

CITY OF ROCKWELL CITY, IOWA

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

AS OF AND FOR THE YEAR ENDED JUNE 30, 2006

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City of Rockwell City, Iowa

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January 2006)		
Phil Heinlen	Mayor	Jan 2006
Gerri McCurdy	Mayor Pro Tem	Jan 2006
John Hepp	Council Member	Jan 2006
JoAnn Hendricks	Council Member	Jan 2008
Paul Kutz	Council Member	Jan 2008
Mark Lange	Council Member	Jan 2008
(After January 2006)		
Phil Heinlen	Mayor	Jan 2010
Gerri McCurdy	Mayor Pro Tem	Jan 2010
John Hepp	Council Member	Jan 2010
JoAnn Hendricks	Council Member	Jan 2008
Paul Kutz	Council Member	Jan 2008
Mark Lange	Council Member	Jan 2008
Kimberly Kelly	City Clerk	Jan 2007
Joni Hepp	Deputy Clerk/Treasurer	Jan 2007
Steve Hendricks	Attorney	Indefinite

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 Rockwell City, Iowa, as of and for the year ended June 30, 2006, 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 Rockwell City's management. Our responsibility is to express an opinion 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 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 Rockwell City as of June 30, 2006, 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 October 20, 2006 on our consideration of the City of Rockwell City'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 page 4 through 7 and 26 through 28 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Rockwell City'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, 2005 (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 5, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Cornwell, Frideres, Maher & Associates, P.L.C.
Certified Public Accountants

October 20, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

Rockwell City 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, 2006. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2006 FINANCIAL HIGHLIGHTS

- Revenues of the City's governmental activities increased 1.3%, or approximately \$14,767, from fiscal 2005 to fiscal 2006. Disbursements increased 4.9%, or approximately \$54,697, in fiscal 2006 from fiscal 2005.
- Revenues of the City's proprietary activities decreased 55%, while disbursements decreased approximately 57% from fiscal 2005 to fiscal 2006. The substantial decrease in revenues and disbursements is primarily due to completion of the well project.
- The City's total cash basis net assets increased 1.7%, or approximately \$45,703, from June 30 2005 to June 30, 2006. Of this amount, the assets of the governmental activities decreased approximately \$1,975 and the assets of the business type activities increased by approximately \$47,678.

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.

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 which helps answer this question.

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

The Statement of Activities and Net Assets 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 Urban Renewal Tax Increment, 3) the Debt Service Fund, 4) the Capital Projects Fund and 5) the Permanent 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 and for the Internal Service Fund. Enterprise Funds are used to report business type activities. The City maintains two Enterprise Funds to provide separate information for the water and sewer funds, considered to be major funds of the City. Internal Service Funds are an accounting device used to accumulate and allocate costs internally among the City's various functions.

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

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

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 slightly from a year ago, decreasing from \$1.281 million to \$1.279 million. Included within this report is an analysis that focuses on the changes in cash balances for governmental activities.

The City's total receipts for governmental activities increased by 1.3%, or \$14,767 from 2005 to 2006. The total cost of all programs and services also increased, by approximately \$54,697, or 4.9%, with no new programs added this year.

The City decreased property tax rates for 2006 slightly.

<u>Year</u>	<u>Property Tax Receipts</u>	<u>City Levy</u>
FY03	\$528,904	18.10664
FY04	\$554,487	19.15335
FY05	\$544,924	21.12691
FY06	\$550,634	20.98600

The cost of all governmental activities this year was \$1.183 million compared to \$1.127 million last year. However, as shown in the Statement of Activities and Net Assets, the amount taxpayers ultimately financed for these activities was only \$617,352 because some of the cost was paid by those directly benefited from the programs (\$258,328) or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest (\$306,882). Overall, the City's governmental activities receipts, including intergovernmental aid and fees for service, increased in 2006 from approximately \$1.166 million to approximately \$1.181 million.

Total business type activities receipts for the fiscal year were \$692,353 compared to \$1,532,630 last year. Total disbursements for the fiscal year decreased by approximately \$859,700. These substantial decreases in both revenues and expenditures are primarily due to the completion of the well project. The proprietary cash balance increased during the year by approximately \$47,678.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As Rockwell City completed the year, its governmental funds reported a combined fund balance of \$1,279,143, a decrease of nearly \$1,975 below last year's total of \$1,281,118. 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 \$54,958 from the prior year to \$990,689.
- The Road Use Tax Fund cash balance decreased substantially to \$124,170 during the fiscal year, primarily due to payment to the county for the city's share of reconstruction of First Street which was completed in 2003.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance increased by \$73,444 to \$1,224,613.
- The Sewer Fund cash balance decreased by \$25,766 to \$258,679.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget once, with approval on April 17, 2006. The budget amendment covered several changes, including First Street reconstruction; Kid's Kingdom playground; improvements to Well #5, WWTP, and pool; completion of the Airport Layout Plan; and various operational expenses.

