

CITY OF CHEROKEE
INDEPENDENT AUDITORS' REPORTS
PRIMARY GOVERNMENT FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2004

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CITY OF CHEROKEE
OFFICIALS

<u>NAME</u>	<u>TITLE</u>	<u>TERM EXPIRES</u>
Dennis Henrich	Mayor	January 2005
Bill Troth	Council Member	January 2007
Ron Johnson	Council Member	January 2007
Dwight Varce	Council Member	January 2007
Doug Woods	Council Member	January 2005
Marty Zauhar	Council Member	January 2005
Debra Taylor	City Clerk/Treasurer	Indefinite
Ron Strickland	City Administrator	Indefinite
M.W. Miller, Jr.	Attorney	Indefinite

WINTHER, STAVE & CO., LLP
Certified Public Accountants

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INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and
Members of the City Council
City of Cherokee
Cherokee, IA 51012

We have audited the accompanying financial statements of the governmental activities, business type activities, each major fund, and the aggregate remaining fund information of the City of Cherokee, as of and for the year ended June 30, 2004, which collectively comprise the basic financial statements of the City's primary government as listed in the table of contents. These financial statements are the responsibility of City of Cherokee's management. Our responsibility is to express opinions on these basic financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards and provisions 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 that 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.

The financial statements referred to above include only the primary government of the City of Cherokee, which consists of all funds, organizations, institutions, agencies, departments, and offices that comprise the City's legal entity. The financial statements do not include financial data for the City's legally separate component units, which accounting principles generally accepted in the United States of America require to be reported with the financial data of the City's primary government. As a result, the primary government financial statements do not purport to, and do not, present fairly the financial position of the reporting entity of the City of Cherokee as of June 30, 2004, and the changes in its financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information for the primary government of the City of Cherokee at June 30, 2004, and the respective changes in financial position thereof 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 August 12, 2004 on our consideration of the City of Cherokee's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's discussion and analysis and budgetary comparison information on pages 4 through 10 and 25 through 27 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We applied limited procedures, consisting principally of inquiries of management regarding the methods of measurement and presentation of the 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 aforementioned financial statements that collectively comprise the City of Cherokee basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statement for the year ended June 30, 2003 (none of which is presented herein) and expressed an unqualified opinion on that financial statement. The financial statements for the two years ended June 30, 2002 (none of which are presented herein) were audited in accordance with the standards referred to in the second paragraph of this report by other auditors who expressed unqualified opinions on those financial statements. The supplementary information included in Schedules 1 through 6, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, 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 aforementioned 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.



August 12, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Cherokee 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, 2004. We encourage readers to consider this information in conjunction with the City's financial statements which follow.

The following information is supported within this document and the previous year audit.

2004 FINANCIAL HIGHLIGHTS

- Revenues of the City's governmental activities increased by 166% or \$8,069,000. This increase was primarily due to the result of additional bonding for the Main Street project and for refunding previous bonds issued.
- Disbursements of the City's governmental activities increased greatly due to a larger debt service, which almost doubled from \$2.27 million to \$4.03 million, and the additional capital projects at \$2.98 million.
- Despite the additional debt service and capital project disbursements, the cash basis net assets increased by \$3.692 million due largely to bonds issued for the capital improvement of the Main Street and for refunding previous bonds issued.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements as well as other requirements 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 statements by providing information about the most significant funds.

Notes to the Financial Statements provide additional information that is 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.

Supplementary Information provides detailed information about the nonmajor funds and debt obligations. In addition, the Schedule of Expenditures of Federal Awards provides details of various federal programs benefiting the City.

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 water, sanitary sewer, and storm water systems, along with landfill, solid waste, and airport services. 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, Employee Benefits, and Local Option Sales Tax, (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 program.

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

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

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased sharply from a year ago, increasing from \$278,000 to \$3,970,000. The analysis that follows focuses on the changes in cash balances for governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities (Expressed in Thousands)		
	<u>Year ended June 30,</u>	
	<u>2004</u>	<u>2003</u>
Receipts and transfers:		
Program receipts:		
Charges for service	\$ 145	\$ 145
Operating grants, contributions, and restricted interest	531	553
Capital grants, contributions, and restricted interest	598	45
General receipts:		
Property tax	1,821	1,861
Local option sales tax	397	315
Hotel/motel tax	60	26
Grants and contributions not restricted to specific purposes	45	100
Unrestricted investment earnings	88	88
Bonds proceeds	8,185	1,409
Other general receipts	245	291
Extraordinary item - bequest received	817	
Transfers - net		30
Total receipts and transfers	<u>12,932</u>	<u>4,863</u>
Disbursements:		
Public safety	826	858
Public works	438	1,295
Culture and recreation	673	888
Community and economic development	99	115
General government	186	205
Debt service	4,034	2,273
Capital projects	<u>2,984</u>	
Total disbursements	<u>9,240</u>	<u>5,634</u>
Increase (decrease) in cash basis net assets	3,692	(771)
Cash basis net assets - beginning of year	<u>278</u>	<u>1,049</u>
Cash basis net assets - end of year	<u>\$ 3,970</u>	<u>\$ 278</u>

The City's total receipts for governmental activities increased by 166% or \$8,069,000. The total cost of all programs and services increased by approximately \$3,606,000 or 164%. The significant increase in cash basis net assets of \$3.69 million was primarily the result of bonded funds of \$8.19 million for the Main Street project and for refunding previous bonds issued.

