

CITY OF WELLMAN

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

JUNE 30, 2006

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City of Wellman

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January 2006)		
Max Lewis	Mayor	January 1, 2006
Robert Goodrich	Council Member	January 1, 2006
Robert Swartzendruber	Council Member	January 1, 2006
Richard Oldfield	Council Member	January 1, 2008
George Kisner	Council Member	January 1, 2008
James Seward	Council Member	January 1, 2008
(After January 2006)		
Ryan Miller	Mayor	January 1, 2010
Richard Oldfield	Council Member	January 1, 2008
Robert Swartzendruber	Council Member	January 1, 2008
James Seward	Council Member	January 1, 2008
Robert Goodrich	Council Member	January 1, 2010
Karri Fisher	Council Member	January 1, 2010
Donna B. Wade	City Clerk	Appointed
Daniel P. Kitchen	Attorney	Appointed



Independent Auditor's Report

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

I 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 Wellman, 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 Wellman's management. My responsibility is to express opinions on these financial statements based on my audit.

I conducted my 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 I 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. I believe my audit provides a reasonable basis for my opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Also, as permitted by the Code of Iowa, the accounting records of the City have not been audited for all prior years. Accordingly, I was unable to satisfy myself as to the distribution by fund of the total fund balance at July 1, 2005.

In my opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had I been able to verify the distribution by fund of the total fund balance at July 1, 2005, as discussed in the preceding paragraph, 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 Wellman as of June 30, 2006, and the respective changes in cash basis financial position for the year ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, I have also issued my report dated June 21, 2007 on my consideration of the City of Wellman's internal control over financial reporting and my 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 my 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 my audit.

Management's Discussion and Analysis and budgetary comparison information on pages 6 through 13 and 25 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Wellman's basic financial statements. Other supplementary information included in Schedules 1 through 4 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in my audit of the basic financial statements and, in my opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Sincerely,

Ann M Menke

Ann M. Menke
Certified Public Accountant
Professional Corporation
June 21, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Wellman 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 general governmental activities increased 31.48%, or approximately \$378,453, from fiscal 2005 to fiscal 2006. Property tax receipts increased approximately \$21,500, 9.04% and TIF revenues increased \$7,755, 6.25%. The increase in the General Fund was due largely to proceeds received from long-term debt on the 9th Avenue North Street Project and transfers in to cover construction costs of the new maintenance building.
- Disbursements increased 27.99%, or approximately \$335,623, in fiscal 2006 from fiscal 2005 primarily due to capital projects. Public safety increased \$10,795 or 12.2%, levied debt service increased by \$8,300 and capital projects disbursements (other than enterprise projects) increased approximately \$548,000 with the ongoing 9th Avenue North Project and the new Maintenance Building Project. Culture and Recreation expenditures decreased in 2006 by \$51,306. Expenditures for enterprise capital projects increased 60.82% or \$74,500 and debt service costs in the enterprise funds increased \$157,000, 89.52%.
- The City's total cash basis net assets decreased 35.21%, or approximately \$280,000, from June 30, 2005 to June 30, 2006. Of this amount, the assets of the governmental activities increased approximately \$46,100, 13.46% and the assets of the business type activities decreased by approximately \$326,400, 71.98%.

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 non-major governmental funds.

BASIS OF ACCOUNTING

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

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information 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, health and social services, 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 natural gas system, waterworks, the sanitary sewer system and solid waste disposal. 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. Enterprise Funds are used to report business type activities. The City maintains four Enterprise Funds to provide separate information for the gas, water, sewer, and solid waste disposal funds, considered to be major funds of the City.

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City’s cash balance for governmental activities decreased from a year ago. The analysis that follows focuses on the changes in cash balances for governmental activities.

Changes in Cash Basis Net Assets of <u>Governmental Activities</u>			
Year ended June 30,			
2006 2005			
Receipts and transfers:			
Program receipts:			
Charges for service	\$	20,768	22,100
Operating grants, contributions		190,576	159,227
Capital grants, contributions		68,202	247,868
General receipts:			
Property tax, tax increment financing tax		390,973	367,660
Local option sales tax		86,904	97,277
Utility franchise fee		6,032	5,991
Grants and contributions not restricted to purpose		0	16,225
Investment earnings		7,051	6,747
Bond/note proceeds		409,965	92,540
Other general receipts		45,410	47,430
Transfers		354,943	139,306
Total receipts and transfers	\$	1,580,824	1,202,371
Disbursements:			
Public Safety	\$	99,185	88,391
Public Works		94,636	129,944
Health and Social Services		0	1,250
Culture and Recreation		256,970	308,275
Community and Economic Development		69,397	260,727
General Government		63,124	71,848
Debt Service		35,388	27,100
Capital Projects		721,336	173,345
Transfers		194,662	138,195
Total disbursements	\$	1,534,698	1,199,075
Increase in cash basis net assets	\$	46,126	3,296
Cash basis net assets beginning of year	\$	342,680	339,384
Cash basis net assets end of year	\$	388,806	342,680

The City's total receipts for governmental activities increased by 31.48%, or \$378,453. The total cost of all programs and services increased by \$335,623, or 27.99%, with no new programs added this year. The significant increase in receipts, as well as expenditures, was primarily the result of proceeds from debt incurred and inter-fund transfers and related expenditures for the 9th Avenue Street Improvements Project, and Maintenance Building Project.

The City increased property tax rates for 2006 by approximately 6 percent. This increase was due largely to tax asking for debt service with 2005 asking of \$5,112 and 2006 requirements of \$24,275. There were also slight increases in employee benefit asking and general fund tax asking.

The cost of all governmental activities this year was \$1,534,698 compared to \$1,199,076 last year. Overall, the City's governmental activities receipts, including intergovernmental aid and fees for service, increased in 2006 from approximately \$1,202,000 to approximately \$1,580,000, principally due to receiving loan proceeds and inter-fund transfers for capital projects. The City paid for the remaining "public benefit" portion of governmental activities with approximately \$397,000 in property tax dollars, interest and rental income, and other general entitlements.

