

CITY OF ROLFE, IOWA

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

AS OF AND FOR THE YEAR ENDED JUNE 30, 2006

City of Rolfe, Iowa

Table of Contents

	<u>Page</u>
Officials	1
Independent Auditor’s Report	2-3
Management’s Discussion and Analysis	4-9
Basic Financial Statements:	<u>Exhibit</u>
Government-wide Financial Statement:	
Statement of Activities and Net Assets – Cash Basis	A 10-11
Governmental Fund Financial Statement:	
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	B 12-13
Proprietary Fund Financial Statement:	
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	C 14-15
Notes to Financial Statements	16-23
Required Supplementary Information:	
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances – Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Funds	24-25
Notes to Required Supplementary Information – Budgetary Reporting	26
Other Supplementary Information:	<u>Schedule</u>
Schedule of Cash Receipts, Disbursements and Changes in Cash Balances – Nonmajor Governmental Funds	1 27-28
Schedule of Cash Receipts, Disbursements and Changes in Cash Balances – Nonmajor Proprietary Funds	2 29
Schedule of Indebtedness	3 30-31
Bond and Note Maturities	4 32
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 <u>Government Auditing Standards</u>	33-34
Schedule of Findings	35-40

City of Rolfe, Iowa

Officials

<u>Name</u>	<u>Title</u> (Before January 2006)	<u>Term Expires</u>
Alan Kuchenreutter	Mayor	Jan 2008
Shane Braby	Council Member	Jan 2006
Connie Drieth	Council Member	Jan 2006
Rick Johnson	Council Member	Jan 2006
Richard Higgins	Council Member	Jan 2008
Randy Thoren	Council Member	Jan 2008
(After January 2006)		
Alan Kuchenreutter	Mayor	Jan 2008
Gloria Gunderson	Council Member	Jan 2008
Richard Higgins	Council Member	Jan 2008
Randy Thoren	Council Member	Jan 2010
Rick Johnson	Council Member	Jan 2010
Bruce Maley	Council Member	Jan 2010
Lana Pratt	City Administrator/Clerk	Resigned
Shirley Hoppen	Treasurer	Indefinite
Donald J. Hemphill	Attorney	Indefinite

Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

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

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

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

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2005, 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 Rolfe, 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 Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated March 15, 2007 on our consideration of the City of Rolfe's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an intergral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 9 and 24 through 26 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

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

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

March 15, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Rolfe 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

In order to properly compare revenue and expenses for the years 2005 and 2006 the revenue and expenses for the Lagoon Project are identified separately from the regular City governmental activities. Enterprise revenue and expenditures are detailed separately as well.

Revenue

- Receipts of the City's governmental activities decreased 10.9%, or approximately \$38,280, from fiscal 2005 to fiscal 2006.
- Enterprises – Receipts of the City's Enterprise activities increased 28%, or \$251,596, from fiscal 2005 to fiscal 2006. Increases for water \$66,648, sewer \$15,335, gas \$162,825 and garbage \$6,787.82.

Disbursements

- Disbursements of the City's governmental activities increased 4%, or approximately \$21,838, in fiscal 2006 from fiscal 2005.
- Enterprises – Disbursements of the City's Enterprise activities increased 11%, or approximately \$103,239, in fiscal 2006 from fiscal 2005. Disbursements increased \$86,435 in water, \$24,513 in sewer and \$25,920 in gas.

Total Cash Basis

- The City's total assets have been operating on a negative cash basis. Overspending has decreased 21.5% from June 30, 2005 to June 30, 2006 or approximately \$(165,070) in 2005 to \$(76,831) in 2006. Increases in enterprise charges has assisted with balancing the deficit.

Lagoon Project

- The lagoon project took place during fiscal 2005 and 2006.
Disbursements for 2005 - \$167,506 and revenue - \$144,495
Disbursements for 2006 - \$608,206 and revenue - \$342,057
- Total net asset for the lagoon project is \$(289,160). Increases in sewer rates are being used to pay off the loan balance.

USING THIS ANNUAL REPORT

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

Management's Discussion and Analysis introduces the basic financial statements and provides

an analytical overview of the City's financial activities.

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

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

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

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

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

Basis of Accounting

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

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

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

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

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

- Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the waterworks and the sanitary sewer system. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Urban Renewal Tax Increment, 3) the Debt Service Fund, 4) the Capital Projects Fund and 5) the Permanent Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

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

2) Proprietary funds account for the City's Enterprise Funds and for the Internal Service Fund. Enterprise Funds are used to report business type activities. The City maintains two Enterprise Funds to provide separate information for the water and sewer funds, considered to be major funds of the City. Internal Service Funds are an accounting device used to accumulate and allocate costs internally among the City's various functions.