The City decreased property tax rates for 2004 by an average of 2.1 percent. This decrease reduced the City's property tax receipts by approximately \$40,000 in 2004. Based on decreases in the total assessed valuation, property tax receipts are budgeted to decrease by an additional \$40,000 next year.

The cost of all governmental activities this year was \$9.240 million compared to \$5.634 million last year. However, as shown in the Statement of Activities and Net Assets on pages 11 and 12, the amount taxpayers ultimately financed for these activities was \$7.966 million because some of the cost was paid by those directly benefited from the programs (\$145,000) or by other governments and organizations that subsidized certain programs with grants, contributions, and restricted interest (\$1,129,000). Overall, the City's governmental activities receipts, including intergovernmental aid and fees for service, increased in 2004 from approximately \$597,000 to approximately \$1,274,000, principally due to approximately \$600,000 in grants for Main Street construction projects. The City paid for the remaining "public benefit" portion of governmental activities with approximately \$7,966,000 in tax (some of which could only be used for certain programs) and other receipts, such as bond proceeds, interest, and general entitlements.

Changes in Cash Basis Net Assets of Business Type Activities (Expressed in Thousands)		
	<u>Year ended June 30,</u>	
	<u>2004</u>	<u>2003</u>
Receipts:		
Program receipts:		
Charges for service:		
Water	\$ 693	\$ 702
Sewer	782	647
Landfill	143	141
Solid waste	189	177
Storm water	21	
Airport	76	90
Operating grants, contributions, and restricted interest	357	3
General receipts:		
Unrestricted interest on investments		2
Bond proceeds	1,199	1,409
Other general receipts	<u>72</u>	<u>6</u>
Total receipts	<u>3,532</u>	<u>3,177</u>
Disbursements and transfers:		
Water	926	734
Sewer	1,872	2,941
Landfill	143	144
Solid waste	206	191
Airport	459	117
Transfers		30
Total disbursements and transfers	<u>3,606</u>	<u>4,157</u>
Increase (decrease) in cash basis net assets	(74)	(980)
Cash basis net assets - beginning of year	<u>846</u>	<u>1,826</u>
Cash basis net assets - end of year	<u>\$ 772</u>	<u>\$ 846</u>

Total business type activities receipts for the fiscal year were \$3.532 million compared to \$3.177 million last year. This increase was due primarily to operating grants totaling \$357,000. The cash balance decreased by approximately \$74,000 from the prior year because of insufficient revenues in sewer fund and additional airport spending. Total disbursements and transfers for the fiscal year decreased by approximately \$551,000 or 13.3%.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Cherokee completed the year, its governmental funds reported a combined fund balance of \$3,808,000, an increase of more than \$3,695,000 above last year's total of \$113,000. 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 \$91,000 from the prior year to \$78,000. Approximately \$45,000 of this increase was due to additional property tax and operating transfers in.
- The Debt Service Fund cash balance increased by \$1,584,000 to \$1,565,000 during the fiscal year. This increase was due to \$4,985,000 in bonds proceeds which exceeded debt service requirements of approximately \$4,000,000. Bond principal and interest payments increased by \$3,303,000 in fiscal 2004.
- The Capital Projects Fund cash balance increased by \$1,702,000 to \$1,191,000 during the fiscal year. This increase was attributable to approximately \$3,200,000 in bond proceeds and \$1,444,000 in other revenues which exceeded capital projects expenditures of approximately \$3,000,000.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance increased by \$94,000 to \$654,000, due primarily to operating transfers in.
- The Sewer Fund cash balance decreased by \$146,000 to \$80,000, due primarily to debt service and because rates are too low to cover expenses.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget one time. The amendment was approved on June 8, 2004 and resulted in revenue increases in bond proceeds for Main Street and waste water plant improvements. It also resulted in increases in expenditures on Main Street construction, waste water plant improvement projects, northwest sanitary project, and industrial water plant improvements. The City had sufficient cash balances to absorb these additional costs.

DEBT ADMINISTRATION

At June 30, 2004, the City had approximately \$15,163,000 in bonds and other long-term debt compared to approximately \$9,825,000 last year, as shown below.

Outstanding Debt at Year-End (Expressed in Thousands)		
	June 30,	
	<u>2004</u>	<u>2003</u>
General obligation bonds	\$ 8,945	\$ 4,420
Revenue notes	<u>6,218</u>	<u>5,405</u>
Total	<u>\$ 15,163</u>	<u>\$ 9,825</u>

Debt increased as a result of issuing general obligation bonds for street improvements and for refunding previous bond issues which are available for call in fiscal year 2005. In addition, approximately \$1,200,000 of sewer revenue notes were issued to pay for the cost of system improvements.

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 net outstanding general obligation debt of \$7,295,000 (\$8,945,000 reduced by approximately \$1,650,000 bond proceeds held in escrow) is below its constitutional debt limit of approximately \$8 million. The City has been advised by legal counsel that the funds held in escrow for refunding debt can be deducted from the total bonds outstanding for this purpose.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's elected and appointed officials and citizens considered many factors when setting the fiscal year 2005 budget, tax rates, and fees that will be charged for various City activities. One of those factors is the economy. The City's employment growth has been held in check. Unemployment in the City now stands at 3.8 percent, versus 4.1 percent a year ago. This compares with the State's unemployment rate of 4.1 percent and the national rate of 5.5 percent (November 2004).

