



**OFFICE OF AUDITOR OF STATE**  
**STATE OF IOWA**

David A. Vaudt, CPA  
Auditor of State

State Capitol Building  
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

**NEWS RELEASE**

FOR RELEASE February 12, 2007

Contact: Andy Nielsen  
515/281-5834

Auditor of State David A. Vaudt today released an audit report on the City of Gilbertville, Iowa.

The City has implemented new reporting standards for the year ended June 30, 2006, with significant changes in content and structure of the financial statements. The new financial statements now include a Statement of Activities and Net Assets which provides information about the activities of the City as a whole. Also included is Management's Discussion and Analysis of the City's financial statements.

The City's receipts totaled \$1,391,162 for the year ended June 30, 2006. The receipts included \$180,951 from charges for service, \$161,341 from operating grants, contributions and restricted interest, \$951 from capital grants, contributions and restricted interest, \$123,394 in property tax, \$220,493 from tax increment financing, \$83,073 from local option sales tax, \$2,658 from unrestricted interest on investments, \$594,000 from note proceeds and \$24,301 from other general receipts.

Disbursements for the year totaled \$764,249, and included \$140,160 for capital projects, \$134,597 for public works and \$123,142 for public safety. Also, disbursements for business type activities totaled \$131,062.

A copy of the report is available for review in the City Clerk's office, in the Office of Auditor of State and on the Auditor of State's web site at <http://auditor.iowa.gov/reports/reports.htm>.

###



**CITY OF GILBERTVILLE**  
**INDEPENDENT AUDITOR'S REPORTS**  
**BASIC FINANCIAL STATEMENTS**  
**AND SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF FINDINGS**  
**JUNE 30, 2006**

## Table of Contents

		<u>Page</u>
Officials		3
Independent Auditor’s Report		5-6
Management’s Discussion and Analysis		7-12
Basic Financial Statements:	<u>Exhibit</u>	
Government-wide Financial Statement:		
Statement of Activities and Net Assets – Cash Basis	A	14-15
Governmental Fund Financial Statement:		
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	B	16-17
Proprietary Fund Financial Statement:		
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	C	19
Notes to Financial Statements		20-26
Required Supplementary Information:		
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances - Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Funds		28-29
Notes to Required Supplementary Information – Budgetary Reporting		30
Other Supplementary Information:	<u>Schedule</u>	
Schedule of Cash Receipts, Disbursements and Changes in Cash Balances - Nonmajor Governmental Funds	1	33
Schedule of Indebtedness	2	34-35
Note Maturities	3	36
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>		37-38
Schedule of Findings		39-42
Staff		43

**City of Gilbertville**

**Officials**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>(Before January 2006)</b>		
Harry R. Fischels	Mayor	Jan 2006
Orville Weber, Jr.	Mayor Pro tem	Jan 2008
Jeff Balvanz	Council Member	Jan 2006
Shane Schellhorn	Council Member	Resigned
Dan Gardner (Appointed)	Council Member	Nov 2006
Harold Kavalier	Council Member	Jan 2008
<b>(After January 2006)</b>		
Harry R. Fischels	Mayor	Jan 2008
Orville Weber, Jr.	Mayor Pro tem	Jan 2008
Dan Gardner	Council Member	Resigned
Jeff Ortner	Council Member	Resigned
Pamela Marson (Appointed)	Council Member	Nov 2007
Jeff Balvanz (Appointed)	Council Member	Nov 2007
Harold Kavalier	Council Member	Jan 2008
Mark Thome	Council Member	Jan 2010
Barbara K. Doubek	City Clerk	Indefinite
Mary McGee	Deputy City Clerk	Retired
Judith Klein (Appointed)	Deputy City Clerk	Indefinite
John McCoy	Attorney	Indefinite

**City of Gilbertville**



**OFFICE OF AUDITOR OF STATE**  
**STATE OF IOWA**

David A. Vaudt, CPA  
Auditor of State

State Capitol Building  
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

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 Gilbertville, 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 Gilbertville's management. Our responsibility is to express opinions on these financial statements based on our audit.

Except as discussed in the following paragraph, 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.

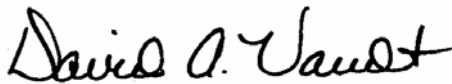
In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2005, as discussed in the preceding paragraph, the financial statements referred to above present 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 Gilbertville 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.

As described in Note 10, during the year ended June 30, 2006, the City adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences.