The required financial statement for proprietary funds is 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.

Changes in Cash Basis Net Assets of Governmental Activities

	<u>Year ended June 30, 2006</u>
Receipts and transfers:	
Program receipts:	
Charges for service	\$ 24,558
Operating grants, contributions and restricted interest	78,929
General receipts:	
Property tax	135,400
Local option sales tax	32,885
Unrestricted interest on investments	6,317
Other general receipts	<u>22,859</u>
Total receipts	<u>300,948</u>
 Disbursements:	
Public safety	97,131
Public works	96,720
Health and social services	2,550
Culture and recreation	110,226
Community and economic development	16,287
General government	<u>60,286</u>
Total disbursements	<u>383,200</u>
 Decrease in cash basis net assets	(82,252)
 Cash basis net assets beginning of year	<u>73,004</u>
 Cash basis net assets end of year	\$ (9,248) =====

Changes in Cash Basis Net Assets of Business Type Activities

Year ended June 30, 2006

Receipts:	
Program receipts:	
Charges for services:	
Water	\$ 98,627
Sewer	62,657
Gas	546,787
Other	58,843
Capital grants, contributions and restricted interest	132,072
General receipts:	
Unrestricted interest on investments	10,404
Bond proceeds	593,266
Other general receipts	<u>11,753</u>
Total receipts	<u>1,514,409</u>
Disbursements and transfers:	
Water	175,592
Sewer	689,914
Gas	566,072
Other	<u>49,781</u>
Total disbursements and transfers	<u>1,481,359</u>
Increase in cash basis net assets	33,050
Cash basis net assets beginning of year	<u>601,598</u>
Cash basis net assets end of year	\$ 634,648 =====

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget once to reflect increases with the City's capital projects.

DEBT ADMINISTRATION

At June 30, 2006, the City had approximately \$549,022 in bonds and other long-term debt, compared to none in the prior year.

Debt increased as a result of issuing general obligation bonds for a sewer construction project and purchasing new gas and water meters.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

Rolfe City officials and elected appointed officials and citizens considered many factors when setting the fiscal 2007 budget, tax rates and fees charged for various city activities. One factor is the economy. As with the financial highlights the lagoon project revenue and expenses are not factored in the numbers below. This was done to obtain a clear picture of the City's goal to operate a balanced budget.

Inflation in the state continues to be somewhat lower than the nation consumer price index increase. The state's COP increase was 3.2% for the fiscal year 2005 compared to the national rate of 3.4%. Inflation has been modest here due in part to the slowing of the residential housing market and increases in energy prices in 2006.

The indicators were taken into account when adopting the budget for the fiscal year 2007. Amounts available for appropriation in the operating budget are \$1,343,250 a decrease of 7% over the final 2006 budget. An anticipated increase in revenue of 6% is expected a portion of which is being used to finance the lagoon project. 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 Julie Lancaster, City Clerk, 320 Garfield Street, Rolfe, Iowa 50581-1119.

Basic Financial Statements

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

	<u>Disbursements</u>	<u>Program Receipts</u>		
		<u>Charges for Service</u>	<u>Operating Grants, Contributions and Restricted Interest</u>	<u>Capital Grants, Contributions and Restricted Interest</u>
Functions/Programs:				
Governmental activities:				
Public safety	\$ 97,131	16,722	11,147	-
Public works	96,720	-	56,515	-
Health and social services	2,550	-	-	-
Culture and recreation	110,226	7,836	11,267	-
Community and economic development	16,287	-	-	-
General government	60,286	-	-	-
Total governmental activities	<u>383,200</u>	<u>24,558</u>	<u>78,929</u>	<u>-</u>
Business type activities:				
Water	175,592	98,627	-	-
Sewer	689,914	62,657	-	132,072
Gas	566,072	546,787	-	-
Nonmajor	49,781	58,843	-	-
Total business type activities	<u>1,481,359</u>	<u>766,914</u>	<u>-</u>	<u>132,072</u>
Total	<u>\$ 1,864,559</u>	<u>791,472</u>	<u>78,929</u>	<u>132,072</u>

General Receipts:

Property tax levied for:
 General purposes
 Debt service
Local option sales tax
Unrestricted interest on investments
Bond proceeds
Loan proceeds
Miscellaneous
Total general receipts
Change in cash basis net assets
Cash basis net assets beginning of year
Cash basis net assets end of year

Cash Basis Net Assets

Restricted:
 Debt service
Unrestricted

Total cash basis net assets

See notes to financial statements.

