

CITY OF CORWITH

INDEPENDENT AUDITOR'S REPORT  
FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION  
SCHEDULE OF FINDINGS

JUNE 30, 2005

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CITY OF CORWITH

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Jay Gourley	Mayor	Jan 2006
Phil Hunget	Council Member	Jan 2006
Margaret Scheffelman	Council Member	Jan 2006
Keith Wold	Council Member	Jan 2008
Craig Steenhard	Council Member	Jan 2008
Victoria Wagner	Council Member	Jan 2008
Janet Dietel	City Clerk	July 2006
David L. Fenchel	Attorney	July 2006

## INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and  
Members of the City Council:

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Corwith 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 reports dated September 6, 2005 on our consideration of the City of Corwith'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 15, 26 and 27 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Corwith's basic 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 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.

September 6, 2005

Renner & Birchem, P.C.

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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The City of Corwith 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 this is the first year the City was audited since implementing new reporting standards 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 increased 30.6 % approximately \$85,500, from fiscal 2004 to fiscal 2005. Property tax decreased approximately \$2,000 and bond proceeds increased \$150,000.
- Disbursements increased 19.5 % or approximately \$63,000 in fiscal 2005 from fiscal 2004. Transfers, debt service, and public works disbursements increased approximately \$149,400, \$10,600 and \$8,600, respectively. Capital projects and general government decreased approximately \$86,900 and \$20,600 respectively. The increase in transfers was due to debt proceeds being used to repay proprietary funds expended in prior years for capital projects.
- The City's total cash basis net assets increased 76.7%, or approximately \$127,000, from June 30, 2004 to June 30, 2005. Of this amount, the assets of the governmental activities decreased approximately \$20,000 and the assets of the business type activities increased by approximately \$147,000.

### 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 U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

## **REPORTING THE CITY'S FINANCIAL ACTIVITIES**

### *Government-wide Financial Statement*

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

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

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

- Business Type Activities include the waterworks and the sanitary sewer system. These activities are financed primarily by user charges.

### *Fund Financial Statements*

The City has two kinds of funds:

- 1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Revolving Loan 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, sewer and electric funds, considered to be major funds of the City.

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

## **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased from a year ago, decreasing from \$33,073 to \$12,814. 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,	
	<u>Audited</u>	<u>Unaudited</u>
	2005	2004
Program Receipts:		
Charges for service	\$ 11,132	4,350
Capital grants, contributions, and restricted interest	14,765	21,900
General Receipts:		
Property tax	48,722	50,703
Local option tax	19,999	20,567
Unrestricted interest on CD's	1,211	1,457
Other general receipts	59,799	120,051
Bond/loan proceeds	150,000	0
Transfers	59,210	60,250
Total receipts and transfers	<u>364,838</u>	<u>279,278</u>
Disbursements:		
Operating:		
Public safety	18,907	22,747
Public works	57,797	49,199
Culture and recreation	34,716	29,288
General Government	53,029	73,661
Debt service	22,865	12,250
Capital projects	27,784	114,667
Transfers	169,999	20,567
Total disbursements and transfers	<u>385,097</u>	<u>322,379</u>
Increase/(decrease) in cash basis net assets	(20,259)	(43,101)
Cash basis net assets beginning of year	<u>33,073</u>	<u>76,174</u>
Cash basis net assets end of year	<u>\$ 12,814</u>	<u>33,073</u>

The City's total receipts for governmental activities increased by 30.6%, or \$85,560. The total cost of all programs and services decreased by approximately \$86,700, or 28.7%, with no new programs added this year. The significant increase in receipts was primarily the result of proceeds received from the issuance of general obligation bonds. The significant decrease in cost was primarily due to the decrease in capital project expenditures in the current year compared to the previous year. The City decreased property tax rates for 2005 by an average of 4%. This decrease lowered the City's property tax receipts by approximately \$2,000 in 2005.