Inflation in the State continues to be somewhat lower than the national Consumer Price Index increase. The State's CPI increase was 3.2 percent for fiscal year 2004 compared with the national rate of 3.4 percent. Inflation in Cherokee has been modest because the economy is mostly agricultural in nature.

These indicators were taken into account when adopting the budget for fiscal year 2005. Amounts available for appropriation in the operating budget are \$9.9 million, an increase of 8% over the final 2004 budget. Property and other city taxes are expected to lead this increase. The City will use these increases in receipts to finance programs we currently offer and to pay down the debt created by completed projects. Budgeted disbursements are expected to rise by approximately \$500,000. Increased wage and cost-of-living adjustments and increases in debt service represent the largest increases. The City has added no major new programs or initiatives to the 2005 budget. This factor will allow the City to have the opportunity to play "catch up" and adjust the budgets in the future in order to meet the City's debt obligations.

If these estimates are realized, the City's budgeted cash balance is expected to decrease by approximately \$600,000 by the close of 2005.

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 Deb Taylor, City Clerk, 416 West Main, Cherokee, Iowa 51012.

BASIC FINANCIAL STATEMENTS

CITY OF CHEROKEE
 STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS
 AS OF AND FOR THE YEAR ENDED JUNE 30, 2004

		Program Receipts		
	Disbursements	Charges for Service	Operating Grants and Contributions	Capital Grants and Contributions
FUNCTIONS/PROGRAMS:				
Governmental activities:				
Public safety	\$ 825,650	\$ 30,881	\$ 2,400	
Public works	438,070	33,593	447,171	
Culture and recreation	672,576	80,879	5,047	
Community and economic development	99,075		76,060	
General government	186,283			
Debt service	4,033,976			
Capital projects	<u>2,984,197</u>			<u>\$ 598,089</u>
Total governmental activities	<u>9,239,827</u>	<u>145,353</u>	<u>530,678</u>	<u>598,089</u>
Business-type activities:				
Water	926,376	692,976		
Sewer	1,871,481	782,386		
Landfill	143,399	142,839		
Solid waste	206,643	188,506		
Storm water		20,917		
Airport	<u>458,693</u>	<u>76,435</u>	<u>357,016</u>	
Total business-type activities	<u>3,606,592</u>	<u>1,904,059</u>	<u>357,016</u>	
TOTAL	<u>\$12,846,419</u>	<u>\$2,049,412</u>	<u>\$ 887,694</u>	<u>\$ 598,089</u>
General Receipts:				
Property taxes levied for:				
General purposes				
Tax increment financing				
Debt service				
Local option sales tax				
Hotel/motel tax				
Grants and contributions not restricted to specific purpose				
Unrestricted investment earnings				
Bond proceeds				
Miscellaneous				
Extraordinary item - bequest received				
Total general receipts and extraordinary item				
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				
Capital projects				
Other purposes				
Unrestricted				
Total cash basis net assets				

Exhibit A

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

<u>Governmental</u> <u>Activities</u>	<u>Business-Type</u> <u>Activities</u>	<u>Total</u>
\$ (792,369) 42,694 (586,650) (23,015) (186,283) (4,033,976) <u>(2,386,108)</u> <u>(7,965,707)</u>	 \$ (233,400) (1,089,095) (560) (18,137) 20,917 <u>(25,242)</u> <u>(1,345,517)</u> <u>(1,345,517)</u>	\$ (792,369) 42,694 (586,650) (23,015) (186,283) (4,033,976) <u>(2,386,108)</u> <u>(7,965,707)</u> (233,400) (1,089,095) (560) (18,137) 20,917 <u>(25,242)</u> <u>(1,345,517)</u> <u>(9,311,224)</u>
1,382,738 203,467 233,719 397,006 60,343 45,045 88,240 8,185,000 244,958 <u>816,953</u> <u>11,657,469</u> 3,691,762 <u>278,251</u> \$ 3,970,013	 47 1,199,217 71,624 <u>1,270,888</u> (74,629) <u>846,122</u> \$ 771,493	1,382,738 203,467 233,719 397,006 60,343 45,045 88,287 9,384,217 316,582 <u>816,953</u> <u>12,928,357</u> 3,617,133 <u>1,124,373</u> \$ 4,741,506
\$ 1,564,672 1,190,584 1,137,146 <u>77,611</u> \$ 3,970,013	\$ 272,880 <u>498,613</u> \$ 771,493	\$ 1,837,552 1,190,584 1,137,146 <u>576,224</u> \$ 4,741,506

CITY OF CHEROKEE
 STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND
 CHANGES IN CASH BALANCES - GOVERNMENTAL FUNDS
 AS OF AND FOR THE YEAR ENDED JUNE 30, 2004

