

City of Roland, Iowa

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

June 30, 2005

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**City of Roland, Iowa
OFFICIALS**

	<u>Term expires</u>
MAYOR AND MEMBERS OF CITY COUNCIL (After January 2005)	
Jeri Neely, Mayor	January 2006
John Lee, Mayor Pro-Tem	January 2007
Larry Esk, Council Member	January 2006
Roger Fritz, Council Member	January 2008
Bob Hanson, Council Member	January 2008
Terry Rasmusson, Council Member	January 2006
CITY CLERK	
Deneen Frost	Indefinite
CITY ATTORNEY	
Tom Wynia	January, 2006
	<u>Term expires</u>
MAYOR AND MEMBERS OF CITY COUNCIL (Before January 2005)	
Jeri Neely, Mayor	January 2006
John Lee, Mayor Pro-Tem	January 2007
Larry Esk, Council Member	January 2006
Roger Fritz, Council Member	January 2008
Bob Hanson, Council Member	January 2008
Terry Rasmusson, Council Member	January 2006
CITY CLERK	
Deneen Frost	Indefinite
CITY ATTORNEY	
Tom Wynia	January, 2005

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Roland, Iowa as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements as listed on the contents page of this report. These financial statements are the responsibility of the City of Roland's management. Our responsibility is to express opinions on these financial statements based on our audit.

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 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 accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Roland 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.

As described in Note 12, 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*; Statement No. 40, *Deposit and Investment Risk Disclosures*; and Statement No. 41, *Budgetary Comparison Schedule - Perspective Differences*.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 26, 2005 on our consideration of the City of Roland, Iowa's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 6 through 12 and 28 through 30 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Roland's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the two years ended June 30, 2003 and 2002 (which are not presented herein) and expressed an unqualified opinion on those financial statements. Other supplementary information included in Schedules 1 through 5, 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.

The supplementary information for the year ended June 30, 2004 has not been audited by us and, accordingly, we express no opinion on it.

Denman & Company, LLP
DENMAN & COMPANY, LLP

West Des Moines, Iowa
October 26, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

City of Roland, Iowa 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.

Because the City is implementing new reporting standards for this fiscal year with significant changes in content and structure, much of the information is not easily comparable to prior years. However, in future years, comparisons will be more meaningful and will go further in explaining the City's financial position and results of operations.

2005 FINANCIAL HIGHLIGHTS

- Revenues of the City's governmental activities decreased 12.5%, or approximately \$114,000, from fiscal 2004 to fiscal 2005. Intergovernmental receipts decreased approximately \$144,000.
- Disbursements decreased 18.7%, or approximately \$170,000, in fiscal 2005 from fiscal 2004. Public safety and community and economic development disbursements decreased approximately \$60,000 and \$88,000, respectively.
- The City's total cash basis net assets increased 32.4%, or approximately \$160,000, from June 30, 2004 to June 30, 2005. Of this amount, the assets of the governmental activities increased approximately \$148,000 and the assets of the business type activities increased by approximately \$12,000.

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

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

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

Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets--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, community and economic development, culture and recreation, health and social services, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the waterworks and the sewer system. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

(1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Tax Increment Financing, 3) the Debt Service Fund and 4) the Capital Projects Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

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

2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains 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 increased from a year ago, increasing from \$203,665 to \$351,259. 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
	<u>June 30,</u>
	<u>2005</u>
Receipts and transfers:	
Program receipts:	
Charges for service	\$ 129,032
Operating grants, contributions and restricted interest	167,465
General receipts:	
Property tax	320,779
Local option sales tax	126,887
Unrestricted investment earnings	6,863
Other general receipts	44,742
Transfers, net	<u>92,558</u>
Total receipts and transfers	<u>888,326</u>
Disbursements:	
Public safety	144,110
Public works	225,106
Community and economic development	91,118
Culture and recreation	147,949
Health and social services	3,157
General government	54,627
Debt service	73,665
Capital projects	<u>1,000</u>
Total disbursements	<u>740,732</u>
Increase in cash basis net assets	147,594
Cash basis net assets beginning of year	<u>203,665</u>
Cash basis net assets end of year	<u>\$ 351,259</u>

The City's total receipts for governmental activities decreased by 12.5%, or \$114,000. The total cost of all programs and services decreased by approximately \$170,000, or 18.7%, with no new programs added this year. The decrease in receipts was primarily the result of grants received in prior year to fund economic development and purchase a fire truck.