The cost of all governmental activities this year was \$215,098 compared to \$301,812 last year. However, as shown in the Statement of Activities and Net Assets on page 18, the amount taxpayers ultimately financed for these activities was only \$189,201 because some of the cost was paid by those directly benefited from the programs (\$11,132) or by other governments and organizations that subsidized certain programs

with grants, contributions and restricted interest (\$14,765), Overall, the City's governmental activities receipts, including intergovernmental aid and fees for service totaled \$25,897. The City paid for the remaining "public benefit" portion of governmental activities with \$189,201 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,	
	<b>Audited</b>	<b>Unaudited</b>
	2005	2004
Receipts:		
Program receipts:		
Charges for services:		
Water	41,548	44,990
Sewer	34,929	36,957
Electric	244,332	230,951
Capital grants, contributions and restricted interest	170,026	
General receipts:		
Unrestricted interest on CD's	170	179
Miscellaneous receipts	29,133	15,295
Bond/loan proceeds	140,000	20,567
Transfers, net	110,789	
Total receipts	<u>770,927</u>	<u>348,939</u>
Disbursements and transfers:		
Water	377,210	32,748
Sewer	36,578	41,676
Electric	209,968	188,438
Transfers		60,250
Total disbursements and transfers	<u>623,756</u>	<u>323,112</u>
Increase in cash balance	147,171	25,827
Cash basis net assets beginning of year	<u>132,484</u>	<u>106,657</u>
Cash basis net assets end of year	<u>279,655</u>	<u>132,484</u>

Total business type activities receipts for the fiscal year were \$770,927 compared to \$348,939 last year. Total disbursements for the fiscal year increased by 93.0 % to a total of \$623,756. The cash balance increased by \$147,171 during the fiscal year compared to an increase of \$25,827 last year. The substantial increase in cash basis net assets was due largely to the loan proceeds and transfers.

## **INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS**

As the City of Corwith completed the year, its governmental funds reported a combined fund balance of \$12,814, a decrease of \$20,259 below last year's total of \$33,073. 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 \$6,780 from the prior year to \$9,708.
- The Road Use Tax Fund cash balance decreased by \$27,975 to \$678 during the fiscal year. This decrease was attributable to a major street projects this fiscal year.
- The Revolving Loan Fund was established to provide low interest loans to new and existing businesses. During the fiscal year the City made no loans. The city collected principal and interest payments of \$936, for a net increase in the fund cash balance of \$936.

## **INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS**

- The Water Fund cash balance increased by \$8,422 to \$87,830 during the fiscal year.
- The Sewer Fund cash balance increased by \$28,104 to \$62,208 during the fiscal year.
- The Electric Fund cash balance increased by \$110,645 to \$129,617. Transfers accounted for \$54,000 of the increase.

## **DEBT ADMINISTRATION**

At June 30, 2005, the City had \$141,000 in general obligation bonds, compared to \$146,000 at the end of the prior year.

Debt decreased as a result of \$5,000 in principal payments during the fiscal year. The constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$141,000 is significantly below its constitutional debt limit of approximately \$370,000.

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

The City of Corwith'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.

These among other economic factors were taken into account when adopting the budget for fiscal year 2006. Amounts available for appropriation in the operating budget are \$548,000, a decrease of 16.6 % from the final 2005 budget. Budgeted disbursements are expected to decrease by approximately \$12,957.

If these estimates are realized, the City's budgeted cash balance is expected to decrease approximately \$31,637 by the close of 2006. Actual amounts can and usually do differ from budgeted amounts.

## **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 Janet Dietel, City Clerk, 112 NW Elm Street, Corwith, Iowa.







## BASIC FINANCIAL STATEMENTS

## City of Corwith

## Statement of Activities and Net Assets - Cash Basis

As of and for the year ended June 30, 2005

	Program Receipts			Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
	Disbursements	Charges for Service	Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	Total
<b>Functions / Programs:</b>						
Governmental activities:						
Public safety	\$ 18,907	7,572		(11,335)		(11,335)
Public works	57,797	120		(57,677)		(57,677)
Culture and recreation	34,716	3,416		(31,300)		(31,300)
General government	53,029	24		(53,005)		(53,005)
Debt service	22,865		7,000	(15,865)		(15,865)
Capital projects	27,784		7,765	(20,019)		(20,019)
Total governmental activities	215,098	11,132	14,765	(189,201)		(189,201)
Business type activities:						
Water	377,210	41,548	170,026		(165,636)	(165,636)
Sewer	36,578	34,929			(1,649)	(1,649)
Electric	209,968	244,332			34,364	34,364
Total business type activities	623,756	320,809	170,026		(132,921)	(132,921)
Total	\$ 838,854	331,941	184,791	(189,201)	(132,921)	(322,122)
<b>General Receipts:</b>						
Property tax levied for:						
General purposes				\$ 48,722		48,722
Local option sales tax				19,999		19,999
Unrestricted interest on investments				1,211	170	1,381
Miscellaneous				59,799	29,133	88,932
Bond proceeds				150,000	140,000	290,000
Transfers				(110,789)	110,789	
Total general receipts				168,942	280,092	449,034
Change in cash basis net assets				(20,259)	147,171	126,912
Cash basis net assets beginning of year				33,073	132,484	165,557
Cash basis net assets end of year				\$ 12,814	279,655	292,469
<b>Cash Basis Net Assets</b>						
Restricted:						
Streets				\$ 678		678
Debt service				7,000	35,295	42,295
Other purposes				2,428		2,428
Unrestricted				2,708	244,360	247,068
Total cash basis net assets				\$ 12,814	279,655	292,469

See notes to financial statements.