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>
RECEIPTS:			
Property tax	\$ 847,502	\$ 233,719	
Tax increment financing collections			
Other city tax			
Licenses and permits	27,128		
Use of money and property	72,078	8,766	\$ 5,906
Intergovernmental	58,389		598,089
Charges for service	82,648		
Special assessments		17,354	7,279
Miscellaneous	<u>177,118</u>	<u>14,720</u>	<u>845,472</u>
TOTAL RECEIPTS	<u>1,264,863</u>	<u>274,559</u>	<u>1,456,746</u>
DISBURSEMENTS:			
Governmental activities:			
Public safety	556,870		
Public works	1,265		2,489
Culture and recreation	441,262		
Community and economic development	275		784
General government	223,043		382
Debt service		4,009,976	24,000
Capital projects			<u>2,966,748</u>
TOTAL DISBURSEMENTS	<u>1,222,715</u>	<u>4,009,976</u>	<u>2,994,403</u>
EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS	<u>42,148</u>	<u>(3,735,417)</u>	<u>(1,537,657)</u>
OTHER FINANCING SOURCES (USES):			
Bond proceeds		4,985,000	3,200,000
Operating transfers in	49,246	351,970	42,354
Operating transfers out		<u>(17,354)</u>	<u>(2,798)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>49,246</u>	<u>5,319,616</u>	<u>3,239,556</u>
NET CHANGE IN CASH BALANCES	91,394	1,584,199	1,701,899
CASH BALANCES - BEGINNING OF YEAR	<u>(13,783)</u>	<u>(19,527)</u>	<u>(511,315)</u>
CASH BALANCES - END OF YEAR	<u>\$ 77,611</u>	<u>\$1,564,672</u>	<u>\$1,190,584</u>
CASH BASIS FUND BALANCES:			
Reserved:			
Debt service		\$1,564,672	
Unreserved:			
General fund	\$ 77,611		
Special revenue funds			
Capital projects fund			\$1,190,584
Permanent fund			
TOTAL CASH BASIS FUND BALANCE	<u>\$ 77,611</u>	<u>\$1,564,672</u>	<u>\$1,190,584</u>

See Notes to Financial Statements

Exhibit B

Other Nonmajor Governmental Funds	Total Governmental Funds (Memorandum Only)
\$ 535,236	\$1,616,457
203,467	203,467
457,349	457,349
	27,128
1,490	88,240
528,278	1,184,756
	82,648
	24,633
<u>167,295</u>	<u>1,204,605</u>
<u>1,893,115</u>	<u>4,889,283</u>
268,780	825,650
471,858	475,612
231,314	672,576
98,016	99,075
65,130	288,555
	4,033,976
<u>17,449</u>	<u>2,984,197</u>
<u>1,152,547</u>	<u>9,379,641</u>
<u>740,568</u>	<u>(4,490,358)</u>
	8,185,000
1,120	444,690
<u>(424,538)</u>	<u>(444,690)</u>
<u>(423,418)</u>	<u>8,185,000</u>
317,150	3,694,642
<u>658,285</u>	<u>113,660</u>
<u>\$ 975,435</u>	<u>\$3,808,302</u>
	\$1,564,672
	77,611
\$ 845,024	845,024
	1,190,584
<u>130,411</u>	<u>130,411</u>
<u>\$ 975,435</u>	<u>\$3,808,302</u>

See Notes to Financial Statements

CITY OF CHEROKEE
RECONCILIATION OF THE STATEMENT OF CASH RECEIPTS,
DISBURSEMENTS, AND CHANGES IN CASH BALANCES
TO THE STATEMENT OF ACTIVITIES AND NET ASSETS
GOVERNMENTAL FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2004

TOTAL GOVERNMENTAL FUNDS CASH BALANCES (Page 13)	\$3,808,302
Amounts reported for governmental activities in the Statement of Activities and Net Assets are different because:	
The Internal Service Fund is used by management to charge the costs of certain building replacements or improvements to individual funds. The assets of the Internal Service Fund are included in governmental activities in the Statement of Net Assets.	
	<u>161,711</u>
CASH BASIS NET ASSETS OF GOVERNMENTAL ACTIVITIES (Page 11)	<u>\$3,970,013</u>
NET CHANGE IN CASH BALANCES (Page 13)	\$3,694,642
Amounts reported for governmental activities in the Statement of Activities and Net Assets are different because:	
The Internal Service Fund is used by management to charge the costs of certain building replacements or improvements to individual funds. The change in net assets of the Internal Service Fund is reported with governmental activities.	
	<u>(2,880)</u>
CHANGE IN CASH BALANCE OF GOVERNMENTAL ACTIVITIES (Page 11)	<u>\$3,691,762</u>

CITY OF CHEROKEE
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND
CHANGES IN CASH BALANCES - PROPRIETARY FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2004