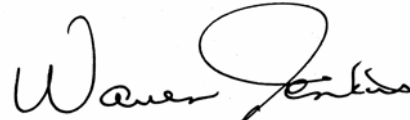
In accordance with Government Auditing Standards, we have also issued our report dated December 8, 2006 on our consideration of the City of Gilbertville's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 12 and 28 through 30 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 Gilbertville's basic financial statements. Other supplementary information included in Schedules 1 through 3 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, 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, as discussed in the third paragraph, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



DAVID A. VAUDT, CPA  
Auditor of State



WARREN G. JENKINS, CPA  
Chief Deputy Auditor of State

December 8, 2006



---

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

---

The City of Gilbertville 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.

Because the City is implementing new reporting standards for this fiscal year with significant changes in content and structure, and since the City is not required to be audited annually, much of the information is not easily comparable to prior years. Comparative data has been provided if available.

### **2006 FINANCIAL HIGHLIGHTS**

- The cash basis net assets of the City's governmental activities increased by 64%, or approximately \$592,000, due primarily to the receipt of \$594,000 in general obligation note proceeds.
- The cash basis net assets of the City's business type activities increased by 38%, or approximately \$35,000, due primarily to a rate increase in fiscal year 2006 and to reduced spending.

### **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 and the City's indebtedness.

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

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

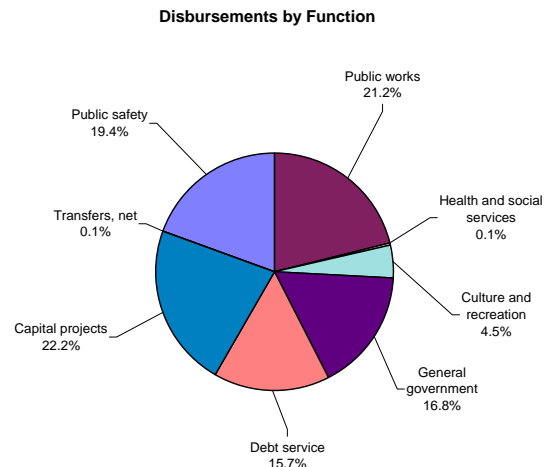
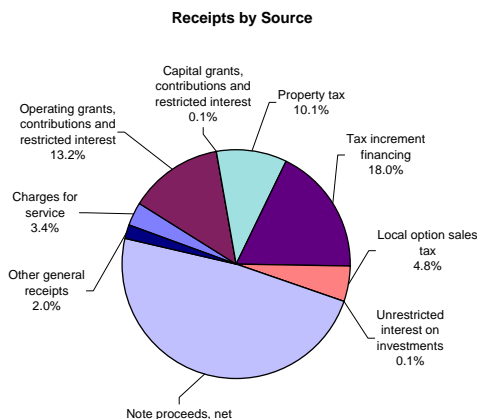
2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains two Enterprise Funds to provide separate information for the water and sewer funds, considered to be major funds of the City.

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 increased sharply from a year ago, increasing from \$925,555 to \$1,517,826. The analysis that follows focuses on the changes in cash basis net assets of governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities	
	Year ended June 30, 2006
Receipts:	
Program receipts:	
Charges for service	\$ 41,409
Operating grants, contributions and restricted interest	161,341
Capital grants, contributions and restricted interest	951
General receipts:	
Property tax	123,394
Tax increment financing	220,493
Local option sales tax	59,391
Unrestricted interest on investments	916
Note proceeds, net of \$6,000 discount	594,000
Other general receipts	24,301
<b>Total receipts</b>	<b>1,226,196</b>
Disbursements and transfers:	
Public safety	123,142
Public works	134,597
Health and social services	662
Culture and recreation	28,357
General government	106,437
Debt service	99,832
Capital projects	140,160
Transfers, net	738
<b>Total disbursements and transfers</b>	<b>633,925</b>
Increase in cash basis net assets	592,271
Cash basis net assets beginning of year	925,555
Cash basis net assets end of year	<b>\$ 1,517,826</b>



The cash basis net assets for the City's governmental funds increased by approximately \$592,000, due primarily to the receipt of \$594,000 in general obligation note proceeds.

<u>Changes in Cash Basis Net Assets of Business Type Activities</u>	
	<u>Year ended June 30, 2006</u>
Receipts and transfers:	
Program receipts:	
Charges for service:	
Water	\$ 68,060
Sewer	71,482
General receipts:	
Local option sales tax	23,682
Unrestricted interest on investments	1,742
Transfers, net	738
Total receipts and transfers	<u>165,704</u>
Disbursements:	
Water	61,683
Sewer	69,379
Total disbursements	<u>131,062</u>
Increase in cash basis net assets	34,642
Cash basis net assets beginning of year	<u>91,663</u>
Cash basis net assets end of year	<u>\$ 126,305</u>

The cash basis net assets of the City's business type activities increased by approximately \$35,000, due primarily to a rate increase and reduced spending.