The cost of all governmental activities this year was \$740,732 compared to \$911,001 last year. However, as shown in the Statement of Activities and Net Assets on pages 14-15, the amount taxpayers ultimately financed for these activities was only \$444,235 because some of the cost was paid by those directly benefited from the programs (\$129,032) or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest (\$167,465). Overall, the City's governmental activities receipts, including intergovernmental aid and fees for service, decreased in 2005 from approximately \$910,000 to approximately \$706,000, principally due to not receiving certain grant proceeds in the current year. The City paid for the remaining "public benefit" portion of governmental activities with approximately \$448,000 in tax (some of which could only be used for certain programs) and with other receipts, such as interest and general entitlements.

Changes in Cash Basis Net Assets of Business Type Activities

	Year ended <u>June 30,</u> <u>2005</u>
Receipts:	
Program receipts:	
Charges for service:	
Water	\$ 154,983
Sewer	97,131
Other	3,775
General receipts:	
Unrestricted interest on investments	3,195
Other general receipts	<u>480</u>
Total receipts	<u>259,564</u>
Disbursements and transfers:	
Water	84,448
Sewer	67,754
Other	2,800
Transfers	<u>92,558</u>
Total disbursements and transfers	<u>247,560</u>
Increase in cash balance	12,004
Cash basis net assets beginning of year	<u>288,543</u>
Cash basis net assets end of year	<u>\$ 300,547</u>

Total business type activities receipts for the fiscal year were \$259,564 compared to \$248,929 last year. The cash balance increased by approximately \$12,000 from the prior year. Total disbursements and transfers for the fiscal year increased by 9.3% to a total of \$247,560 due to a transfer out of \$92,558 in the current year compared to \$46,383 in prior year.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

Governmental Fund Highlights

As the City completed the year, its governmental funds reported a combined fund balance of \$351,259, an increase of approximately \$148,000 from last year's total of \$203,665. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance increased \$120,344 from the prior year to \$292,783. The increase was due to disbursements being less than budgeted.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance increased by \$1,783 to \$116,086, due primarily to a transfer of funds to the general fund.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget one time. The amendment resulted in an increase in operating disbursements by approximately \$204,000.

DEBT ADMINISTRATION

At June 30, 2005, the City had \$220,000 in bonds and other long-term debt, compared to \$280,000 last year, as shown below.

Outstanding Debt at Year End

	June 30,	
	<u>2005</u>	<u>2004</u>
General obligation bonds	\$ 30,000	\$ 60,000
Revenue bonds and notes	<u>190,000</u>	<u>220,000</u>
Total	<u>\$ 220,000</u>	<u>\$ 280,000</u>

Debt decreased as a result of payments made during fiscal year 2005.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's elected and appointed officials and citizens considered many factors when setting the fiscal year 2006 budget, tax rates, and fees that will be charged for various City activities. One of those factors is the economy.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Deneen Frost, City Clerk, 202 East Ash, Roland, Iowa.

BASIC FINANCIAL STATEMENTS

City of Roland, Iowa
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS
As of and for the year ended June 30, 2005

	Program receipts		
	Disbursements	Charges for services	Operating grants, contributions, and restricted interest
FUNCTIONS/PROGRAMS			
Governmental activities			
Public safety	\$ 144,110	\$ 6,065	\$ 31,490
Public works	225,106	94,344	112,133
Community and economic development	91,118	-	3,400
Culture and recreation	147,949	25,932	20,442
Health and social services	3,157	-	-
General government	54,627	2,691	-
Debt service	73,665	-	-
Capital projects	1,000	-	-
Total governmental activities	740,732	129,032	167,465
Business type activities			
Water	84,448	154,983	-
Sewer	67,754	97,131	-
Other	2,800	3,775	-
Total business type activities	155,002	255,889	-
Total	\$ 895,734	\$ 384,921	\$ 167,465
GENERAL RECEIPTS			
Property and other city tax levied for			
General purposes			
Tax increment financing			
Debt service			
Unrestricted interest on investments			
Miscellaneous			
Transfers			
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			
Streets			
Other			
Unrestricted			
Total cash basis net assets			

See Notes to Financial Statements.