	Enterprise Funds		Other Nonmajor Proprietary Funds	Total	Internal Service Fund Building Replacement
	Water	Sewer			
OPERATING RECEIPTS:					
Charges for service	\$749,218	\$ 879,802	\$428,697	\$2,057,717	
Use of money and property			47	47	
Miscellaneous		71,524	100	71,624	\$ 4,096
TOTAL OPERATING RECEIPTS	<u>749,218</u>	<u>951,326</u>	<u>428,844</u>	<u>2,129,388</u>	<u>4,096</u>
OPERATING DISBURSEMENTS:					
Governmental activities:					
Public works					6,976
Business-type activities	778,365	1,543,061	808,735	3,130,161	
TOTAL OPERATING DISBURSEMENTS	<u>778,365</u>	<u>1,543,061</u>	<u>808,735</u>	<u>3,130,161</u>	<u>6,976</u>
DEFICIENCY OF OPERATING RECEIPTS UNDER OPERATING DISBURSEMENTS	<u>(29,147)</u>	<u>(591,735)</u>	<u>(379,891)</u>	<u>(1,000,773)</u>	<u>(2,880)</u>
NONOPERATING RECEIPTS (DISBURSEMENTS):					
Intergovernmental			357,016	357,016	
Revenue bonds proceeds		1,199,217		1,199,217	
Debt service	(204,253)	(425,838)		(630,089)	
TOTAL NONOPERATING RECEIPTS (DISBURSEMENTS)	<u>(204,253)</u>	<u>773,381</u>	<u>357,016</u>	<u>926,144</u>	
EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS	(233,400)	181,646	(22,875)	(74,629)	(2,880)
Operating transfers in	327,777			327,777	
Operating transfers out		(327,777)		(327,777)	
NET CHANGE IN CASH BALANCES	94,377	(146,131)	(22,875)	(74,629)	(2,880)
CASH BALANCES - BEGINNING OF YEAR	<u>559,407</u>	<u>225,686</u>	<u>61,029</u>	<u>846,122</u>	<u>164,591</u>
CASH BALANCES - END OF YEAR	<u>\$653,784</u>	<u>\$ 79,555</u>	<u>\$ 38,154</u>	<u>\$ 771,493</u>	<u>\$161,711</u>
CASH BASIS FUND BALANCES:					
Reserved for debt service	\$270,778	\$ 2,102		\$ 272,880	
Unreserved	383,006	77,453	\$ 38,154	498,613	\$161,711
TOTAL CASH BASIS FUND BALANCES	<u>\$653,784</u>	<u>\$ 79,555</u>	<u>\$ 38,154</u>	<u>\$ 771,493</u>	<u>\$161,711</u>

NOTES TO FINANCIAL STATEMENTS

CITY OF CHEROKEE
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Cherokee, Iowa is a political subdivision of the State of Iowa located in Cherokee County. The City operates under the Mayor-Council form of government with the Mayor and City Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, culture, recreation, public improvements, and general administrative services. The City also provides various utilities for its citizens.

A. Reporting Entity

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

These financial statements present the primary government of the City of Cherokee. Therefore, the City has elected not to include any potential component units in these financial statements.

Jointly Governed Organizations

The City also 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: Cherokee County joint E911 Service Board, Cherokee County Assessor's Conference Board, and Cherokee County Solid Waste Commission.

B. Basis of Presentation

Government-Wide Financial Statements - The statement of activities and net assets report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for services.

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

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

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

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

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

The City reports the following major governmental funds:

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

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

The Capital Projects Fund is utilized to account for all resources used in the acquisition and construction of capital facilities, with the exception of those that are 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 sewer system.

The City also reports the following additional proprietary fund:

An Internal Service Fund is utilized to account for financing the replacement of damaged property not covered by insurance coverage.

C. Measurement Focus and Basis of Accounting

The City of Cherokee 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.

Proprietary funds distinguish operating receipts and disbursements from nonoperating 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 nonoperating 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, 2004, disbursements exceeded the amounts budgeted in the public safety, culture and recreation, debt service, capital projects, and business type activities functions.

2. CASH AND POOLED INVESTMENTS

The City's deposits in banks at June 30, 2004 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 ensure 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-ended management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2004, \$1,652,941 was held in trust on behalf of the City from the \$1,785,000 proceeds of general obligation bonds issued. The funds are maintained by the trustee in insured deposit accounts and U.S. Treasury notes.

The City did not have investments subject to risk categorization at June 30, 2004.

3. BONDS AND NOTES PAYABLE

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

Year Ending June 30,	General Obligation Bonds		Revenue Notes		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2005	\$ 370,000	\$ 357,942	\$ 401,000	\$ 227,471	\$ 771,000	\$ 585,413
2006	840,000	331,376	413,000	212,737	1,253,000	544,113
2007	985,000	302,240	433,000	197,155	1,418,000	499,395
2008	1,025,000	267,590	446,000	180,449	1,471,000	448,039
2009	940,000	229,498	465,000	162,879	1,405,000	392,377
2010 - 2014	4,230,000	561,272	1,746,000	579,727	5,976,000	1,140,999
2015 - 2019	555,000	15,870	1,838,000	284,547	2,393,000	300,417
2020 - 2021			475,701	24,689	475,701	24,689
Total	\$8,945,000	\$2,065,788	\$6,217,701	\$1,869,654	\$15,162,701	\$3,935,442

The Code of Iowa requires that principal and interest on general obligation bonds be paid from the Debt Service Fund.