Changes in Cash Basis Net Assets of Business Type Activities

	Year ended June 30,	
	2006	2005
Receipts and transfers:		
Program receipts:		
Charges for service		
Natural Gas	\$ 723,944	609,858
Water	168,494	163,601
Sewer	139,026	137,355
Solid Waste Disposal	61,073	61,602
Capital grants, contributions, etc		
General receipts:		
Investment earnings	4,615	8,145
Bond/note proceeds	318,055	133,000
Other general receipts	67,926	76,635
Transfers for debt service	235,923	175,815
Total receipts and transfers	<u>\$ 1,719,056</u>	<u>1,366,011</u>
Disbursements and transfers:		
Natural Gas	\$ 808,926	663,373
Water	146,236	166,589
Sewer	97,888	88,667
Solid Waste Disposal	66,707	64,720
Debt Service	332,534	175,461
Capital Projects	197,002	122,499
Transfers	396,204	176,926
Total disbursements	<u>\$ 2,045,497</u>	<u>1,458,235</u>
Decrease in net assets	\$ (326,441)	(92,224)
Cash basis net assets beginning of year	\$ 453,489	545,713
Cash basis net assets end of year	\$ 127,048	453,489

Total business type activities receipts for the fiscal year were \$1,719,056 compared to \$1,366,011 last year. Although there were increases in most revenue sources this fiscal year, bond and note proceeds and natural gas receipts were significantly higher in 2006 providing for the increase in total revenues in 2006. Natural Gas disbursements were higher in 2006 mainly due to high costs of natural gas. Repayment of debt increased by nearly 90% in 2006 and transfers by 124% to cover costs of the Maintenance Building Project and repayment of debt. Overall expenditures increased by 40.27% in 2006 over 2005.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As Wellman completed the year, its governmental funds reported a combined fund balance of \$388,806, an increase of \$46,126 above last year's total of \$342,680. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The Road Use Tax Fund cash balance increased by \$23,541 to \$79,536 during the fiscal year attributable to a decrease in chip and seal street work and less direct expenses paid out of this fund for the 9th Avenue Project.
- The Urban Renewal Tax Increment Fund increased by \$42,744 to \$107,715 this fiscal year due to some debt budgeted for in 2005 not being paid. It is planned that this fund will be reduced considerably to cover debt incurred in street and watermain projects plus closing costs of the 9th Avenue Project.
- The General Fund cash balance decreased in 2006 from \$119,004 to \$109,546. Other governmental funds had minor increases or decreases to account for the total increase of \$46,126 over 2005.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Gas Fund cash balance decreased by \$282,599 to \$62,118 primarily due to the investment in the Maintenance Building Project. A portion of this investment will be repaid to the Gas Fund over the next few years from the Water Fund, Sewer Fund, Road Use Tax Fund, and Local Option Sales Tax Fund.
- The Water Fund cash balance decreased by \$237 to \$41,623 demonstrating it has been able to hold its own over the past year. However, there is a significant increase in debt to be repaid in the coming years. The recent rate increase will help provide for this debt requirement.
- The Sewer Fund cash balance decreased by \$28,002 to \$19,345 due to increased debt requirements, additional inter-fund transfers for the Maintenance Building Project, and significant costs for repairs at the wastewater treatment plant.
- The Solid Waste Disposal Fund decreased by \$5,533 to \$618 primarily due to increases in 2006 for payroll relative to leaf pickup hours, repairs and expenses for the leaf vacuum equipment, and to contracting for chipping the brush pile.

BUDGETARY HIGHLIGHTS

Over the course of the year, Wellman amended its budget one time. The amendment was approved on November 7, 2005 and resulted in an increase in operating disbursements of \$833,976 to provide for additional expenditures for the Housing Rehab Project, several capital projects, and additional transfers.

DEBT ADMINISTRATION

At June 30, 2006, Wellman had \$2,152,768 in bonds and other long-term debt, compared to \$2,150,403 last year, as shown below.

Outstanding Debt at Year-End			
Year ended June 30,			
		2006	2005
General Obligation Debt:			
Development Infrastructure	\$	168,883	183,107
SRF loan for Wastewater Treatment Plant		393,000	414,000
Tax Increment Financing Debt:			
SRF loan for Wastewater Treatment Plant		231,000	244,000
Development Infrastructure		56,025	59,036
Water Main Improvement 9 th Avenue North		121,105	0
Total GO and TIF Debt	\$	970,013	900,143
Revenue Debt:			
SRF loan for Wastewater Treatment Plant	\$	393,000	414,000
Water well and plant improvements project		789,755	836,260
Total Revenue Debt	\$	1,182,755	1,250,260
TOTAL CITY DEBT	\$	2,152,768	2,150,403
Cash basis net assets end of year	\$	515,854	796,169

At June 30, 2006, Wellman had \$687,560 in short-term debt, compared to \$225,540 last year, as shown below.

Outstanding Debt at Year-End			
Year ended June 30,			
		2006	2005
Bank Project Loans			
Water Main Project	\$	0	133,000
Water Project		185,055	0
Street Project		502,505	92,540
Total Short-Term Loans	\$	687,560	225,540

Comparison of Funds to Total Budget FY2006

	\$ AMOUNT	PERCENTAGE
REVENUES – TOTAL RECEIVED	\$ 3,299,883	100.00%
General Fund	\$ 373,505	11.32%
Special Revenues/RUT, TIF, Library Funds etc	405,264	12.28%
Debt Service	24,089	0.73%
Capital Projects	777,968	23.58%
Natural Gas System	802,607	24.33%
Water System, Debt Fund, Capital Projects Fund	613,939	18.60%
Sewer System, Debt Fund	241,336	7.31%
Solid Waste Disposal Fund	61,175	1.85%
EXPENDITURES – TOTAL DISBURSED	\$ 3,580,198	100.00%
General Fund	\$ 382,963	10.70%
Special Revenues/RUT, TIF, Library Funds etc	356,706	9.96%
Debt Service	24,275	0.68%
Capital Projects	770,757	21.53%
Natural Gas System	1,085,205	30.32%
Water System, Debt Fund, Capital Projects Fund	625,281	17.46%
Sewer System, Debt Fund	268,304	7.49%
Solid Waste Disposal Fund	66,707	1.86%

ECONOMIC FACTORS AND NEXT YEAR’S BUDGETS AND RATES

Wellman’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 economy. The City’s population growth during 1999-2004 has been strong as has local business activity.