Net (disbursements) receipts and changes in cash basis net assets

<u>Governmental activities</u>	<u>Business type activities</u>	<u>Total</u>
\$ (106,555)	\$ —	\$ (106,555)
(18,629)	—	(18,629)
(87,718)	—	(87,718)
(101,575)	—	(101,575)
(3,157)	—	(3,157)
(51,936)	—	(51,936)
(73,665)	—	(73,665)
(1,000)	—	(1,000)
<u>(444,235)</u>	<u>—</u>	<u>(444,235)</u>
—	70,535	70,535
—	29,377	29,377
—	975	975
<u>—</u>	<u>100,887</u>	<u>100,887</u>
<u>(444,235)</u>	<u>100,887</u>	<u>(343,348)</u>
387,870	400	388,270
30,717	—	30,717
29,079	—	29,079
6,863	3,195	10,058
44,742	80	44,822
92,558	(92,558)	—
<u>591,829</u>	<u>(88,883)</u>	<u>502,946</u>
147,594	12,004	159,598
<u>203,665</u>	<u>288,543</u>	<u>492,208</u>
<u>\$ 351,259</u>	<u>\$ 300,547</u>	<u>\$ 651,806</u>
\$ (2,377)	\$ —	\$ (2,377)
46,838	—	46,838
(16,305)	—	(16,305)
<u>323,103</u>	<u>300,547</u>	<u>623,650</u>
<u>\$ 351,259</u>	<u>\$ 300,547</u>	<u>\$ 651,806</u>

City of Roland, Iowa
**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND
 CHANGES IN CASH BALANCES
 GOVERNMENTAL FUNDS**
 As of and for the year ended June 30, 2005

	<u>General</u>	<u>Special revenue</u>		<u>Other nonmajor governmental funds</u>	<u>Total</u>
		<u>Road use tax</u>	<u>Tax increment financing</u>		
RECEIPTS					
Property tax	\$ 244,368	\$ -	\$ -	\$ 27,582	\$ 271,950
Tax increment financing taxes	-	-	30,717	-	30,717
Other city taxes	142,854	-	-	1,497	144,351
Licenses and permits	1,526	-	-	-	1,526
Use of money and property	16,179	-	-	464	16,643
Intergovernmental	58,187	112,133	-	3,400	173,720
Charges for service	111,471	-	-	-	111,471
Special assessments	648	-	-	-	648
Miscellaneous	21,825	-	-	22,917	44,742
Total receipts	<u>597,058</u>	<u>112,133</u>	<u>30,717</u>	<u>55,860</u>	<u>795,768</u>
DISBURSEMENTS					
Operating					
Public safety	144,110	-	-	-	144,110
Public works	116,195	108,911	-	-	225,106
Community and economic development	-	-	50,203	40,915	91,118
Culture and recreation	147,949	-	-	-	147,949
Health and social services	3,157	-	-	-	3,157
General government	54,627	-	-	-	54,627
Debt service	-	-	-	73,665	73,665
Capital projects	-	-	-	1,000	1,000
Total disbursements	<u>466,038</u>	<u>108,911</u>	<u>50,203</u>	<u>115,580</u>	<u>740,732</u>
Excess (deficiency) of receipts over (under) disbursements	<u>131,020</u>	<u>3,222</u>	<u>(19,486)</u>	<u>(59,720)</u>	<u>55,036</u>
OTHER FINANCING SOURCES (USES)					
Operating transfers in (out)	<u>(10,676)</u>	<u>(6,051)</u>	<u>19,486</u>	<u>89,799</u>	<u>92,558</u>
Total other financing sources (uses)	<u>(10,676)</u>	<u>(6,051)</u>	<u>19,486</u>	<u>89,799</u>	<u>92,558</u>
Net change in cash balances	120,344	(2,829)	-	30,079	147,594
CASH BALANCES, beginning of year	<u>172,439</u>	<u>49,667</u>	<u>-</u>	<u>(18,441)</u>	<u>203,665</u>
CASH BALANCES, end of year	<u>\$ 292,783</u>	<u>\$ 46,838</u>	<u>\$ -</u>	<u>\$ 11,638</u>	<u>\$ 351,259</u>
CASH BASIS FUND BALANCES					
Reserved					
Debt service	\$ -	\$ -	\$ -	\$ (2,377)	\$ (2,377)
Unreserved					
General fund	292,783	-	-	30,320	323,103
Special revenue funds	-	46,838	-	(23,242)	23,596
Capital project funds	-	-	-	6,937	6,937
Total cash basis fund balances	<u>\$ 292,783</u>	<u>\$ 46,838</u>	<u>\$ -</u>	<u>\$ 11,638</u>	<u>\$ 351,259</u>

See Notes to Financial Statements.