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 retain a lien on the future earnings of the funds.
- b. Sufficient monthly transfers shall be made to separate water and sewer revenue note sinking accounts within the Enterprise Funds for the purpose of making the note principal and interest payments when due.
- c. Additional monthly transfers to the water and sewer reserve accounts shall be made until specific minimum balances have been accumulated. The water reserve account, which exceeds its minimum balance requirement, is restricted for the purpose of paying principal at maturity or interest on the water revenue notes if sufficient money is not available in the Sinking Fund. Transfers received by the sewer reserve fund equal one-fourth of the amount transferred to the sewer revenue sinking account for the Series 2002 Bonds. The reserve fund balance shall be used solely for the purpose of paying principal at maturity or interest on the sewer revenue notes if sufficient money is not available in the Sinking Fund.
- d. All funds remaining in the city water account after the payment of all maintenance and operating expenses and required transfers shall be placed in a water revenue improvement fund at a minimum rate of \$5,000 per month until a minimum of \$200,000 is accumulated. This account is restricted for the purpose of paying for any improvement, extension, or repair to the system or for note and interest payments which the other accounts might be unable to make.

At June 30, 2004 the balances of these special funds included in the respective utility fund balance are as follows:

	<u>Water</u>	<u>Sewer</u>
Bond and interest sinking	\$ 9,788	\$(126,313)
Bond reserve	216,362	128,415
Improvement	<u>44,628</u>	<u> </u>
TOTAL	<u>\$270,778</u>	<u>\$ 2,102</u>

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, PO Box 9117, Des Moines, Iowa 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the City is required to contribute 5.75% of annual covered payroll except for police employees, in which case the percentages are 5.93% and 8.90%, respectively. For the year ended June 30, 2003, the contribution rates for police employees and the City were 6.04% and 9.07%, respectively, and for the year ended June 30, 2002, the contribution rates for police employees and the City were 6.20% and 9.29%, respectively. Contribution requirements are established by state statute. The City's contribution to IPERS for the years ended June 30, 2004, 2003, and 2002 were \$77,863, \$82,251, and \$78,101, respectively, equal to the required contributions for each year.

5. COMPENSATED ABSENCES

City employees accumulate a limited amount of earned but unused vacation leave hours for subsequent use or for payment upon termination, retirement, or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation termination payments payable to employees at June 30, 2004, primarily relating to the General Fund, is \$122,133.

The liability for compensated absences has been computed based on rates of pay as of June 30, 2004.

6. LANDFILL CONTRACT

The solid waste disposal contract which continues through June 30, 2004, requires an annual payment of \$138,672 by the City. This amount is attributed to the City's 1990 census as it relates in total to the county. For the year ended June 30, 2004, \$138,672 was paid pursuant to the agreement.

7. INTERFUND TRANSFERS

The detail of interfund transfers for the year ended June 30, 2004 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Capital Projects	\$ 2,798
	Special Revenue: Emergency	26,423
	Special Revenue: Hotel/Motel Tax	20,000
	Special Revenue: Parks & Recreation Improv.	25
		<u>49,246</u>
Debt Service	Special Revenue: Local Option Sales Tax	250,000
	Special Revenue: Urban Renewal TIF	101,970
		<u>351,970</u>
Capital Projects	Debt Service	17,354
	Special Revenue: Road Use	25,000
		<u>42,354</u>
Library	Library Memorial	<u>1,120</u>
Water	Sewer	<u>327,777</u>
Total		<u>\$772,467</u>

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

8. RELATED PARTY TRANSACTIONS

The City had business transactions between the City and City officials and employees, totaling \$48,252 during the year ended June 30, 2004.

9. LOCAL GOVERNMENT RISK POOL

The City of Cherokee is a member of 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 490 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 of Cherokee'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 of Cherokee's annual contributions to the Pool for the year ended June 30, 2004 were \$85,589.

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 \$250,000 per claim. Claims exceeding \$250,000 are reinsured in an amount not to exceed \$1,750,000 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. Automobile physical damage risks are retained by the Pool up to \$50,000 each accident, each location, with excess coverage reinsured on an individual-member basis. All property risks are also 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 that 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, 2004, settled claims have not exceeded the risk pool or reinsurance company 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% 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 of Cherokee also carries commercial insurance purchased from other insurers for coverage associated with commercial property, workers' compensation, lift station in flood area, and hangerkeeper's liability. 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.

10. LEASES

During the fiscal year ended June 30, 2004, the City made final lease payments totaling \$9,126 for equipment leased from various entities.

11. LOANS RECEIVABLE

At June 30, 2004, the City had the following outstanding balances on loans made from the CDBG/Revolving Loan Fund as an effort to promote economic development and promote and retain jobs within the City:

Filter Recycling - \$30,000 loan on October 1, 1997, payable in 72 monthly payments of \$318, including interest at 5%.	\$ 11,624
Cherokee Family Daycare - \$25,000 loan on April 23, 2002, payable in 72 monthly payments of \$400, including interest at 5%.	16,894
American Natural Soy - \$21,956 loan on December 9, 2003, payable in 10 annual payments of \$2,442.64, including interest at 2%.	<u>21,956</u>
TOTAL	<u>\$ 50,474</u>

At June 30, 2004, the City also had the following outstanding balance on a loan made from the G. Bacon Bequest subfund of the Capital Projects Fund:

Cherokee Community Foundation - \$100,000 loan disbursed on September 26, 2003, payable at time of sale of the W.I.T. home being constructed with the funds advanced, including interest at 3%.	<u>\$100,000</u>
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12. DEFICIT FUND BALANCES

The following funds had a deficit balance at June 30, 2004:

<u>Fund</u>	<u>Deficit Balance June 30, 2004</u>	<u>Cause of Deficit</u>	<u>Plans to Eliminate Deficit</u>
Special Revenue: Employee Benefits	\$ 8,771	Under budgeted health insurance expense	Increase tax askings and/or reduce spending
Proprietary: Solid Waste	\$ 3,593	Natural gas study costs	Reduce spending

13. COMMITMENT

At June 30, 2004, the City had construction contracts totaling approximately \$7,000,000 for street, sewer, and airport improvements of which approximately \$356,000 remained outstanding. The balances on the contracts will be paid as the projects progress, primarily through the proceeds from state revolving loan funds and a Federal Aviation Administration grant.

