
Total cash basis fund balances	\$ 707,139	\$ 51,358	\$ 102,413

See notes to financial statements.

Debt Service	Other Non-Major Governmental Funds	Total
\$ 236,322	\$ 92,683	\$ 561,052
-	-	350,402
5,353	2,988	22,531
-	-	4,301
67	1,331	23,559
303	160	217,903
-	-	4,038
-	4,346	4,346
-	-	97,580
<u>\$ 242,045</u>	<u>\$ 101,508</u>	<u>\$ 1,285,712</u>
\$ -	\$ -	\$ 187,490
-	12,702	272,893
-	-	5,474
-	14,786	234,317
-	504	87,771
-	5,686	105,876
316,422	-	316,422
-	10,574	10,574
<u>\$ 316,422</u>	<u>\$ 44,252</u>	<u>\$ 1,220,817</u>
<u>\$ -74,377</u>	<u>\$ 57,256</u>	<u>\$ 64,895</u>
\$ 2,670,940	\$ -	\$ 2,670,940
131,299	-	563,433
-2,714,966	-139,772	-3,115,139
<u>\$ 87,273</u>	<u>\$ -139,772</u>	<u>\$ 119,234</u>
\$ 12,896	\$ -82,516	\$ 184,129
-62,200	380,843	925,804
<u>\$ -49,304</u>	<u>\$ 298,327</u>	<u>\$ 1,109,933</u>
\$ -49,304	\$ -	\$ -49,304
-	-	707,139
-	9,156	162,927
-	289,171	289,171
<u>\$ -49,304</u>	<u>\$ 298,327</u>	<u>\$ 1,109,933</u>

City of Reinbeck

**Reconciliation of the Statement of Cash
Receipts, Disbursements and Changes in Cash Balances
to the Statement of Activities and Net Assets –
Governmental Funds
As of and for the year ended June 30, 2005**

Total governmental funds cash balances (page 12)	\$ 1,109,933
<i>Amounts reported for governmental activities in the Statement of Activities and Net Assets are different because:</i>	
None	<u>-</u>
Cash basis net assets of governmental activities (page 11)	<u>\$ 1,109,933</u>
Net change in cash balances (page 12)	\$ 184,129
<i>Amounts reported for governmental activities in the Statement of Activities and Net Assets are different because:</i>	
None	<u>-</u>
Change in cash balance of governmental activities (page 11)	<u>\$ 184,129</u>

City of Reinbeck

**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	Solid Waste
Operating receipts:			
Charges for service	\$ 146,630	\$ 301,371	\$ 56,158
Miscellaneous	12,446	3,264	22,750
Total operating receipts	<u>\$ 159,076</u>	<u>\$ 304,635</u>	<u>\$ 78,908</u>
Operating disbursements:			
Business type activities	\$ 131,139	\$ 207,434	\$ -
Total operating disbursements	<u>\$ 131,139</u>	<u>\$ 207,434</u>	<u>\$ -</u>
Excess (deficiency) of operating receipts over (under) operating disbursements	<u>\$ 27,937</u>	<u>\$ 97,201</u>	<u>\$ 78,908</u>
Non-operating receipts (disbursements):			
Interest on investments	\$ 10	\$ 215	\$ 43
Miscellaneous	758	290	-
Debt service	-	-	-
Capital projects	-	-	-
Total non-operating receipts (disbursements)	<u>\$ 768</u>	<u>\$ 505</u>	<u>\$ 43</u>
Excess (deficiency) of receipts over (under) disbursements	<u>\$ 28,705</u>	<u>\$ 97,706</u>	<u>\$ 78,951</u>
Operating transfers in (out)	<u>-</u>	<u>-40,280</u>	<u>-78,951</u>
Net change in cash balances	\$ 28,705	\$ 57,426	\$ -
Cash balances beginning of year	185,698	312,795	-
Cash balances end of year	<u>\$ 214,403</u>	<u>\$ 370,221</u>	<u>\$ -</u>
Cash Basis Fund Balances			
Unreserved	<u>\$ 214,403</u>	<u>\$ 370,221</u>	<u>\$ -</u>
Total cash basis fund balances	<u>\$ 214,403</u>	<u>\$ 370,221</u>	<u>\$ -</u>

See notes to financial statements.

