CITY OF GLADBROOK

Independent Auditors' Reports
Basic Financial Statements and Supplementary Information
Schedule of Findings

June 30, 2005

CITY OF GLADBROOK

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CITY OF GLADBROOK

Officials

Name	Title	Term Expires
Mark Fink	Mayor	Jan 2006
Geri Eilers	Mayor Pro Tem	Jan 2008
Mike Wentzien	Council Member	Jan 2008
Roger Luehring	Council Member	Jan 2006
Charles Delfs	Council Member	Jan 2006
Tim Hendricks	Council Member	Jan 2006
Lori Bearden	Clerk/Treasurer	Indefinite
John S. Livingston	Attorney	Indefinite

BOWMAN & MILLER, P.C.

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Independent Auditors' Report

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Gladbrook, 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 Gladbrook'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 Gladbrook, as of June 30, 2005, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated August 22, 2005 on our consideration of the City of Gladbrook'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 4 through 9 and 20 through 22 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We applied limited procedures which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City of Gladbrook's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2004 (none of which is presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 4 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 on 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.

Bowman and Miller, P.C.

Marshalltown, Iowa
August 22, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Gladbrook provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2005. We encourage readers to consider this information in conjunction with the City's financial statements which follow.

2005 FINANCIAL HIGHLIGHTS

- Revenues of the City's governmental activities decreased 45%, or approximately $416,000 from fiscal 2004 to fiscal 2005. The City received a fire equipment grant in 2004 in the amount of $59,321and issued general obligation notes of $413,643 to fund the Main Street Improvement Project. Property taxes increased $18,704, in 2005 due to the levying of taxes for debt service payments.

- Disbursements decreased 54%, or approximately $508,150 in fiscal 2005 from fiscal 2004 in the governmental activities.

- The City's total cash basis net assets increased 11.7%, or approximately $71,000 from June 30, 2004 to June 30, 2005. Of this amount, the assets of the governmental activities increased approximately $70,000 and the assets of the business type activities increased by approximately $1,000.

USING THIS ANNUAL REPORT

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

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

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

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

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

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

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

Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with accounting principles generally accepted in the United States of America. 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 Statements

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information which helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases and decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets is divided into two kinds of activities:

- Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.

- Business Type Activities include the waterworks, sanitary sewer system and the City Center movie theater and Matchstick Marvels museum. 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, 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 three Enterprise Funds to provide separate information for the water and sewer funds, and for the operation of the City's movie theater and Matchstick Marvels museum. These funds are considered to be major funds of the City.

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

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 $409,565 to $479,936. The analysis that follows focuses on the changes in cash balances for governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities		
	Year ended June 30,	
	2005	2004
Receipts:		
Program receipts:		
Charges for service	$ 41,893	2,730
Operating grants, contributions and restricted interest	139,036	228,475
Capital grants, contributions and restricted interest	-	28,270
General receipts:		
Property tax	234,757	173,949
Local option sales tax	43,307	42,440
Grants and contributions not restricted to specific purposes	3,771	3,586
Unrestricted investment earnings	6,081	4,979
Note proceeds	25,676	413,643
Other general receipts	8,063	20,611
Total receipts	502,584	918,683
Disbursements:		
Public safety	88,359	146,763
Public works	99,973	100,335
Health and social services	-	260
Culture and recreation	56,019	44,434
Community and economic development	20,572	71,212
General government	56,019	73,800
Debt service	87,020	39,218
Capital projects	24,251	464,341
Total disbursements	432,213	940,363
Increase (decrease) in cash basis net assets	70,371	(21,680)
Cash basis net assets beginning of year	409,565	431,245
Cash basis net assets end of year	$ 479,936	409,565

The City's total receipts for governmental activities decreased by 45% or approximately $416,000. The total cost of all programs and services decreased by approximately $508,000, or 54%, with no new programs added. The significant decrease in expenditures is due to the Main Street Paving project done in 2004.

The City made no significant changes in property tax rates for 2005 and there was very little change in the total assessed valuation from 2003 to 2004. However, in 2005 the City has approved a 13.55% increase in the tax rates including a debt service levy of .97 per $1,000 of assessed valuation. This levy will be used to pay off the general obligation notes generated by street improvement projects.