14. LITIGATION

The City is party to routine legal proceedings and litigation arising in the normal course of business. In the opinion of management, the outcome of such actions will have no material impact on the City's financial condition.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF CHEROKEE
 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, 2004

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds not Required to be Budgeted
RECEIPTS:			
Property tax	\$1,616,457		
Tax increment financing collections	203,467		
Other city tax	457,349		
Licenses and permits	27,128		
Use of money and property	88,240	\$ 47	
Intergovernmental	1,184,756	357,016	
Charges for service	82,648	2,057,717	\$ (153,658)
Special assessments	24,633		
Miscellaneous	<u>1,204,605</u>	<u>75,720</u>	<u>(146,790)</u>
TOTAL RECEIPTS	<u>4,889,283</u>	<u>2,490,500</u>	<u>(300,448)</u>
DISBURSEMENTS:			
Public safety	825,650		
Public works	475,612	6,976	(47,398)
Culture and recreation	672,576		
Community and economic development	99,075		
General government	288,555		(102,272)
Debt service	4,033,976		
Capital projects	2,984,197		
Business-type		<u>3,760,250</u>	<u>(153,658)</u>
TOTAL DISBURSEMENTS	<u>9,379,641</u>	<u>3,767,226</u>	<u>(303,328)</u>
EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS	(4,490,358)	(1,276,726)	(2,880)
OTHER FINANCING SOURCES - NET	<u>8,185,000</u>	<u>1,199,217</u>	<u> </u>
EXCESS (DEFICIENCY) OF RECEIPTS AND OTHER FINANCING SOURCES OVER (UNDER) DISBURSEMENTS AND OTHER FINANCING USES	3,694,642	(77,509)	(2,880)
BALANCES - BEGINNING OF YEAR	<u>113,660</u>	<u>1,010,713</u>	<u>164,591</u>
BALANCES - END OF YEAR	<u>\$3,808,302</u>	<u>\$ 933,204</u>	<u>\$ 161,711</u>

Net	Budgeted Amounts		Final to Net Variance
	Original	Final	
\$ 1,616,457	\$1,788,930	\$1,788,930	\$ (172,473)
203,467	223,000	223,000	(19,533)
457,349	447,408	447,408	9,941
27,128	15,650	15,650	11,478
88,287	65,200	65,200	23,087
1,541,772	524,050	962,036	579,736
1,986,707	1,834,256	1,834,256	152,451
24,633	20,000	20,000	4,633
<u>1,133,535</u>	<u>283,129</u>	<u>1,114,484</u>	<u>19,051</u>
<u>7,079,335</u>	<u>5,201,623</u>	<u>6,470,964</u>	<u>608,371</u>
825,650	750,095	795,914	(29,736)
435,190	698,222	698,222	263,032
672,576	637,096	663,674	(8,902)
99,075	23,775	128,368	29,293
186,283	301,213	316,503	130,220
4,033,976	579,176	599,176	(3,434,800)
2,984,197		2,963,248	(20,949)
<u>3,606,592</u>	<u>2,017,504</u>	<u>3,229,454</u>	<u>(377,138)</u>
<u>12,843,539</u>	<u>5,007,081</u>	<u>9,394,559</u>	<u>(3,448,980)</u>
(5,764,204)	194,542	(2,923,595)	(2,840,609)
<u>9,384,217</u>		<u>4,468,925</u>	<u>4,915,292</u>
3,620,013	194,542	1,545,330	2,074,683
<u>959,782</u>	<u>2,928,121</u>	<u>1,124,375</u>	<u>(164,593)</u>
<u>\$ 4,579,795</u>	<u>\$3,122,663</u>	<u>\$2,669,705</u>	<u>\$1,910,090</u>

CITY OF CHEROKEE
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2004

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. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business-type and non-program. Function disbursements required to be budgeted include disbursements for the general fund, special revenue funds, debt service fund, capital projects funds and proprietary funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$4,387,478. This budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2004, disbursements exceeded the amounts budgeted in the following functions: public safety, culture and recreation, debt service, capital projects, and business-type.

