

City of Remsen

Remsen, Iowa

Independent Auditor's Reports
Basic Financial Statements and
Supplementary Information
Schedule of Findings and Responses

June 30, 2006

City of Remsen

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City of Remsen

City Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January 2006)		
Tom Letsche	Mayor	January 2008
Craig Bartolozzi	Council Member	January 2006
Dean Douvia	Council Member	January 2006
Mike Nelson	Council Member	January 2008
Dale Schroeder	Council Member	January 2006
Dick Sievers	Council Member	January 2008
Steven Pick	Clerk/Treasurer	January 2006

(After January 2006)

Tom Letsche	Mayor	January 2008
Craig Bartolozzi	Council Member	January 2010
Dean Douvia	Council Member	January 2010
Mike Nelson	Council Member	January 2008
Dale Schroeder	Council Member	January 2010
Dick Sievers	Council Member	January 2008
Bob Groepper	Clerk/Treasurer	January 2007

Municipal Utilities

(Before January 2006)

Don Kolker	Chairman	January 2008
Richard Gengler	Trustee	January 2006
Stephen Matgen	Trustee	January 2010
Ron Mayer	Superintendent	

(After January 2006)

Don Kolker	Chairman	January 2008
Tom Bacon	Trustee	January 2012
Stephen Matgen	Trustee	January 2010
Ron Mayer	Superintendent	



KING, REINSCH, PROSSER & CO., L.L.P.
Certified Public Accountants

Member Private Companies Practice Section of AICPA

522 4TH STREET, SUITE 200
SIOUX CITY, IA 51101-1620
(712) 258-5550
FAX (712) 277-6705

Independent Auditor's Report

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Remsen, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Remsen's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the 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 the notes, 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, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Remsen, Iowa, 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 the notes to the financial statements.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 6, 2006 on our consideration of the City of Remsen's internal control over financial reporting and on 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 on 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.

The management's discussion and analysis and budgetary comparison information on pages 4 through 9 and 22 and 23 are not required parts of the basis 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. However, 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 Remsen's basic financial statements. Other supplementary information included on pages 24 through 27 is presented for purposes of additional analysis and is not a required part of the basic financial statements. This 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.

King, Reinsch, Prosser & Co., L.L.P.

Sioux City, Iowa
October 6, 2006

Management's Discussion and Analysis

City of Remsen 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

- Receipts of the City's governmental activities increased 1 percent, or approximately \$12,000, from fiscal 2005 to fiscal 2006. Property tax increased approximately \$20,000, charges for services increased approximately \$30,000, investment interest increased approximately \$18,000 and proceeds from sale of assets increased approximately \$28,000. Also, transfers, net decreased by approximately \$104,000.
- Disbursements of the City's governmental activities increased 11 percent, or approximately \$98,000, in fiscal 2006 from fiscal 2005. Public works and culture and recreation disbursements increased approximately \$57,000 and \$47,000, respectively. Public safety disbursements decreased approximately \$26,000.
- The City's total cash basis net assets increased 12 percent, or approximately \$161,000, from June 30, 2005 to June 30, 2006. Of this amount, the assets of the governmental activities increased approximately \$103,000 and the assets of the business type activities increased by approximately \$58,000.

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 City's nonmajor governmental funds, indebtedness and debt maturities.

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 Statements

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

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases 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 includes 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 sanitary sewer system and garbage utility. These activities are financed primarily by user charges.

The City's financial reporting entity includes the funds of the City (primary government) and organizations for which the City is accountable (component units). A legally separate organization operates independently and provides services directly to the citizens though the City remains accountable for their activities. This organization, Municipal Utilities, is governed by a board of trustees. It is reported separately from the primary government though included in the City's overall reporting entity.

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 Local Option Sales Tax, 3) the Debt Service Fund, and 4) the Capital Projects Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

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

- 2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains two Enterprise Funds to provide separate information for the sewer and garbage funds, considered to be major funds of the City.

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

Government-Wide Financial Analysis

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from a year ago, increasing from \$1,035,543 to \$1,138,536. The analysis that follows focuses on the changes in cash balances for governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities For the Year Ended June 30,

	2006	2005
Receipts and transfers:		
Program receipts:		
Charges for services	\$ 110,513	\$ 80,414
Operating grants, contributions and restricted interest	209,479	202,354
Capital grants, contributions and restricted interest	40,085	35,556
General receipts:		
Property taxes	556,276	535,985
Other city tax	151,948	138,900
Grants and contributions not restricted to specific purposes	-	10,496
Unrestricted investment earnings	46,875	28,591
Miscellaneous	9,382	3,882
Sale of assets	35,141	7,500
Transfers, net	(49,584)	54,250
Total receipts and transfers	1,110,115	1,097,928
Disbursements:		
General government	166,847	149,393
Public safety	273,194	299,461
Public works	307,957	250,924
Culture and recreation	180,872	133,693
Debt service	78,252	75,503
Total disbursements	1,007,122	908,974
Change in cash basis net assets	102,993	188,954
Cash basis net assets - beginning	1,035,543	846,589
Cash basis net assets - ending	\$ 1,138,536	\$ 1,035,543

The City's total receipts for governmental activities increased by 1 percent, or \$12,187. The total cost of all programs and services increased by approximately \$98,148, or 11 percent, with no new programs added this year. The significant change in receipts compared to prior year is due to a transfer from the City to its component unit, the Municipal Utilities. The significant increase in cost of programs and services was primarily due to the purchase of a new motor grader for the streets department, construction of the new shelter house, and the Sunrise park sidewalk addition.