The cost of all governmental activities this year was approximately $432,000 compared to approximately $940,000 last year. However, as shown on the Statement of Activities and Net Assets on pages 10-11, the amount taxpayers ultimately financed for these activities was only $251,284 because some of the cost was paid by those directly benefited from the programs ($41,893) or by other governments and organizations that subsidized certain programs with grants, contributions, and restricted interest ($139,036). Overall, the City's governmental activities receipts, including intergovernmental aid and fees for service, decreased in 2005 from approximately $918,000 to approximately $503,000, principally due to borrowing $460,000 to fund the Main Street Paving project in 2004. The City paid the remaining "public benefit" portion of governmental activities with approximately $281,835 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 June 30,	
	2005	2004
Receipts:		
Program receipts:		
Changes for service:		
Water	$ 81,362	79,158
Sewer	81,279	111,075
Concessions and admissions	127,065	110,760
Operating grants, contributions and restricted interest	9,169	2,850
General receipts:		
Unrestricted interest on investments	1,619	1,055
Total receipts	300,494	304,898
Disbursements::		
Water	84,998	105,127
Sewer	78,745	88,773
City center	135,908	120,916
Total disbursements	299,651	314,816
Increase (decrease) in cash balance	843	(9,918)
Cash basis net assets beginning of year	199,472	209,390
Cash basis net assets end of year	$ 200,315	199,472

Total business type activities receipts for the fiscal year were $300,494 compared to $304,898 last year. Total disbursements for the fiscal year decreased by 7% to a total of $300,000.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Gladbrook completed the year, its governmental funds reported a combined fund balance of $479,936, an increase of $70,371 from last year's total of $409,565. The following are the major reasons for the changes in fund balance of the major funds from the prior year.

- The General Fund cash balance increased $62,612 from the prior year to $380,583. Approximately $41,000 of this increase was due to transferring fewer dollars to Debt Service and Capital Project Funds in 2005.

- The Road Use Tax Fund cash balance decreased by $7,612 to $69,214 during the fiscal year. This decrease was due to the street lighting utility bills being expended from the Road Use Tax Fund.

- The Debt Service Fund cash balance remained approximately the same from 2005. This fund is used to pay off general obligation bonds and notes. In 2005, the City transferred funds from the General Fund to pay a portion of the debt. In 2005, the City began collecting taxes on a debt service levy to pay the bonds and interest.

- Capital Projects Fund cash balance increased $16,002 from the prior year to $18,153. This increase is due to the receipt of special assessments to help defer the cost of the new Main Street project.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance decreased by $2,631 to $135,591.

- The Sewer Fund cash balance increased by $8,381 to $73,164, primarily due to a decrease in payments on the sewer revenue capital loan.

- The City Center cash balance decreased by $4,907 to ($8,440) primarily due to additional insurance costs and the changing of sales tax payments from quarterly to monthly beginning July 1, 2004.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget once. The amendment was approved on May 31, 2005 and resulted in a decrease in operating disbursements related to the completion of the Main Street Project and the financing of the general obligation corporate purpose notes.

DEBT ADMINISTRATION

At June 30, 2005, the City had $871,971 in bonds and other long-term debt, compared to $931,635 last year as shown below.

Outstanding Debt at Year-End

		June 30, 2005	June 30, 2004
General obligation bonds	$	490,971	532,377
Revenue notes		381,000	399,258
Total	$	871,971	931,635

Debt decreased as a result of the annual retirement of the general obligation bonds and revenue notes.

The Constitution of the State of Iowa limits the amount of general obligation debt that cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The city's outstanding general obligation debt of $490,971 is below its constitutional debt limit of $789,368.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Gladbrook 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.

Amounts available for appropriation in the operating budget are $720,990, a decrease of 5.7% over the final 2005 budget. Property tax askings decreased by $13,253. This was due mainly to a decrease in the debt service and employee benefit levies. The City has no major capital projects planned for 2006 and will concentrate on annual maintenance needs. Budgeted disbursements are expected to decrease by approximately $85,121. The City has added no major new programs or initiatives to the 2006 budget.

If these estimates are realized, the City's budgeted cash balance is expected to increase by approximately $1,600 by the close of 2006.

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 Lori Bearden, City Clerk , at 319 2nd Street, Gladbrook, Iowa 50635.