Enterprise Funds					
Cable TV	Internet	Telephone	Sewer Plant	Total	
\$ 140,884	\$ 71,563	\$ 514,448	\$ -	\$ 1,231,054	
7,840	-	14,838	-	61,138	
\$ 148,724	\$ 71,563	\$ 529,286	\$ -	\$ 1,292,192	
\$ 116,297	\$ 50,068	\$ 356,742	\$ -	\$ 861,680	
\$ 116,297	\$ 50,068	\$ 356,742	\$ -	\$ 861,680	
\$ 32,427	\$ 21,495	\$ 172,544	\$ -	\$ 430,512	
\$ -	\$ -	\$ -	\$ -	\$ 268	
4,114	4	1,829	-	6,995	
-54,411	-16,748	-117,155	-34,276	-222,590	
-	-	-	-2,697,403	-2,697,403	
\$ -50,297	\$ -16,744	\$ -115,326	\$ -2,731,679	\$ -2,912,730	
\$ -17,870	\$ 4,751	\$ 57,218	\$ -2,731,679	\$ -2,482,218	
-	-	-	2,670,937	2,551,706	
\$ -17,870	\$ 4,751	\$ 57,218	\$ -60,742	\$ 69,488	
-13,662	-3,460	43,945	-192,203	333,113	
\$ -31,532	\$ 1,291	\$ 101,163	\$ -252,945	\$ 402,601	
\$ -31,532	\$ 1,291	\$ 101,163	\$ -252,945	\$ 402,601	
\$ -31,532	\$ 1,291	\$ 101,163	\$ -252,945	\$ 402,601	

City of Reinbeck

Reconciliation of the Statement of Cash
 Receipts, Disbursements and Changes in Cash Balances
 to the Statement of Activities and Net Assets –
 Proprietary Funds
 As of and for the year ended June 30, 2005

Total enterprise funds cash balances (page 14)	\$ 402,601
<i>Amounts reported for business type activities in the Statement of Activities and Net Assets are different because:</i>	
None	<u>-</u>
Cash basis net assets of business type activities (page11)	<u>\$ 402,601</u>
Net change in cash balances (page 14)	\$ 69,488
<i>Amounts reported for business type activities in the Statement of Activities and Net Assets are different because:</i>	
None	<u>-</u>
Change in cash balance of business type activities (page 11)	<u>\$ 69,488</u>

City of Reinbeck

Notes to Financial Statements

June 30, 2005

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Reinbeck is a political subdivision of the State of Iowa located in Grundy County 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, sewer, solid waste, cable TV, internet, telephone and sewer plant utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Reinbeck has included all funds, organizations, agencies, board, 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.

These financial statements present the City of Reinbeck (the primary government) and the Reinbeck Fire Department (component unit). This component unit discussed below is included in the City's reporting entity because of the significance of the operational or financial relationships with the City.

Fire Department

The Reinbeck Fire Department is legally separate from the City but is so intertwined with the City that it is, in substance, the same as the City. It is reported as part of the City. The Reinbeck Fire Department has been established pursuant to local ordinance to prevent and extinguish fires and to protect lives and property against fires, to promote fire prevention and fire safety, and to answer all emergency calls for which there is no other established agency. Although the Reinbeck Fire Department is legally separate from the City, its purpose is to benefit the City of Reinbeck (the primary government) by providing the above services and by soliciting contributions and managing those funds.

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

B. Basis of Presentation

Government-wide Financial Statements – The Statement of Activities and Net Assets reports information on all of the non-fiduciary activities of the City. For the most part, the effect of inter-fund 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 non-fiduciary 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 non-major governmental funds.

The City reports the following major governmental funds:

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

Special Revenue:

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

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

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

The City reports the following major proprietary funds:

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

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

The Solid Waste Fund accounts for the operation and maintenance of the City's garbage service.

The Cable TV Fund accounts for the operation and maintenance of the City's cable system.

The Internet Fund accounts for the operation and maintenance of the City's internet system.