Inflation in the State and nation continues to be moderate but must be factored in to budget expenditures.

These indicators were taken into account when adopting the budget for fiscal year 2007. Amounts available for appropriation in the operating budget are \$3,054,806, a decrease of 14.00% over the final 2006 budget. Much of this is due to a lower beginning balance and less inter-fund transfers expected in 2007. Budgeted line items remain close to the fiscal 2006 budget. Debt service expenditures will increase significantly as projects in progress are completed and the final debt issued. Employees were given a cost-of-living raise. The City has added no major new programs or initiatives to the 2006 budget with the exception of the CDBG Sunrise Child Care facility project.

If these estimates are realized, the City’s budgeted cash balance at the end of 2007 is expected to be \$513,467 a decrease of \$2,387 from the close of 2006.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Donna Wade, City Clerk, 316 8th Avenue, PO Box 129, Wellman, Iowa (319-646-2154). Or by email citywel@netins.net.

City of Wellman
Statement of Activities and Net Assets - Cash Basis
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	\$ 99,185	\$ -	\$ -	\$ -
Public works	94,636	-	116,630	-
Health and social services	-	-	-	-
Culture and recreation	256,970	20,768	53,530	-
Community and economic development	69,397	-	63,210	-
General government	63,124	-	-	-
Debt service	35,388	-	491	-
Capital projects	721,336	-	-	-
Total governmental activities	<u>1,340,036</u>	<u>20,768</u>	<u>233,861</u>	<u>-</u>
Business type activities				
Water	379,623	168,494	-	-
Sewer	197,035	139,026	-	-
Gas	808,926	723,944	-	-
Solid waste	66,707	61,073	-	-
Water Project	197,002	-	-	133,000
Total business type activities	<u>1,649,293</u>	<u>1,092,537</u>	<u>-</u>	<u>133,000</u>
Total	<u>\$ 2,989,329</u>	<u>\$ 1,113,305</u>	<u>\$ 233,861</u>	<u>\$ 133,000</u>
General Receipts:				
Property tax levied for:				
General purposes				
Tax increment financing				
Debt service				
Employee benefits				
Liability insurance				
Library				
Local option sales tax				
Grants and contributions not restricted to specific purpose				
Unrestricted interest on investments				
Bank loans				
Miscellaneous				
Transfers				
Total general receipts and transfers				
Change in cash basis net assets				
Cash basis net assets beginning of year				
Cash basis net assets end of year				
Cash Basis Net Assets				
Restricted:				
Debt service				
Unrestricted				
Total cash basis net assets				

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
Governmental Activities	Business Type Activities	Total
\$ (99,185)	\$ -	\$ (99,185)
21,994	-	21,994
-	-	-
(182,672)	-	(182,672)
(6,187)	-	(6,187)
(63,124)	-	(63,124)
(34,897)	-	(34,897)
(721,336)	-	(721,336)
(1,085,407)	-	(1,085,407)
-	(211,129)	(211,129)
-	(58,009)	(58,009)
-	(84,982)	(84,982)
-	(5,634)	(5,634)
-	(64,002)	(64,002)
-	(423,756)	(423,756)
(1,085,407)	(423,756)	(1,509,163)
178,205	-	178,205
131,934	-	131,934
23,598	-	23,598
23,508	-	23,508
27,310	-	27,310
6,418	-	6,418
86,904	-	86,904
29,074	-	29,074
6,938	4,615	11,553
409,965	185,055	595,020
47,398	67,926	115,324
160,281	(160,281)	-
1,131,533	97,315	1,228,848
46,126	(326,441)	(280,315)
342,680	453,489	796,169
\$ 388,806	\$ 127,048	\$ 515,854
85	3,335	3,420
388,721	123,713	512,434
\$ 388,806	\$ 127,048	\$ 515,854

See notes to financial statements.

City of Wellman
Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Governmental Funds
As of and for the Year Ended June 30, 2006

	General	Road Use Tax	Capital Project Street	Debt Service	Other Non Major Governmental Funds	Total
Receipts:						
Property tax	\$ 211,932	\$ -	\$ -	\$ 23,599	\$ 23,508	\$ 259,039
TIF revenues	-	-	-	-	131,934	131,934
Other city taxes	11,196	-	-	376	87,338	98,910
Licenses and permits	1,702	-	-	-	-	1,702
Use of money and property	3,730	695	-	115	2,511	7,051
Intergovernmental	28,996	119,129	-	-	108,440	256,565
Charges for services	20,768	-	-	-	-	20,768
Miscellaneous	34,284	-	-	-	5,663	39,947
Total receipts	<u>312,608</u>	<u>119,824</u>	<u>-</u>	<u>24,090</u>	<u>359,394</u>	<u>815,916</u>
Disbursements:						
Operating:						
Public safety	99,185	-	-	-	-	99,185
Public works	17,353	77,283	-	-	-	94,636
Health and social services	-	-	-	-	-	-
Culture and recreation	190,610	-	-	-	66,360	256,970
Community and economic development	969	-	-	-	68,428	69,397
General government	63,124	-	-	-	-	63,124
Debt service	-	-	-	24,275	11,113	35,388
Capital projects	-	-	409,954	-	311,382	721,336
Total disbursements	<u>371,241</u>	<u>77,283</u>	<u>409,954</u>	<u>24,275</u>	<u>457,283</u>	<u>1,340,036</u>
(Deficiency) excess of receipts						
(Under) over disbursements	(58,633)	42,541	(409,954)	(185)	(97,889)	(524,120)
Other financing sources (uses)						
Proceeds of long-term debt	-	-	409,965	-	-	409,965
Operating transfers in	60,897	-	-	-	294,046	354,943
Operating transfers out	(11,722)	(19,000)	-	-	(163,940)	(194,662)
Total other financing sources	<u>49,175</u>	<u>(19,000)</u>	<u>409,965</u>	<u>-</u>	<u>130,106</u>	<u>570,246</u>
Net change in cash balances	(9,458)	23,541	11	(185)	32,217	46,126
Cash balances beginning of year	<u>119,004</u>	<u>55,995</u>	<u>1</u>	<u>270</u>	<u>167,410</u>	<u>342,680</u>
Cash balances end of year	<u>\$ 109,546</u>	<u>\$ 79,536</u>	<u>\$ 12</u>	<u>\$ 85</u>	<u>\$ 199,627</u>	<u>\$ 388,806</u>
Cash Basis Fund Balances						
Reserved:						
Debt service	\$ -	\$ -	\$ -	\$ 85	\$ -	\$ 85
Unreserved:						
General fund	109,546	-	-	-	-	109,546
Special revenue fund	-	79,536	-	-	153,134	232,670
Capital projects fund	-	-	12	-	5,258	5,270
Permanent fund	-	-	-	-	41,235	41,235
Total cash basis fund balances	<u>\$ 109,546</u>	<u>\$ 79,536</u>	<u>\$ 12</u>	<u>\$ 85</u>	<u>\$ 199,627</u>	<u>\$ 388,806</u>