#### **INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS**

As the City of Gilbertville completed the year, its governmental funds reported a combined fund balance of \$1,517,826, an increase of \$592,271 over last year's total of \$925,555. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance increased \$54,629 over the prior year to \$106,679. The increase is in part due to the transfer in of \$43,000 from the Employee Benefits Fund to reimburse two years of benefits paid directly out of the General Fund. The remaining portion of the increase is due to cut backs in spending and to an increase in local option sales tax collected.
- The Road Use Tax Fund cash balance decreased by \$11,866 to \$97,522 during the fiscal year. This decrease is due to added spending for road work in fiscal year 2006.
- The Urban Renewal Tax Increment Fund was established to account for major urban renewal projects within the City's tax increment district. At the end of the fiscal year, the cash balance was \$94,348, an increase of \$37,636 over the previous year. The increase was the result of the City requesting more tax increment financing collections with the intention of calling the general obligation storm sewer notes when the option becomes available on June 1, 2008.

- The Debt Service Fund cash balance increased by \$60,000 over the prior year's zero balance. This increase was due to the transfer of tax increment financing in an effort to set aside funds for exercising the call option for the general obligation storm sewer notes as noted above.
- The Capital Projects Fund cash balance increased by \$478,276 to \$1,153,868 during the fiscal year. The increase was due to the receipt of \$594,000 in general obligation note proceeds.

**INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS**

- The Water Fund cash balance increased by \$22,845 to \$71,764, due primarily to an increase in the sale of water and a rate increase.
- The Sewer Fund cash balance increased by \$11,797 to \$54,541, due primarily to reduced spending during the fiscal year.

**BUDGETARY HIGHLIGHTS**

Over the course of the year, the City amended its budget one time. The amendment was approved on May 15, 2006 and resulted in an increase in operating disbursements related to cost overruns of approximately \$205,000 on various projects involving the water tower, water improvements and street improvements. The City had sufficient cash balances to absorb these additional costs and also sold \$600,000 in general obligation notes for water improvements.

Total disbursements were \$52,542 less than the amended budget. Disbursements in the public safety, public works and business type activities functions were \$5,685, \$1,685 and \$31,379 less than the amended budget. This was primarily due to the deferral of equipment purchases and construction projects.

The City exceeded the amount budgeted in the general government function for the year ended June 30, 2006. This was due to an unexpected increase in general government disbursements.

**DEBT ADMINISTRATION**

At June 30, 2006, the City had \$1,515,000 in general obligation notes outstanding, compared to \$970,000 last year. Debt increased as a result of issuing general obligation notes for a water improvement project.

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$1,515,000 is below its constitutional debt limit of \$1,729,516.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES**

Several factors were considered when formulating the FY 2007 budget:

- The FY2007 budget contains receipts totaling \$722,371 and disbursements totaling \$601,187.
- The City can no longer depend on state revenues, as evidenced by the discontinuation of bank franchise and property tax replacement revenues.

- The FY2007 levy is \$8.10 per \$1,000 of assessed valuation, the same as in FY2005. However, this maximum levy is not supporting the City's general operating expenses. The City levied the amounts necessary for liability, property and self insurance, totaling \$15,000, and other employee benefits, totaling \$20,750.
- The City's December 2005 debt certification totaled \$98,000, which resulted in a reduction of property taxes in general revenues. Tax increment financing collections will be utilized to reduce the City's outstanding obligations and to retire the 2004 note issue when it first becomes callable in June 2008.
- The 2004 general obligation note issue was for the construction of a 150,000 gallon elevated water storage facility. This project commenced Spring 2006 and will be completed in Spring 2007.
- A \$594,000, net of \$6,000 discount, general obligation note issue was approved in June 2006 for construction of water main improvements. The City intends to let bids on this project Spring 2007 with a completion date of Summer 2007.
- The City applied for a Community Development Block Grant totaling \$476,700 for construction of water system improvements, but was not awarded the funding.
- The City has taken a more aggressive approach to community beautification and received a grant and additional funding from private sources for community beautification projects.

#### **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 Barbara K. Doubek, City Clerk, PO Box 107, 1321 5<sup>th</sup> Street, Gilbertville, Iowa 50634-0107.