The cost of all governmental activities this year was \$1,007,122 compared to \$908,974 last year. However, as shown in the Statement of Activities and Net Assets on page 10, the amount taxpayers ultimately financed for these activities was only \$750,038 because some of the cost was paid by those directly benefited from the programs (\$110,513) or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest (\$249,564). Overall, the City's governmental activities receipts, including intergovernmental aid and fees for service, increased in 2006 from approximately \$318,000 to approximately \$360,000, principally due to collecting additional fees related to ambulance services. The City paid for the remaining "public benefit" portion of governmental activities with approximately \$710,000 in tax (some of which could only be used for certain programs) and other receipts, such as interest and general entitlements.

**Changes in Cash Basis Net Assets of Business Type Activities
For the Year Ended June 30,**

	2006	2005
Receipts:		
Program receipts:		
Charges for services:		
Sewer utility	\$ 112,308	\$ 112,609
Garbage utility	129,356	127,970
General receipts:		
Unrestricted investment earnings	3,603	2,157
Total receipts	245,267	242,736
Disbursements:		
Sewer utility	88,332	136,843
Garbage utility	99,321	99,264
Total disbursements	187,653	236,107
Change in cash basis net assets	57,614	6,629
Cash basis net assets - beginning	344,430	337,801
Cash basis net assets - ending	\$ 402,044	\$ 344,430

Total business type activities receipts for the fiscal year were \$245,267 compared to \$242,736 last year. The cash balance increased by approximately \$58,000 from the prior year because of a sewer improvement project completed in fiscal year 2005. Total disbursements decreased by 21 percent to a total of \$187,653 for the fiscal year.

Individual Major Governmental Fund Analysis

As City of Remsen completed the year, its governmental funds reported a combined fund balance of \$1,138,536, an increase of \$102,993 from last year's total of \$1,035,543. 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 \$16,905 from the prior year to \$536,490. The increase is due to additional charges for services receipts relating to ambulance services.
- The Road Use Tax Fund cash balance increased by \$30,221 to \$157,038 during the fiscal year. This increase is due to the City not fully disbursing its road use tax allocation from the state.
- The Local Option Sales Tax Fund cash balance was \$162,901 at the end of the fiscal year, an increase of \$84,133 from the previous year. The increase was due to only half of the current receipts being spent.
- The Employee Benefits Fund cash balance increased \$61,536 from the prior year to \$182,191. The increase is due to an increased property tax rate and receipt of increased property tax dollars.

Individual Major Business Type Fund Analysis

- The Sewer Utility cash balance increased by \$27,385 to \$291,998, due primarily to reducing disbursements for the current year.
- The Garbage Utility cash balance increased by \$30,229 to \$110,046, due primarily to garbage receipts exceeding disbursements for the current year.

Budgetary Highlights

In accordance with the Code of Iowa, the City Council adopted 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 was not amended during the year. During the year ended June 30, 2006, disbursements exceeded the amounts budgeted in the culture and recreation and business type activities functions.

Debt Administration

At June 30, 2006, the City had \$463,477 in bonds and other long-term debt, compared to \$553,477 last year, as shown below.

Outstanding Debt at Year-End		
June 30,		
	<u>2006</u>	<u>2005</u>
General obligation bonds	\$ 435,000	\$ 490,000
Bank notes	28,477	63,477
Total	<u>\$ 463,477</u>	<u>\$ 553,477</u>

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5 percent of the assessed value of all taxable property within the City’s corporate limits. The City’s outstanding general obligation debt of \$435,000 is significantly below its constitutional debt limit of \$1.7 million.

Economic Factors and Next Year’s Budgets and Rates

City of Remsen’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. One of those factors is the state of the economy.

The Electric Utility is not expected to see an increase in electric rates for the next fiscal year. The City has decided that it is necessary to review the revenue on a semi-annual basis and implement an increase in rates if deemed necessary.

Due to the high volatility of the natural gas market, the Gas Utility has restructured its natural gas rate to charge customers its actual monthly costs. The City is reviewing the revenue on a monthly basis and implementing rate changes.

These indicators were taken into account when adopting the budget for fiscal year 2007. Amounts available for appropriation in the operating budget for all City and Utility funds are \$3.8 million, an increase of 19 percent over the final 2006 budget. Budgeted disbursements are expected to increase by approximately \$600,000 due to higher purchased utility costs and additional general government capital improvements. The City has added no major new programs or initiatives to the 2007 budget.

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 Bob Groepper, City Clerk, PO Box 510, Remsen, IA 51050.

FINANCIAL STATEMENTS

City of Remsen
Statement of Activities and Net Assets - Cash Basis
For the Year Ended June 30, 2006

<u>Functions/Programs</u>	<u>Disbursements</u>	<u>Program Receipts</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Primary Government:				
Governmental activities:				
General Government	\$ 166,847	\$ 1,642	\$ -	\$ 10,000
Public Safety	273,194	76,350	44,491	30,085
Public Works	307,957	3,815	149,976	-
Culture and Recreation	180,872	28,706	15,012	-
Debt Service	78,252	-	-	-
Total governmental activities	<u>1,007,122</u>	<u>110,513</u>	<u>209,479</u>	<u>40,085</u>
Business-type activities:				
Sewer Utility	88,332	112,308	-	-
Garbage Utility	99,321	129,356	-	-
Total business-type activities	<u>187,653</u>	<u>241,664</u>	<u>-</u>	<u>-</u>
Total primary government	<u>1,194,775</u>	<u>352,177</u>	<u>209,479</u>	<u>40,085</u>
Component Unit:				
Municipal Utilities	2,130,038	2,230,580	-	-
Total component unit	<u>\$ 2,130,038</u>	<u>\$ 2,230,580</u>	<u>\$ -</u>	<u>\$ -</u>