Exhibit A

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
Governmental <u>Activities</u>	Business Type <u>Activities</u>	<u>Total</u>
(69,262)	-	(69,262)
(40,205)	-	(40,205)
(2,550)	-	(2,550)
(91,123)	-	(91,123)
(16,287)	-	(16,287)
(60,286)	-	(60,286)
<u>(279,713)</u>	<u>-</u>	<u>(279,713)</u>
-	(76,965)	(76,965)
-	(495,185)	-
-	(19,285)	-
<u>-</u>	<u>9,062</u>	<u>9,062</u>
<u>-</u>	<u>(582,373)</u>	<u>(582,373)</u>
<u>(279,713)</u>	<u>(582,373)</u>	<u>(862,086)</u>
135,085	-	135,085
315	-	315
32,885	-	32,885
6,317	10,404	16,721
-	508,266	508,266
-	85,000	85,000
22,859	11,753	34,612
<u>197,461</u>	<u>615,423</u>	<u>812,884</u>
(82,252)	33,050	(49,202)
73,004	601,598	674,602
<u>\$ (9,248)</u>	<u>634,648</u>	<u>625,400</u>
7,660	-	7,660
(16,908)	634,648	617,740
<u>\$ (9,248)</u>	<u>634,648</u>	<u>625,400</u>

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

As of and for the year ended June 30, 2006

	<u>General</u>	Other Nonmajor Governmental <u>Funds</u>	<u>Total</u>
Receipts:			
Property tax	\$ 98,522	29,754	128,276
Other city tax	5,473	34,537	40,010
Licenses and permits	1,020	-	1,020
Use of money and property	4,673	1,642	6,315
Intergovernmental	21,395	56,515	77,910
Charges for service	24,558	-	24,558
Miscellaneous	12,859	10,000	22,859
Total receipts	<u>168,500</u>	<u>132,448</u>	<u>300,948</u>
Disbursements:			
Operating:			
Public safety:			
Police	47,579	6,272	53,851
Emergency management	5,792	-	5,792
Fire	19,854	2,476	22,330
Ambulance	14,317	712	15,029
Animal control	129	-	129
	<u>87,671</u>	<u>9,460</u>	<u>97,131</u>
Public works:			
Street lighting	14,811	-	14,811
Roadway maintenance	8,398	73,511	81,909
	<u>23,209</u>	<u>73,511</u>	<u>96,720</u>
Health and social services:			
Mosquito control	2,550	-	2,550
Culture and recreation			
Library	39,070	4,189	43,259
Park	7,467	533	8,000
Swimming pool	52,411	1,915	54,326
Cemetery	500	-	500
Community center	4,102	39	4,141
	<u>103,550</u>	<u>6,676</u>	<u>110,226</u>

(continued)

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

As of and for the year ended June 30, 2006

	<u>General</u>	Other Nonmajor Governmental <u>Funds</u>	<u>Total</u>
Community and economic development:			
Economic development	-	16,287	16,287
General government:			
Policy administration	52,831	3,235	56,066
Tort liability	4,220	-	4,220
	<u>57,051</u>	<u>3,235</u>	<u>60,286</u>
Total disbursements	<u>274,031</u>	<u>109,169</u>	<u>383,200</u>
Excess of receipts over disbursements	<u>(105,531)</u>	<u>23,279</u>	<u>(82,252)</u>
Other financing sources (uses):			
Operating transfers in	102,200	21,000	123,200
Operating transfers out	(1,000)	(122,200)	(123,200)
Total other financing sources (uses)	<u>101,200</u>	<u>(101,200)</u>	<u>-</u>
Net change in cash balances	(4,331)	(77,921)	(82,252)
Cash balances beginning of year	(84,178)	157,182	73,004
Cash balances end of year	<u>\$ (88,509)</u>	<u>79,261</u>	<u>(9,248)</u>
Cash Basis Fund Balances			
Reserved:			
Debt service	\$ -	7,660	7,660
Unreserved:			
General fund	(88,509)	-	(88,509)
Special revenue funds	-	69,072	69,072
Capital project fund	-	2,529	2,529
Total cash basis fund balances	<u>\$ (88,509)</u>	<u>79,261</u>	<u>(9,248)</u>

See notes to financial statements.