## City of Corwith

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

As of and for the year ended June 30, 2005

	Special Revenue			Total
	General	Road Use Tax	Revolving Loan	
Receipts:				
Property tax	\$ 48,722			48,722
Other city tax	19,999			19,999
Licenses and permits	910			910
Use of money and property	19,451			19,451
Intergovernmental	1,955	18,157		20,112
Charges for services	11,132			11,132
Donations	14,765			14,765
Reimbursements	1,356		936	2,292
Miscellaneous	18,245			18,245
Total receipts	136,535	18,157	936	155,628
Disbursements:				
Operating:				
Public safety	18,907			18,907
Public works	11,665	46,132		57,797
Culture and recreation	34,716			34,716
General government	53,029			53,029
Debt service	22,865			22,865
Capital projects	27,784			27,784
Total disbursements	168,966	46,132		215,098
Excess (deficiency) of receipts over (under) disbursements	(32,431)	(27,975)	936	(59,470)
Other financing sources (uses):				
Bond proceeds	150,000			150,000
Operating transfers in	59,210			59,210
Operating transfers out	(169,999)			(169,999)
Total other financing sources (uses)	39,211			39,211
Net change in cash balances	6,780	(27,975)	936	(20,259)
Cash balances beginning of year	2,928	28,653	1,492	33,073
Cash balances end of year	\$ 9,708	678	2,428	12,814
Cash Basis Fund Balances				
Reserved:				
Debt service	\$ 7,000			7,000
Unreserved:				
General fund	2,708			2,708
Special revenue funds		678	2,428	3,106
Total cash basis fund balances	\$ 9,708	678	2,428	12,814

See notes to financial statements.

## City of Corwith

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

As of and for the year ended June 30, 2005

	Proprietary Funds			
	Water	Sewer Rental	Electric	Total
Operating receipts:				
Use of money and property	\$ 87	27	56	170
Charges for service	41,548	34,929	244,332	320,809
Miscellaneous	173,102	3,832	22,225	199,159
Total operating receipts	214,737	38,788	266,613	520,138
Operating disbursements:				
Business type activities	26,343	17,485	209,968	253,796
Total operating disbursements	26,343	17,485	209,968	253,796
Excess of operating receipts over operating disbursements	188,394	21,303	56,645	266,342
Non-operating (disbursements):				
Capital projects	340,052			340,052
Debt service	10,815	19,093		29,908
Total non-operating disbursements	350,867	19,093		369,960
Excess (deficiency) of receipts over (under) disbursements	(162,473)	2,210	56,645	(103,618)
Other financing sources (uses):				
Loan proceeds	140,000			140,000
Operating transfers in (out)	30,895	25,894	54,000	110,789
	170,895	25,894	54,000	250,789
Excess of receipts and other financing sources over disbursements and other uses	8,422	28,104	110,645	147,171
Cash balance beginning of year	79,408	34,104	18,972	132,484
Cash balances end of year	\$ 87,830	62,208	129,617	279,655
<b>Cash Basis Fund Balances</b>				
Reserved for debt service	\$ 16,222	19,073		35,295
Unreserved	71,608	43,135	129,617	244,360
Total cash basis fund balances	\$ 87,830	62,208	129,617	279,655

See notes to financial statements.

# CITY OF CORWITH

## Notes to Financial Statements

June 30, 2005

### (1) Summary of Significant Accounting Policies

The City of Corwith is a political subdivision of the State of Iowa located in Hancock County. It was first incorporated in 1881 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.

#### A. Reporting Entity

For financial reporting purposes, City of Corwith has included all funds, organizations, account groups, agencies, 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 Corwith had 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: Hancock County Assessor's Conference Board and Hancock County Development Commission, Hancock County Disaster/911 Service Board.

#### B. Basis of Presentation

Government-wide Financial Statements – The Statement of Activities and Net Assets reports information on all 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:

# CITY OF CORWITH

## Notes to Financial Statements (continued)

June 30, 2005

*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 the 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 Revolving Loan Fund is used to account for loan funds set aside for economic development.