See notes to financial statements.

City of Wellman
Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Proprietary Funds
As of and for the Year Ended June 30, 2006

	Enterprise Funds					Total
	Water	Water Project	Gas	Sewer	Other Non Major Proprietary Funds	
Operating receipts:						
Use of money and property	\$ 2,982	\$ -	\$ 697	\$ 426	\$ 510	\$ 4,615
Charges for services	168,494	-	723,944	139,026	61,073	1,092,537
Miscellaneous	23,178	-	42,966	1,703	79	67,926
Total receipts	<u>194,654</u>	<u>-</u>	<u>767,607</u>	<u>141,155</u>	<u>61,662</u>	<u>1,165,078</u>
Operating disbursements:						
Business type activities	146,236	-	808,926	97,888	66,707	1,119,757
Debt service	-	-	-	-	332,534	332,534
Capital projects	-	197,002	-	-	-	197,002
Total operating disbursements	<u>146,236</u>	<u>197,002</u>	<u>808,926</u>	<u>97,888</u>	<u>399,241</u>	<u>1,649,293</u>
(Deficiency) excess of operating receipts (under) over operating disbursements	48,418	(197,002)	(41,319)	43,267	(337,579)	(484,215)
Other financing sources (uses)						
Proceeds of long-term debt	-	185,055	-	-	133,000	318,055
Operating transfers in	-	1,450	35,000	-	199,473	235,923
Operating transfers out	(48,655)	-	(276,280)	(71,269)	-	(396,204)
Total other financing sources	<u>(48,655)</u>	<u>186,505</u>	<u>(241,280)</u>	<u>(71,269)</u>	<u>332,473</u>	<u>157,774</u>
Net change in cash balances	(237)	(10,497)	(282,599)	(28,002)	(5,106)	(326,441)
Cash balances beginning of year	41,860	10,506	344,717	47,347	9,059	453,489
Cash balances end of year	<u>\$ 41,623</u>	<u>\$ 9</u>	<u>\$ 62,118</u>	<u>\$ 19,345</u>	<u>\$ 3,953</u>	<u>\$ 127,048</u>
Cash Basis Fund Balances						
Reserved for debt service	\$ -	\$ -	\$ -	\$ -	3,335	\$ 3,335
Unreserved	41,623	9	62,118	19,345	618	123,713
Total cash basis fund balances	<u>\$ 41,623</u>	<u>\$ 9</u>	<u>\$ 62,118</u>	<u>\$ 19,345</u>	<u>\$ 3,953</u>	<u>\$ 127,048</u>

See notes to financial statements.

City of Wellman
Notes to Financial Statements
For the Year Ended June 30, 2006

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Wellman is a political subdivision of the State of Iowa located in Washington County. It was first incorporated in 1879 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, sewer, gas, and solid waste utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Wellman has included all funds, organizations, agencies, boards, commissions, and authorities. The City has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the City. The City of Wellman 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: Washington County Joint 911 Service Board and Washington County Conference Board.

B. Basis of Presentation

Government-wide Financial Statements – The Statement of Activities and Net Assets – Cash Basis 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 – Cash Basis presents the City's nonfiduciary net assets. Net assets are reported in two categories:

City of Wellman
Notes to Financial Statements
For the Year Ended June 30, 2006

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Basis of Presentation (continued)

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 not meeting 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 – Cash Basis 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 and enterprise funds are aggregated and reported as nonmajor governmental or proprietary funds.

The City reports the following major governmental funds:

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

Special Revenue:

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

The Capital Projects Fund is utilized to account for all resources used in the acquisition and construction of capital facilities, with the exception of those financed through Enterprise Funds.

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

City of Wellman
Notes to Financial Statements
For the Year Ended June 30, 2006

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The City reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the City's water system.

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

The Gas Fund accounts for the operation and maintenance of the City's gas system.

The Water Project Fund (Capital Project) is utilized to account for all resources used in the acquisition and construction of the water project.

D. Measurement Focus and Basis of Accounting

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

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

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 debt service and capital projects functions. This was due to expenses being budgeted in the enterprise business type activities instead of debt service and capital projects.

NOTE 2 – CASH AND POOLED INVESTMENTS

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.

City of Wellman
Notes to Financial Statements
For the Year Ended June 30, 2006

NOTE 2 – CASH AND POOLED INVESTMENTS (continued)

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.

At June 30, 2006, the City had the following investments:

Type	Carrying Amount	Fair Value
Washington Mutual Investors Fund-A	\$ 16,105	\$ 16,105
U.S. Government Securities Fund-A	<u>25,130</u>	<u>25,130</u>
	<u>\$ 41,235</u>	<u>\$ 41,235</u>

Interest rate risk – The City’s investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the City.