The Telephone Fund accounts for the operation and maintenance of the City's telephone system.

The Sewer Plant Fund accounts for the operation and maintenance of the City's waste plant system.

C. Measurement Focus and Basis of Accounting

The City of Reinbeck 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 amount budgeted in the community and economic development function.

NOTE 2 – CASH AND POOLED 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.

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.

NOTE 3 – GENERAL OBLIGATION CAPITAL LOAN AND REVENUE LOAN NOTES

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

Year Ending June 30,	General Obligation Capital Loan Notes		Revenue Loan Notes		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2006	\$240,000	\$72,337	\$221,000	\$168,290	\$461,000	\$240,627
2007	255,000	65,153	230,000	160,010	485,000	225,163
2008	265,000	56,852	243,000	151,385	508,000	208,237
2009	275,000	47,593	252,000	142,157	527,000	189,750
2010	280,000	37,332	260,000	132,518	540,000	169,850
2011	295,000	26,210	274,000	122,287	569,000	148,497
2012	170,000	13,830	283,000	111,240	453,000	125,070
2013	180,000	7,200	297,000	99,750	477,000	106,950
2014	-	-	311,000	87,560	311,000	87,560
2015	-	-	325,000	74,660	325,000	74,660
2016	-	-	335,000	61,040	335,000	61,040
2017	-	-	154,000	46,920	154,000	46,920
2018	-	-	159,000	42,300	159,000	42,300
2019	-	-	163,000	37,530	163,000	37,530
2020	-	-	168,000	32,640	168,000	32,640
2021	-	-	173,000	27,600	173,000	27,600
2022	-	-	179,000	22,410	179,000	22,410
2023	-	-	184,000	17,040	184,000	17,040
2024	-	-	189,000	11,520	189,000	11,520
2025	-	-	195,000	5,850	195,000	5,850
Less un- disbursed proceeds	-	-	-290,000	-	-290,000	-
	\$1,960,000	\$326,507	\$4,305,000	\$1,554,707	\$6,265,000	\$1,881,214

The Code of Iowa requires that principal and interest on general obligation capital loan notes be paid from the Debt Service Fund.

The resolution providing for the issuance of the general obligation capital loan notes for the January 23, 2003 – Essential Corporate Purpose and the May 1, 2001 – Telecommunications System loans includes the following provision:

- a) The loan will be redeemed by a levy of annual tax on all the taxable property in Reinbeck, Iowa.

The resolution providing for the issuance of the September 13, 2004 Sewer Revenue Note includes the following provision:

- a) A Sewer Revenue Bond Sinking Fund shall be created. The Sewer Revenue Bond Sinking Fund shall be used solely for the purpose of paying principal and interest on the note.

NOTE 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. Contribution requirements are established by state statute. The City's contribution to IPERS for the years ended June 30, 2005, 2004 and 2003 were \$14,830, \$14,079 and \$13,044 respectively, equal to the required contributions for each year.

NOTE 5 – COMPENSATED ABSENCES

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

Type of Benefit	Amount
Vacation	\$ 6,500
Sick leave	14,471
Total	<u>\$ 20,971</u>

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

NOTE 6 – INTER-FUND TRANSFERS

The detail of inter-fund transfers for the year ended June 30, 2005 is as follows:

Transfer to	Transfer from	Amount
General Fund	Special Revenue: Road Use Tax	\$ 11,693
General Fund	Special Revenue: Urban Renewal Tax Increment	117,409
General Fund	Special Revenue: Employee Benefits	45,117
General Fund	Special Revenue: Special Assessment	4,346
General Fund	Special Revenue: Emergency	7,880
General Fund	Capital Projects: Park	66,858
General Fund	Capital Projects: Telecommunications	33,134
General Fund	Enterprise: Sewer Rental	40,280
General Fund	Enterprise: Solid Waste	78,951
General Fund	Enterprise: Sewer Plant	26,466
Debt Service	General Fund	84,396
Debt Service	Special Revenue: Urban Renewal Tax Increment	46,893
Capital Projects: Park	Debt Service	17,563
Enterprise: Sewer Plant	Debt Service	2,697,403
		<u>\$ 3,278,389</u>

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

NOTE 7 – RISK MANAGEMENT

The City of Reinbeck 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.