General Receipts:

Taxes:
 Property taxes, levied for general purposes
 Property taxes, levied for employee benefits
 Property taxes, levied for tax increment financing
 Property taxes, levied for debt service
 Local option sales tax
Unrestricted investment earnings
Miscellaneous
Gain on sale of asset
Transfers
 Total general receipts, special items, and transfers
Change in cash basis net assets
Cash basis net assets - beginning
Cash basis net assets - ending

Cash Basis Net Assets:

Restricted:
 Streets
 Employee benefits
 Local option sales tax
 Other purposes
Unrestricted
 Total cash basis net assets

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets

Primary Government

Governmental Activities	Business-Type Activities	Total	Component Unit
\$ (155,205)	\$ -	\$ (155,205)	
(122,268)	-	(122,268)	
(154,166)	-	(154,166)	
(137,154)	-	(137,154)	
(78,252)	-	(78,252)	
<u>(647,045)</u>	<u>-</u>	<u>(647,045)</u>	
-	23,976	23,976	
-	30,035	30,035	
-	54,011	54,011	
<u>(647,045)</u>	<u>54,011</u>	<u>(593,034)</u>	
			\$ 100,542
			<u>100,542</u>
281,257	-	281,257	-
127,307	-	127,307	-
69,531	-	69,531	-
78,181	-	78,181	-
151,948	-	151,948	-
46,875	3,603	50,478	35,589
9,382	-	9,382	-
35,141	-	35,141	-
<u>(49,584)</u>	<u>-</u>	<u>(49,584)</u>	<u>49,584</u>
<u>750,038</u>	<u>3,603</u>	<u>753,641</u>	<u>85,173</u>
102,993	57,614	160,607	185,715
1,035,543	344,430	1,379,973	1,066,893
<u>\$ 1,138,536</u>	<u>\$ 402,044</u>	<u>\$ 1,540,580</u>	<u>\$ 1,252,608</u>
\$ 157,038	\$ -	\$ 157,038	\$ -
182,191	-	182,191	-
162,901	-	162,901	-
99,916	-	99,916	2,502
536,490	402,044	938,534	1,250,106
<u>\$ 1,138,536</u>	<u>\$ 402,044</u>	<u>\$ 1,540,580</u>	<u>\$ 1,252,608</u>

City of Remsen
Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Governmental Funds
For the Year Ended June 30, 2006

	<u>General Fund</u>	<u>Road Use Tax</u>	<u>Employee Benefits</u>	<u>Local Option Sales Tax</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Receipts:						
Property taxes	\$ 281,257	\$ -	\$ 127,307	\$ -	\$ 147,712	\$ 556,276
Other city tax	-	-	-	151,948	-	151,948
Licenses and permits	10,865	-	-	-	-	10,865
Intergovernmental	57,625	147,524	-	-	-	205,149
Charges for services	96,893	-	-	-	-	96,893
Investment earnings	47,013	-	-	-	-	47,013
Miscellaneous	46,414	-	-	10,000	-	56,414
Total receipts	<u>540,067</u>	<u>147,524</u>	<u>127,307</u>	<u>161,948</u>	<u>147,712</u>	<u>1,124,558</u>
Disbursements:						
Operating:						
General government	113,818	-	9,274	43,755	-	166,847
Public safety	231,618	-	22,199	19,377	-	273,194
Public works	155,889	117,303	34,298	467	-	307,957
Culture and recreation	166,656	-	-	14,216	-	180,872
Debt Service:						
Principal	-	-	-	-	55,000	55,000
Interest and other charges	-	-	-	-	23,252	23,252
Total disbursements	<u>667,981</u>	<u>117,303</u>	<u>65,771</u>	<u>77,815</u>	<u>78,252</u>	<u>1,007,122</u>
Excess (deficiency) of receipts over disbursements	<u>(127,914)</u>	<u>30,221</u>	<u>61,536</u>	<u>84,133</u>	<u>69,460</u>	<u>117,436</u>
Other Financing Sources (Uses):						
Transfers in	109,678	-	-	-	-	109,678
Transfers out	-	-	-	-	(159,262)	(159,262)
Total other financing sources (uses)	<u>109,678</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(159,262)</u>	<u>(49,584)</u>
Special Item:						
Proceeds from sale of assets	35,141	-	-	-	-	35,141
Net change in cash balances	16,905	30,221	61,536	84,133	(89,802)	102,993
Cash fund balances - beginning	519,585	126,817	120,655	78,768	189,718	1,035,543
Cash fund balances - ending	<u>\$ 536,490</u>	<u>\$ 157,038</u>	<u>\$ 182,191</u>	<u>\$ 162,901</u>	<u>\$ 99,916</u>	<u>\$ 1,138,536</u>
Cash Basis Fund Balances:						
Reserved for debt service	\$ -	\$ -	\$ -	\$ -	\$ 31,661	\$ 31,661
Unreserved:						
General fund	536,490	-	-	-	-	536,490
Special revenue funds	-	157,038	182,191	162,901	68,255	570,385
Total cash basis fund balances	<u>\$ 536,490</u>	<u>\$ 157,038</u>	<u>\$ 182,191</u>	<u>\$ 162,901</u>	<u>\$ 99,916</u>	<u>\$ 1,138,536</u>