NOTE 3– BONDS AND NOTES PAYABLE

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

Year Ending June 30,	General Obligation Bond		Revenue Notes		Bank Notes		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2007	\$ 37,783	\$ 24,560	\$ 95,636	\$ 60,343	\$ 687,560	\$ 16,787	\$ 820,979	\$ 101,690
2008	39,131	23,348	99,974	56,541	0	0	139,105	79,889
2009	40,059	21,519	103,403	52,565	0	0	143,462	74,084
2010	42,040	19,636	107,928	48,449	0	0	149,968	68,085
2011	44,077	17,658	111,552	44,153	0	0	155,629	61,811
2012-16	223,793	55,326	605,140	150,734	0	0	828,933	206,060
2017-20	<u>135,000</u>	<u>13,485</u>	<u>411,227</u>	<u>34,242</u>	<u>0</u>	<u>0</u>	<u>546,227</u>	<u>47,727</u>
Total	<u>\$ 561,883</u>	<u>\$175,532</u>	<u>\$ 1,534,860</u>	<u>\$ 447,027</u>	<u>\$ 687,560</u>	<u>\$ 16,787</u>	<u>\$ 2,784,303</u>	<u>\$ 639,346</u>

**City of Wellman
Notes to Financial Statements
For the Year Ended June 30, 2006**

NOTE 3– BONDS AND NOTES PAYABLE (continued)

The Code of Iowa requires principal and interest on general obligation bonds be paid from the Debt Service Fund. However, during the year, \$21,000 of general obligation bond principal was paid from the Enterprise, Sewer Sinking Fund.

The resolutions providing for the issuance of the revenue notes include the following provision:

- (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.

The City entered into a Development Agreement on June 17, 2002 where the Developer will construct road connections, water, sanitary sewer and municipal gas system improvements and construct homes in the Urban Renewal Area. The City agreed to make economic development tax increment payments to the Developer in a principal only amount of \$61,200. \$3,011 was paid in the year ending June 30, 2006, with a remaining balance of \$56,025.

The Maintenance Building Project was funded internally with the Local Options Sales Tax, Gas, Sewer, Water, and Road Use Funds paying for it equally. The Gas Fund contributed \$243,280 during the year ended June 30, 2006 toward the project, with transfers from the other funds when money is available to pay their remaining amounts. The amounts transferred and balances owed the Gas Fund at June 30, 2006 are:

Fund	Transfer	Balance
Road Use Tax	\$ 19,000	\$ 41,060
Local Option Sales Tax	0	15,000
Water	10,000	50,060
Sewer	<u>6,000</u>	<u>41,021</u>
	<u>\$ 35,000</u>	<u>\$ 147,141</u>

NOTE 4 – 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. Employees accumulate sick leave up to a maximum of 60 days. If not used this sick leave is lost upon termination, retirement, or death. The City’s approximate liability for earned vacation and sick leave payable to employees at June 30, 2006, is \$4,987 and \$9,713 respectively. This liability has been computed based on rates of pay as of June 30, 2006.

City of Wellman
Notes to Financial Statements
For the Year Ended June 30, 2006

NOTE 5 – 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 salary and the City is required to contribute 5.75% of annual 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's contribution to IPERS for the year ended June 30, 2006 was \$15,684, equal to the required contribution for the year.

NOTE 6 – RISK MANAGEMENT

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

NOTE 7 – COMMITMENTS

The City of Wellman entered into an agreement pursuant to Chapter 28E, Code of Iowa, with the Wellman Volunteer Fire Department, Inc. for fire protection. The agreement establishes terms for sharing operating expenses and joint use of equipment and facilities, so that the members can efficiently provide fire protection and emergency medical services to the citizens of the City and the Townships. The agreement continues automatically unless terminated by any party by giving notice in writing to the other parties ninety days in advance of the required termination date. The City of Wellman remitted \$19,617 for the year ended June 30, 2006.

The City of Wellman entered into an agreement with Washington County for police protection. The County, through the Washington County Sheriff's Office, supplied police protection to the City at a cost of \$60,448 annually for the year ended June 30, 2006.

City of Wellman
Notes to Financial Statements
For the Year Ended June 30, 2006

NOTE 8 – INTERFUND TRANSFERS

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

Transfer to	Transfer from	Amount
General	General	\$ 5,397
	Enterprise	
	Water	7,500
	Sewer	15,000
	Gas	<u>33,000</u>
		60,897
Housing Project	General	6,325
	Special Revenue	
	Urban Renewal Tax Increment	<u>1,402</u>
		7,727
Maintenance Project	Special Revenue	
	Local Option Sales Tax	30,000
	Enterprise	
	Gas	243,280
	Sewer	<u>13,039</u>
		286,319
Water Project	Enterprise	
	Water	<u>1,450</u>
Water Sinking Fund	Special Revenue	
	Local Option Sales Tax	55,000
	Urban Renewal Tax Increment	15,000
	Enterprise	
	Water	<u>29,705</u>
Sewer Sinking Fund	Special Revenue	
	Urban Renewal Tax Increment	62,538
	Enterprise	
	Sewer	<u>37,230</u>
		99,768
Gas	Special Revenue	
	Road Use Tax	19,000
	Enterprise	
	Water	10,000
	Sewer	<u>6,000</u>
		<u>35,000</u>
Total		<u>\$590,866</u>