## **Basic Financial Statements**

City of Gilbertville

Statement of Activities and Net Assets – Cash Basis

As of and for the year ended June 30, 2006

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
<b>Functions/Programs:</b>				
Governmental activities:				
Public safety	\$ 123,142	5,446	46,583	-
Public works	134,597	32,655	91,273	-
Health and social services	662	-	-	-
Culture and recreation	28,357	1,265	-	-
General government	106,437	2,043	-	-
Debt service	99,832	-	-	-
Capital projects	140,160	-	23,485	951
Total governmental activities	633,187	41,409	161,341	951
Business type activities:				
Water	61,683	68,060	-	-
Sewer	69,379	71,482	-	-
Total business type activities	131,062	139,542	-	-
Total	\$ 764,249	180,951	161,341	951

**General Receipts:**

Property and other city tax levied for:  
 General purposes  
 Tax increment financing  
 Local option sales tax  
 Unrestricted interest on investments  
 Note proceeds, net of \$6,000 discount  
 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:  
 Streets  
 Urban renewal purposes  
 Debt service  
 Capital projects  
 Customer deposits  
 Unrestricted

**Total cash basis net assets**

See notes to financial statements.



Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
Governmental Activities	Business Type Activities	Total
(71,113)	-	(71,113)
(10,669)	-	(10,669)
(662)	-	(662)
(27,092)	-	(27,092)
(104,394)	-	(104,394)
(99,832)	-	(99,832)
(115,724)	-	(115,724)
(429,486)	-	(429,486)
-	6,377	6,377
-	2,103	2,103
-	8,480	8,480
(429,486)	8,480	(421,006)
123,394	-	123,394
220,493	-	220,493
59,391	23,682	83,073
916	1,742	2,658
594,000	-	594,000
24,301	-	24,301
(738)	738	-
1,021,757	26,162	1,047,919
592,271	34,642	626,913
925,555	91,663	1,017,218
\$ 1,517,826	126,305	1,644,131
\$ 97,522	-	97,522
94,348	-	94,348
60,000	-	60,000
1,153,868	-	1,153,868
-	2,320	2,320
112,088	123,985	236,073
\$ 1,517,826	126,305	1,644,131

City of Gilbertville

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

As of and for the year ended June 30, 2006

	Special Revenue		
	General	Road Use Tax	Urban Renewal Tax Increment
<b>Receipts:</b>			
Property tax	\$ 102,464	-	-
Tax increment financing	-	-	220,493
Other city tax	59,435	6,202	-
Licenses and permits	2,031	-	-
Use of money and property	2,181	-	-
Intergovernmental	53,432	76,417	-
Charges for service	38,101	-	-
Miscellaneous	19,742	-	-
<b>Total receipts</b>	<b>277,386</b>	<b>82,619</b>	<b>220,493</b>
<b>Disbursements:</b>			
Operating:			
Public safety	112,476	-	-
Public works	40,112	94,485	-
Health and social services	662	-	-
Culture and recreation	28,357	-	-
General government	106,412	-	25
Debt service	-	-	-
Capital projects	-	-	-
<b>Total disbursements</b>	<b>288,019</b>	<b>94,485</b>	<b>25</b>
Excess (deficiency) of receipts over (under) disbursements	(10,633)	(11,866)	220,468
<b>Other financing sources (uses):</b>			
Note proceeds (net of \$6,000 discount)	-	-	-
Operating transfers in	65,262	-	-
Operating transfers out	-	-	(182,832)
<b>Total other financing sources (uses)</b>	<b>65,262</b>	<b>-</b>	<b>(182,832)</b>
Net change in cash balances	54,629	(11,866)	37,636
Cash balances beginning of year	52,050	109,388	56,712
Cash balances end of year	\$ 106,679	97,522	94,348
<b>Cash Basis Fund Balances</b>			
Reserved for debt service	\$ -	-	-
Unreserved:			
General fund	106,679	-	-
Special revenue funds	-	97,522	94,348
Capital projects fund	-	-	-
<b>Total cash basis fund balances</b>	<b>\$ 106,679</b>	<b>97,522</b>	<b>94,348</b>

See notes to financial statements.

Debt Service	Capital Projects	Nonmajor	Total
-	-	20,199	122,663
-	-	-	220,493
-	-	731	66,368
-	-	-	2,031
-	23,485	-	25,666
-	-	-	129,849
-	-	-	38,101
-	951	6,332	27,025
-	24,436	27,262	632,196
-	-	10,666	123,142
-	-	-	134,597
-	-	-	662
-	-	-	28,357
-	-	-	106,437
99,832	-	-	99,832
-	140,160	-	140,160
99,832	140,160	10,666	633,187
(99,832)	(115,724)	16,596	(991)
-	594,000	-	594,000
159,832	-	-	225,094
-	-	(43,000)	(225,832)
159,832	594,000	(43,000)	593,262
60,000	478,276	(26,404)	592,271
-	675,592	31,813	925,555
60,000	1,153,868	5,409	1,517,826
60,000	-	-	60,000
-	-	-	106,679
-	-	5,409	197,279
-	1,153,868	-	1,153,868
60,000	1,153,868	5,409	1,517,826