DEBT ADMINISTRATION

As of June 30, 2006, the City had approximately \$2,702,887 in bonds and other long-term debt, compared to approximately \$2,768,634 last year. During the year, a capital loan note was paid off, and two new capital leases were issued (patrol car and fire truck).

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 \$280,000 is significantly below its constitutional debt limit.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Rockwell City's elected and appointed officials and citizens considered many factors when setting the fiscal year 2007 budget, tax rates, and fees that will be charged for various City activities. Due to the loss of state funds and stagnant/declining property values, city officials have been forced to cut departmental budgets during recent years. Each year cuts are forced which are resulting in the provision of fewer services to taxpayers. City officials have implemented incentives for development, such as residential and commercial tax abatement and an urban renewal/TIF district.

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 Kimberly Kelly, City Clerk, 335 Main Street, Rockwell City, Iowa 50579.

Basic Financial Statements

City of Rockwell City, Iowa
Statement of Activities and Net Assets - Cash Basis
As of and for the year ended June 30, 2006

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions/Programs:				
Governmental activities:				
Public safety	\$ 335,787	106,595	17,244	-
Public works	409,035	113,517	188,276	-
Culture and recreation	141,138	33,770	28,226	-
Community and economic development	2,495	-	1,200	-
General government	139,614	4,446	-	-
Debt service	116,759	-	-	-
Capital projects	37,734	-	71,936	-
Total governmental activities	<u>1,182,562</u>	<u>258,328</u>	<u>306,882</u>	<u>-</u>
Business type activities:				
Water	369,239	365,897	-	18,921
Sewer	275,436	235,793	-	-
Total business type activities	<u>644,675</u>	<u>601,690</u>	<u>-</u>	<u>18,921</u>
Total	<u>\$ 1,827,237</u>	<u>860,018</u>	<u>306,882</u>	<u>18,921</u>

General Receipts:

Property tax levied for:
 General purposes
 Debt service
Unrestricted interest on investments
Bond 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
 Employee benefits
 Debt service
 Other purposes
Unrestricted
Total cash basis net assets

See notes to financial statements.

Exhibit A

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
Governmental Activities	Business Type Activities	Total
(211,948)	-	(211,948)
(107,242)	-	(107,242)
(79,142)	-	(79,142)
(1,295)	-	(1,295)
(135,168)	-	(135,168)
(116,759)	-	(116,759)
34,202	-	34,202
<u>(617,352)</u>	<u>-</u>	<u>(617,352)</u>
-	15,579	15,579
-	(39,643)	(39,643)
-	(24,064)	(24,064)
<u>(617,352)</u>	<u>(24,064)</u>	<u>(641,416)</u>
478,953	-	478,953
72,092	-	72,092
47,112	58,893	106,005
-	12,849	12,849
17,221	-	17,221
<u>615,378</u>	<u>71,742</u>	<u>687,120</u>
(1,974)	47,678	45,704
1,281,117	1,435,614	2,716,731
<u>\$ 1,279,143</u>	<u>1,483,292</u>	<u>2,762,435</u>
\$ 124,170	-	124,170
57,311	-	57,311
8,214	224,917	233,131
98,759	-	98,759
990,689	1,258,375	2,249,064
<u>\$ 1,279,143</u>	<u>1,483,292</u>	<u>2,762,435</u>

City of Rockwell City, Iowa

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

As of and for the year ended June 30, 2006

	<u>General</u>	<u>Special Revenue</u>	
		<u>Road Use Tax</u>	<u>Employee Benefits</u>
Receipts:			
Property tax	\$ 284,525	-	165,713
Other city tax	18,046	-	10,668
Licenses and permits	4,446	-	-
Use of money and property	51,806	-	-
Intergovernmental	40,199	186,205	-
Charges for service	253,458	-	-
Miscellaneous	16,269	-	1,020
Total receipts	<u>668,749</u>	<u>186,205</u>	<u>177,401</u>
Disbursements:			
Operating:			
Public safety:			
Police	142,752	-	69,058
Civil defense	2,605	-	-
Fire	15,003	-	1,728
Ambulance	96,398	-	7,867
	<u>256,758</u>	<u>-</u>	<u>78,653</u>
Public works:			
Street lighting	-	25,071	-
Airport	10,654	-	-
Solid waste	93,393	-	1,665
Roadway maintenance	-	238,812	39,440
	<u>104,047</u>	<u>263,883</u>	<u>41,105</u>
Culture and recreation:			
Library	52,237	-	8,356
Park	13,038	-	1,870
Swimming pool	47,366	-	3,148
Cemetery	12,084	-	438
	<u>124,725</u>	<u>-</u>	<u>13,812</u>