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 Electric Fund accounts for the operation and maintenance of the City's electric utility system.

## CITY OF CORWITH

### Notes to Financial Statements (continued)

June 30, 2005

#### C. Measurement Focus and Basis of Accounting

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

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

#### D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2005, disbursements exceeded the amounts budgeted in the public works, general government, debt service and capital projects functions.

#### **(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.

The City's investments, categorized to give an indication of the level of risk assumed by the City at year end, consist entirely of certificates of deposits. The City's investments are all category 1 which means that the investments are insured or registered or the securities are held by the City or its agent in the City's name.

CITY OF CORWITH

Notes to Financial Statements (continued)

June 30, 2005

**(3) Bonds Payable**

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

Year Ending June 30,	General Obligation Bonds		Revenue Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2006	\$ 6,000	7,050	33,858	17,154	39,858	24,204
2007	7,000	6,750	35,433	15,580	42,433	22,330
2008	7,000	6,400	37,058	13,955	44,058	20,355
2009	8,000	6,050	38,824	12,188	46,824	18,238
2010	8,000	5,650	40,651	10,361	48,651	16,011
2011	8,000	5,250	28,011	8,982	36,011	14,232
2012	9,000	4,850	24,291	7,628	33,291	12,478
2013	9,000	4,400	25,391	6,529	34,391	10,929
2014	10,000	3,950	26,531	5,389	36,531	9,339
2015	10,000	3,450	16,819	4,285	26,819	7,735
2016	11,000	2,950	12,203	4,394	23,203	7,344
2017	11,000	2,400	13,030	2,667	24,030	5,067
2018	12,000	1,850	13,902	1,795	25,902	3,645
2019	12,000	1,250	14,834	864	26,834	2,114
2020	13,000	650	5,159	70	18,159	720
Total	<u>\$141,000</u>	<u>62,900</u>	<u>365,995</u>	<u>111,841</u>	<u>506,995</u>	<u>174,741</u>

**(4) Pension and Retirement Benefits**

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

Plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of annual covered payroll, except for police employees, in which case the percentages are 6.16% and 9.23%, respectively. Contribution requirements are established by state statute. The City's contributions to IPERS for the year ended June 30, 2005, was \$3,325 equal to the required contributions for the year.

CITY OF CORWITH

Notes to Financial Statements (continued)

June 30, 2005

**(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. Sick leave hours are accumulated for subsequent use but are not paid upon termination, retirement, or death. Comp time hours are accumulated for subsequent use but are not paid upon termination or retirement. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation termination payments payable to employees at June 30, 2005, primarily relating to the General Fund, is as follows:

<u>Type of Benefit</u>	<u>Amount June 30, 2005</u>
Vacation	\$ <u>519</u>

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

**(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 Fund	Water Fund	\$ 21,105
	Sewer Fund	20,105
	Electric Fund	<u>18,000</u>
		\$ <u>59,210</u>
Water Fund	General Fund	\$ <u>52,000</u>
Sewer Fund	General Fund	\$ <u>45,999</u>
Electric Fund	General Fund	\$ <u>72,000</u>

**(7) Related Party Transactions**

The City had business transactions between the City and the spouse of a City official totaling \$8,145 during the year ended June 30, 2005.

**(8) Risk Management**

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

REQUIRED SUPPLEMENTARY INFORMATION

City of Corwith

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

Required Supplementary Information

Year ended June 30, 2005

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds not Required to be Budgeted	Net	Budgeted Amounts	Budgeted to Net Variance
<b>Receipts:</b>						
Property tax	\$ 48,722			48,722	48,577	145
Other city tax	19,999			19,999	20,863	(864)
Licenses and permits	910			910	1,130	(220)
Use of money and property	19,451	170		19,621	1,055	18,566
Intergovernmental	20,112			20,112	48,168	(28,056)
Charges for services	11,132	320,809		331,941	348,300	(16,359)
Miscellaneous	35,302	199,159	936	233,525	2,500	231,025
Total receipts	155,628	520,138	936	674,830	470,593	204,237
<b>Disbursements:</b>						
Public safety	18,907			18,907	22,789	3,882
Public works	57,797			57,797	51,485	(6,312)
Culture and recreation	34,716			34,716	36,441	1,725
General government	53,029			53,029	45,358	(7,671)
Debt service	22,865	29,908		52,773	30,000	(22,773)
Capital projects	27,784	340,052		367,836		(367,836)
Business type activities		253,796		253,796	352,309	98,513
Total disbursements	215,098	623,756		838,854	538,382	(300,472)
Excess (deficiency) of receipts over (under) disbursements	(59,470)	(103,618)	936	(164,024)	(67,789)	(96,235)
Other financing sources, net	39,211	250,789		290,000		290,000
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(20,259)	147,171	936	125,976	(67,789)	193,765
Balances beginning of year	33,073	132,484	1,492	164,065	144,283	19,782
Cash balances end of year	\$ 12,814	279,655	2,428	290,041	76,494	213,547

See accompanying independent auditor's report.