City of Rolfe, Iowa

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

As of and for the year ended June 30, 2006

	Enterprise Funds		
	<u>Water</u>	<u>Sewer</u>	<u>Gas</u>
Operating receipts:			
Charges for service	\$ 98,627	62,657	544,712
Miscellaneous	-	-	2,075
Total operating receipts	<u>98,627</u>	<u>62,657</u>	<u>546,787</u>
Operating disbursements:			
Business type activities:			
Personal services	36,236	34,369	46,684
Contractual services	13,159	3,477	441,881
Utilities	6,308	1,857	2,507
Repairs and maintenance	38,523	2,783	6,284
Other supplies and expenses	2,763	2,098	15,530
Capital outlay	70,253	5,000	43,551
Total operating disbursements	<u>167,242</u>	<u>49,584</u>	<u>556,437</u>
Excess (deficiency) of operating receipts over (under) operating disbursements	<u>(68,615)</u>	<u>13,073</u>	<u>(9,650)</u>
Non-operating receipts (disbursements):			
Bond proceeds	-	508,266	-
Loan proceeds	42,500	-	42,500
Intergovernmental	-	132,072	-
Miscellaneous	31	170	11,522
Interest on investments	635	-	9,134
Debt service:			
Principal redemption	(7,249)	(24,000)	(8,332)
Interest payments	(1,101)	(9,436)	(1,303)
Capital projects	-	(606,894)	-
Total non-operating receipts (disbursements)	<u>34,816</u>	<u>178</u>	<u>53,521</u>
Net change in cash balances	(33,799)	13,251	43,871
Cash balances beginning of year	<u>83,235</u>	<u>222,724</u>	<u>265,088</u>
Cash balances end of year	<u>\$ 49,436</u>	<u>235,975</u>	<u>308,959</u>
Cash Basis Fund Balances			
Reserved for improvements	\$ -	16,843	-
Reserved for debt service	-	-	-
Unreserved	<u>49,436</u>	<u>219,132</u>	<u>308,959</u>
Total cash basis fund balances	<u>\$ 49,436</u>	<u>235,975</u>	<u>308,959</u>

See notes to financial statements.

Exhibit C

<u>Other</u> <u>Nonmajor</u>	<u>Total</u>
58,843	764,839
-	2,075
<u>58,843</u>	<u>766,914</u>
6,174	123,463
32,072	490,589
-	10,672
847	48,437
3,824	24,215
6,864	125,668
<u>49,781</u>	<u>823,044</u>
<u>9,062</u>	<u>(56,130)</u>
-	508,266
-	85,000
-	132,072
30	11,753
635	10,404
-	(39,581)
-	(11,840)
-	(606,894)
<u>665</u>	<u>89,180</u>
9,727	33,050
<u>30,551</u>	<u>601,598</u>
<u>40,278</u>	<u>634,648</u>
-	16,843
-	-
<u>40,278</u>	<u>617,805</u>
<u>40,278</u>	<u>634,648</u>

City of Rolfe, Iowa

Notes to Financial Statements

June 30, 2006

(1) Summary of Significant Accounting Policies

The City of Rolfe is a political subdivision of the State of Iowa located in Pocahontas County. It was first incorporated in 1863 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, community and economic development, and general government services. The City also provides water, sewer and gas utilities for its citizens.

A. Reporting Entity

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

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Pocahontas County Assessor's Conference Board, Pocahontas County Solid Waste Commission, Pocahontas County Economic Development Commission, and Pocahontas County Area Law Enforcement Task Force.

City of Rolfe, Iowa

Notes to Financial Statements

June 30, 2006

B. Basis of Presentation

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

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

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

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

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

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

City of Rolfe, Iowa

Notes to Financial Statements

June 30, 2006

The City reports the following major governmental funds:

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

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 utility system.

City of Rolfe, Iowa

Notes to Financial Statements

June 30, 2006

C. Measurement Focus and Basis of Accounting

The City of Rolfe 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.

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

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

D. Budgets and Budgetary Accounting

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

(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.

City of Rolfe, Iowa

Notes to Financial Statements

June 30, 2006

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.

(3) Bonds and Notes Payable

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

Year Ending June 30,	Revenue Bonds		Revenue Notes		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2007	24,000	14,718	27,569	3,262	51,569	17,980
2008	25,000	13,998	29,187	1,644	54,187	15,642
2009	26,000	13,248	12,663	183	38,663	13,431
2010	26,000	12,498	---	---	26,000	12,498
2011	27,000	11,688	---	---	27,000	11,688
2012-2016	150,000	45,245	---	---	150,000	45,245
2017-2021	175,000	21,302	---	---	175,000	21,302
2022	<u>26,603</u>	<u>1,128</u>	<u>---</u>	<u>---</u>	<u>26,603</u>	<u>1,128</u>
Total	\$ 479,603	133,825	69,419	5,089	549,022	138,914

City of Rolfe, Iowa

Notes to Financial Statements

June 30, 2006

The resolutions providing for the issuance of the revenue notes include the following provisions.