**City of Gilbertville**

City of Gilbertville

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

As of and for the year ended June 30, 2006

	Enterprise		
	Water	Sewer	Total
Operating receipts:			
Charges for service	\$ 67,120	71,142	138,262
Miscellaneous	940	340	1,280
Total operating receipts	68,060	71,482	139,542
Operating disbursements:			
Business type activities	61,683	69,379	131,062
Excess of operating receipts over operating disbursements	6,377	2,103	8,480
Non-operating receipts:			
Local option sales tax	14,942	8,740	23,682
Use of money and property	788	954	1,742
Total non-operating receipts	15,730	9,694	25,424
Excess of receipts over disbursements	22,107	11,797	33,904
Other financing sources (uses):			
Operating transfers in	23,000	-	23,000
Operating transfers out	(22,262)	-	(22,262)
Total other financing sources (uses)	738	-	738
Net change in cash balances	22,845	11,797	34,642
Cash balances beginning of year	48,919	42,744	91,663
Cash balances end of year	\$ 71,764	54,541	126,305
<b>Cash Basis Fund Balances</b>			
Reserved for customer deposits	\$ 1,710	610	2,320
Unreserved	70,054	53,931	123,985
Total cash basis fund balances	\$ 71,764	54,541	126,305

See notes to financial statements.

City of Gilbertville

Notes to Financial Statements

June 30, 2006

**(1) Summary of Significant Accounting Policies**

The City of Gilbertville is a political subdivision of the State of Iowa located in Black Hawk County. It was first incorporated in 1917 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, health and social services, culture and recreation, community and economic development, and general government services. The City also provides water and sewer utilities for its citizens.

A. Reporting Entity

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

These financial statements present the City of Gilbertville (the primary government) and its component unit. The component discussed below is included in the City's reporting entity because of the significance of its operational or financial relationship with the City.

Blended Component Unit

The Gilbertville Fire Fighters Association has been incorporated under the provisions of the Iowa Nonprofit Corporation Act, Chapter 504A of the Code of Iowa, for the purpose of aiding in the extinguishing of fires and performing such other duties as set forth by the Fire Department. In accordance with criteria set by the Governmental Accounting Standards Board, the Gilbertville Fire Fighters Association meets the definition of a component unit which should be blended. The financial activity for the account held by the component unit has been blended as a Special Revenue Fund of the City.

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: Black Hawk County Assessor's Conference Board, Black Hawk County Emergency Management Commission, Black Hawk County Landfill Commission and Black Hawk County Joint E911 Service Board. The City also participates in the Black Hawk County Firemen's Association, a jointly governed organization established pursuant to Chapter 28E of the Code of Iowa.

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 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 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.

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 not paid from other funds.

Special Revenue:

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

The Urban Renewal Tax Increment Fund is used to account for urban renewal projects financed by tax increment financing.

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

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

C. Measurement Focus and Basis of Accounting

City of Gilbertville 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 amount budgeted in the general government function.



**(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.

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.

In addition, the City had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$641,373 pursuant to Rule 2a-7 under the Investment Company Act of 1940. The investment in the Iowa Public Agency Investment Trust is unrated for credit risk purposes.

**(3) Notes Payable**

Annual debt service requirements to maturity for general obligation notes are as follows:

Year Ending June 30,	General Obligation Notes	
	Principal	Interest
2007	\$ 85,000	68,252
2008	85,000	64,823
2009	85,000	61,352
2010	95,000	57,830
2011	95,000	53,843
2012 - 2016	445,000	207,922
2017 - 2021	465,000	109,180
2022 - 2024	160,000	16,525
Total	\$ 1,515,000	639,727

**(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 year ended June 30, 2006 was \$8,014, equal to the required contribution for the year.

**(5) Compensated Absences**

City employees accumulate a limited amount of earned but unused vacation and compensatory 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 compensatory payments payable to employees at June 30, 2006, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Vacation	\$ 4,200
Compensatory time	<u>2,100</u>
Total	<u>\$ 6,300</u>

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

**(6) Risk Management**

The City is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 531 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 300 percent of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The City's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The City's contributions to the Pool for the year ended June 30, 2006 were \$14,782.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000 per claim and \$5,000,000 in aggregate per year. For members requiring specific coverage from \$2,000,000 to \$10,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks

are retained by the Pool up to \$100,000 each occurrence, each location, with excess coverage reinsured on an individual-member basis.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. As of June 30, 2006, settled claims have not exceeded the risk pool or reinsurance coverage since the pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their capital contributions. If a member withdraws after the sixth year, the member is refunded 100 percent of its capital contributions. However, the refund is reduced by an amount equal to the annual operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

The City also carries commercial insurance purchased from another insurer for coverage associated with the employee blanket bond. The City assumes liability for any deductibles, and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**(7) Construction Contract**

On December 19, 2005, the City entered into a construction contract totaling \$565,500 for a water tower. At June 30, 2006, \$97,962 had been paid for work completed. The unpaid contract balance totaled \$467,538 and will be paid as work on the project progresses.