City of Remsen
Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Proprietary Funds
For the Year Ended June 30, 2006

	Enterprise Funds		Total
	Sewer Utility	Garbage Utility	
Receipts:			
Charges for services	\$ 112,308	\$ 129,356	\$ 241,664
Total operating revenues	<u>112,308</u>	<u>129,356</u>	<u>241,664</u>
Operating Disbursements:			
Personal services	49,817	42,129	91,946
Contractual services	-	51,374	51,374
Utilities	13,442	-	13,442
Repairs and maintenance	20,019	539	20,558
Other supplies and expenses	4,854	3,779	8,633
Insurance claims and expenses	200	1,500	1,700
Total operating disbursements	<u>88,332</u>	<u>99,321</u>	<u>187,653</u>
Excess of operating receipts over operating disbursements	<u>23,976</u>	<u>30,035</u>	<u>54,011</u>
Non-Operating Receipts:			
Interest and investment revenue	3,409	194	3,603
Total non-operating receipts	<u>3,409</u>	<u>194</u>	<u>3,603</u>
Change in cash balances	27,385	30,229	57,614
Cash fund balances - beginning	264,613	79,817	344,430
Cash fund balances - ending	<u>\$ 291,998</u>	<u>\$ 110,046</u>	<u>\$ 402,044</u>
Cash Basis Fund Balances:			
Unreserved:			
Designated	\$ 271,902	\$ -	\$ 271,902
Undesignated	20,096	110,046	130,142
	<u>\$ 291,998</u>	<u>\$ 110,046</u>	<u>\$ 402,044</u>

City of Remsen
Notes to Financial Statements
June 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The City of Remsen, Iowa, is a political subdivision of the State of Iowa located in Plymouth County. It was first incorporated in 1889 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 and recreation, and general government services. The City also provides sewer and garbage utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, City of Remsen 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.

These financial statements present the City of Remsen (the primary government) and its component unit. The component unit discussed below is included in the City's reporting entity because of the significance of its operational or financial relationship with the City. Certain disclosures about the discretely presented component unit are not included because the component unit has been audited separately and a report has been issued under separate cover. The audited financial statements are available at the City Clerk's office.

Discretely Presented Component Unit

The Municipal Utilities of the City of Remsen is presented in a separate column to emphasize that it is legally separate from the City, but is financially accountable to the City, or whose relationship with the City is such that exclusion would cause the City's financial statements to be misleading or incomplete. The Utilities are governed by a three-member board appointed by the Mayor and approved by the City Council and Utilities' operating budget is subject to the approval of the City Council.

City of Remsen
Notes to Financial Statements
June 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

Emergency Medical Technicians

The financial statements of the City's emergency medical technicians are presented within the general fund. The emergency medical technicians are financially accountable to the City and the technicians are approved by the City Council.

Fire Department

The financial statements of the City's fire department are presented within the general fund. The fire department is financially accountable to the City and the firemen are approved by the City Council.

B. Government-wide Financial Statements

The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. The primary government and its component unit are presented separately within the financial statements with the focus on the primary government. 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 assets 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 included 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.

City of Remsen
Notes to Financial Statements
June 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

C. 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.

In the fund financial statements, governmental funds report fund balances as either a reserved fund balance or an unreserved fund balance.

Reserved fund balance consists of the portion of fund balance which is not available for appropriation or which has been legally segregated for a specific purpose.

Unreserved fund balance is composed of designated and undesignated portions. The undesignated portion of the unreserved fund balance represents that portion of fund balance that is available for budgeting in future periods. Designated fund balances represents tentative plans for future use of financial resources.

The City reports the following major governmental funds:

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

Special Revenue Funds -

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

The Local Option Sales Tax Fund is used to account for receipt of City's share of the one percent local option sales tax.

The Employee Benefit Fund is used to account for receipt of property taxes restricted for payment of certain employee's health benefits.

City of Remsen
Notes to Financial Statements
June 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

The City reports the following major proprietary funds:

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

Garbage Utility Fund - The Garbage Utility Fund accounts for the operation and maintenance of the City's garbage removal.

D. Measurement Focus and Basis of Accounting

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

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements general 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.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2006, disbursements exceeded the amounts budgeted in the culture and recreation and business type activities functions.

City of Remsen
Notes to Financial Statements
June 30, 2006

NOTE 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.

NOTE 3 - BONDS AND NOTES PAYABLE:

Annual debt service requirements to maturity for general obligation capital loan notes, real estate mortgage loan, water revenue bonds and water revenue capital loan notes are as follows:

Year Ending June 30,	General Obligation Capital Loan Notes		Real Estate Mortgage Loan	
	Principal	Interest	Principal	Interest
2007	\$ 55,000	\$ 20,750	\$ 28,477	\$ 10,594
2008	60,000	18,220	-	-
2009	60,000	15,430	-	-
2010	65,000	12,610	-	-
2011	65,000	9,621	-	-
2012-2013	130,000	9,523	-	-
	<u>\$ 435,000</u>	<u>\$ 86,154</u>	<u>\$ 28,477</u>	<u>\$ 10,594</u>

City of Remsen
Notes to Financial Statements
June 30, 2006

NOTE 3 - BONDS AND NOTES PAYABLE (CONTINUED):