Other Nonmajor Governmental	
<u>Funds</u>	<u>Total</u>
66,758	516,996
4,924	33,638
-	4,446
176	51,982
2,878	229,282
-	253,458
<u>73,497</u>	<u>90,786</u>
<u>148,233</u>	<u>1,180,588</u>

376	212,186
-	2,605
-	16,731
-	104,265
<u>376</u>	<u>335,787</u>

-	25,071
-	10,654
-	95,058
-	278,252
<u>-</u>	<u>409,035</u>

2,601	63,194
-	14,908
-	50,514
-	12,522
<u>2,601</u>	<u>141,138</u>

(continued)

City of Rockwell City, Iowa

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

As of and for the year ended June 30, 2006

	<u>General</u>	<u>Special Revenue</u>	
		<u>Road Use Tax</u>	<u>Employee Benefits</u>
Community and economic development:			
Economic development	1,600	-	-
Community beautification	895	-	-
	<u>2,495</u>	<u>-</u>	<u>-</u>
General government:			
Policy administration	39,765	-	18,849
Tort liability	81,000	-	-
	<u>120,765</u>	<u>-</u>	<u>18,849</u>
Capital projects	-	-	-
Debt service	-	-	-
Total disbursements	<u>608,790</u>	<u>263,883</u>	<u>152,419</u>
Excess (deficiency) of receipts over (under) disbursements	<u>59,959</u>	<u>(77,678)</u>	<u>24,982</u>
Other Financing Sources			
Operating Transfers In	-	-	-
Operating Transfers Out	(5,000)	-	-
Total Other Financing Sources (Uses)	<u>(5,000)</u>	<u>-</u>	<u>-</u>
Net change in cash balances	54,959	(77,678)	24,982
Cash balances beginning of year	935,730	201,848	32,329
Cash balances end of year	<u>\$ 990,689</u>	<u>124,170</u>	<u>57,311</u>
Cash Basis Fund Balances			
Reserved:			
Debt service	\$ -	-	-
Unreserved:			
General fund	990,689	-	-
Special revenue funds	-	124,170	57,311
Capital Projects	-	-	-
Permanent fund	-	-	-
Total cash basis fund balances	<u>\$ 990,689</u>	<u>124,170</u>	<u>57,311</u>

See notes to financial statements.

Other Nonmajor Governmental	
<u>Funds</u>	<u>Total</u>
-	1,600
-	895
<u>-</u>	<u>2,495</u>
-	58,614
<u>-</u>	<u>81,000</u>
<u>-</u>	<u>139,614</u>
37,734	37,734
<u>116,759</u>	<u>116,759</u>
<u>157,470</u>	<u>1,182,562</u>
<u>(9,237)</u>	<u>(1,974)</u>
5,000	5,000
<u>-</u>	<u>(5,000)</u>
<u>5,000</u>	<u>-</u>
(4,237)	(1,974)
<u>111,210</u>	<u>1,281,117</u>
<u>106,973</u>	<u>1,279,143</u>
8,214	8,214
-	990,689
5,557	187,038
39,202	39,202
<u>54,000</u>	<u>54,000</u>
<u>106,973</u>	<u>1,279,143</u>

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

As of and for the year ended June 30, 2006

	Enterprise Funds		
	Water	Sewer	Total
Operating receipts:			
Charges for service	\$ 363,408	235,613	599,021
Miscellaneous	2,489	180	2,669
Total operating receipts	365,897	235,793	601,690
Operating disbursements:			
Business type activities:			
Personal services	78,322	68,698	147,020
Contractual services	21,682	12,025	33,707
Utilities	16,719	19,687	36,406
Repairs and maintenance	20,491	21,860	42,351
Other supplies and expenses	74,608	16,742	91,350
Capital outlay	27,550	3,317	30,867
Total operating disbursements	239,372	142,329	381,701
Excess (deficiency) of operating receipts over (under) operating disbursements	126,525	93,464	219,989
Non-operating receipts (disbursements):			
Bond proceeds	12,849	-	12,849
Intergovernmental	18,921	-	18,921
Interest on investments	45,016	13,877	58,893
Debt service:			
Principal redemption	(88,000)	(74,000)	(162,000)
Interest payments	(41,867)	(59,107)	(100,974)
Total non-operating receipts (disbursements)	(53,081)	(119,230)	(172,311)
Net change in cash balances	73,444	(25,766)	47,678
Cash balances beginning of year	1,151,169	284,445	1,435,614
Cash balances end of year	\$ 1,224,613	258,679	1,483,292
Cash Basis Fund Balances			
Reserved for improvements	\$ 234,624	-	234,624
Reserved for debt service	59,917	165,000	224,917
Unreserved	930,072	93,679	1,023,751
Total cash basis fund balances	\$ 1,224,613	258,679	1,483,292

See notes to financial statements.