**(8) Interfund Transfers**

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

Transfer to	Transfer from	Amount
General	Special Revenue:	
	Employee Benefits	\$ 43,000
	Enterprise:	
	Water	22,262
		<u>65,262</u>
Debt Service	Special Revenue:	
	Urban Renewal Tax Increment	159,832
Enterprise: Water	Special Revenue:	
	Urban Renewal Tax Increment	23,000
Total		<u>\$ 248,094</u>

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

**(9) Development Agreements**

The City entered into two development agreements dated March 30, 1999 and July 7, 2003 to assist in urban renewal projects. The City agreed to assist in urban renewal projects by rebating incremental taxes paid by the participating companies with respect to the improvements set forth in the urban renewal plan. The incremental taxes to be received by the City under Chapter 403.19 of the Code of Iowa from the participating companies will be rebated for a period of ten years beginning with the tax year in which the property taxes on the completed value of the improvements are first paid. No payments were made under these agreements during the year ended June 30, 2006. The agreement dated July 7, 2003 provides for annual tax increment payments for ten years totaling \$59,309 beginning on June 1, 2007. A rebate schedule for the agreement dated March 30, 1999 will not be created until the year in which the City redeems the \$240,000 storm sewer note dated June 1, 2002.

**(10) Accounting Change**

Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures, and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences, were implemented for the year ended June 30, 2006. The statements create new basic financial statements for reporting the City’s financial activities. The financial statements now include a government-wide financial statement and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

Implementation of these standards had no effect on the beginning balances of the City.

**Required Supplementary Information**

City of Gilbertville  
 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	Less Funds not Required to be Budgeted
Receipts:			
Property tax	\$ 122,663	-	-
Tax increment financing	220,493	-	-
Other city tax	66,368	23,682	-
Licenses and permits	2,031	-	-
Use of money and property	25,666	1,742	-
Intergovernmental	129,849	-	-
Charges for service	38,101	138,262	-
Miscellaneous	27,025	1,280	6,332
Total receipts	632,196	164,966	6,332
Disbursements:			
Public safety	123,142	-	10,666
Public works	134,597	-	-
Health and social services	662	-	-
Culture and recreation	28,357	-	-
General government	106,437	-	-
Debt service	99,832	-	-
Capital projects	140,160	-	-
Business type activities	-	131,062	-
Total disbursements	633,187	131,062	10,666
Excess (deficiency) of receipts over (under) disbursements	(991)	33,904	(4,334)
Other financing sources, net	593,262	738	-
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	592,271	34,642	(4,334)
Balances beginning of year	925,555	91,663	8,366
Balances end of year	\$ 1,517,826	126,305	4,032

See accompanying independent auditor's report.

Total	Budgeted Amounts		Final to Total Variance
	Original	Final	
122,663	121,017	120,170	2,493
220,493	205,756	215,756	4,737
90,050	59,131	77,331	12,719
2,031	8,450	4,950	(2,919)
27,408	3,072	41,672	(14,264)
129,849	159,039	123,583	6,266
176,363	163,806	162,256	14,107
21,973	100	6,010	15,963
<u>790,830</u>	<u>720,371</u>	<u>751,728</u>	<u>39,102</u>
112,476	103,491	118,161	5,685
134,597	124,521	136,282	1,685
662	1,337	1,337	675
28,357	30,468	39,250	10,893
106,437	105,288	101,571	(4,866)
99,832	-	99,833	1
140,160	99,833	147,250	7,090
131,062	136,249	162,441	31,379
<u>753,583</u>	<u>601,187</u>	<u>806,125</u>	<u>52,542</u>
37,247	119,184	(54,397)	91,644
<u>594,000</u>	<u>2,000</u>	<u>517,082</u>	<u>76,918</u>
631,247	121,184	462,685	168,562
<u>1,008,852</u>	<u>220,636</u>	<u>220,636</u>	<u>788,216</u>
<u><u>1,640,099</u></u>	<u><u>341,820</u></u>	<u><u>683,321</u></u>	<u><u>956,778</u></u>

City of Gilbertville

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 the blended component unit. 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 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 budgeted disbursements by \$204,938. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2006, disbursements exceeded the amount budgeted in the general government function.