City of Roland, Iowa
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND
CHANGES IN CASH BALANCES
PROPRIETARY FUNDS
As of and for the year ended June 30, 2005

	Water	Sewer	Other nonmajor enterprise funds	Total
RECEIPTS				
Use of money and property	\$ 927	\$ 2,216	\$ 52	\$ 3,195
Charges for service	154,983	97,131	3,775	255,889
Special assessments	-	400	-	400
Miscellaneous	80	-	-	80
Total receipts	155,990	99,747	3,827	259,564
DISBURSEMENTS				
Water	84,448	-	-	84,448
Sewer	-	67,754	-	67,754
Meter deposit	-	-	2,800	2,800
Total disbursements	84,448	67,754	2,800	155,002
Excess (deficiency) of receipts over (under) disbursements	71,542	31,993	1,027	104,562
OTHER FINANCING (USES)				
Operating transfers (out)	(69,759)	(22,799)	-	(92,558)
Total other financing (uses)	(69,759)	(22,799)	-	(92,558)
Net change in cash balances	1,783	9,194	1,027	12,004
CASH BASIS FUND BALANCES				
Beginning	114,303	167,859	6,381	288,543
Ending	\$ 116,086	\$ 177,053	\$ 7,408	\$ 300,547

See Notes to Financial Statements.

City of Roland, Iowa
NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Roland (the City) is a political subdivision of the State of Iowa located in Story 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, recreation, public improvements and general administrative services.

Reporting Entity

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

The following component units are entities which are legally separate from the City, but meet the definition of a component unit. However, the financial transactions of these component units have not been displayed because they are not material.

The Friends of the Roland Library Corporation has been incorporated under Chapter 504A of the Code of Iowa to receive donations for the benefit of the Roland Public Library. These would be used to purchase items which are not included in the City's budget.

The Roland Volunteer Fire Department collects donations and has fundraisers, the proceeds of which are used to purchase items that are not included in the City's budget.

The Roland Response Team collects donations and has fundraisers, the proceeds of which are used to purchase items that are not included in the City's budget.

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: Story County Assessor's Conference Board, Story County E911 Service Board, and Story County Emergency Management Commission.

The City also participates in the Central Iowa Area Safety and Support Organization, Law Enforcement Services, and Animal Rescue Services, jointly governed organizations established pursuant to Chapter 28E of the Code of Iowa.

Basis of Presentation

Government-wide Financial Statements

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

City of Roland, Iowa
NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of Presentation (continued)

Government-wide Financial Statements (continued)

The statement of activities and net assets presents the City's nonfiduciary net assets. Net assets are reported in two categories:

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

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

Fund Financial Statements

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

The City reports the following major governmental funds:

General Fund

The General Fund is the general operating fund of the City. All general tax receipts and other receipts that are 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 through other funds.

Special Revenue

The road use tax fund is used to account for road construction and maintenance.

The tax increment financing fund is used to account for projects financed by tax increment financing.

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.

City of Roland, Iowa
NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of Accounting

The City of Roland 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 generally accepted accounting principles.

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, no disbursements exceeded the amounts budgeted in any functions.

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 AND REVENUE NOTES

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

<u>Year ending</u> <u>June 30</u>	<u>General Obligation</u> <u>and Revenue Notes</u>	
	<u>Principal</u>	<u>Interest</u>
2006	\$ 60,000	\$ 10,635
2007	40,000	7,530
2008	40,000	5,710
2009	20,000	3,850
2010	20,000	2,930
2011	20,000	1,980
2012	<u>20,000</u>	<u>1,000</u>
Totals	<u>\$ 220,000</u>	<u>\$ 33,635</u>

City of Roland, Iowa
NOTES TO FINANCIAL STATEMENTS

NOTE 4 PENSION AND RETIREMENT BENEFITS

IPERS

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 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 \$6,077, \$8,857 and \$9,365, respectively, equal to the required contributions for each year.

NOTE 5 COMPENSATED ABSENCES

City employees may accumulate vacation and compensatory 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 compensatory time payments payable to employees at June 30, 2005, primarily relating to the general fund, is as follows:

<u>Type of benefit</u>	<u>Amount</u>
Vacation	\$ 4,762
Compensatory time	<u>3,177</u>
Total	<u>\$ 7,939</u>

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

NOTE 6 INTERFUND TRANSFERS

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

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Special Revenue Road use	\$ <u>4,000</u>
Special Revenue Tax Increment Financing	Enterprise Water Sewer Special Revenue Road use	25,353 22,799 <u>2,051</u> <u>50,203</u>
Nonmajor Governmental Funds	General Special Revenue Tax Increment Financing Enterprise Water	14,676 30,717 <u>44,406</u> <u>89,799</u>
Total		<u>\$ 144,002</u>

City of Roland, Iowa
NOTES TO FINANCIAL STATEMENTS

NOTE 6 INTERFUND TRANSFERS (continued)

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

NOTE 7 DEFICIT EQUITY BALANCES

As of June 30, 2005, funds with deficit balances were as follows:

Special Revenue	
Economic Development	\$ 23,242
Debt Service	2,377

The Special Revenue Fund deficit will be eliminated through grant and loan funds received.