City of Rockwell City, Iowa

Notes to Financial Statements

June 30, 2006

(1) Summary of Significant Accounting Policies

The City of Rockwell City is a political subdivision of the State of Iowa located in Calhoun County. It was first incorporated in 1876 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 Rockwell City has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City. The City has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Calhoun County E911 Service Board and Calhoun County Ambulance Authority.

City of Rockwell City, Iowa

Notes to Financial Statements

June 30, 2006

B. Basis of Presentation

Government-wide Financial Statement – 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.

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.

City of Rockwell City, Iowa

Notes to Financial Statements

June 30, 2006

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 Employee Benefits Fund is used to account for the City's share of employee taxes and insurance for governmental fund employees.

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.

C. Measurement Focus and Basis of Accounting

The City of Rockwell 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.

City of Rockwell City, Iowa

Notes to Financial Statements

June 30, 2006

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

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.

(2) **Cash**

The City's deposits in banks at June 30, 2006 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 had no investments at June 30, 2006. During the year ended June 30, 2006 the City invested its excess funds in savings accounts and certificates of deposit.

City of Rockwell City, Iowa

Notes to Financial Statements

June 30, 2006

(3) Bonds and Notes Payable

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

Year Ending <u>June 30,</u>	General Obligation Bonds		Revenue Bonds	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2007	90,000	15,917	95,000	67,976
2008	95,000	10,878	100,000	64,179
2009	95,000	5,462	104,000	60,183
2010	-	-	108,000	56,017
2011	-	-	112,000	51,695
2012	-	-	116,000	47,203
2013	-	-	121,000	42,555
2014	-	-	126,000	37,707
2015	-	-	131,000	32,648
2016	-	-	136,000	27,389
2017	-	-	141,000	21,932
2018	-	-	147,000	16,263
2019	-	-	153,000	10,352
2020	-	-	26,000	4,200
2021	-	-	27,000	3,420
2022	-	-	28,000	2,610
2023	-	-	29,000	1,770
2024	-	-	30,000	900
Total	<u>\$ 280,000</u>	<u>32,257</u>	<u>1,730,000</u>	<u>548,999</u>

Revenue Notes		Total	
<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
75,000	23,345	260,000	107,238
75,000	19,145	270,000	94,202
85,000	14,908	284,000	80,553
85,000	10,062	193,000	66,079
90,000	5,175	202,000	56,870
-	-	116,000	47,203
-	-	121,000	42,555
-	-	126,000	37,707
-	-	131,000	32,648
-	-	136,000	27,389
-	-	141,000	21,932
-	-	147,000	16,263
-	-	153,000	10,352
-	-	26,000	4,200
-	-	27,000	3,420
-	-	28,000	2,610
-	-	29,000	1,770
-	-	30,000	900
<u>410,000</u>	<u>72,635</u>	<u>2,420,000</u>	<u>653,891</u>

City of Rockwell City, Iowa
Notes to Financial Statements
June 30, 2006

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

- a. The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the funds.
- b. Sufficient monthly transfers shall be made to separate water and sewer revenue sinking accounts for the purpose of making the note principal and interest payments when due.
- c. Additional monthly transfers equal to 25% of the monthly transfers to the water sinking account shall be made to a water reserve account. This account is restricted for the purpose of paying principal and interest should a deficiency exist in the water sinking account.
- d. A water improvement fund shall be maintained requiring a monthly payment of \$2,000; provided, however, that when the amount of said deposits in said fund shall equal or exceed \$75,000, no further monthly deposits need to be made except to maintain it at such level.
- e. The waste water treatment system shall maintain net revenues at a level not less than 110% of the amount of principal and interest on the revenue bond.

The City's wastewater treatment system did not maintain net revenues of 110% of the principal and interest due on the sewer revenue bond as stated in the loan agreement.

(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.

Most regular plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate.

City of Rockwell City, Iowa

Notes to Financial Statements

June 30, 2006

Contribution requirements are established by state statute. The City's contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2006, 2005 and 2004 were \$26,583, \$25,758 and \$25,143, respectively, equal to the required contributions for each year.

(5) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation, holiday, and comp time hours for subsequent use or for payment upon termination, retirement or death. Sick leave hours accumulate and are paid only when used. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned benefit payments payable to employees at June 30, 2006, primarily relating to the General Fund, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation, holiday and comp time	\$ 24,000
	=====

This liability has been computed based on rates of pay in effect at June 30, 2006.