Year Ending June 30,	<u>Component Unit</u>					
	<u>Water Revenue Bonds</u>		<u>Water Capital Loan Notes</u>		<u>Total</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2007	\$ 25,000	\$ 4,863	\$ 20,000	\$ 7,185	\$ 45,000	\$ 12,048
2008	25,000	3,675	25,000	6,425	50,000	10,100
2009	25,000	2,475	25,000	5,425	50,000	7,900
2010	25,000	1,250	25,000	4,413	50,000	5,663
2011	-	-	80,000	3,400	80,000	3,400
	<u>\$ 100,000</u>	<u>\$ 12,263</u>	<u>\$ 175,000</u>	<u>\$ 26,848</u>	<u>\$ 275,000</u>	<u>\$ 39,111</u>

General Obligation Capital Loan Notes - The City has issued a total of \$800,000 of General Obligation Capital Loan Notes of which \$435,000 is outstanding as of June 30, 2006. The notes were used to finance construction of a new swimming pool and will be retired by property taxes levied specifically for that purpose. The outstanding notes mature annually in amounts varying from \$45,000 to \$65,000 with final payment due in 2013, and pay interest semi-annually from 4.25 to 4.95 percent.

Real Estate Mortgage Loan - The City is mortgagor with respect to a real estate mortgage dated February 12, 1998 secured by a lot and building constructed for use by Remsen EMTs. The balance of the mortgage loan is \$28,477 as of June 30, 2006. The mortgage bears interest at the per annum rate of 5.5 percent, and the city has retired the loan as of July 2006.

Water Revenue Bonds - On March 1, 1999, the City's component unit issued \$245,000 in water revenue bonds to refinance pre-existing water revenue bonds of which \$100,000 is outstanding as of June 30, 2006. The bonds have interest rates ranging between 4.45 percent and 5.00 percent, and mature annually in amounts of \$20,000 and \$25,000, until the year 2010. The bonds pay interest semi-annually on October 1 and April 1, with principal being due on April 1.

Water Revenue Capital Loans Notes - On December 15, 2001, the City's component unit issued \$235,000 in Water Revenue Capital Loan Notes, of which \$175,000 is outstanding as of June 30, 2006, to provide funds for construction improvements and extensions to the Municipal Water Utility. The bonds have interest rates ranging between 3.25 percent and 4.25 percent, and mature annually in amounts of \$10,000, \$20,000, \$25,000 and \$80,000 until the year 2011. The notes pay interest semi-annually on June 1 and December 1, with principal being due on June 1.

City of Remsen
Notes to Financial Statements
June 30, 2006

NOTE 4 - PENSION AND RETIREMENT BENEFITS:

The City and its component unit contribute 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 percent of their annual covered salary and the City is required to contribute 5.75 percent of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City and its component unit's contributions, equal to the amount required by statute, to IPERS were as follows:

Fiscal Year	City of Remsen	Municipal Utilities	Total
2006	21,745	\$ 9,396	\$ 31,141
2005	20,917	9,776	30,693
2004	20,272	8,934	29,206

NOTE 5 - COMPENSATED ABSENCES:

City employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation termination payments payable to employees at June 30, 2006, was \$17,951 for the primary government and \$8,921 for the Municipal Utilities, a component unit. This liability has been computed based on rates of pay in effect at June 30, 2006.

NOTE 6 - TRANSFERS:

Municipal Utilities - During the year ended June 30, 2006, transfers netting to \$49,584 were made between the component unit and the primary government. \$99,584 represented reimbursement for money used to develop the City's tax increment financing districts. \$50,000 was a routine transfer to the City in lieu of taxes.

City of Remsen
Notes to Financial Statements
June 30, 2006

NOTE 7 - UNRESERVED, DESIGNATED FUND BALANCE:

Proceeds from a special charge (of \$2 per month) to all sewer customers are to provide for maintenance and replacement costs of the sewer plant.

NOTE 8 - URBAN RENEWAL PROJECT AREA:

By Council resolution adopted October 22, 1997, the City has established the Country Club Estates Urban Renewal Project Area and by Council resolution adopted September 22, 1999, the City has established the Arens Second Addition Urban Renewal Plan enabling the City to utilize tax increment financing with respect to certain indebtedness incurred by the City in conjunction with development of the Urban Renewal Project Areas. Property taxes collected each year in excess of the "base period" taxes with respect to the Urban Renewal Project Areas are allocated to a special tax increment fund from which principal and any interest on the indebtedness incurred on the Project shall be paid. The amount of debt certified with the Plymouth County Auditor on November 26, 2002 after completion of the Country Club Estates development project totaled \$495,172, of which, \$315,201 remains unpaid as certified with the Plymouth County Auditor on December 1, 2005 as of June 30, 2005. The amount of debt certified with the Plymouth County Auditor on November 26, 2002 with respect to the Arens Second Addition project totaled \$134,188, of which, \$117,412 remains unpaid as certified with the Plymouth County Auditor on December 1, 2005. As of June 30, 2006, property taxes in the amount of \$69,531 have been collected that are eligible to be used to retire the tax increment debts and the City has made the appropriate transfers for the repayment of the certified debt.

NOTE 9 - RELATED PARTY TRANSACTIONS:

The City and its component unit, the Municipal Utilities, had business transactions totaling \$65,398 and \$19,935, respectively, between the City and City officials during the year ended June 30, 2006.

NOTE 10 - RISK MANAGEMENT:

The City of Remsen, Iowa, and its component unit are 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 Remsen
Notes to Financial Statements
June 30, 2006

NOTE 11 - AGREEMENT WITH DEVELOPER:

On December 9, 1998, the City entered into an agreement with a local developer providing for the advance of \$75,467 by the City to the developer for purposes of completing certain local road construction projects. The City is to be reimbursed by the developer \$4,000 from the sale of each lot located in the affected development area. If the sale of lots does not pay off the advanced monies by January 1, 2007, the total unpaid balance shall become due. The unpaid balance bears no interest and as of June 30, 2006, \$35,467 remains outstanding.