The Debt Service Fund deficit will be eliminated through transfers from other funds.

NOTE 8 ECONOMIC DEVELOPMENT

Economic development is a public purpose for which the City may provide grants, loans, guarantees and other financial assistance to or for the benefit of private persons as provided by Section 15A.1 of the Code of Iowa.

The City entered into the following loan agreements in which the borrower has applied to the City for financial assistance under this section of the Code in connection with the borrower's plan to locate and enlarge its business enterprise within the City's corporate limits. The proceeds of the loans were considered disbursements in the special revenue fund.

The City entered into a type of forgivable loan agreement with Innovative Lighting, Inc. in which the City will loan the company \$100,000 of which \$75,000 is forgivable. The remaining \$25,000 is payable in sixty equal installments at 0% interest beginning November 19, 2003 and ending October 19, 2008.

During 2002 the City entered into a type of forgivable loan agreement with Innovative Lighting, Inc., in which the City will loan the company \$40,000, of which \$30,000 is forgivable. The remaining \$10,000 is payable in sixty equal installments at 0.0% interest beginning January 1, 2002 and ending December 1, 2006.

As long as the borrower fully performs and is in compliance with all covenants of the loan agreement, the City shall release the borrower from its obligation to pay the forgivable loan portion of the agreement. If, however, the borrower fails to perform or is not in compliance with all covenants, the borrower will be required to pay all obligations as they come due.

During 2001, the City entered into a loan agreement with Field Foods, Inc. (the Company) to loan the Company \$75,000 for assistance in the acquisition of a building, purchase of machinery and equipment, and relocation expenses. The loan is payable in sixty equal installments at 0.0% interest beginning July 10, 2002 and ending June 10, 2007. This grant is currently in default, and amended repayment terms have been negotiated. Payments of \$3,750 are due quarterly from November 15, 2003 through November 15, 2008.

The City granted an economic development grant of \$78,000 to the Roland Area Development Corporation to purchase approximately ten acres of land abutting the south edge of the current Industrial Park. The City advanced \$19,500 of grant funds during the year ended June 30, 2003 with the remaining funds to be paid in four equal payments of \$19,500 plus interest on or before April 1st of each of the next four years. One payment remains on this obligation at June 30, 2005.

City of Roland, Iowa
NOTES TO FINANCIAL STATEMENTS

NOTE 8 ECONOMIC DEVELOPMENT (continued)

The City entered into a type of forgivable loan agreement with JA Max Machine Company, Inc., in which the City will loan the company \$105,000, of which all is forgivable.

As long as the borrower fully performs and is in compliance with all covenants of the loan agreement, the City shall release the borrower from its obligation to pay the loan. If, however, the borrower fails to perform or is not in compliance with all covenants, the borrower will be required to pay all obligations as they come due.

The City granted an economic development loan of \$50,000 to JA Max Machine Company, Inc. to assist with the building construction of a new facility. The loan is payable in sixty installments at 2.0% interest beginning June 7, 2005 and ending June 7, 2009.

NOTE 9 RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees, and natural disasters. These risks are covered by the purchase of commercial insurance from independent third parties. 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 10 COMMITMENTS

The City entered into contract commitments with contractors for the completion of a street, water, sewer and storm sewer construction project. The total contract commitment of \$200,330 is a 50/50 RISE grant project, of which \$44,423 has been incurred as of June 30, 2005. The unpaid commitment balance is \$155,907, which will be funded by current reserves in the capital projects fund and enterprise fund and RISE grant proceeds.

NOTE 11 SUBSEQUENT EVENT

In July 2005, the City authorized entering into a loan agreement of \$400,000 in general obligation bonds for acquiring and remodeling a building for a municipal library.

NOTE 12 ACCOUNTING CHANGE

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*, 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.

The City also adopted Statement No. 40, *Deposit and Investment Risk Disclosures*, during the current fiscal year. This Statement established and modified disclosure requirements related to deposit risks and investment risks related to credit risk, concentration of credit risk, interest rate risk and foreign currency risk.