- (a) The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the funds.
- (b) Sufficient monthly transfers shall be made to revenue note sinking accounts within the Enterprise Funds for the purpose of making the note principal and interest payments when due.
- (c) The City shall establish, impose, adjust and provide for the collection of rates to be charged to customers of the utility, including the City, to produce gross revenues at least sufficient to pay the expenses of operation and maintenance of the utility, which shall include salaries, wages, cost of maintenance and operation, materials, supplies, insurance and all other items normally included under recognized accounting practices and to leave a balance of net revenues equal to at least 110% of the principal of an interest on all of the bonds due in such fiscal year.

(4) Pension and Retirement Benefits

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

Most regular plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2006 was \$11,548, equal to the required contributions for the year.

City of Rolfe, Iowa

Notes to Financial Statements

June 30, 2006

(5) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation and comp time 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 and comp time termination payments payable to employees at June 30, 2006, primarily relating to Enterprise Funds, is as follows:

Type of Benefit	Amount
Vacation	\$ 4,420
Comp time	<u>2,590</u>
Total	\$ 7,010 =====

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

(6) Interfund Transfers

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

Transfer to	Transfer from	Amount
General	Special Revenue:	
	Employee Benefits	\$ 80,000
	Local Option Sales Tax	20,000
	Emergency	2,200
Special Revenue:	Special Revenue:	
Road Use Tax	Local Option Sales Tax	20,000
Library Trust	General	<u>1,000</u>
Total		\$ 123,200 =====

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

City of Rolfe, Iowa

Notes to Financial Statements

June 30, 2006

(7) Risk Management

The City is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disaster. These risk 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.

(8) Deficit Balances

The General Fund had a deficit balance of \$88,509 at June 30, 2006. The Special Revenue Economic Development Fund also had a deficit balance of \$27,401 at June 30, 2006. The City will review these accounts to return them to a sound financial position.

The Enterprise Electric Fund had a deficit balance of \$29,375 at June 30, 2006. This deficit balance is due to costs incurred exploring the possibility of starting an electric franchise. This deficit will be eliminated at a future date.

(9) Construction Commitment

The city has committed to a Waste Water Improvement project for approximately \$935,000. This project will be financed by a State Revolving Fund Loan and a Community Development Block Grant. As of June 30, 2006 \$640,000 has been expended on this project.

Required Supplementary Information

City of Rolfe, Iowa

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

Required Supplementary Information

Year ended June 30, 2006

	Governmental Funds <u>Actual</u>	Proprietary Funds <u>Actual</u>
Receipts:		
Property tax	\$ 128,276	-
Other city tax	40,010	-
Licenses and permits	1,020	-
Use of money and property	6,315	10,404
Intergovernmental	77,910	132,072
Charges for service	24,558	764,839
Miscellaneous	22,859	13,828
Total receipts	<u>300,948</u>	<u>921,143</u>
Disbursements:		
Public safety	97,131	-
Public works	96,720	-
Health and social services	2,550	-
Culture and recreation	110,226	-
Community and economic development	16,287	-
General government	60,286	-
Capital projects	-	-
Business type activities	-	1,481,359
Total disbursements	<u>383,200</u>	<u>1,481,359</u>
Excess (deficiency) of receipts over (under) disbursements	(82,252)	(560,216)
Other financing sources, net	<u>-</u>	<u>593,266</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements	(82,252)	33,050
Balances beginning of year	<u>73,004</u>	<u>601,598</u>
Balances end of year	<u>\$ (9,248)</u>	<u>634,648</u>

See accompanying independent auditor's report.

<u>Net</u>	<u>Budgeted Amounts</u>		<u>Final to Net Variance</u>
	<u>Original</u>	<u>Final</u>	
128,276	132,426	132,426	(4,150)
40,010	36,165	32,000	8,010
1,020	1,115	1,115	(95)
16,719	2,340	14,192	2,527
209,982	365,013	367,568	(157,586)
789,397	523,950	832,059	(42,662)
36,687	12,850	12,850	23,837
<u>1,222,091</u>	<u>1,073,859</u>	<u>1,392,210</u>	<u>(170,119)</u>
97,131	100,436	104,634	7,503
96,720	107,765	109,070	12,350
2,550	2,300	2,550	-
110,226	133,585	133,950	23,724
16,287	18,200	18,200	1,913
60,286	101,900	81,430	21,144
-	870,618	870,618	870,618
1,481,359	578,351	956,026	(525,333)
<u>1,864,559</u>	<u>1,913,155</u>	<u>2,276,478</u>	<u>411,919</u>
(642,468)	(839,296)	(884,268)	241,800
<u>593,266</u>	<u>570,618</u>	<u>747,000</u>	<u>(153,734)</u>
(49,202)	(268,678)	(137,268)	88,066
<u>674,602</u>	<u>689,901</u>	<u>662,396</u>	<u>12,206</u>
<u>625,400</u>	<u>421,223</u>	<u>525,128</u>	<u>100,272</u>

City of Rolfe, Iowa

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2006

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis

following required public notice and hearing for all funds except Internal Service Funds and Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund. 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, one budget amendment increased budget disbursements by \$363,323, increased budgeted receipts by \$318,351 and other financing sources by \$176,382. The budget amendments are reflected in the final budgeted amounts.