CITY OF GLADBROOK

Statement of Activities and Net Assets-Cash Basis

As of and for the year ended June 30, 2005

		Program Receipts		
	Disbursements	Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants and Contributions
Functions/Programs:				
Governmental activities:				
Public safety	$ 88,359	24,058	27,522	-
Public works	99,973	550	89,464	-
Health and social services	-	-	-	-
Culture and recreation	56,019	1,369	20,966	-
Community and economic development	20,572	-	1,000	-
General government	56,019	1,339	-	-
Debt service	87,020	-	84	-
Capital projects	24,251	14,577	-	-
Total governmental activities	432,213	41,893	139,036	-
Business type activities:				
Water	84,998	81,362	-	-
Sewer	78,745	81,279	5,233	-
City center	135,908	127,065	3,936	-
Total business type activities	299,651	289,706	9,169	-
Total	$ 731,864	331,599	148,205	-
General receipts:				
Property tax levied for:				
General purposes				
Tax increment financing				
Debt service				
Local option sales tax				
Franchise tax				
Unrestricted investment earnings				
Note proceeds				
Miscellaneous				
Total general receipts				
Change in cash basis net assets				
Cash basis net assets beginning of year				
Cash basis net assets end of year				
Cash Basis Net Assets				
Restricted:				
Streets				
Debt service				
Other purposes				
Unrestricted				
Total cash basis net assets				

See notes to financial statements.

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
Governmental Activities	Business Type Activities	Total
(36,779)	-	(36,779)
(9,959)	-	(9,959)
-	-	-
(33,684)	-	(33,684)
(19,572)	-	(19,572)
(54,680)	-	(54,680)
(86,936)	-	(86,936)
(9,674)	-	(9,674)
(251,284)	-	(251,284)
-	(3,636)	(3,636)
-	7,767	7,767
-	(4,907)	(4,907)
-	(776)	(776)
(251,284)	(776)	(252,059)
177,593	-	177,593
42,104	-	42,104
15,060	-	15,060
43,307	-	43,307
3,771	-	3,771
6,081	1,619	7,700
25,676	-	25,676
8,063	-	8,063
321,655	1,619	323,274
70,371	843	71,215
409,565	199,472	609,037
$ 479,936	200,315	680,252
$ 69,214	-	69,214
24	53,448	53,472
30,115	-	30,115
380,583	146,867	527,450
$ 479,936	200,315	680,251

CITY OF GLADBROOK
Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Governmental Funds
As of and for the year ended June 30, 2005

	General	Special Revenue Road Use Tax	Debt Service	Capital Projects
Receipts:				
Property tax	$ 177,593	-	15,060	-
Tax increment financing collections	-	-	-	-
Other city tax	43,307	-	-	-
Intergovernmental	40,041	84,393	-	-
Licenses and permits	893	-	-	-
Charges for service	23,166	-	-	-
Use of money and property	6,729	-	84	-
Special assessments	-	550	-	14,577
Miscellaneous	11,769	138	-	-
Total revenues	303,498	85,081	15,144	14,577
Disbursements:				
Operating:				
Public safety	88,359	-	-	-
Public works	7,280	92,693	-	-
Health and social services	-	-	-	-
Culture and recreation	39,785	-	-	-
Community and economic development	20,572	-	-	-
General government	56,019	-	-	-
Debt service	-	-	87,020	-
Capital projects	-	-	-	24,251
Total disbursements	212,015	92,693	87,020	24,251
Excess (deficiency) of receipts over (under) disbursements	91,483	(7,612)	(71,876)	(9,674)
Other financing sources (uses):				
Note proceeds	-	-	-	25,676
Operating transfers in	-	-	70,975	-
Operating transfers out	(28,871)	-	-	-
Total other financing sources (uses)	(28,871)	-	70,975	25,676
Net change in cash balances	62,612	(7,612)	(901)	16,002
Cash balances beginning of year	317,971	76,826	925	2,151
Cash balances end of year	$ 380,583	69,214	24	18,153
Cash Basis Fund Balances				
Reserved:				
Debt service	-	-	24	-
Unreserved:				
General fund	380,583	-	-	-
Special revenue funds	-	69,214	-	-
Capital projects fund	-	-	-	18,153
Total cash basis fund balances	$ 380,583	69,214	24	18,153

See notes to financial statements.