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

REQUIRED SUPPLEMENTARY INFORMATION

City of Wellman
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 Actual	Proprietary Funds Actual	Net
Receipts			
Property tax	259,039	\$ -	\$ 259,039
Tax increment financing collections	131,934	-	131,934
Other city taxes	98,910	-	98,910
Licenses and permits	1,702	-	1,702
Use of money and property	7,051	4,615	11,666
Intergovernmental	256,565	-	256,565
Charges for services	20,768	1,092,537	1,113,305
Miscellaneous	39,947	67,926	107,873
Total receipts	<u>815,916</u>	<u>1,165,078</u>	<u>1,980,994</u>
Disbursements			
Public safety	99,185	-	99,185
Public works	94,636	-	94,636
Health and social services	-	-	-
Culture and recreation	256,970	-	256,970
Community and economic development	69,397	-	69,397
General government	63,124	-	63,124
Debt service	35,388	332,534	367,922
Capital projects	721,336	197,002	918,338
Business type activities	-	1,119,757	1,119,757
Total disbursements	<u>1,340,036</u>	<u>1,649,293</u>	<u>2,989,329</u>
Excess of receipts over disbursements	(524,120)	(484,215)	(1,008,335)
Other financing sources, net	<u>570,246</u>	<u>157,774</u>	<u>728,020</u>
Excess of receipts and other financing sources over disbursements and other financing uses	46,126	(326,441)	(280,315)
Balance, beginning of year	<u>342,680</u>	<u>453,489</u>	<u>796,169</u>
Balance, end of year	<u>\$ 388,806</u>	<u>\$ 127,048</u>	<u>\$ 515,854</u>

Budgeted Amounts		Final to
Original	Final	Net
		Variance
\$ 272,415	\$ 272,415	\$ (13,376)
165,000	165,000	(33,066)
94,553	94,553	4,357
1,200	1,450	252
8,115	8,720	2,946
171,650	240,891	15,674
1,006,060	1,232,260	(118,955)
10,010	17,094	90,779
<u>1,729,003</u>	<u>2,032,383</u>	<u>(51,389)</u>
101,054	101,054	1,869
127,024	128,039	33,403
1,500	1,500	1,500
249,745	271,707	14,737
5,100	72,300	2,903
69,501	71,093	7,969
87,687	87,687	(280,235)
750,000	913,457	(4,881)
<u>1,110,720</u>	<u>1,689,470</u>	<u>569,713</u>
<u>2,502,331</u>	<u>3,336,307</u>	<u>346,978</u>
(773,328)	(1,303,924)	295,589
<u>550,000</u>	<u>883,000</u>	<u>154,980</u>
(223,328)	(420,924)	140,609
<u>606,497</u>	<u>606,497</u>	<u>189,672</u>
<u>\$ 383,169</u>	<u>\$ 185,573</u>	<u>\$ 330,281</u>

See accompanying independent auditor's report.

City of Wellman
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, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Funds, the Permanent Fund and the Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, a budget amendment increased budgeted disbursements by \$833,976. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2006, disbursements exceeded the amounts budgeted in the debt service and capital projects functions.

OTHER SUPPLEMENTARY INFORMATION

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

	Special Revenue			
	Local Option Sales Tax	Urban Renewal Tax Increment	Employee Benefits	Sitler Library
Receipts:				
Property Tax	\$ -	\$ -	\$ 23,508	\$ -
TIF revenues	-	131,934	-	-
Other city taxes	86,904	-	434	-
Use of money and property	376	863	51	-
Intergovernmental	-	-	-	-
Miscellaneous	-	-	-	-
Total receipts	<u>87,280</u>	<u>132,797</u>	<u>23,993</u>	<u>-</u>
Disbursements:				
Operating:				
Culture and recreation	-	-	19,855	1,389
Community and economic development	-	-	-	-
Debt service	-	11,113	-	-
Capital projects	24,000	-	-	-
Total disbursements	<u>24,000</u>	<u>11,113</u>	<u>19,855</u>	<u>1,389</u>
(Deficiency) excess of receipts				
(Under) over disbursements	63,280	121,684	4,138	(1,389)
Other financing sources (uses)				
Operating transfers in	-	-	-	-
Operating transfers out	(85,000)	(78,940)	-	-
Total other financing sources	<u>(85,000)</u>	<u>(78,940)</u>	<u>-</u>	<u>-</u>
Net change in cash balances	(21,720)	42,744	4,138	(1,389)
Cash balances beginning of year	<u>52,263</u>	<u>64,971</u>	<u>2,677</u>	<u>6,468</u>
Cash balances end of year	<u>\$ 30,543</u>	<u>\$ 107,715</u>	<u>\$ 6,815</u>	<u>\$ 5,079</u>
Cash Basis Fund Balances				
Unreserved:				
Special revenue fund	\$ 30,543	\$ 107,715	\$ 6,815	\$ 5,079
Capital projects fund	-	-	-	-
Permanent fund	-	-	-	-
Total cash basis fund balances	<u>\$ 30,543</u>	<u>\$ 107,715</u>	<u>\$ 6,815</u>	<u>\$ 5,079</u>

Special Revenue		Capital Projects			Permanent	
Senior Dining	Parks	Day Care Project	Housing Project	Maintenance Building Project	Library Trust	Total
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 23,508
-	-	-	-	-	-	131,934
-	-	-	-	-	-	87,338
-	122	-	-	92	1,007	2,511
40,238	-	4,992	63,210	-	-	108,440
-	-	-	3,618	2,045	-	5,663
<u>40,238</u>	<u>122</u>	<u>4,992</u>	<u>66,828</u>	<u>2,137</u>	<u>1,007</u>	<u>359,394</u>
39,446	678	4,992	-	-	-	66,360
-	-	-	68,428	-	-	68,428
-	-	-	-	-	-	11,113
-	-	-	-	287,382	-	311,382
<u>39,446</u>	<u>678</u>	<u>4,992</u>	<u>68,428</u>	<u>287,382</u>	<u>-</u>	<u>457,283</u>
792	(556)	-	(1,600)	(285,245)	1,007	(97,889)
-	-	-	7,727	286,319	-	294,046
-	-	-	-	-	-	(163,940)
-	-	-	7,727	286,319	-	130,106
792	(556)	-	6,127	1,074	1,007	32,217
-	2,746	-	(1,943)	-	40,228	167,410
<u>\$ 792</u>	<u>\$ 2,190</u>	<u>\$ -</u>	<u>\$ 4,184</u>	<u>\$ 1,074</u>	<u>\$ 41,235</u>	<u>\$ 199,627</u>
\$ 792	\$ 2,190	\$ -	\$ -	\$ -	\$ -	\$ 153,134
-	-	-	4,184	1,074	-	5,258
-	-	-	-	-	41,235	41,235
<u>\$ 792</u>	<u>\$ 2,190</u>	<u>\$ -</u>	<u>\$ 4,184</u>	<u>\$ 1,074</u>	<u>\$ 41,235</u>	<u>\$ 199,627</u>

See accompanying independent auditor's report.