REQUIRED SUPPLEMENTARY INFORMATION

City of Roland, Iowa
BUDGETARY COMPARISON SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
CHANGES IN BALANCES - BUDGET AND ACTUAL (CASH BASIS) - ALL GOVERNMENTAL FUNDS
AND PROPRIETARY FUNDS
Year ended June 30, 2005

	Governmental funds actual	Proprietary funds actual	Net
RECEIPTS			
Property tax	\$ 271,950	\$ —	\$ 271,950
Tax increment financing taxes	30,717	—	30,717
Other city taxes	144,351	—	144,351
Licenses and permits	1,526	—	1,526
Use of money and property	16,643	3,195	19,838
Intergovernmental	173,720	—	173,720
Charges for service	111,471	255,889	367,360
Special assessments	648	400	1,048
Miscellaneous	44,742	80	44,822
Total receipts	<u>795,768</u>	<u>259,564</u>	<u>1,055,332</u>
DISBURSEMENTS			
Public safety	144,110	—	144,110
Public works	225,106	—	225,106
Community and Economic Development	91,118	—	91,118
Culture and recreation	147,949	—	147,949
Health and social services	3,157	—	3,157
General government	54,627	—	54,627
Debt service	73,665	—	73,665
Capital projects	1,000	—	1,000
Business type activities	—	155,002	155,002
Total disbursements	<u>740,732</u>	<u>155,002</u>	<u>895,734</u>
Excess of receipts over disbursements	<u>55,036</u>	<u>104,562</u>	<u>159,598</u>
OTHER FINANCING SOURCES (USES), net	<u>92,558</u>	<u>(92,558)</u>	<u>—</u>
Excess of receipts and other financing sources over disbursements and other financing uses	147,594	12,004	159,598
BALANCES, beginning of year	<u>203,665</u>	<u>288,543</u>	<u>492,208</u>
BALANCES, end of year	<u>\$ 351,259</u>	<u>\$ 300,547</u>	<u>\$ 651,806</u>

See accompanying independent auditor's report.

<u>Budgeted amounts</u>		<u>Final to net variance</u>
<u>Original</u>	<u>Final</u>	
\$ 272,024	\$ 282,024	\$ (10,074)
26,712	26,712	4,005
131,443	142,643	1,708
3,865	1,412	114
11,215	17,452	2,386
133,164	167,165	6,555
362,883	363,833	3,527
1,048	1,048	—
<u>65,096</u>	<u>50,793</u>	<u>(5,971)</u>
<u>1,007,450</u>	<u>1,053,082</u>	<u>2,250</u>
93,485	152,510	8,400
282,308	290,735	65,629
85,475	170,850	79,732
149,524	163,500	15,551
3,150	3,513	356
72,848	72,848	18,221
73,666	73,666	1
19,000	19,000	18,000
<u>208,486</u>	<u>244,856</u>	<u>89,854</u>
<u>987,942</u>	<u>1,191,478</u>	<u>295,744</u>
<u>19,508</u>	<u>(138,396)</u>	<u>297,994</u>
—	—	—
19,508	(138,396)	297,994
<u>395,094</u>	<u>395,094</u>	<u>97,114</u>
\$ <u>414,602</u>	\$ <u>256,698</u>	\$ <u>395,108</u>

City of Roland, Iowa
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
June 30, 2005

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

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

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and 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 \$203,536. The budget amendment is reflected in the final budgeted amounts.

OTHER SUPPLEMENTARY INFORMATION

City of Roland, Iowa
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES
Nonmajor Governmental Funds
As of and for the year ended June 30, 2005