NOTE 8 – DEFICIT FUND BALANCE

The Debt Service Fund has a deficit balance of \$49,304 at June 30, 2005. The deficit will be eliminated with future tax collections.

NOTE 9 – RELATED PARTY TRANSACTIONS

The City had business transactions between the City and City officials totaling \$20,545 during the year ended June 30, 2005.

NOTE 10 – COMMITMENTS

At June 30, 2005, the City’s wastewater treatment plant construction project was not complete. Construction costs of \$255,545, including retainage, and engineering fees of \$55,080 both remained unpaid at June 30, 2005.

REQUIRED SUPPLEMENTARY INFORMATION

City of Reinbeck

**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	\$ 561,052	\$ -
Tax increment financing collections	350,402	-
Other city tax	22,531	-
Licenses and permits	4,301	-
Use of money and property	23,559	268
Intergovernmental	217,903	-
Charges for service	4,038	1,231,054
Special assessments	4,346	-
Miscellaneous	97,580	68,133
Total receipts	\$ 1,285,712	\$ 1,299,455
Disbursements:		
Public safety	\$ 187,490	\$ -
Public works	272,893	-
Health and social services	5,474	-
Culture and recreation	234,317	-
Community and economic development	87,771	-
General government	105,876	-
Debt service	316,422	-
Capital projects	10,574	-
Business type activities	-	3,781,673
Total disbursements	\$ 1,220,817	\$ 3,781,673
Excess (deficiency) of receipts over (under) disbursements	\$ 64,895	\$ -2,482,218
Other financing sources, net	119,234	2,551,706
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	\$ 184,129	\$ 69,488
Balances beginning of year	925,804	333,113
Balances end of year	\$ 1,109,933	\$ 402,601

See accompanying independent auditor's report.

Net	Budgeted Amounts		Final to Net Variance
	Original	Final	
\$ 561,052	\$ 564,355	\$ 564,355	\$ -3,303
350,402	275,000	340,000	10,402
22,531	17,678	17,678	4,853
4,301	9,260	9,260	-4,959
23,827	26,430	26,430	-2,603
217,903	219,069	269,069	-51,166
1,235,092	3,591,444	4,291,444	-3,056,352
4,346	3,726	3,726	620
165,713	40,000	40,000	125,713
<u>\$ 2,585,167</u>	<u>\$ 4,746,962</u>	<u>\$ 5,561,962</u>	<u>\$ -2,976,795</u>
\$ 187,490	\$ 129,210	\$ 193,804	\$ 6,314
272,893	216,985	297,353	24,460
5,474	8,400	9,100	3,626
234,317	239,205	311,505	77,188
87,771	7,698	20,323	-67,448
105,876	103,307	120,641	14,765
316,422	462,586	462,586	146,164
10,574	-	150,000	139,426
3,781,673	2,999,131	4,278,379	496,706
<u>\$ 5,002,490</u>	<u>\$ 4,166,522</u>	<u>\$ 5,843,691</u>	<u>\$ 841,201</u>
\$ -2,417,323	\$ 580,440	\$ -281,729	\$ -2,135,594
<u>2,670,940</u>	<u>-</u>	<u>-</u>	<u>2,670,940</u>
\$ 253,617	\$ 580,440	\$ -281,729	\$ 535,346
<u>1,258,917</u>	<u>2,856,930</u>	<u>2,856,930</u>	<u>-1,598,013</u>
<u>\$ 1,512,534</u>	<u>\$ 3,437,370</u>	<u>\$ 2,575,201</u>	<u>\$ -1,062,667</u>

City of Reinbeck

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, one budget amendment increased budgeted disbursements by \$1,677,169. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2005, disbursements exceeded the amount budgeted in the community and economic development function.