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

Other Supplementary Information

City of Rolfe, Iowa
Schedule of Cash Receipts, Disbursements
and Changes in Cash Balances
Nonmajor Governmental Funds
As of and for the year ended June 30, 2006

Special

	Road Use <u>Tax</u>	Employee Benefits	Emergency	Housing Rehab
Receipts:				
Property tax	\$ -	27,215	2,224	-
Other city tax	-	1,526	125	-
Use of money and property	-	-	-	57
Intergovernmental	56,515	-	-	-
Miscellaneous	-	-	-	-
Total receipts	<u>56,515</u>	<u>28,741</u>	<u>2,349</u>	<u>57</u>
Disbursements:				
Operating:				
Public safety:				
Police	-	6,272	-	-
Fire	-	2,476	-	-
Ambulance	-	712	-	-
	<u>-</u>	<u>9,460</u>	<u>-</u>	<u>-</u>
Public works:				
Road Maintenance	70,814	2,697	-	-
	<u>70,814</u>	<u>2,697</u>	<u>-</u>	<u>-</u>
Culture and recreation:				
Library	-	2,189	-	-
Park	-	533	-	-
Swimming pool	-	1,915	-	-
Community center	-	39	-	-
	<u>-</u>	<u>4,676</u>	<u>-</u>	<u>-</u>
Community and economic development:				
Economic development	-	-	-	-
General government:				
Policy administration	-	3,235	-	-
Total disbursements	<u>7,084</u>	<u>20,068</u>	<u>-</u>	<u>-</u>
Excess of receipts over disbursements	<u>(14,299)</u>	<u>8,673</u>	<u>2,349</u>	<u>57</u>
Other financing sources (uses):				
Operating transfers in	20,000	-	-	-
Operating transfers out	-	(80,000)	(2,200)	-
Total other financing sources (uses)	<u>20,000</u>	<u>(80,000)</u>	<u>(2,200)</u>	<u>-</u>
Net change in cash balances	5,701	(71,327)	149	57
Cash balances beginning of year	(4,600)	92,905	1,071	12,206
Cash balances end of year	<u>\$ 1,101</u>	<u>21,578</u>	<u>1,220</u>	<u>12,263</u>
Cash Basis Fund Balances				
Reserved:				
Debt service	\$ -	-	-	-
Unreserved:				
Special revenue funds	1,101	21,578	1,220	12,263
Capital project fund	-	-	-	-
Total cash basis fund balances	<u>\$ 1,101</u>	<u>21,578</u>	<u>1,220</u>	<u>12,263</u>

See accompanying independent auditor's report.

Revenue					
Local Option Tax	Economic Development	Library Trust	Debt Service	Capital Projects	Total
-	-	-	315	-	29,754
32,886	-	-	-	-	34,537
-	-	1,585	-	-	1,642
-	-	-	-	-	56,515
-	-	10,000	-	-	10,000
<u>32,886</u>	<u>-</u>	<u>11,585</u>	<u>315</u>	<u>-</u>	<u>132,448</u>
-	-	-	-	-	6,272
-	-	-	-	-	2,476
-	-	-	-	-	712
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>9,460</u>
-	-	-	-	-	73,511
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>73,511</u>
-	-	2,000	-	-	4,189
-	-	-	-	-	533
-	-	-	-	-	1,915
-	-	-	-	-	39
<u>-</u>	<u>-</u>	<u>2,000</u>	<u>-</u>	<u>-</u>	<u>6,676</u>
1,500	14,787	-	-	-	16,287
-	-	-	-	-	3,235
<u>1,500</u>	<u>14,787</u>	<u>2,000</u>	<u>-</u>	<u>-</u>	<u>45,439</u>
<u>31,386</u>	<u>(14,787)</u>	<u>9,585</u>	<u>315</u>	<u>-</u>	<u>23,279</u>
-	-	1,000	-	-	21,000
<u>(40,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(122,200)</u>
<u>(40,000)</u>	<u>-</u>	<u>1,000</u>	<u>-</u>	<u>-</u>	<u>(101,200)</u>
(8,614)	(14,787)	10,585	315	-	(77,921)
9,108	(12,614)	49,232	7,345	2,529	157,182
<u>494</u>	<u>(27,401)</u>	<u>59,817</u>	<u>7,660</u>	<u>2,529</u>	<u>79,261</u>
-	-	-	7,660	-	7,660
494	(27,401)	59,817	-	-	69,072
-	-	-	-	2,529	2,529
<u>494</u>	<u>(27,401)</u>	<u>59,817</u>	<u>7,660</u>	<u>2,529</u>	<u>79,261</u>