	<u>General Library fund</u>	<u>Special Revenue Economic development</u>	<u>Debt Service Debt service</u>	<u>Capital Projects Library project</u>	<u>Total</u>
RECEIPTS					
Property tax	\$ -	\$ -	\$ 27,582	\$ -	\$ 27,582
Other city taxes	-	-	1,497	-	1,497
Use of money and property	258	206	-	-	464
Intergovernmental	-	3,400	-	-	3,400
Miscellaneous	-	22,917	-	-	22,917
Total receipts	<u>258</u>	<u>26,523</u>	<u>29,079</u>	<u>-</u>	<u>55,860</u>
DISBURSEMENTS					
Operating					
Community and economic development	-	40,915	-	-	40,915
Debt service	-	-	73,665	-	73,665
Capital projects	-	-	-	1,000	1,000
Total disbursements	<u>-</u>	<u>40,915</u>	<u>73,665</u>	<u>1,000</u>	<u>115,580</u>
Excess (deficiency) of receipts over (under) disbursements	258	(14,392)	(44,586)	(1,000)	(59,720)
OTHER FINANCING SOURCES (USES)					
Operating transfers in	<u>14,676</u>	<u>30,717</u>	<u>44,406</u>	<u>-</u>	<u>89,799</u>
Net change in cash balances	14,934	16,325	(180)	(1,000)	30,079
CASH BALANCES , beginning of year	<u>15,386</u>	<u>(39,567)</u>	<u>(2,197)</u>	<u>7,937</u>	<u>(18,441)</u>
CASH BALANCES , end of year	<u>\$ 30,320</u>	<u>\$ (23,242)</u>	<u>\$ (2,377)</u>	<u>\$ 6,937</u>	<u>\$ 11,638</u>
CASH BASIS FUND BALANCES					
Reserved					
Debt service funds	\$ -	\$ -	\$ (2,377)	\$ -	\$ (2,377)
Unreserved					
General	30,320	-	-	-	30,320
Special revenue funds	-	(23,242)	-	-	(23,242)
Capital project fund	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,937</u>	<u>6,937</u>
Total cash basis fund balances	<u>\$ 30,320</u>	<u>\$ (23,242)</u>	<u>\$ (2,377)</u>	<u>\$ 6,937</u>	<u>\$ 11,638</u>

City of Roland, Iowa
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES
 Nonmajor Proprietary Fund
 Year ended June 30, 2005

	<u>Meter Deposits</u>
RECEIPTS	
Use of money and property	\$ 52
Charges for service	<u> 3,775</u>
Total receipts	<u> 3,827</u>
 DISBURSEMENTS	
Business type activities	<u> 2,800</u>
Total disbursements	<u> 2,800</u>
Excess (deficiency) of receipts over (under) disbursements	1,027
 CASH BALANCES , beginning of year	<u> 6,381</u>
 CASH BALANCES , end of year	<u>\$ 7,428</u>

City of Roland, Iowa
SCHEDULE OF INDEBTEDNESS
Year ended June 30, 2005

<u>Obligation</u>	<u>Date of issue</u>	<u>Interest rates</u>	<u>Amount originally issued</u>
General Obligation Notes			
Corporate Purposes			
Street and Water Tower	October 1, 1995	5.90%	\$ 250,000
Storm Sewer	June 1, 1998	4.75% - 4.85%	160,000
Water Improvement Refunding	November 1, 2001	4.15% - 5.00%	180,000
Totals			

See accompanying independent auditor's report.

Schedule 3

<u>Balance beginning of year</u>	<u>Issued during year</u>	<u>Redeemed during year</u>	<u>Balance end of year</u>	<u>Interest paid</u>	<u>Interest due and unpaid</u>
\$ 60,000	\$ —	\$ 30,000	\$ 30,000	\$ 3,495	\$ —
70,000	—	15,000	55,000	3,348	—
<u>150,000</u>	<u>—</u>	<u>15,000</u>	<u>135,000</u>	<u>6,822</u>	<u>—</u>
<u>\$ 280,000</u>	<u>\$ —</u>	<u>\$ 60,000</u>	<u>\$ 220,000</u>	<u>\$ 13,665</u>	<u>\$ —</u>

City of Roland, Iowa
BOND AND NOTE MATURITIES
June 30, 2005

GENERAL OBLIGATION NOTES

Year ending June 30	Street and Water Tower Issued October 1, 1995		Storm Sewer Issued June 1, 1998		Water Improvement Refunding Issued November 1, 2001		Total
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	
2006	5.90%	\$ 30,000	4.75%	\$ 15,000	4.15%	\$ 15,000	\$ 60,000
2007		—	4.80%	20,000	4.30%	20,000	40,000
2008		—	4.85%	20,000	4.45%	20,000	40,000
2009		—		—	4.60%	20,000	20,000
2010		—		—	4.75%	20,000	20,000
2011		—		—	4.90%	20,000	20,000
2012		—		—	5.00%	20,000	20,000
Totals		<u>\$ 30,000</u>		<u>\$ 55,000</u>		<u>\$ 135,000</u>	<u>\$ 220,000</u>

City of Roland, Iowa
SCHEDULE OF RECEIPTS BY SOURCE AND DISBURSEMENTS BY FUNCTION
All Governmental Funds
For the last four years