NOTE 12 - COMMITMENTS:

The City has entered into the following contracts to be completed after June 30, 2006:

Description	Contract	Progress Bills	Remaining Contract
Reconstruction of Sunrise Park Shelter			
House restroom facilities	\$ 34,550	\$ (32,823)	\$ 1,727
Sunrise Park sidewalk addition	37,634	(35,752)	1,882
Beck Avenue relief sewer project	196,512	-	196,512
Beck Street box culvert project	83,757	-	83,757
Asphalt overlay project	118,472	-	118,472
	<u>\$ 470,925</u>	<u>\$ (68,575)</u>	<u>\$ 402,350</u>

REQUIRED SUPPLEMENTARY INFORMATION

City of Remsen
Budgetary Comparison Schedule of Receipts, Disbursements, and Changes in Balances -
Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Funds
Required Supplementary Information
For the Year Ended June 30, 2006

	Governmental Funds Actual	Proprietary Funds Actual	Component Unit	Less Funds Not Required To Be Budgeted	Total	Budgeted Amounts		Final to Total Variance
						Original	Final	
Receipts:								
Property tax	\$ 556,276	\$ -	\$ -	\$ -	\$ 556,276	\$ 563,301	\$ 563,301	\$ (7,025)
Other city tax	151,948	-	-	-	151,948	150,000	150,000	1,948
Licenses and permits	10,865	-	-	-	10,865	10,260	10,260	605
Intergovernmental	205,149	-	-	(45,394)	159,755	173,551	173,551	(13,796)
Charges for services	96,893	241,664	2,230,580	(68,016)	2,501,121	2,150,082	2,150,082	351,039
Investment earnings	47,013	3,603	35,589	(4,462)	81,743	43,800	43,800	37,943
Miscellaneous	56,414	-	-	(29,182)	27,232	18,755	18,755	8,477
Total receipts	<u>1,124,558</u>	<u>245,267</u>	<u>2,266,169</u>	<u>(147,054)</u>	<u>3,488,940</u>	<u>3,109,749</u>	<u>3,109,749</u>	<u>379,191</u>
Disbursements:								
General government	166,847	-	-	-	166,847	187,824	187,824	20,977
Public safety	273,194	-	-	(102,237)	170,957	225,726	225,726	54,769
Public works	307,957	-	-	-	307,957	386,984	386,984	79,027
Culture and recreation	180,872	-	-	-	180,872	139,111	139,111	(41,761)
Debt service	78,252	-	-	-	78,252	156,103	156,103	77,851
Business type activities	-	187,653	2,130,038	-	2,317,691	2,014,001	2,014,001	(303,690)
Total disbursements	<u>1,007,122</u>	<u>187,653</u>	<u>2,130,038</u>	<u>(102,237)</u>	<u>3,222,576</u>	<u>3,109,749</u>	<u>3,109,749</u>	<u>\$ (112,827)</u>
Excess of receipts over disbursements	<u>117,436</u>	<u>57,614</u>	<u>136,131</u>	<u>(44,817)</u>	<u>266,364</u>	<u>-</u>	<u>-</u>	
Other financing sources (uses), net	<u>(14,443)</u>	<u>-</u>	<u>49,584</u>	<u>-</u>	<u>35,141</u>	<u>-</u>	<u>-</u>	
Excess of receipts and other financing sources over disbursements and other financing uses	<u>102,993</u>	<u>57,614</u>	<u>185,715</u>	<u>(44,817)</u>	<u>301,505</u>	<u>-</u>	<u>-</u>	
Balances - beginning	<u>1,035,543</u>	<u>344,430</u>	<u>1,066,893</u>	<u>-</u>	<u>2,446,866</u>	<u>2,120,686</u>	<u>2,120,686</u>	
Balances - ending	<u>\$ 1,138,536</u>	<u>\$ 402,044</u>	<u>\$ 1,252,608</u>	<u>\$ (44,817)</u>	<u>\$ 2,748,371</u>	<u>\$ 2,120,686</u>	<u>\$ 2,120,686</u>	

City of Remsen
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. 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, the City did not amend its budget; therefore, the original and final budget amounts are the same.

During the year ended June 30, 2006, disbursements exceeded the amounts budgeted in the culture and recreation and business type activities functions.

Due to the emergency medical technicians and fire department maintaining separate accounting records, the City does not budget for these items. Therefore, these items have been included in the Less Funds Not Required to be Budgeted Column.

OTHER SUPPLEMENTARY INFORMATION

City of Remsen
Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2006

	Urban Renewal Tax Increment	Debt Service	Total-Other Governmental Funds
Receipts:			
Property taxes	\$ 69,531	\$ 78,181	\$ 147,712
Total receipts	69,531	78,181	147,712
 Disbursements:			
Debt service:			
Principal	-	55,000	55,000
Interest and other charges	-	23,252	23,252
Total disbursements	-	78,252	78,252
Excess (deficiency) of receipts over disbursements	69,531	(71)	69,460
 Other Financing Sources (Uses):			
Transfers out	(159,262)	-	(159,262)
Total other financing sources (uses)	(159,262)	-	(159,262)
Net change in cash balances	(89,731)	(71)	(89,802)
Cash fund balances - beginning	157,986	31,732	189,718
Cash fund balances - ending	\$ 68,255	\$ 31,661	\$ 99,916
 Cash Basis Fund Balances:			
Reserved:			
Debt service	\$ -	\$ 31,661	\$ 31,661
Unreserved:			
Special revenue funds	68,255	-	68,255
Total cash basis fund balances	\$ 68,255	\$ 31,661	\$ 99,916