Schedule of Cash Receipts, Disbursements and Changes in Cash Balances
Nonmajor Proprietary Funds

As of and for the year ended June 30, 2006

	Enterprise Funds		
	<u>Garbage</u>	<u>Electric</u>	<u>Total</u>
Operating receipts:			
Charges for service	\$ 58,843	-	58,843
Total operating receipts	<u>58,843</u>	<u>-</u>	<u>58,843</u>
Operating disbursements:			
Business type activities:			
Personal services	6,174	-	6,174
Contractual services	31,697	375	32,072
Repairs and maintenance	847	-	847
Other supplies and expenses	3,824	-	3,824
Capital outlay	<u>6,864</u>	<u>-</u>	<u>6,864</u>
Total operating disbursements	<u>49,406</u>	<u>375</u>	<u>49,781</u>
Excess (deficiency) of operating receipts over (under) operating disbursements	<u>9,437</u>	<u>(375)</u>	<u>9,062</u>
Non-operating receipts (disbursements):			
Interest on investments	635	-	635
Miscellaneous	<u>30</u>	<u>-</u>	<u>30</u>
Total non-operating receipts (disbursements)	<u>665</u>	<u>-</u>	<u>665</u>
Net change in cash balances	10,102	(375)	9,727
Cash balances beginning of year	<u>59,551</u>	<u>(29,000)</u>	<u>30,551</u>
Cash balances end of year	<u>\$ 69,653</u>	<u>(29,375)</u>	<u>40,278</u>
Cash Basis Fund Balances			
Unreserved	<u>\$ 69,653</u>	<u>(29,375)</u>	<u>40,278</u>
Total cash basis fund balances	<u>\$ 69,653</u>	<u>(29,375)</u>	<u>40,278</u>

See notes to financial statements.

City of Rolfe, Iowa
Schedule of Indebtedness
Year ended June 30, 2006

<u>Obligation</u>	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount Originally Issued</u>
Revenue bonds:			
Sewer revenue	Sept 21, 2005	3.00 %	\$ 635,000
Note payable			
Gas & water meters	Dec 5, 2005	5.65 %	\$ 85,000

See accompanying independent auditor's report.

Schedule 3

<u>Balance Beginning of Year</u>	<u>Issued During Year</u>	<u>Redeemed During Year</u>	<u>Balance End of Year</u>	<u>Interest Paid</u>	<u>Interest Due and Unpaid</u>
<u>-</u>	<u>503,603</u>	<u>24,000</u>	<u>479,603</u>	<u>25,102</u>	<u>-</u>
<u>-</u>	<u>85,000</u>	<u>15,581</u>	<u>69,419</u>	<u>2,404</u>	<u>-</u>

Bond and Note Maturities

June 30, 2006

Year Ending <u>June 30.</u>	Revenue Bonds	
	Sewer Revenue	
	Series 2005	
	Interest	
	<u>Rates</u>	<u>Amount</u>
2007	3.00 %	\$ 24,000
2008	3.00	25,000
2009	3.00	26,000
2010	3.00	26,000
2011	3.00	27,000
2012	3.00	28,000
2013	3.00	29,000
2014	3.00	30,000
2015	3.00	31,000
2016	3.00	32,000
2017	3.00	33,000
2018	3.00	34,000
2019	3.00	35,000
2020	3.00	36,000
2021	3.00	37,000
2022	3.00	<u>26,603</u>
	Total	<u>\$ 479,603</u>

See accompanying independent auditor's report.

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

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Rolfe, Iowa as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements listed in the table of contents and have issued our report thereon dated August 31, 2006. Our report expressed a qualified opinion on the financial statements since we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2006 which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Rolfe's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of Rolfe's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item I-A-06 is a material weakness.

Compliance and Other Matters

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

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Rolfe and other parties to whom the City of Rolfe may report including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

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

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

March 15, 2007

City of Rolfe, Iowa

Schedule of Findings

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 employee from handling duties which are incompatible. The cash receipts listing, bank deposits and the posting of the cash receipts journal are all done by the same person.

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

Response – We will consider this.

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

I-B-06 Reconciliation of Utility Billings, Collections and Delinquencies – Utility billings, collections and delinquent accounts were not reconciled throughout the year.