Other Nonmajor Governmental Funds	Total
-	192,653
42,104	42,104
-	43,307
1,744	126,178
-	893
-	23,166
144	6,957
-	15,127
14,616	26,523
58,608	476,908
-	88,359
-	99,973
-	-
16,234	56,019
-	20,572
-	56,019
-	87,020
-	24,251
16,234	432,213
42,374	44,695
-	25,676
-	70,975
(42,104)	(70,975)
(42,104)	25,676
270	70,371
11,692	409,565
11,962	479,936
-	24
-	380,583
11,962	81,176
-	18,153
11,962	479,936

Exhibit C

CITY OF GLADBROOK

Statement of Cash Receipts, Disbursements and Changes in Cash Balances Proprietary Funds As of and for the year ended June 30, 2005

	Water	Sewer Rental	City Center	Total
Operating receipts:				
Charges for service	$ 81,362	81,279	127,065	289,706
Total operating receipts	81,362	81,279	127,065	289,706
Operating disbursements:				
Business type activities	84,998	47,763	135,908	268,669
Total operating disbursements	84,998	47,763	135,908	268,669
Excess (deficiency) of operating receipts over (under) operating disbursements	(3,636)	33,516	(8,843)	21,037
Non-operating receipts (disbursements):				
Intergovernmental	-	5,233	-	5,233
Interest on investments	1,005	614	-	1,619
Contributions	-	-	3,936	3,936
Debt service	-	(30,982)	-	(30,982)
Total non-operating receipts (disbursements)	1,005	(25,135)	3,936	(20,194)
Net change in cash balances	(2,631)	8,381	(4,907)	843
Cash balances beginning of year	138,222	64,783	(3,533)	199,472
Cash balances end of year	$ 135,591	73,164	(8,440)	200,315
Cash Basis Fund Balances				
Reserved for debt service	$ -	53,448	-	53,448
Unreserved	135,591	19,716	(8,440)	146,867
	$ 135,591	73,164	(8,440)	200,315

See notes to financial statements.

Note 1 – Summary of Significant Accounting Policies

The City of Gladbrook is a political subdivision of the State of Iowa located in Tama County. It was first incorporated in 1880 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, health and social services, culture and recreation, community and economic development and general government services. The City also provides water and sewer utilities for its citizens.

A. Reporting Entity

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

Jointly Governed Organizations

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

B. Basis of Presentation

Government-Wide Financial Statements – The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in two categories:

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

Note 1 – Summary of Significant Accounting Policies (Continued)

B. Basis of Presentation (Continued)

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

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

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

The City reports the following major governmental funds:

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

Special Revenue:

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

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

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

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 City Center accounts for the operation and maintenance of the City's movie theater and Matchstick Marvels museum.

C. Measurement Focus and Basis of Accounting

The City of Gladbrook maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with accounting principles generally accepted in the United States of America.

Proprietary funds distinguish operating receipts and disbursements from 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.

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 – 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, PO Box 9117, Des Moines, Iowa, 50306-9117.

Note 3 – Pension and Retirement Benefits (continued)

Plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of annual covered payroll, except for police employees, in which case the percentages are 6.16% and 9.23%, respectively. For the year ended June 30, 2004, the contribution rates for police employees and the City were 5.93% and 8.907%, respectively, and for the year ended June 30, 2003, the contribution rates for police employees and the City were 6.04% and 9.07%, respectively. Contribution requirements are established by State statute. The City's contribution to IPERS for the years ended June 30, 2005, 2004 and 2003 were $5,694, $6,863 and $4,593 respectively equal to the required contributions for each year.

Note 4 – Notes Payable

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

Year Ending	General Obligation Notes		Sewer Revenue Capital Loan Note		Total	
June 30,	Principal	Interest	Principal	Interest	Principal	Interest
2006	$ 50,962	19,980	19,000	11,430	69,962	31,410
2007	53,219	17,598	19,000	10,860	72,219	28,458
2008	55,475	15,273	20,000	10,290	75,475	25,563
2009	57,732	12,878	21,000	9,690	78,732	22,568
2010	59,989	10,433	21,000	9,060	80,989	19,493
2011	62,094	7,736	22,000	8,430	84,094	16,166
2012	48,500	5,510	23,000	7,770	71,500	13,280
2013	50,500	3,575	23,000	7,080	73,500	10,655
2014	52,500	1,560	24,000	6,390	76,500	7,950
2015	-	-	25,000	5,670	25,000	5,670
2016	-	-	25,000	4,920	25,000	4,920
2017	-	-	26,000	4,170	26,000	4,170
2018	-	-	27,000	3,390	27,000	3,390
2019	-	-	28,000	2,580	28,000	2,580
2020	-	-	29,000	1,740	29,000	1,740
2021	-	-	29,000	870	29,000	870
Total	$ 490,971	94,543	381,000	104,340	871,971	198,883