Other Supplementary Information

City of Reinbeck

**Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Non-major Governmental Funds**

As of and for the year ended June 30, 2005

	Special Revenue		
	Emergency	Employee Benefits	Special Assessment Curb & Gutter
Receipts:			
Property tax	\$ 7,620	\$ 85,063	\$ -
Other city tax	247	2,741	-
Use of money and property	-	-	-
Intergovernmental	13	147	-
Special assessments	-	-	4,346
Total receipts	\$ 7,880	\$ 87,951	\$ 4,346
Disbursements:			
Operating:			
Public works	\$ -	\$ 12,702	\$ -
Culture and recreation	-	14,786	-
Community & economic development	-	504	-
General government	-	5,686	-
Capital projects	-	-	-
Total disbursements	\$ -	\$ 33,678	\$ -
Excess (deficiency) of receipts over (under) disbursements	\$ 7,880	\$ 54,273	\$ 4,346
Other financing uses:			
Operating transfers in (out)	-7,880	-45,117	-4,346
Net change in cash balances	\$ -	\$ 9,156	\$ -
Cash balances beginning of year	-	-	-
Cash balances end of year	\$ -	\$ 9,156	\$ -
Cash Basis Fund Balances			
Unreserved:			
Special revenue funds	\$ -	\$ 9,156	\$ -
Capital projects fund	-	-	-
Total cash basis fund balances	\$ -	\$ 9,156	\$ -

See accompanying independent auditor's report.

Capital Projects			
Park	Tele- Communications		Total
\$ -	\$ -	\$	92,683
-	-		2,988
-	1,331		1,331
-	-		160
-	-		4,346
<u>\$ -</u>	<u>\$ 1,331</u>	<u>\$</u>	<u>101,508</u>
\$ -	\$ -	\$	12,702
-	-		14,786
-	-		504
-	-		5,686
-	10,574		10,574
<u>\$ -</u>	<u>\$ 10,574</u>	<u>\$</u>	<u>44,252</u>
\$ -	\$ -9,243	\$	57,256
-49,295	-33,134		-139,772
\$ -49,295	\$ -42,377	\$	-82,516
60,000	320,843		380,843
<u>\$ 10,705</u>	<u>\$ 278,466</u>	<u>\$</u>	<u>298,327</u>
\$ -	\$ -	\$	9,156
10,705	278,466		289,171
<u>\$ 10,705</u>	<u>\$ 278,466</u>	<u>\$</u>	<u>298,327</u>

City of Reinbeck
Schedule of Indebtedness
Year ended June 30, 2005

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation capital loan notes:			
Telecommunications system	May 1, 2001	3.9-4.7%	\$995,000
Essential corporate purpose	Jan 23, 2003	1.75-4.0%	\$1,595,000
Revenue note:			
Telecommunications revenue	Sept 1, 2001	4.4-5.2%	\$1,810,000
Sewer revenue (SRF Loan)	Sept 13, 2004	3.0%	\$2,990,000

See accompanying independent auditor's report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
\$805,000	\$-	\$100,000	\$705,000	\$35,560	\$-
1,390,000	-	135,000	1,255,000	45,562	-
\$2,195,000	\$-	\$235,000	\$1,960,000	\$81,122	\$-
\$1,710,000	\$-	\$105,000	\$1,605,000	\$83,314	\$-
-	2,700,000	-	2,700,000	34,276	-
\$1,710,000	\$2,700,000	\$105,000	\$4,305,000	\$117,590	\$-

City of Reinbeck

Note Maturities

June 30, 2005

Year Ending June 30,	General Obligation Capital Loan Notes				Revenue Note	
	Essential Corporate Purpose		Telecommunications System		Telecommunications Revenue	
	Issued Jan 23, 2003		Issued May 1, 2001		Issued Sept 1, 2001	
	Interest Rate	Amount	Interest Rate	Amount	Interest Rate	Amount
2006	2.50%	\$135,000	4.20%	\$105,000	4.50%	\$110,000
2007	2.80%	145,000	4.30%	110,000	4.50%	115,000
2008	3.05%	150,000	4.40%	115,000	4.55%	125,000
2009	3.30%	155,000	4.50%	120,000	4.60%	130,000
2010	3.55%	155,000	4.60%	125,000	4.80%	135,000
2011	3.80%	165,000	4.70%	130,000	4.95%	145,000
2012	3.90%	170,000	-	-	5.00%	150,000
2013	4.00%	180,000	-	-	5.05%	160,000
2014	-	-	-	-	5.10%	170,000
2015	-	-	-	-	5.15%	180,000
2016	-	-	-	-	5.20%	185,000
		<u>\$1,255,000</u>		<u>\$705,000</u>		<u>\$1,605,000</u>