City of Corwith

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. 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, a budget amendment increased budgeted disbursements by \$70,024. The budget amendment is reflected in the final budgeted amounts.

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

OTHER SUPPLEMENTARY INFORMATION

## City of Corwith

## Schedule of Indebtedness

Year ended June 30, 2005

<b>Obligation</b>	<b>Date of Issue</b>	<b>Rate of Interest</b>	<b>Amount Originally Issued</b>	<b>Balance Beginning of Year</b>	<b>Issued During Year</b>	<b>Redeemed During Year</b>	<b>Balance End of Year</b>	<b>Interest Paid</b>
General Obligation:								
City Hall/Library	12/01/2003	5.00%	\$ 150,000	146,000		5,000	141,000	7,400
Revenue Bonds/notes:								
Sewer revenue note	09/26/2000	5.00%	\$ 150,000	102,293		14,302	87,991	4,791
Water treatment note-Prairie Energy	10/15/2004	3.00	40,000		40,000	2,310	37,690	780
Water treatment note-Corn Belt Power	09/26/2000	3.00	100,000		100,000	5,775	94,225	1,950
Post office lease participation note	12/30/1992	6.50	150,000		150,000	3,911	146,089	6,554
Total revenue bonds/debt				102,293	290,000	26,298	365,995	14,075

See accompanying independent auditor's report.

## City of Corwith

## Bond and Note Maturities

June 30, 2005

Year Ending June 30,	GENERAL OBLIGATION		REVENUE NOTES								Total
	City Hall/ Library		Sewer Revenue Note		Water Treatment - PE		Water Treatment - CBP		Post Office		
	Issued December 1, 2003		Issued September 26, 2000		Issued October 15, 2004		Issued October 15, 2004		Issued September 30, 2004		
	Interest Rates	Amount	Interest		Interest		Interest		Interest		
			Rates	Amount	Rates	Amount	Rates	Amount	Rates	Amount	
2006	5.00%	\$ 6,000	5.00	15,034	3.00	3,553	3.00	8,882	6.50	6,389	33,858
2007	5.00	7,000	5.00	15,803	3.00	3,661	3.00	9,152	6.50	6,817	35,433
2008	5.00	7,000	5.00	16,605	3.00	3,772	3.00	9,431	6.50	7,250	37,058
2009	5.00	8,000	5.00	17,461	3.00	3,887	3.00	9,717	6.50	7,759	38,824
2010	5.00	8,000	5.00	18,355	3.00	4,005	3.00	10,013	6.50	8,278	40,651
2011	5.00	8,000	5.00	4,733	3.00	4,127	3.00	10,318	6.50	8,833	28,011
2012	5.00	9,000			3.00	4,253	3.00	10,631	6.50	9,407	24,291
2013	5.00	9,000			3.00	4,382	3.00	10,955	6.50	10,054	25,391
2014	5.00	10,000			3.00	4,515	3.00	11,288	6.50	10,728	26,531
2015	5.00	10,000			3.00	1,535	3.00	3,838	6.50	11,446	16,819
2016	5.00	11,000							6.50	12,203	12,203
2017	5.00	11,000							6.50	13,030	13,030
2018	5.00	12,000							6.50	13,902	13,902
2019	5.00	12,000							6.50	14,834	14,834
2020	5.00	13,000							6.50	5,159	5,159
<b>Total</b>		<b>\$ 141,000</b>		<b>87,991</b>		<b>37,690</b>		<b>94,225</b>		<b>146,089</b>	<b>365,995</b>

See accompanying independent auditor's report.

## Sewer Revenue Capital Note Information

June 30, 2005

## Rates and Customer Usage:

At June 30, 2005 the City had approximately 350 customers using the wastewater treatment system. At June 30, 2005 the City's sewer charges were 100% of water charges for the first 2,000 gallons of water used and 80% of water charge for gallons used in excess of 2,000 gallons. Water usage is charged out at \$4.00 per 1000 gallons used in excess of 2,000 gallons with a minimum charge of \$9.50 per building.