(6) Related Party Transactions

The City had business transactions between the City and City officials totaling \$2,703 during the year ended June 30, 2006.

(7) 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.

City of Rockwell City, Iowa

Notes to Financial Statements

June 30, 2006

(8) Capital Leases

The City entered into a capital lease for the purchase of a police car. This lease is from October 17, 2005 through July 17, 2007. During the year ended June 30, 2006 the City disbursed \$11,394 for this lease.

Future minimum lease payments are as follows:

<u>Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
June 30, 2007	<u>\$ 11,117</u>	<u>277</u>	<u>11,394</u>
Total	<u>\$ 11,117</u>	<u>277</u>	<u>11,394</u>
	=====	=====	=====

The City entered into a capital lease for the purchase of an end loader. This lease is from May 25, 2005 through May 25, 2010. During the year ended June 30, 2006 the City disbursed \$17,785 for this lease.

Future minimum lease payments are as follows:

<u>Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
June 30, 2007	14,693	3,092	17,785
June 30, 2008	15,412	2,373	17,785
June 30, 2009	16,165	1,620	17,785
June 30, 2010	<u>16,956</u>	<u>829</u>	<u>17,785</u>
Total	<u>\$ 63,226</u>	<u>7,914</u>	<u>71,140</u>
	=====	=====	=====

The City entered into a capital lease for the purchase of an ambulance. This lease is from May 3, 2004 through May 3, 2007. During the year ended June 30, 2006 the City disbursed \$18,117 for this lease.

Future minimum lease payments are as follows:

<u>Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
June 30, 2007	<u>17,371</u>	<u>746</u>	<u>18,117</u>
Total	<u>\$ 17,371</u>	<u>746</u>	<u>18,117</u>
	=====	=====	=====

City of Rockwell City, Iowa

Notes to Financial Statements

June 30, 2006

The City entered into a capital lease for the purchase of a fire truck. This lease is from December 12, 2005 through December 12, 2015. During the year ended June 30, 2006, there were no amounts disbursed for this lease.

Future minimum lease payments are as follows:

<u>Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
June 30, 2007	\$ 16,015	10,297	26,312
June 30, 2008	16,831	9,481	26,312
June 30, 2009	17,687	8,625	26,312
June 30, 2010	18,588	7,724	26,312
June 30, 2011	19,534	6,778	26,312
June 30, 2012	20,528	5,784	26,312
June 30, 2013	21,573	4,739	26,312
June 30, 2014	22,671	3,641	26,312
June 30, 2015	23,825	2,487	26,312
June 30, 2016	<u>25,037</u>	<u>1,275</u>	<u>26,312</u>
	\$ 202,289	60,831	263,120
	=====	=====	=====

(9) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2006 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Capital Projects	General	\$ 5,000

City of Rockwell City, Iowa

Notes to Financial Statements

June 30, 2006

(10) Project Commitments

The City has committed to a couple of construction projects. One project is airport Improvements for approximately \$400,000. The FAA has awarded the City of Rockwell City \$335,000 for this project with the rest of the funds coming from local sources.

The City has also committed to building a new library and community center for approximately \$2.5 million. This is to be financed with a CAT grant of \$250,000, city funds of \$43,000 and the rest from private donations.

Required Supplementary Information

City of Rockwell City, Iowa

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, 2006

	Governmental Funds <u>Actual</u>	Proprietary Funds <u>Actual</u>
Receipts:		
Property tax	\$ 516,996	-
Other city tax	33,638	-
Licenses and permits	4,446	-
Use of money and property	51,982	58,893
Intergovernmental	229,282	18,921
Charges for service	253,458	599,021
Miscellaneous	90,786	2,669
Total receipts	<u>1,180,588</u>	<u>679,504</u>
Disbursements:		
Public safety	335,787	-
Public works	409,035	-
Culture and recreation	141,138	-
Community and economic development	2,495	-
General government	139,614	-
Debt service	116,759	-
Capital Projects	37,734	-
Business type activities	-	644,675
Total disbursements	<u>1,182,562</u>	<u>644,675</u>
Excess (deficiency) of receipts over (under) disbursements	<u>(1,974)</u>	<u>34,829</u>
Other financing sources	<u>-</u>	<u>12,849</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements	(1,974)	47,678
Balances beginning of year	<u>1,281,117</u>	<u>1,435,614</u>
Balances end of year	<u>\$ 1,279,143</u>	<u>1,483,292</u>

See accompanying independent auditor's report.