The sewer revenue capital loan note was issued for the purpose of defraying a portion of the costs of carrying out a sewer project of the City. The resolution providing for the issuance of the revenue note included the following provisions: (a) The note will only be redeemed from the future earnings of the enterprise activity fund and the note holders hold a lien on the future earnings of the fund. (b) Sufficient monthly transfers shall be made to a separate sewer revenue note sinking account for the purpose of making the note principal and interest payments when due.

Note 5 – Compensated Absences

City employees accumulate a limited amount of earned but unused vacation 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 liability for earned vacation termination payments payable to employees at June 30, 2005 was $747.

Note 6 – Risk Management

The City of Gladbrook 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 7 – Interfund Transfers

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

Transfer to	Transfer from	Amount
Debt service	General fund	$28,871
Debt service	Special Revenue: Tax Increment Financing	42,104
Total		$70,975

Note 8 – Deficit Fund Balance

The City Center Fund had a deficit balance of $8,440, at June 30, 2005. The deficit balance was a result of increased insurance costs and user fees not being sufficient to cover operating costs.

Supplementary Information

CITY OF GLADBROOK

Budgetary Comparison Schedule of Receipts, Disbursements, and Changes in Balances-Budget and Acutal (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	$ 192,653	-
Tax increment financing collections	42,104	-
Other city tax	43,307	-
Intergovernmental	126,178	5,233
Licenses and permits	893	-
Charges for service	23,166	289,706
Use of money and property	6,957	1,619
Special assessments	15,127	-
Miscellaneous	26,523	3,936
Total receipts	476,908	300,494
Disbursements:		
Public safety	88,359	-
Public works	99,338	-
Health and social sevices	-	-
Culture and recreation	58,148	-
Community and economic development	19,078	-
General government	56,019	-
Debt service	87,020	-
Capital projects	24,251	-
Business type activities	-	299,651
Total disbursements	432,213	299,651
Excess (deficiency) of receipts over (under) disbursements	44,695	843
Other financing sources, net	25,676	-
Excess (deficiency) of receipts and other financing sources over (under) disbursements	70,371	843
Balance beginning of year	409,565	199,472
Balance end of year	$ 479,936	200,315

Total	Budgeted Amounts Original	Budgeted Amounts Final	Final to Net Variance
192,653	186,681	186,681	5,972
42,104	42,000	42,000	104
43,307	53,992	53,992	(10,685)
131,411	113,436	113,436	17,975
893	5,063	5,063	(4,170)
312,872	294,300	294,300	18,572
8,576	6,300	6,300	2,276
15,127	-	-	15,127
30,459	15,451	30,451	8
777,402	717,223	732,223	45,179
88,359	101,689	101,689	(13,330)
99,338	116,712	116,712	(17,374)
-	1,760	1,760	(1,760)
58,148	42,844	57,844	304
19,078	9,193	24,193	(5,115)
56,019	51,623	60,123	(4,104)
87,020	629,874	104,874	(17,854)
24,251	262,500	32,500	(8,249)
299,651	304,786	304,786	(5,135)
731,864	1,520,981	804,481	(72,617)
45,538	(803,758)	(72,258)	117,796
25,676	787,500	32,500	(6,824)
71,214	(16,258)	(39,758)	110,972
609,037	540,598	540,598	68,439
680,251	524,340	500,840	179,411

CITY OF GLADBROOK

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 decreased budgeted disbursements by $716,500. The budget amendment is reflected in the final budget amounts.