**Other Supplementary Information**

**City of Gilbertville**

## City of Gilbertville

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

As of and for the year ended June 30, 2006

	Special Revenue		
	Gilbertville		
	Fire		Total
Fighters Association	Employee Benefits		
Receipts:			
Property tax	\$ -	20,199	20,199
Other city tax	-	731	731
Miscellaneous	6,332	-	6,332
Total receipts	6,332	20,930	27,262
Disbursements:			
Operating:			
Public safety	10,666	-	10,666
Excess (deficiency) of receipts over (under) disbursements	(4,334)	20,930	16,596
Other financing uses:			
Operating transfers out	-	(43,000)	(43,000)
Net change in cash balances	(4,334)	(22,070)	(26,404)
Cash balances beginning of year	8,366	23,447	31,813
Cash balances end of year	\$ 4,032	1,377	5,409
<b>Cash Basis Fund Balances</b>			
Unreserved:			
Special revenue funds	\$ 4,032	1,377	5,409

See accompanying independent auditor's report.

---

City of Gilbertville  
Schedule of Indebtedness  
Year ended June 30, 2006

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation notes:			
Storm sewer	Jun 1, 2002	4.00-4.70%	\$ 240,000
Water improvements	Jul 1, 2004	4.10-5.10	750,000
Water improvements	Jun 1, 2006	4.00-4.70	600,000
Total			

See accompanying independent auditor's report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
220,000	-	25,000	195,000	9,507
750,000	-	30,000	720,000	34,625
-	600,000	-	600,000	-
\$ 970,000	600,000	55,000	1,515,000	44,132

**Schedule 3**

City of Gilbertville

Note Maturities

June 30, 2006

General Obligation Notes								
Year Ending June 30,	Storm Sewer		Water Improvements		Water Improvements		Total	
	Issued Jan 1, 2002		Issued Jul 1, 2004		Issued Jun 1, 2006			
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount		
2007	4.00%	\$ 25,000	4.10%	\$ 30,000	4.00%	\$ 30,000	85,000	
2008	4.10	25,000	4.10	30,000	4.05	30,000	85,000	
2009	4.25	25,000	4.10	30,000	4.10	30,000	85,000	
2010	4.35	30,000	4.10	30,000	4.15	35,000	95,000	
2011	4.50	30,000	4.10	30,000	4.20	35,000	95,000	
2012	4.60	30,000	4.10	35,000	4.25	35,000	100,000	
2013	4.70	30,000	4.20	35,000	4.30	40,000	105,000	
2014		-	4.30	35,000	4.35	40,000	75,000	
2015		-	4.45	40,000	4.40	40,000	80,000	
2016		-	4.60	40,000	4.45	45,000	85,000	
2017		-	4.75	40,000	4.50	45,000	85,000	
2018		-	4.90	45,000	4.55	45,000	90,000	
2019		-	5.00	45,000	4.60	50,000	95,000	
2020		-	5.00	45,000	4.65	50,000	95,000	
2021		-	5.00	50,000	4.70	50,000	100,000	
2022		-	5.00	50,000		-	50,000	
2023		-	5.10	55,000		-	55,000	
2024		-	5.10	55,000		-	55,000	
Total		<u>\$ 195,000</u>		<u>\$ 720,000</u>		<u>\$ 600,000</u>	<u>1,515,000</u>	

See accompanying independent auditor's report.



**OFFICE OF AUDITOR OF STATE**  
**STATE OF IOWA**

David A. Vaudt, CPA  
Auditor of State

State Capitol Building  
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

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 Gilbertville, 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 December 8, 2006. Our report on the financial statements, which were prepared in conformity with an other comprehensive basis of accounting, expressed qualified opinions since we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2005.

Except as noted in the Independent Auditor's Report, 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 Gilbertville'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 Gilbertville'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 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 (A) is a material weakness.

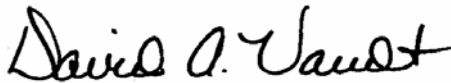
## Compliance and Other Matters

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

Comments involving statutory and other legal matters about the City'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 Gilbertville and other parties to whom the City of Gilbertville may report. This report is not intended to be and should not be used by anyone other than these specified parties.