<u>Net</u>	<u>Budgeted Amounts</u>		<u>Final to Net Variance</u>
	<u>Original</u>	<u>Final</u>	
516,996	517,020	517,020	(24)
33,638	33,690	33,690	(52)
4,446	3,317	3,317	1,129
110,875	51,075	51,075	59,800
248,203	228,259	244,259	3,944
852,479	830,250	845,250	7,229
93,455	21,900	154,600	(61,145)
<u>1,860,092</u>	<u>1,685,511</u>	<u>1,849,211</u>	<u>10,881</u>
335,787	333,166	353,166	17,379
409,035	348,508	432,508	23,473
141,138	130,896	143,896	2,758
2,495	2,000	3,000	505
139,614	138,653	141,653	2,039
116,759	116,759	116,759	-
37,734	-	125,000	87,266
644,675	630,755	655,755	11,080
<u>1,827,237</u>	<u>1,700,737</u>	<u>1,971,737</u>	<u>144,500</u>
<u>32,855</u>	<u>(15,226)</u>	<u>(122,526)</u>	<u>155,381</u>
<u>12,849</u>	<u>-</u>	<u>-</u>	<u>12,849</u>
45,704	(15,226)	(122,526)	168,230
<u>2,716,731</u>	<u>2,557,426</u>	<u>2,557,426</u>	<u>159,305</u>
<u>2,762,435</u>	<u>2,542,200</u>	<u>2,434,900</u>	<u>327,535</u>

City of Rockwell City, Iowa

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2006

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, the Permanent Fund and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$271,000 and budgeted receipts by \$163,700. The budget amendments are reflected in the final budgeted amount.

Other Supplementary Information

City of Rockwell City, Iowa

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

As of and for the year ended June 30, 2006

	<u>Special Revenue</u>	
	Library Building <u>Trust</u>	<u>DARE</u>
Receipts:		
Property tax	\$ -	-
Other city tax	-	-
Use of money and property	176	-
Intergovernmental	2,878	-
Miscellaneous	<u>640</u>	<u>260</u>
Total receipts	<u>3,694</u>	<u>260</u>
Disbursements:		
Operating:		
Public safety:		
Police	<u>-</u>	<u>376</u>
Culture and recreation:		
Library	2,601	-
Capital projects	-	-
Debt service	<u>-</u>	<u>-</u>
Total disbursements	<u>2,601</u>	<u>376</u>
Other Financing Sources (Uses)		
Operating Transfers In	<u>-</u>	<u>-</u>
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>
Net change in cash balances	1,093	(116)
Cash balances beginning of year	<u>4,048</u>	<u>532</u>
Cash balances end of year	<u>\$ 5,141</u>	<u>416</u>
Cash Basis Fund Balances		
Reserved:		
Debt service	\$ -	-
Unreserved:		
Special revenue funds	5,141	416
Capital Projects	-	-
Permanent fund	<u>-</u>	<u>-</u>
Total cash basis fund balances	<u>\$ 5,141</u>	<u>416</u>

See accompanying independent auditor's report.

Schedule 1

<u>Capital Project</u>	<u>Debt Service</u>	<u>Permanent Cemetery Perpetual Care</u>	<u>Total</u>
-	66,758	-	66,758
-	4,924	-	4,924
-	-	-	176
-	-	-	2,878
<u>71,936</u>	<u>411</u>	<u>250</u>	<u>73,497</u>
<u>71,936</u>	<u>72,093</u>	<u>250</u>	<u>148,233</u>
-	-	-	<u>376</u>
-	-	-	2,601
37,734	-	-	37,734
-	<u>116,759</u>	-	<u>116,759</u>
<u>37,734</u>	<u>116,759</u>	-	<u>157,470</u>
<u>5,000</u>	-	-	<u>5,000</u>
<u>5,000</u>	-	-	<u>5,000</u>
39,202	(44,666)	250	(4,237)
-	<u>52,880</u>	<u>53,750</u>	<u>111,210</u>
<u>39,202</u>	<u>8,214</u>	<u>54,000</u>	<u>106,973</u>
-	8,214	-	8,214
-	-	-	5,557
39,202	-	-	39,202
-	-	<u>54,000</u>	<u>54,000</u>
<u>39,202</u>	<u>8,214</u>	<u>54,000</u>	<u>106,973</u>

City of Rockwell City, Iowa

Schedule of Indebtedness

Year ended June 30, 2006

<u>Obligation</u>	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount Originally Issued</u>
General obligation bonds:			
Emergency services construction	Jun 1, 2000	5.60-5.75	350,000
Total			
General obligation notes:			
Capital loan note	Mar 2, 1998	4.00-4.40 %	\$ 220,000
Revenue bonds:			
Sewer revenue	Apr 19, 1999	4.23 %	\$ 1,766,000
Water revenue	Apr 30, 2004	3.00 %	466,000
Total			
Revenue notes:			
Water construction	Jul 1, 1996	5.00-5.75 %	\$ 905,000
Capital leases:			
Ambulance	May 3, 2004	4.29	\$ 50,000
End Loader	May 25, 2005	4.89	80,455
Fire Truck	Dec 12, 2005	5.09	202,289
Police Car	Oct 14, 2005	5.50	21,735
Total			

See accompanying independent auditor's report.