Recommendation – Procedures should be established to reconcile utility billings, collections and delinquencies for each billing period. The Council or a Council-designated independent person should review the reconciliations.

Response – We will review our procedures with our new City Clerk.

Conclusion – Response accepted.

City of Rolfe, Iowa

Schedule of Findings

Year ended June 30, 2006

I-C-06 Disbursements – We noted many invoices paid between council meetings. We also noted that a couple of disbursements were paid to vendors prior to any work being performed. All invoices paid between meetings or prepaid were approved in the minutes except one. There was also one disbursement not supported by an invoice.

Recommendation – City personnel should review its procedures for paying bills between council meetings to insure proper approval. The City should also refrain from prepaying vendors.

Response – We will review our procedures for paying and approving invoices.

Conclusion – Response accepted.

I-D-06 Employee Time Sheets – It was noted that out of the fourteen payroll checks tested one employee was shorted four hours. It was also noted there was no evidence of supervisory review on the time sheets.

Recommendation – The employee should be reimbursed the four hours and City officials should review their procedures for preparing payroll checks.

Response – This was an isolated incident. We will comply with the recommendations.

Conclusion – Response accepted.

I-E-06 Utility Billing – It was noted that out of the 78 meter readings tested, 8 did not trace to the bills mailed out to the customers. This did not result in any material variances. It was also noted that one meter did not have the correct multiplier in the meter. This resulted in underbilling a customer of approximately \$600 this past fiscal year.

Recommendation – City personnel should test a few bills each month to help insure bills are being computed correctly.

City of Rolfe, Iowa

Schedule of Findings

Year ended June 30, 2006

Response – The meter reading variances were due to the software conversion to hand held meters. We will review some bills each month to double check and make sure bills are being computed correctly.

Conclusion – Response accepted.

Part II: Other Findings Related to Statutory Reporting:

II-A-06 Certified Budget – Disbursements during the year ended June 30, 2006 exceeded the amounts budgeted in the business type activities function. 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 sufficient amounts 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 sufficient amounts in the future, if applicable.

Conclusion – Response accepted.

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

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

II-D-06 Business Transactions – No business transactions between the City and City officials or employees were noted.

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 insure that the coverage is adequate for current operations.

City of Rolfe, Iowa

Schedule of Findings

Year ended June 30, 2006

II-F-06 Council Minutes – As noted in part one, there was one invoice that was not approved in the minutes.

Although minutes of Council proceedings were published, they did not include a summary of receipts as required by the Code of Iowa.

Recommendation – The City should comply with the Code of Iowa and should publish a summary of receipts as required. Also, the City should make sure all invoices are approved.

Response – We will comply with the Code of Iowa.

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.

II-H-06 Revenue Bonds and Notes – The City has complied with the revenue bond and note resolutions.

II-I-06 Notice of Public Hearing for Revenue Notes – The City did not publish a notice of public hearing as required by Chapter 384 before issuing revenue notes for new water and gas meters.

Recommendation – Before incurring debt the City should have a public hearing as required by the Code of Iowa.

Response – We will publish the appropriate notices in the future as required.

Conclusion – Response accepted.

City of Rolfe, Iowa

Schedule of Findings

Year ended June 30, 2006

II-J-06 Sales Tax – Sales tax on sewer services provided to non-residential commercial operations was not uniformly assessed.

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

Response – This was corrected in May 2006.

Conclusion – Response accepted.

II-K-06 Financial Condition – The General Fund had a deficit balance at June 30, 2006 of \$88,509. Special Revenue, Economic Development Fund had a deficit balance at June 30, 2006 of \$27,401. The Enterprise Electric Fund had a deficit balance at June 30, 2006 of \$29,375.

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

Response – We will review these deficits.

Conclusion – Response accepted.

II-L-06 Excess Balances – The Enterprise Garbage Fund had a balance at June 30, 2006
in excess of one year's expenditures.

Recommendation – While it appears that this fund can have an excessive balance, the City should justify its future plans.

Response – We will review the balance and document our plans.

Conclusion – Response accepted.

City of Rolfe, Iowa

Schedule of Findings

Year ended June 30, 2006

II-M-06 Filing of 1099's – It was noted that the City filed 1099's for independent contractors, but forgot to file one for the contractor that performed recycling services.

Recommendation – City personnel should review its procedures and make sure all required 1099's are filed.

Response – We will do this in the future.

Conclusion – Response accepted.

II-N-06 Transfers – It was noted that a transfer was made from employee benefits to the General Fund without approval or back up documentation.

Recommendation – Transfers should be made only after budgeted or specifically approved by the Council.

Response – We will do this in the future.

Conclusion – Response accepted.