Year Ending June 30,	Revenue Note		Total
	Sewer Revenue		
	Issued Sept 13, 2004		
Interest Rate	Amount		
2006	3.0%	\$111,000	\$461,000
2007	3.0%	115,000	485,000
2008	3.0%	118,000	508,000
2009	3.0%	122,000	527,000
2010	3.0%	125,000	540,000
2011	3.0%	129,000	569,000
2012	3.0%	133,000	453,000
2013	3.0%	137,000	477,000
2014	3.0%	141,000	311,000
2015	3.0%	145,000	325,000
2016	3.0%	150,000	335,000
2017	3.0%	154,000	154,000
2018	3.0%	159,000	159,000
2019	3.0%	163,000	163,000
2020	3.0%	168,000	168,000
2021	3.0%	173,000	173,000
2022	3.0%	179,000	179,000
2023	3.0%	184,000	184,000
2024	3.0%	189,000	189,000
2025	3.0%	195,000	195,000
Less un- disbursed funds		<u>-290,000</u>	<u>-290,000</u>
		<u>\$2,700,000</u>	<u>\$6,265,000</u>

See accompanying independent auditor's report.

City of Reinbeck

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

For the Last Three Years

	2005	2004	2003
Receipts:			
Property tax	\$ 561,052	\$ 519,424	\$ 494,494
Tax increment financing collection	350,402	203,446	273,094
Other city tax	22,531	17,501	23,628
Licenses and permits	4,301	4,000	4,170
Use of money and property	23,559	24,334	40,231
Intergovernmental	217,903	179,587	202,883
Charges for service	4,038	4,275	4,288
Special assessments	4,346	4,166	3,317
Miscellaneous	97,580	85,042	173,908
Total	\$ 1,285,712	1,041,775	\$ 1,220,013
Disbursements:			
Operating:			
Public safety	\$ 187,490	119,560	\$ 254,872
Public works	272,893	328,849	228,475
Health and social services	5,474	7,953	2,443
Culture and recreation	234,317	378,827	259,347
Community and economic development	87,771	69,590	7,124
General government	105,876	147,581	163,486
Debt service	316,422	287,060	1,617,056
Capital projects	10,574	171,930	757,691
Total	\$ 1,220,817	1,511,350	\$ 3,290,494

City of Reinbeck
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2005

Grantor/Program	CFDA Number	Agency Pass-through Number	Program Expenditures
Indirect:			
Federal Emergency Management Agency:			
Iowa Department of Public Safety:			
Hazard Mitigation Grant	83.548	EMW-2004-FG-04995	\$ 45,360
Environmental Protection Agency:			
Iowa Department of Natural Resources (CWSRFs)			
Capitalization Grants for State Revolving Funds	66.459	CS19	<u>2,697,406</u>
Total			<u>\$ 2,742,766</u>

Basis of Presentation – The Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Reinbeck 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.

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

To the Honorable Mayor and
Members of the City Council:

I have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Reinbeck, 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 my report thereon dated September 28, 2005. My report expressed an unqualified opinion on the financial statements, which were prepared in conformity with an other comprehensive basis of accounting. I conducted my audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, I believe item II-A-05 is a material weakness.

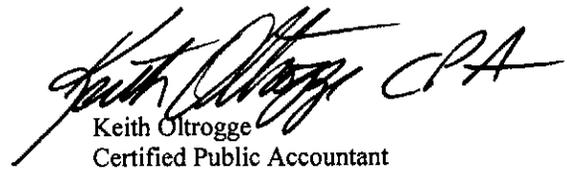
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Reinbeck's financial statements are free of material misstatement, I 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 my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, I noted certain immaterial instances of non-compliance or other matters that are described in Part III of the accompanying Schedule of Findings.