Schedule 2

<u>Balance Beginning of Year</u>	<u>Issued During Year</u>	<u>Redeemed During Year</u>	<u>Balance End of Year</u>	<u>Interest Paid</u>	<u>Interest Due and Unpaid</u>
<u>330,000</u>	<u>-</u>	<u>50,000</u>	<u>280,000</u>	<u>18,718</u>	<u>-</u>
<u>\$ 330,000</u>	<u>-</u>	<u>50,000</u>	<u>280,000</u>	<u>18,718</u>	<u>-</u>
<u>35,000</u>	<u>-</u>	<u>35,000</u>	<u>-</u>	<u>1,540</u>	<u>-</u>
<u>1,381,000</u>	<u>-</u>	<u>74,000</u>	<u>1,307,000</u>	<u>58,416</u>	<u>-</u>
<u>428,151</u>	<u>12,849</u>	<u>18,000</u>	<u>423,000</u>	<u>13,164</u>	<u>-</u>
<u>\$ 1,809,151</u>	<u>12,849</u>	<u>92,000</u>	<u>1,730,000</u>	<u>71,580</u>	<u>-</u>
<u>480,000</u>	<u>-</u>	<u>70,000</u>	<u>410,000</u>	<u>27,195</u>	<u>-</u>
<u>34,028</u>	<u>-</u>	<u>16,657</u>	<u>17,371</u>	<u>1,460</u>	<u>-</u>
<u>80,455</u>	<u>-</u>	<u>17,228</u>	<u>63,227</u>	<u>557</u>	<u>-</u>
<u>-</u>	<u>202,289</u>	<u>-</u>	<u>202,289</u>	<u>-</u>	<u>-</u>
<u>-</u>	<u>21,735</u>	<u>10,617</u>	<u>11,118</u>	<u>484</u>	<u>-</u>
<u>\$ 114,483</u>	<u>224,024</u>	<u>44,502</u>	<u>282,887</u>	<u>2,501</u>	<u>-</u>

Bond and Note Maturities

June 30, 2006

<u>Year</u> <u>Ending</u> <u>June 30.</u>	<u>General Obligation Bonds</u>	
	<u>Emergency Services</u>	
	<u>Issued June 1, 2000</u>	
	<u>Interest</u>	
	<u>Rates</u>	<u>Amount</u>
2007	5.60 %	\$ 90,000
2008	5.70	95,000
2009	5.75	<u>95,000</u>
Total		<u>\$ 280,000</u>

	<u>Revenue Notes</u>	
	<u>Water Construction</u>	
	<u>Issued July, 1996</u>	
	<u>Interest</u>	
	<u>Rates</u>	<u>Amount</u>
2007	5.60	75,000
2008	6.50	75,000
2009	5.70	85,000
2010	5.75	85,000
2011	5.75	<u>90,000</u>
Total		<u>\$ 410,000</u>

City of Rockwell City, Iowa

Bond and Note Maturities

June 30, 2006

Year Ending June 30.	Revenue Bonds			
	Sewer Revenue 1		Sewer Revenue 2	
	Series 1999		Series 1999	
	Interest Rates	Amount	Interest Rates	Amount
2007	4.23 %	\$ 76,000	4.23 %	\$ 1,000
2008	4.23	79,000	4.23	2,000
2009	4.23	83,000	4.23	2,000
2010	4.23	86,000	4.23	2,000
2011	4.23	90,000	4.23	2,000
2012	4.23	93,000	4.23	2,000
2013	4.23	97,000	4.23	2,000
2014	4.23	102,000	4.23	2,000
2015	4.23	106,000	4.23	2,000
2016	4.23	110,000	4.23	2,000
2017	4.23	115,000	4.23	2,000
2018	4.23	120,000	4.23	2,000
2019	4.23	125,000	4.23	2,000
2020		-		-
2021		-		-
2022		-		-
2023		-		-
2024		-		-
Total		<u>\$ 1,282,000</u>		<u>\$ 25,000</u>

See accompanying independent auditor's report.