City of Wellman
Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Nonmajor Proprietary Funds
As of and for the Year Ended June 30, 2006

	Enterprise Funds			
	Water Sinking	Sewer Sinking	Solid Waste	Total
Operating receipts:				
Use of money and property	\$ 75	\$ 413	\$ 22	\$ 510
Charges for service	-	-	61,073	61,073
Miscellaneous	-	-	79	79
Total receipts	<u>75</u>	<u>413</u>	<u>61,174</u>	<u>61,662</u>
Operating disbursements:				
Business type activities	-	-	66,707	66,707
Debt service	233,387	99,147	-	332,534
Total disbursements	<u>233,387</u>	<u>99,147</u>	<u>66,707</u>	<u>399,241</u>
(Deficiency) excess of receipts (Under) over disbursements	(233,312)	(98,734)	(5,533)	(337,579)
Other financing sources (uses)				
Proceeds of long-term debt	133,000	-	-	133,000
Operating transfers in	99,705	99,768	-	199,473
Total other financing sources	<u>232,705</u>	<u>99,768</u>	<u>-</u>	<u>332,473</u>
Net change in cash balances	(607)	1,034	(5,533)	(5,106)
Cash balances beginning of year	<u>815</u>	<u>2,093</u>	<u>6,151</u>	<u>9,059</u>
Cash balances end of year	<u>\$ 208</u>	<u>\$ 3,127</u>	<u>\$ 618</u>	<u>\$ 3,953</u>
Cash Basis Fund Balances				
Reserved	\$ 208	\$ 3,127	\$ -	\$ 3,335
Unreserved	<u>-</u>	<u>-</u>	<u>618</u>	<u>618</u>
Total cash basis fund balances	<u>\$ 208</u>	<u>\$ 3,127</u>	<u>\$ 618</u>	<u>\$ 3,953</u>

See accompanying independent auditor's report.

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

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General Obligation Bonds:			
Wastewater	March 13, 2000	3.92%	\$ 507,000
Sewer Improvements	June 27, 2000	5.75%	247,100
Total			
TIF Revenue Notes:			
Sewer Improvements	February 7, 2001	4.30%	\$ 325,000
Developer Loan	June 17, 2002	0.00%	61,200
Water Improvements	August 17, 2005	4.65%	133,000
Total			
Revenue notes:			
Wastewater	March 13, 2000	3.92%	\$ 507,000
Water	March 15, 2004	3.75%	875,000
Total			
Bank loans:			
Water Improvements	November 1, 2004	4.35%	\$ 200,000
Street Improvements	June 6, 2005	4.55%	525,000
Water Improvements	August 15, 2005	4.20%	200,000
Total			

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
\$ 414,000	\$ -	\$ 21,000	\$ 393,000	\$ 16,229	\$ -
183,107	-	14,224	168,883	10,712	-
<u>597,107</u>	<u>-</u>	<u>35,224</u>	<u>561,883</u>	<u>26,941</u>	<u>-</u>
\$ 244,000	\$ -	\$ 13,000	\$ 231,000	\$ 10,492	\$ -
59,036	-	3,011	56,025	-	-
-	133,000	11,895	121,105	4,879	-
<u>\$ 303,036</u>	<u>\$ 133,000</u>	<u>\$ 27,906</u>	<u>\$ 408,130</u>	<u>\$ 15,371</u>	<u>\$ -</u>
\$ 414,000	\$ -	\$ 21,000	\$ 393,000	\$ 16,765	\$ -
836,260	-	46,505	789,755	31,360	-
<u>\$ 1,250,260</u>	<u>\$ -</u>	<u>\$ 67,505</u>	<u>\$ 1,182,755</u>	<u>\$ 48,125</u>	<u>\$ -</u>
\$ 133,000	\$ -	\$ 133,000	\$ -	\$ 1,835	\$ -
92,540	409,965	-	502,505	8,102	-
-	185,055	-	185,055	3,913	-
<u>\$ 225,540</u>	<u>\$ 595,020</u>	<u>\$ 133,000</u>	<u>\$ 687,560</u>	<u>\$ 13,850</u>	<u>\$ -</u>

See accompanying independent auditor's report.

City of Wellman
Bond and Note Maturities
For the Year Ended June 30, 2006

General Obligation Bonds					
Year Ending June 30,	Sewer Improvements		Wastewater		Total
	Issued June 27, 2000		Issued March 13, 2000		
	Interest Rates	Amount	Interest Rates	Amount	
2007	5.75%	15,783	3.92%	22,000	37,783
2008	5.75%	16,131	3.92%	23,000	39,131
2009	5.75%	17,059	3.92%	23,000	40,059
2010	5.75%	18,040	3.92%	24,000	42,040
2011	5.75%	19,077	3.92%	25,000	44,077
2012	5.75%	20,174	3.92%	26,000	46,174
2013	5.75%	21,334	3.92%	27,000	48,334
2014	5.75%	22,561	3.92%	28,000	50,561
2015	5.75%	18,724	3.92%	29,000	47,724
2016		-	3.92%	31,000	31,000
2017		-	3.92%	32,000	32,000
2018		-	3.92%	33,000	33,000
2019		-	3.92%	34,000	34,000
2020		-	3.92%	36,000	36,000
Total		\$ 168,883		\$ 393,000	\$ 561,883