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



DAVID A. VAUDT, CPA  
Auditor of State



WARREN G. JENKINS, CPA  
Chief Deputy Auditor of State

December 8, 2006



City of Gilbertville

Schedule of Findings

Year ended June 30, 2006

**Findings Related to the Financial Statements:**

**REPORTABLE CONDITIONS:**

- (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:
- (1) Cash – reconciling bank accounts, initiating cash receipts and disbursement transactions and handling and recording cash.
  - (2) Receipts – collecting, depositing, journalizing and posting.
  - (3) Utility receipts – billing, collection, depositing, posting and reconciling.
  - (4) Disbursements – purchasing, check signing, recording and reconciling.
  - (5) Payroll – preparing and distributing.
  - (6) Transfers – recording and reconciling.
  - (7) Financial reporting – preparing, reconciling and distributing.
  - (8) Accounting system – performing all general accounting functions and having custody of City assets.
  - (9) Information system (computer usage) – performing all general accounting functions and controlling all date input and output.

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 utilizing currently available personnel. Evidence of review of reconciliations should be indicated by initials of the independent reviewer and the date of the review.

Response – The Clerk primarily performs all these duties with the exception of utility billing. The Deputy Clerk manages the utility accounts and works 15 to 20 hours every week. The Clerk and Deputy Clerk are cross-trained to perform these duties. Roles are interchanged on a monthly basis. Where applicable the Clerk will have the Council initial monthly reconciliations.

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

City of Gilbertville

Schedule of Findings

Year ended June 30, 2006

(B) Receipts – Prenumbered receipts were not issued for City collections.

Recommendation – Prenumbered receipts should be issued at the time of collection to provide additional control over the proper collection and recording of all City money. The receipts should be recorded and reconciled with timely deposits and the reconciliation should be reviewed periodically by an independent person. For utility collections, a daily cash log should be maintained, issuing one receipt for a day's collections and reconciling the receipts with timely deposits.

Response – The computer assigns the next available receipt upon entering receipt data. Utility collections are not entered on a daily basis, but rather on a weekly basis. One receipt is issued for collection and coincides with the date of deposit. The Clerk will research the use of prenumbered receipts. Internal controls will be reviewed for utility collections.

Conclusion – Response acknowledged. The City should implement the recommended control procedures to strengthen control over receipts.

(C) Information System – The following weaknesses in the City's computer-based systems were noted:

The City does not have written policies for:

- 1) Requiring password changes every 60 to 90 days or to maintain password privacy and confidentiality.
- 2) Requiring a time out and/or log off function or screen saver password to protect a terminal if left unattended.
- 3) The storage of backup tapes/disks off site.
- 4) Requiring the use of an anti-virus program.
- 5) Alternative power sources.
- 6) Ensuring only software licensed to the City is installed on City computers.
- 7) A disaster recovery plan.

Recommendation – The City should develop written policies addressing the above items in order to improve the City's control over its information system.

Response – The Clerk has a ten day back-up rotation schedule and tapes are removed and kept off site. At present, the City does not have a written disaster recovery plan or written policies on security of computer usage. Consideration will be given to preparing and adopting written policies and plans.

Conclusion – Response acknowledged. The City should develop written policies addressing the above items.

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

City of Gilbertville

Schedule of Findings

Year ended June 30, 2006

**Findings Related to Required Statutory Reporting:**

- (1) Certified Budget – Disbursements during the year ended June 30, 2006 exceeded the amounts budgeted in the general government function. Chapter 384.20 of the Code of Iowa states, in part, “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 City’s practice has been to file budget amendments when amounts expended exceed the amounts budgeted. An amendment was prepared and adopted in May 2006. The City will strive to file budget amendments in sufficient amounts to comply with the Code of Iowa.

Conclusion – Response accepted.

- (2) Questionable Disbursements – No disbursements we believe may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 were noted.
- (3) Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- (4) Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

Name, Title, and Business Connection	Transaction Description	Amount
Jeff Balvanz, Council Member, owner of JB Automotive	Parts, supplies and repair	\$ 1,792
Jeff Balvanz, Council Member, Wife owns A-1 Accounting	Computer service	300

In accordance with Chapter 362.5(11) of the Code of Iowa, these transactions do not appear to represent a conflict of interest since the total transactions for Council Member Balvanz was less than \$2,500 during the fiscal year.

- (5) 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 the coverage is adequate for current operations.
- (6) Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.

City of Gilbertville

Schedule of Findings

Year ended June 30, 2006

- (7) Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City's investment policy were noted.

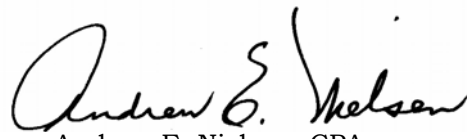
---

City of Gilbertville

Staff

This audit was performed by:

Steven M. Nottger, CPA, Manager  
John G. Vanis, CGFM, Senior Auditor  
Patrick M. Garaghty, Assistant Auditor

A handwritten signature in black ink that reads "Andrew E. Nielsen". The signature is written in a cursive style with a large initial "A" and "N".

Andrew E. Nielsen, CPA  
Deputy Auditor of State