Schedule 1

CITY OF GLADBROOK

Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Nonmajor Governmental Funds
As of and for the year ended June 30, 2005

	Special Revenue			
	Urban Renewal Tax Increment	Library	Museum	Total
Receipts:				
Tax increment financing collections	$ 42,104	-	-	42,104
Intergovernmental	-	1,744	-	1,744
Use of money and property	-	144	-	144
Miscellaneous	-	2,483	12,133	14,616
Total receipts	42,104	4,371	12,133	58,608
Disbursements:				
Operating:				
Culture and recreation	-	4,174	12,060	16,234
Total disbursements	-	4,174	12,060	16,234
Excess of receipts over disbursements	42,104	197	73	42,374
Other financing uses:				
Operating transfers out	(42,104)	-	-	(42,104)
Net change in cash balances	-	197	73	270
Cash balances at beginning of year	-	11,692	-	11,692
Cash balances at end of year	$ -	11,889	73	11,962

CITY OF GLADBROOK
Schedule of Indebtedness
Year Ended June 30, 2005

Obligation	Date of Issue	Interest Rates		Amount Originally Issued
General obligation notes:				
Storm sewer improvement	Mar 15, 2001	5.25%	$	128,000
Corporate purpose note	Dec 15, 2000	5.25%		89,000
Corporate purpose note	Aug 1, 2004	3.95%		413,643
Total				
Sewer revenue capital loan note:				
Sewer improvement	Sept 15,2001	3.50%	$	706,000

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
97,325	-	11,854	85,471	4,946	-
21,410	-	21,410	-	826	-
413,643	28,357	36,500	405,500	11,484	-
532,378	28,357	69,764	490,971	17,256	-
400,000	-	19,000	381,000	11,982	-

CITY OF GLADBROOK

Bond and Note Maturities

June 30, 2005

Year Ending June 30,	General Obligation Bonds			
	Sanitary Sewer		Corporate Purpose	
	Issued Mar 15, 2001		Issued Sept 24, 2004	
	Interest Rates	Amount	Interest Rate	Amount
2006	5.25%	12,462	3.95%	38,500
2007	5.25%	13,219	3.95%	40,000
2008	5.25%	13,975	3.95%	41,500
2009	5.25%	14,732	3.95%	43,000
2010	5.25%	15,489	3.95%	44,500
2011	5.25%	15,594	3.95%	46,500
2012	-	-	3.95%	48,500
2013	-	-	3.95%	50,500
2014	-	-	3.95%	52,500
Total		$ 85,471		405,500

Year Ending June 30,	Sewer Revenue Capital Loan Note (TIF) Revenue Bonds		
	Issued Sept 15, 2001		
	Interest Rates	Amount	Total
2006	3.00%	19,000	69,962
2007	3.00%	19,000	72,219
2008	3.00%	20,000	75,475
2009	3.00%	21,000	78,732
2010	3.00%	21,000	80,989
2011	3.00%	22,000	84,094
2012	3.00%	23,000	71,500
2013	3.00%	23,000	73,500
2014	3.00%	24,000	76,500
2015	3.00%	25,000	25,000
2016	3.00%	25,000	25,000
2017	3.00%	26,000	26,000
2018	3.00%	27,000	27,000
2019	3.00%	28,000	28,000
2020	3.00%	29,000	29,000
2021	3.00%	29,000	29,000
Total		$ 381,000	758,971

CITY OF GLADBROOK

Schedule of Receipts By Source and Disbursements by Function- All Governmental Funds For the Last Four Years

	Years ended June 30,			
	2005	2004	2003	2002
Receipts:				
Property tax	$ 192,653	173,949	177,067	153,517
Tax increment financing collections	42,104	-	715	61,823
Other city tax	43,307	45,311	-	-
Intergovernmental	126,178	205,263	130,053	179,367
Licenses and permits	893	1,010	2,448	2,253
Use of money and property	6,957	17,104	9,441	19,515
Charges for services	23,166	6,539	17,041	13,108
Special assessments	15,127	-	-	575
Miscellaneous	26,523	55,149	422,490	337,537
Total	$ 476,908	504,325	759,255	767,695
Disbursements:				
Operating:				
Public safety	$ 88,359	146,763	82,585	194,385
Public works	99,973	100,335	102,955	81,614
Health and social services	-	260	103	31
Culture and recreation	56,019	44,434	37,934	39,474
Community and economic development	20,572	71,212	24,184	53,438
General government	56,019	73,800	53,600	42,681
Debt service	87,020	39,218	39,218	128,188
Capital projects	24,251	464,341	420,061	423,925
Total	$ 432,213	940,363	760,640	963,736

BOWMAN & MILLER, P.C.