Revenue Notes					
Year Ending June 30,	Wastewater		Water		Total
	Issued March 13, 2003		Issued Oct 6, 2003		
	Interest Rates	Amount	Interest Rates	Amount	
2007	3.92%	22,000	3.75%	48,494	70,494
2008	3.92%	23,000	3.75%	50,313	73,313
2009	3.92%	23,000	3.75%	52,200	75,200
2010	3.92%	24,000	3.75%	54,158	78,158
2011	3.92%	25,000	3.75%	56,188	81,188
2012	3.92%	26,000	3.75%	58,296	84,296
2013	3.92%	27,000	3.75%	60,482	87,482
2014	3.92%	28,000	3.75%	62,750	90,750
2015	3.92%	29,000	3.75%	65,103	94,103
2016	3.92%	31,000	3.75%	67,544	98,544
2017	3.92%	32,000	3.75%	70,077	102,077
2018	3.92%	33,000	3.75%	72,705	105,705
2019	3.92%	34,000	3.75%	71,445	105,445
2020	3.92%	36,000			36,000
Total		\$ 393,000		\$ 789,755	\$ 1,182,755



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
Wellman, Iowa

I 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 Wellman 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 my report thereon dated June 21, 2007. My report expressed qualified opinions on the financial statements which were prepared in conformity with an other comprehensive basis of accounting since I was unable to satisfy myself as to the distribution by fund of the total fund balance at July 1, 2005. I conducted my 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 my audit, I considered the City of Wellman's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinions on the financial statements and not to provide assurance on the internal control over financial reporting. However, I noted certain matters involving the internal control over financial reporting and its operation that I consider to be reportable conditions. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in my judgment, could adversely affect the City of Wellman'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. My 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, I believe items 2006-I-A and 2006-I-B are material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Wellman's financial statements are free of material misstatement, I 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 my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, I noted certain immaterial instances of non-compliance or other matters that are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during my audit of the financial statements of the City. Since my 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 Wellman and other parties to whom the City of Wellman 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.

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

Sincerely,

Ann M Menke

Ann M. Menke
Certified Public Accountant
Professional Corporation
June 21, 2007

**City of Wellman
Schedule of Findings
For the Year Ended June 30, 2006**

Part I: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

2006-I-A

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. When duties are properly segregated, the activities of one employee act as a check on those of another. Generally, one person has control over each of the following areas for the City:

1. Accounting system – performing all general accounting functions and custody of assets.
2. Cash – preparing bank account reconciliations, initiating cash receipts and disbursement functions and handling and recording cash.
3. Investments – detailed record keeping, custody of investments and reconciling earnings.
4. Long term debt – recording and reconciling.
5. Receipts – collecting, depositing, journalizing, reconciling, and posting.
6. Utility receipts – billing, collecting, depositing, and posting.
7. Disbursements – check writing, reconciling, and posting.
8. Payroll – preparation, distribution, and posting.
9. Financial reporting – preparing, reconciling, and distributing.

Recommendation – I realize that with a limited number of office employees, segregation of duties is difficult. However, the City should continue to review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available personnel. Evidence of independent reviews should be indicated by initials of the independent reviewer.

Response – We will consider this.

Conclusion – Response accepted.

**City of Wellman
Schedule of Findings
For the Year Ended June 30, 2006**

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

REPORTABLE CONDITIONS:

2006-I-B

Annual Financial Report – The City filed and published the annual financial report by the December 1, 2006 deadline. However the amounts reported do not reconcile to the general ledger, primarily due to not recording the increase in investments. The City also under-reported their short-term debt on the annual financial report by \$643,584.

Recommendation – The City should include all investment activity and should report all short-term debt on the annual report, including project loans.

Response – We will make this change for next year.

Conclusion – Response accepted.

Part II: Other Findings Related to Statutory Reporting:

2006-II-A

Certified Budget – Disbursements during the year ended June 30, 2006, exceeded the amounts budgeted in the debt service and capital projects functions. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

Recommendation – The budget should have been amended in accordance with Chapter 384.20 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.

2006-II-B

Questionable Disbursements – No expenditures for parties, banquets, or other entertainment for employees were noted that we believe may constitute an unlawful expenditure from public funds as defined in an Attorney General's opinion dated April 25, 1979.

2006-II-C

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

2006-II-D

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

**City of Wellman
Schedule of Findings
For the Year Ended June 30, 2006**

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

2006-II-E

Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

2006-II-F

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

2006-II-G

Deposits and Investments – The City has adopted an appropriate investment policy in accordance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa. However, the City has investments in mutual funds that invest primarily in common stock. The holding of common stock is contrary to the City’s investment policy. Also, increases in investments in the Permanent Fund were not included in the City’s records.

Recommendation – The City should either follow their investment policy or modify it to allow investments in mutual funds. The City should also record the investment activity.

Response – We will make a decision on the investments of mutual funds to either modify our investment policy or transfer the funds to an acceptable investment as recommended. We will also record the investment activity in the future as recommended.

Conclusion – Response accepted.

2006-II-H

Revenue Bonds and Notes – The City has complied with the revenue bond and note resolutions.

2006-II-I

Payment of General Obligation Notes – Principal totaling \$21,000 for general obligation notes was paid from the Sewer Sinking Fund. Chapter 384.4 of the Code of Iowa states, in part, “Moneys pledged or available to service general obligation bonds, and received from sources other than property tax must be deposited in the Debt Service Fund.”

Recommendation – The City should transfer funds to the Debt Service Fund to pay the general obligation notes in the future.

Response – We will transfer funds to the Debt Service Fund in the future.

Conclusion – Response accepted.

**Schedule of Findings
For the Year Ended June 30, 2006**

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

2006-II-J

Electronic Check Retention – Chapter 554D.114 of the Code of Iowa allows the City to retain cancelled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each cancelled check. The City retains cancelled checks through electronic image, but does not obtain an image of the back of each cancelled check as required.

Recommendation – The City should obtain and retain an image of both the front and back of each cancelled check as required.

Response – We will contact our banks about printing both sides of the checks from now on.

Conclusion – Response accepted.

City of Wellman

Audit Staff

The audit was performed by:

Ann M. Menke, CPA

Carol Ross, CPA

Betty Thomas, CPA