**City of Remsen
Schedule of Indebtedness
For the Year Ended June 30, 2006**

<u>Obligation</u>	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount Originally Issued</u>	<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>
General Obligation Notes:									
Swimming pool	January 1, 1998	4.10% - 4.95%	\$ 800,000	\$ 490,000	\$ -	\$ 55,000	\$ 435,000	\$ 23,252	\$ -
Real Estate Mortgage:									
Ambulance/EMTs building	February 12, 1998	5.50%	\$ 126,394	63,477	-	35,000	28,477	-	10,594
Water Revenue Bonds	March 1, 1999	4.45% - 5.00%	\$ 245,000	125,000	-	25,000	100,000	6,038	-
Water Revenue Capital Loan Notes	December 15, 2001	3.25% - 4.25%	\$ 235,000	195,000	-	20,000	175,000	7,936	-
				<u>\$ 873,477</u>	<u>\$ -</u>	<u>\$ 135,000</u>	<u>\$ 738,477</u>	<u>\$ 37,226</u>	<u>\$ 10,594</u>

City of Remsen
Bond and Note Maturities
June 30, 2006

Year Ending	General Obligation Capital Loan Notes January 1, 1998		Real Estate Mortgage February 12, 1998	
<u>June 30,</u>	<u>Interest Rate</u>	<u>Amount</u>	<u>Interest Rates</u>	<u>Amount</u>
2007	4.60%	\$ 55,000	5.50%	\$ 28,477
2008	4.65%	60,000		-
2009	4.70%	60,000		-
2010	4.75%	65,000		-
2011	4.80%	65,000		-
2012	4.90%	65,000		-
2013	4.95%	65,000		-
		\$ 435,000		\$ 28,477
		\$ 435,000		\$ 28,477

Year Ending	Water Revenue Bonds March 1, 1999		Water Revenue Capital Loan Notes December 15, 2001	
<u>June 30,</u>	<u>Interest Rates</u>	<u>Amount</u>	<u>Interest Rates</u>	<u>Amount</u>
2007	4.75%	\$ 25,000	3.80%	\$ 20,000
2008	4.80%	25,000	4.00%	25,000
2009	4.90%	25,000	4.05%	25,000
2010	5.00%	25,000	4.05%	25,000
2011		-	4.25%	80,000
		\$ 100,000		\$ 175,000
		\$ 100,000		\$ 175,000

City of Remsen
Schedule of Receipts by Source and Disbursements by Function
All Governmental Funds - Primary Government
For the Last Three Years

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Receipts:			
Property tax	\$ 556,276	\$ 535,985	\$ 490,341
Other city tax	151,948	138,900	162,563
Licenses and permits	10,865	12,013	9,388
Intergovernmental	205,149	210,131	287,158
Charges for services	96,893	61,902	63,531
Investment earnings	47,013	32,731	27,792
Miscellaneous	56,414	44,516	74,904
Total	<u>\$ 1,124,558</u>	<u>\$ 1,036,178</u>	<u>\$ 1,115,677</u>
 Disbursements:			
Operating:			
General government	\$ 166,847	\$ 149,393	\$ 126,107
Public safety	273,194	299,461	290,561
Public works	307,957	250,924	261,402
Culture and recreation	180,872	133,693	252,414
Debt service	78,252	75,503	77,702
Capital projects	-	-	222,923
Total	<u>\$ 1,007,122</u>	<u>\$ 908,974</u>	<u>\$ 1,231,109</u>



KING, REINSCH, PROSSER & CO., L.L.P.
Certified Public Accountants

Member Private Companies Practice Section of AICPA

522 4TH STREET, SUITE 200
SIOUX CITY, IA 51101-1620
(712) 258-5550
FAX (712) 277-6705

**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
City of Remsen
Remsen, Iowa

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Remsen, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements and have issued our report thereon dated October 6, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Remsen, Iowa'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'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 and responses.

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 following reportable conditions described, we believe item I-A-06 is a material weakness.

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

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the City of Remsen, Iowa'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 noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that are described in Part II of the accompanying schedule of findings and responses.

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.

We also noted certain additional matters that we reported to management of City of Remsen, Iowa in a separate letter dated October 6, 2006.

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 Remsen, Iowa, and other parties to whom the City may report. This report is not intended to be and should not be used by anyone other than these specified parties.

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

King, Reinsch, Prosser & Co., L.L.P.

Sioux City, Iowa
October 6, 2006

City of Remsen
Schedule of Findings and Responses
For the Year Ended June 30, 2006

Part I: Findings Related to the Financial Statements

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 from handling duties which are incompatible. Incompatible duties, for accounting control purposes, are those duties that place a person in a position where they could both perpetrate and conceal errors or irregularities. To accomplish proper segregation of duties, the system, insofar as possible, should provide for different individuals to perform the functions of (a) authorizing transactions, (b) recording transactions, (c) maintaining custody of the assets that result from transactions, and (d) comparing assets with the related amounts recorded in the accounting records. In performing our audit, we noted that recordkeeping for the City is the primary responsibility of one person, with review by the Council. The City Treasurer and the City Clerk is the same person.