CERTIFIED ◆ PUBLIC ◆ ACCOUNTANTS

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

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Gladbrook, Iowa, as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements listed in the table of contents and have issued our report thereon dated August 22, 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 Gladbrook'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 assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operations that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of Gladbrook'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 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 the employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe Items II-A-05 and II-B-05 are material weaknesses.

Compliance and Other Matters

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

Comments involving statutory and other legal matters about the City's operation 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 for the information and use of the officials, employees and citizens of the City of Gladbrook and other parties to whom the City of Gladbrook may report. This report is not intended to be and should not be used by anyone other than these specified parties.

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

Bowman and Miller, P.C.

Marshalltown, Iowa
August 22, 2005

CITY OF GLADBROOK
Schedule of Findings
Year Ended June 30, 2005

Part I: Summary of the Independent Auditors' 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 accounting principles generally accepted in the United States of America.

(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.

CITY OF GLADBROOK
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 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 one person has control over each of the following areas:

(1) Cash receipts - collecting, depositing, journalizing, and posting
(2) Disbursements - check writing, signing, and reconciling.
(3) Payroll preparation and distribution.

Recommendation – We realize that with a limited number of office employees, segregation of duties is difficult. However, the City should review its operating procedures to obtain the maximum internal control possible under the circumstances. In instances where it is not possible to segregate duties the City should utilize administrative personnel to provide additional internal control through review of financial transactions and report.

Response – The noted areas will be reviewed to identify duties that could be handled by other personnel or council members.

Conclusion – Response accepted.

II-B-05 Reconciliation of Utility Billings, Collections and Delinquencies – Utility billings, collections and delinquent accounts were not reconciled throughout the year.

Recommendation – Procedures should be established to reconcile utility billings, collections and delinquencies for each billing period.

Response – Procedures using reports from the utility software are being developed and will be implemented to reconcile utility billings, collections and delinquencies for each billing period.

Conclusion – Response accepted.

CITY OF GLADBROOK
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.

III-B-05 Certified Budget – Disbursements during the year ended June 30, 2005, did not exceed the amounts budgeted.

III-C-05 Questionable Disbursements – We noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 24, 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 – No business transactions between the City and City officials or employees were noted.

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 – Except as noted below no transactions were found that we believe should have been approved in the council minutes but were not.

The Council went into closed session on October 11, 2004. However, the minutes record did not document the specific information regarding the closed session as required by Chapter 21 of the Code of Iowa, commonly known as the open-meetings law.

Recommendation – The City should comply with Chapter 21 of the Code of Iowa.

Response – We will comply with Chapter 21 for any future meetings that go into closed session.

Conclusion – Response accepted.

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

III-I-05 Financial Condition – The City Center Fund had a deficit balance at June 30, 2005 of $8,440.

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

Response – We will investigate this balance and return it to a positive balance as soon as possible.

Conclusion – Response accepted.

CITY OF GLADBROOK
Schedule of Findings
Year Ended June 30, 2005

Part III: Other Findings Related to Statutory Reporting (continued):

III-J-05 Revenue Bonds – The City was in compliance with all applicable revenue bond provisions.

CITY OF GLADBROOK

Staff

This audit was performed by:

Bowman and Miller, P.C.
Certified Public Accountants
Marshalltown, IA 50158

Personnel:
Elizabeth A. Miller, C.P.A.

NEWS RELEASE

FOR RELEASE_____

Bowman and Miller, P.C. today released an audit report on the City of Gladbrook, Iowa.

The City's receipts totaled $502,584 for the year ended June 30, 2005, an 45.29 percent decrease from 2004. The receipts included $192,653 in property tax, $42,104 in tax increment financing collections, $43,307 in local option sales tax, $41,893 from charges for services, $139,036 from operating grants, contributions, and restricted interest, $6,081 in unrestricted investment earnings, $25,676 in noted proceeds, and $8,063 from other general receipts.

Disbursements for the year totaled $432,213 a 65.5 percent decrease from the prior year, and included $99,338 for public works, $88,359 for public safety and $87,020 for debt service.

The significant decrease in disbursements is due to the main street paving project done in 2004.

A copy of the audit report is available for review in the office of the Auditor of State and the City Clerk's office.