	Year ended June 30			
	2005	2004	2003	2002
RECEIPTS				
Property tax	\$ 271,950	\$ 252,634	\$ 237,401	\$ 231,948
Tax increment financing taxes	30,717	25,642	20,329	15,785
Other city taxes	144,351	147,886	130,894	125,702
Licenses and permits	1,526	1,759	5,125	5,269
Use of money and property	16,643	12,711	4,609	3,796
Intergovernmental	173,720	318,129	259,096	269,615
Charges for service	111,471	114,497	360,159	104,862
Special assessments	648	685	2,061	1,769
Miscellaneous	<u>44,742</u>	<u>35,803</u>	<u>45,039</u>	<u>62,605</u>
Total receipts	<u>\$ 795,768</u>	<u>\$ 909,746</u>	<u>\$1,064,713</u>	<u>\$ 821,351</u>
DISBURSEMENTS				
Operating				
Public safety	\$ 144,110	\$ 204,572	\$ 92,518	\$ 69,309
Public works	225,106	256,255	284,952	268,428
Health and social services	3,157	2,418	1,344	137
Culture and recreation	147,949	133,699	138,770	136,964
Community and economic development	91,118	179,080	188,674	186,883
General government	54,627	58,357	64,430	57,172
Debt service	73,665	76,620	74,215	66,462
Capital projects	<u>1,000</u>	<u>—</u>	<u>182,575</u>	<u>74,000</u>
Total disbursements	<u>\$ 740,732</u>	<u>\$ 911,001</u>	<u>\$1,027,478</u>	<u>\$ 859,355</u>

See accompanying independent auditor's report.

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER
MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

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

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Roland, Iowa, as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements as listed on the contents page of this report and have issued our report thereon dated October 26, 2005. Our report expressed an unqualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Roland's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. 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 Roland'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 I 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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that the reportable condition described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Roland's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance or other matters that are described in Part II 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 our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

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

Denman & Company, LLP

DENMAN & COMPANY, LLP

West Des Moines, Iowa
October 26, 2005

**City of Roland
SCHEDULE OF FINDINGS
Year ended June 30, 2005**

Part I—Findings Related to the Financial Statements

INSTANCES OF NONCOMPLIANCE

No instances of noncompliance were noted.

REPORTABLE CONDITIONS

I-A-05 SEGREGATION OF DUTIES

One important aspect of internal accounting control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that generally one person has control over:

The cash receipts listing, bank deposits, check writing, payroll preparation and distribution, and posting of these items to the general ledger.

Recommendation

We realize that with two office employees, segregation of duties is difficult. The City should continue to review its operating procedures to obtain the maximum internal control possible under the circumstances.

Response

We will review our procedures and segregate duties to the extent possible with existing personnel.

Conclusion

Response accepted.

Part II—Other Findings Related to Statutory Reporting

II-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.

II-B-05 CERTIFIED BUDGET

Expenditures during the year ended June 30, 2005 did not exceed the amounts budgeted in any functional area.

II-C-05 QUESTIONABLE DISBURSEMENTS

We noted no disbursements for parties, banquets or other entertainment expenses that do not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

City of Roland, Iowa
SCHEDULE OF FINDINGS (continued)
Year ended June 30, 2005

Part II—Other Findings Related to Statutory Reporting (continued)

II-D-05 TRAVEL EXPENSE

No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

II-E-05 BUSINESS TRANSACTIONS

No business transactions between the City and City officials or employees were noted.

II-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.

II-G-05 COUNCIL MINUTES

No transactions were found that we believe should have been approved in the Council minutes but were not.

II-H-05 DEPOSITS AND INVESTMENTS

No instances of noncompliance with the deposits and investment provisions of Chapter 12B and 12C of the Code of Iowa were noted.

Certain instances of noncompliance with the City's investment policy were noted:

- A. The City's investment policy requires the Treasurer to establish a written system of internal controls and investment practices. This has not been done.
- B. The City's investment policy requires that the policy be "reviewed every year or more frequently as appropriate". The policy has not been reviewed for several years.

Recommendation

The City should review its investment policy and take the necessary steps to comply.

Response

We agree. We will review the investment policy and establish the necessary procedures.

Conclusion

Response accepted.

City of Roland, Iowa
SCHEDULE OF FINDINGS (continued)
Year ended June 30, 2005

Part II—Other Findings Related to Statutory Reporting (continued)

II-I-05 FINANCIAL CONDITION

The following funds had deficit balances at June 30, 2005:

Special Revenue	
Economic development	\$ 23,242
Debt Service	2,377

Recommendation

The City should investigate alternatives to eliminate these deficit balances in order to return these accounts to a sound financial position.

Response

The Special Revenue Fund deficit will be eliminated through the receipt of grant and loan repayment funds and the Debt Service Fund deficit will be eliminated through transfers from other funds.

Conclusion

Response accepted.