Recommendation - The size of the City's accounting and administrative staff precludes certain internal controls that would be preferred if the staff were large enough to provide optimum segregation of duties. This situation dictates that the Council should remain actively involved in the financial affairs of the City to provide oversight and review functions. The City should consider appointing a Treasurer independent of the City Clerk.

Response - The City understands the nature of the weakness and the necessity for the Council to provide oversight and review functions. The City will review its procedures and implement changes as deemed necessary.

Conclusion - Response accepted.

I-B-06 Records of Accounts - The emergency medical technicians and fire department maintain some accounting records and bank balances pertaining to the operations of the EMTs and fire service. These transactions and the resulting balances are 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.

City of Remsen
Schedule of Findings and Responses
For the Year Ended June 30, 2006
(Continued)

Part I: Findings Related to the Financial Statements (Continued)

REPORTABLE CONDITIONS (CONTINUED):

- Response - The bank balances for the emergency medical technicians but not the fire department are currently being recorded in the City Clerk's monthly reports; however, the individual receipts and disbursements records are maintained by an outside accounting service. We will endeavor to obtain at least a quarterly report of receipts and disbursements from the fire department and EMTs accounting service and include such transactions in the City's ledger.
- Conclusion - Response accepted.
- I-C-06 Reconciliation of Utility Billings, Collections and Delinquencies - Utility billings, collections and delinquent accounts were not reconciled throughout the year.
- Recommendation - We have worked with CMS software technical support to assist in preparation of reports with little success. We will consider exploring other software or contracting for some support with CMS software in preparing reconciliations.
- Response - These procedures will be implemented as recommended.
- Conclusion - Response accepted.
- I-D-06 Meter Deposits and Library Computer Trust Savings Accounts - During our audit, it was noted that the activity of the meter deposits bank account was not recorded in the general ledger. It was also noted that the activity of the library computer trust savings account was not recorded in the general ledger.
- Recommendation - The activity of the meter deposits needs to be recorded in a separate fund. The activity of the library computer trust savings accounts needs to be recorded in the General Fund.
- Response - We will record as recommended in the future.
- Conclusion - Response accepted.

City of Remsen
Schedule of Findings and Responses
For the Year Ended June 30, 2006
(Continued)

Part II: Other Findings Related to Required Statutory Reporting

II-A-06 Certified Budget - Disbursements for the year ended June 30, 2006 exceeded the amounts budgeted in the culture and recreation and business type activities functions. Chapter 384.20 of the Code of Iowa states in part the 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.

II-B-06 Questionable Disbursements - No disbursements were noted that did 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.

II-D-06 Business Transactions - The City and its component unit had business transactions of \$84,498 for insurance coverage with Matgen Insurance, which is owned by Steve Matgen, Municipal Utilities trustee, during the year ended June 30, 2006. It also had business transactions of \$835 for supplies with Gengler Feed Service, which is partly owned by Dale Schroeder, City Council Member, during the year ended June 30, 2006.

Recommendation - The transaction with Matgen Insurance exceeded \$1,500 and may represent a conflict of interest. We recommend the Council consult legal counsel on the disposition of this matter.

Response - We will consult legal counsel.

Conclusion - Response accepted.

II-E-06 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 ensure that the coverage is adequate for current operations.

City of Remsen
Schedule of Findings and Responses
For the Year Ended June 30, 2006
(Continued)

Part II: Other Findings Related to Required Statutory Reporting (Continued)

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

Although minutes of Council proceedings were published, they were not published within fifteen days as required by Chapter 372.13(6) of the Code of Iowa. Also, it was noted that the minutes of meetings were not all properly signed in accordance with Chapter 380.7 of the Code of Iowa.

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

Response - We will sign and publish minutes as required.

Conclusion - Response accepted.

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

II-H-06 Water Revenue Bonds - We noted no instances of non-compliance with the terms of the City's Water Revenue Bonds. All scheduled payments of bond principal and interest were properly made.

II-I-06 Water Revenue Capital Loan Notes - We noted no instances of non-compliance with the terms of the City's Water Revenue Capital Loan Notes. All scheduled payments of bond principal and interest were properly made.

II-J-06 Electronic Documents - During our audit, we noted that the City receives electronic image printouts of its cancelled checks that contain only the front of the check.

Recommendation - Iowa Code Section 554D.114(5) requires the City to maintain check images of both the front and back. We recommend the City consult its bank institutions to determine the most cost beneficial way to obtain the required electronic information or the original cancelled checks.

Response - We will do as recommended.

Conclusion - Response accepted.

City of Remsen
Schedule of Findings and Responses
For the Year Ended June 30, 2006
(Continued)

Part II: Other Findings Related to Required Statutory Reporting (Continued)

II-K-06 Local Option Sales Tax Disbursements - According to the City's Resolution 2001-09 dated April 11, 2001, the receipts from the local option sales and service tax are to be allocated 100% toward city infrastructure and the City's portion of the County Jail and Law Enforcement Center and 0% for property tax relief. The resolution lacks the definition of city infrastructure; therefore, we were unable to determine if the receipts were disbursed for allowable city infrastructure.

Recommendation - The City should consult legal counsel regarding the definition of infrastructure that was conveyed to the citizens at the time of the ballot request.

Response - We have consulted legal counsel on previous disbursements and will continue to consult with legal counsel about future disbursements of allowable costs.

Conclusion - Response accepted.

**City of Remsen
Staff**

The audit was performed by:

Angel Derochie, CPA, Supervisor
Becky George, CPA, Staff Accountant
Michelle Jahn, Staff Accountant

Michael H. Prosser, CPA
Partner