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 my audit of the financial statements of the City. Since my audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Reinbeck and other parties to whom the City of Reinbeck 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.

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



Keith Oltrogge
Certified Public Accountant

September 28, 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

I have audited the compliance of the City of Reinbeck, 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 Reinbeck's major federal program is identified in Part I of the accompanying Schedule of Findings. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to its major federal program is the responsibility of the City of Reinbeck's management. My responsibility is to express an opinion on the City of Reinbeck's compliance based on my audit.

I conducted my 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 I 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 Reinbeck's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances. I believe my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination on the City of Reinbeck's compliance with those requirements.

In my opinion, the City of Reinbeck 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. However, the results of my auditing procedures disclosed no instances of non-compliance with those requirements that are required to be reported in accordance with OMB Circular A-133.

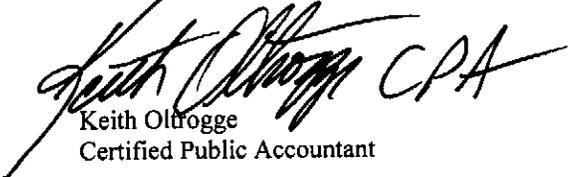
Internal Control Over Compliance

The management of the City of Reinbeck 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 my audit, I considered the City of Reinbeck's internal control over compliance with requirement that could have a direct and material effect on a major federal program in order to determine my auditing procedures for the purpose of expressing my opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

I noted a matter involving the internal control over compliance and its operation that I consider to be a reportable condition. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in my judgment, could adversely affect the City of Reinbeck's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grant agreements. The reportable condition is described as item II-A-05 in the accompanying Schedule of Findings.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that 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. My consideration of the internal control over compliance 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 describe above, I believe item II-A-05 is a material weakness.

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 Reinbeck and other parties to whom the City of Reinbeck 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.



Keith Oltrogge
Certified Public Accountant

September 28, 2005

City of Reinbeck
Schedule of Findings
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. A reportable condition in internal control over the major program was disclosed by the audit of the financial statements, including a material weakness.
- 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 .501(a).
- g. The major program was CFDA Number 66.459 – Capitalization Grants for State Revolving Funds.
- h. The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- i. The City of Reinbeck did not qualify as a low-risk auditee.

City of Reinbeck
Schedule of Findings
Year ended June 30, 2005

Part II – Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

II-A-05 Segregation of Duties – One important element in designing an internal control structure that safeguards assets and reasonably ensures the reliability of the accounting records is the concept of segregation of duties. When duties are properly segregated, the activities of one employee act as a check of those of another.

During my review of the City's control procedures, I noted that one person has control over one or more of the following areas:

1. Accounting system-performance of all general accounting functions and custody of assets.
2. Receipts-journalizing, posting and reconciling.
3. Disbursements-check writing, signing, posting and reconciling.
4. Payroll-preparation and distribution.
5. Utilities-billings and recording.
6. Computer system functions-data entry, error correction, on-line edit and update.

Recommendation – I 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 utilizing currently available personnel.

Response – We are currently reviewing operating procedures and duty assignments to obtain appropriate segregation of duties and maximize internal controls.

Conclusion – Response accepted.

II-B-05 Accounting Policies and Procedures Manual – The City does not have an accounting policies and procedures manual.

Recommendation – An accounting policies and procedures manual should be developed to provide the following benefits:

1. Aid in training additional or replacement personnel and act as a quick reference for staff members and officials.
2. Helps streamline accounting operations by achieving uniformity in accounting and in the application of policies and procedures.
3. Saves supervisory time by recording decisions so that they will not have to be made each time the same, or a similar, situation arises.
4. Helps to preserve the key elements in the government's internal control structure.
5. Increases effectiveness and efficiency in your organization.

Response – We have started adopting written policies and procedures and will continue to approve written policies and procedures in the future.

Conclusion – Response accepted.

II-C-05 Receipts – Written receipts were not always issued at the time collections were received.

Recommendation – Additional control over cash would be obtained by promptly receipting in collections when received, and by entering the actual date of receipt in the general ledger. Deposit slips should be dated and a list of all checks attached so proper reconciliation could be done when discrepancies occur.