Revenue Bonds			
Water Revenue			
Series 2004			
Interest			
<u>Rates</u>		<u>Amount</u>	<u>Total</u>
3.00 %	\$	18,000	95,000
3.00		19,000	100,000
3.00		19,000	104,000
3.00		20,000	108,000
3.00		20,000	112,000
3.00		21,000	116,000
3.00		22,000	121,000
3.00		22,000	126,000
3.00		23,000	131,000
3.00		24,000	136,000
3.00		24,000	141,000
3.00		25,000	147,000
3.00		26,000	153,000
3.00		26,000	26,000
3.00		27,000	27,000
3.00		28,000	28,000
3.00		29,000	29,000
3.00		<u>30,000</u>	<u>30,000</u>
		<u>\$ 423,000</u>	<u>1,730,000</u>

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

For the Last Three Years

	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Receipts:				
Property tax	\$ 516,996	\$ 510,503	\$ 522,195	\$ 502,888
Other city tax	33,638	34,421	32,292	26,016
Licenses and permits	4,446	3,250	3,597	3,441
Use of money and property	51,982	28,949	19,401	26,941
Intergovernmental	229,282	319,200	302,489	448,393
Charges for service	253,458	228,905	206,066	201,104
Miscellaneous	<u>90,786</u>	<u>40,593</u>	<u>22,352</u>	<u>12,728</u>
 Total	 <u>\$ 1,180,588</u>	 <u>\$ 1,165,821</u>	 <u>\$ 1,108,392</u>	 <u>\$ 1,221,511</u>
 Disbursements:				
Operating				
Public safety	\$ 335,787	\$ 436,336	\$ 370,836	\$ 312,083
Public works	409,035	335,467	294,759	294,602
Health and social services	-	6,200	6,751	951
Culture and recreation	141,138	134,989	145,277	145,897
Community and economic development	2,495	2,195	36,149	159,191
General government	139,614	102,024	124,006	110,691
Debt service	116,759	110,654	104,965	115,561
Capital projects	<u>37,734</u>	<u>-</u>	<u>3,001</u>	<u>15,779</u>
 Total	 <u>\$ 1,182,562</u>	 <u>\$ 1,127,865</u>	 <u>\$ 1,085,744</u>	 <u>\$ 1,154,755</u>

See accompanying independent auditor's report.

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

To the Honorable Mayor and
Members of the City Council:

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 Rockwell City, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements listed in the table of contents and have issued our report thereon dated October 20, 2006. 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 Rockwell City'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 Rockwell City's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial

statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item I-A-06 is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Rockwell City'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 Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2006 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 Rockwell City and other parties to whom the City of Rockwell City may report including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

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

Cornwell, Frideres, Maher & Associates, P.L.C.
Certified Public Accountants

October 20, 2006

City of Rockwell City, Iowa

Schedule of Findings

Year ended June 30, 2006

Part I: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

I-A-06 Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that certain functions are not entirely segregated, such as preparing receipts and posting utility billing.

Recommendation – We realize that with a limited number of office employees, segregation of duties is difficult. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response – We feel we are doing the best we can with the limited personnel we have.

Conclusion – Response acknowledged.

Part II: Other Findings Related to Statutory Reporting:

II-A-06 Certified Budget – Disbursements during the year ended June 30, 2006, did not exceed the amounts budgeted.

II-B-06 Questionable Disbursements – No disbursements were noted that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

II-C-06 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

City of Rockwell City, Iowa

Schedule of Findings

Year ended June 30, 2006

II-D-06 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>
John Hepp, Council Member owns Johns Car Clinic	Repairs	\$ 898
Phil Hammen, Employee, Self-employed	Skid Loader Rental	\$ 1,246
Paul Kutz, Council Member owns lumber shop	Repairs	\$ 559

In accordance with Chapter 362.5(10) of the Code of Iowa, the above transactions do not appear to represent conflicts of interest since total transactions with each individual were less than \$2,500 during the fiscal year.

II-E-06 Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage is reviewed annually to insure that coverage is adequate for current operations.

II-F-06 Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not.

II-G-06 Deposits and Investments - No instances of non-compliance with the deposit and investments provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.

City of Rockwell City, Iowa

Schedule of Findings

Year ended June 30, 2006

II-H-06 Revenue Notes/Bonds – The City’s wastewater treatment system did not maintain net revenues of 110% of the principal and interest due on the sewer revenue bond as stated in the loan agreement.

Recommendation – The City should consult legal counsel concerning this matter.

Response – We contacted our legal counsel and are in the process of increasing our sewer rates.

Conclusion – Response accepted.

II-I-06 Issuance of Form 1099’s – It was noted during the course of the audit that the City did not issue 1099’s for it’s independent contractors.

Recommendation – The City should issue 1099’s as required by the Internal Revenue Service.

Response – This was an oversight this year. Normally we have issued 1099’s.

Conclusion – Response accepted.