## Insurance Coverage:

Coverage	Limit	Deductible	Coinsurance
Blanket Coverage:			
City Hall, library and post office	\$ 593,400	\$ 250	90%
Water tower, fire station, shelter house, electrical substation, pump house, sewage treatment lagoon, fence, and playground equipment	213,646	250	90
Contractor's equipment	69,625	250	90
Liability-each occurrence	1,000,000		
Vehicles	actual cash value	250	

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

To the Honorable Mayor and  
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Corwith, 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 25, 2005. Our report expressed an unqualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Corwith's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of Corwith's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statement. Reportable conditions are described 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 internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item (A) and (B) are material weakness.

## Compliance and Other Matters

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

Comments involving statutory and other legal matters about the City of Corwith'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 Corwith and other parties to whom the City of Corwith may report including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Corwith 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.

September 6, 2005

Renner & Birchem, P.C.

CITY OF CORWITH

Schedule of Findings

Year Ended June 30, 2005

Part I: Findings Related to the Financial Statements:

Reportable conditions:

- (A) 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 the cash receipts functions and the cash disbursement functions are all done by the same person.

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.

Response - We will investigate this.

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

- (B) Records of Accounts – The City maintains savings accounts for donations received for the Revolving Loan Fund. These transactions and the resulting balance is not recorded in the clerk’s records. Chapter 384.20 of the Code of Iowa states in part that “a city shall keep accounts which show an accurate and detailed statement of all public funds collected, received, or expended for any city purpose.”

Recommendation – for better accountability, financial and budgetary control, the financial activity and balances of all city accounts should be recorded in the Clerk’s records.

Response – We have adjusted our financial statements to include this information. The financial activity and balance of the Revolving Loan savings accounts will be included in the City Clerk’s records in the future.

Conclusion – Response accepted.

Part II: Other Findings Related to Statutory Reporting.

- (1) Official Depositories - There was no current resolution naming official depositories. The maximum deposit amounts stated in the resolution dated November 23, 2003 were not exceeded during the year ended June 30, 2005.

Recommendation - The depository resolution should be reviewed and updated annually.

Response - We will review and update the depository resolution.

Conclusion - Response accepted.

CITY OF CORWITH

Schedule of Findings

Year Ended June 30, 2005

- (2) Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- (3) Business Transactions - Business transactions between the City and City officials or employees are detailed as follows:

<u>Name, Title, and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Dave Wagner, spouse of council member	Mowing	\$8,145

The transactions with Dave Wagner do not appear to represent a conflict of interest since it was entered into through competitive bidding.

- (4) 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.
- (5) Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not.
- (6) 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.
- (7) Certified Budget - Disbursements during the year ended June 30, 2000, exceeded the amounts budgeted in the Public Works, General Government, Debt Service, and Capital Projects Functions. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

Recommendation - The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

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

Conclusion - Response accepted.

- (8) Payment of General Obligation Bonds - General obligation bonds were paid from the general fund. Chapter 384.4 of the Code of Iowa states that general obligation debt payments are to be recorded in the Debt Service fund.

Recommendation - The City should set up the Debt Service Fund for payment of general obligation debt.

CITY OF CORWITH

Schedule of Findings

Year Ended June 30, 2005

Response – We will do this.

Conclusion - Response accepted.

- (9) Sales Tax Refund – The City did not apply for nor received a sales tax refund on capital projects completed during the year ended June 30, 2005. The City was unable to get the necessary information from the general contractor in order to complete the request for refund in the time allotted.

Recommendation - The City should consult with the City Attorney for the appropriate action for the City to take.

Response – We will consult the City Attorney.

Conclusion - Response accepted.

- (10) Sales Tax – Sales tax on sewer services provided to non-residential commercial operations was not uniformly assessed.

Recommendation - The city should uniformly assess sales tax on sewer services provided to non-residential commercial operations in accordance with section 701-26.72 if the Iowa Department of Revenue Administrative Rules and Regulations.

Response – This will be corrected.

Conclusion - Response accepted.

- (11) Property Tax Collected for Employee Benefits – Property tax levied for the purpose of employee benefits were recorded in the General Fund. Chapter 670 of the Code of Iowa state the proceeds of tax levied for employee benefits or other special levies are to be properly recorded in the special revenue fund.

Recommendation - The City should set up a special revenue fund for the purpose of recording property tax levied for the payment of employee benefits.

Response – This will be corrected.

Conclusion - Response accepted.