Response – Receipts will be issued at the time of collection. Deposit slips will be dated and entered in the general ledger properly, and a list of all miscellaneous receipts will be done.

Conclusion – Response accepted.

II-D-05 Reconciliation of Utility Billings, Collections and Delinquencies – Utility billings, collections and delinquent accounts were not reconciled. Utility deposit slips did not itemize cash and checks deposited and the billing register contained only the date of entry and not the actual date payment was received.

Not all monthly delinquent account listings were kept on file, delinquent account balances were not always carried forward to the next billing cycle and penalties on delinquent accounts were not always carried forward as required by City ordinance. Also, the City's computer software package did not record individual account corrections and adjustments as the changes were made.

Recommendation – Procedures should be established to maintain a delinquent listing and reconcile utility billings, collections and delinquencies for each billing cycle. The Council should review the reconciliation and monitor delinquencies. Deposit slips should reflect names of paying customers in the absence of a daily cash sheet. The billing register should contain the date actually paid which will aid in reconciling collections to the bank deposit.

Delinquent accounts and applicable penalties should be carried forward to ensure proper billing and compliance with City ordinance. A record of file maintenance transactions should be maintained.

Response – Currently we are implementing a new software package for utility billing, collection and delinquent reconciliation procedures, which will address all of the above recommendations.

Conclusion – Response accepted.

II-E-05 Transfers – The City transferred money to and from various funds and accounts throughout the year. These transfers were not always authorized or approved by the City Council.

Recommendation – The City Council should approve all fund and account transfers prior to actual transfer. The approval, related amounts and purpose of the transfer, should be documented as part of the minutes record.

Response – All fund and account transfers will be approved by the City Council and documented in the minutes record prior to the actual transfer.

Conclusion – Response accepted.

City of Reinbeck
Schedule of Findings
Year ended June 30, 2005

Part III: Other Findings Related to Statutory Reporting:

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

III-B-05 Certified Budget – Disbursements during the year ended June 30, 2005 exceeded the amount budgeted in the community and economic development 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 budgeted should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

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

Conclusion – Response accepted.

III-C-05 Questionable Disbursements – I noted no disbursements that would not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979.

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

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

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Larsen Trustworthy Hardware Mayor Lon Larsen’s father	Tools, supplies & miscellaneous	\$903
Ron Petersen, Mayor Pro tem Employee of Moeller & Walter Lumber	Materials and supplies	\$2,848
Janalyn Harris, Administrative Assistant Spouse owns Harris Construction	Contract labor	\$184
Larsen Plumbing & Heating Mayor Lon Larsen, Owner	Contract labor	\$9,046
K & H Plumbing Owner, Dave Heasley, Council Member	Contract labor	\$500
Beryl Manlick Council Member	Contract labor, phone and health insurance reimbursements	\$7,064

In accordance with Chapter 362.5(10) of the Code of Iowa, the transaction with Beryl Manlick does not appear to represent a conflict of interest since there was Council approval. The materials and supplies purchased from Moeller and Walter Lumber does not appear to represent a conflict of interest since Ron Petersen is only an employee of the company.

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

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

Although minutes of Council proceedings were published, they were not published within fifteen days and the publication did not contain a summary of all receipts as required by Chapter 372.13(6) of the Code of Iowa.

Recommendation – The City should comply with Chapter 21 of the Code of Iowa and should publish minutes as required.

Response – We will publish minutes as required.

Conclusion – Response accepted.

III-H-05 Deposits and Investments – 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 were noted.

III-I-05 Telecommunication Services – No instances of non-compliance with Chapter 388.10 of the Code of Iowa were noted.

III-J-05 Financial Condition – The Debt Service Fund account had a deficit balance of \$49,304 at June 30, 2005.

Recommendation – The City should investigate alternatives to eliminate this deficit in order to return the account to a sound financial position.

Response – Last year, the deficit balance in the Debt Service account was \$62,200. We are working on eliminating this deficit.

Conclusion – Response accepted.

III-K-05 Revenue Bonds and Notes - The City has complied with the revenue bond and note resolutions.