OTHER SUPPLEMENTARY INFORMATION

CITY OF CHEROKEE
 STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND
 CHANGES IN CASH BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 AS OF AND FOR THE YEAR ENDED JUNE 30, 2004

	Special Revenue			
	Road Use	Employee Benefits	Emergency	Local Option Sales Tax
RECEIPTS:				
Property tax		\$508,813	\$ 26,423	
Tax increment financing collections				
Other city tax				\$397,006
Use of money and property				482
Intergovernmental	\$447,171			
Miscellaneous	34,965	87,302		
TOTAL RECEIPTS	482,136	596,115	26,423	397,488
DISBURSEMENTS:				
Governmental activities:				
Public safety		268,780		
Public works	405,252	66,606		
Culture and recreation		102,199		
Community and economic development				
General government		65,130		
Capital projects				
TOTAL DISBURSEMENTS	405,252	502,715		
EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS	76,884	93,400	26,423	397,488
OTHER FINANCING SOURCES (USES):				
Operating transfers in				
Operating transfers out	(25,000)		(26,423)	(250,000)
TOTAL OTHER FINANCING SOURCES (USES)	(25,000)		(26,423)	(250,000)
NET CHANGE IN CASH BALANCES	51,884	93,400		147,488
CASH BALANCES - BEGINNING OF YEAR	82,547	(102,171)		291,429
CASH BALANCES - END OF YEAR	\$134,431	\$ (8,771)	\$	\$438,917
CASH BASIS FUND BALANCES:				
Unreserved:				
Special revenue funds	\$134,431	\$ (8,771)		\$438,917
Permanent fund				
TOTAL CASH BASIS FUND BALANCES	\$134,431	\$ (8,771)	\$	\$438,917

Schedule 1

<u>Hotel/ Motel</u>	<u>Urban Renewal TIF</u>	<u>CDBG Revolving</u>	<u>Library Memorial</u>	<u>Library Building Fund</u>	<u>Parks & Recreation Capital Improvements</u>
	\$203,467				
\$ 60,343 25		\$ 76,060	\$ 5,047	\$ 7	
		9,160	16,911	1,050	\$ 16,391
<u>60,368</u>	<u>203,467</u>	<u>85,220</u>	<u>21,958</u>	<u>1,057</u>	<u>16,391</u>
45,978			30,742	14,978	34,400
		98,016			
	17,449				
<u>45,978</u>	<u>17,449</u>	<u>98,016</u>	<u>30,742</u>	<u>14,978</u>	<u>34,400</u>
<u>14,390</u>	<u>186,018</u>	<u>(12,796)</u>	<u>(8,784)</u>	<u>(13,921)</u>	<u>(18,009)</u>
<u>(20,000)</u>	<u>(101,970)</u>		<u>(1,120)</u>	1,120	<u>(25)</u>
<u>(20,000)</u>	<u>(101,970)</u>		<u>(1,120)</u>	1,120	<u>(25)</u>
(5,610)	84,048	(12,796)	(9,904)	(12,801)	(18,034)
<u>14,288</u>	<u>101,000</u>	<u>49,621</u>	<u>18,174</u>	<u>12,801</u>	<u>59,660</u>
<u>\$ 8,678</u>	<u>\$185,048</u>	<u>\$ 36,825</u>	<u>\$ 8,270</u>	<u>\$</u>	<u>\$ 41,626</u>
<u>\$ 8,678</u>	<u>\$185,048</u>	<u>\$ 36,825</u>	<u>\$ 8,270</u>		<u>\$ 41,626</u>
<u>\$ 8,678</u>	<u>\$185,048</u>	<u>\$ 36,825</u>	<u>\$ 8,270</u>	<u>\$</u>	<u>\$ 41,626</u>

See Accompanying Independent Auditors' Report

CITY OF CHEROKEE
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND
CHANGES IN CASH BALANCES
NONMAJOR GOVERNMENTAL FUNDS - Continued
AS OF AND FOR THE YEAR ENDED JUNE 30, 2004

	<u>Permanent Oak Hill Perpetual Care</u>	<u>Total Nonmajor Governmental Funds</u>
RECEIPTS:		
Property tax		\$535,236
Tax increment financing collections		203,467
Other city tax		457,349
Use of money and property	\$ 976	1,490
Intergovernmental		528,278
Miscellaneous	<u>1,516</u>	<u>167,295</u>
TOTAL RECEIPTS	<u>2,492</u>	<u>1,893,115</u>
DISBURSEMENTS:		
Governmental activities:		
Public safety		268,780
Public works		471,858
Culture and recreation	3,017	231,314
Community and economic development		98,016
General government		65,130
Capital projects		<u>17,449</u>
TOTAL DISBURSEMENTS	<u>3,017</u>	<u>1,152,547</u>
EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS	<u>(525)</u>	<u>740,568</u>
OTHER FINANCING SOURCES (USES):		
Operating transfers in		1,120
Operating transfers out		<u>(424,538)</u>
TOTAL OTHER FINANCING SOURCES (USES)		<u>(423,418)</u>
NET CHANGE IN CASH BALANCES	(525)	317,150
CASH BALANCES - BEGINNING OF YEAR	<u>130,936</u>	<u>658,285</u>
CASH BALANCES - END OF YEAR	<u>\$130,411</u>	<u>\$ 975,435</u>
CASH BASIS FUND BALANCES:		
Unreserved:		
Special revenue funds		\$ 845,024
Permanent fund	<u>\$130,411</u>	<u>130,411</u>
TOTAL CASH BASIS FUND BALANCES	<u>\$130,411</u>	<u>\$ 975,435</u>

CITY OF CHEROKEE
 STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND
 CHANGES IN CASH BALANCES
 NONMAJOR PROPRIETARY FUNDS
 AS OF AND FOR THE YEAR ENDED JUNE 30, 2004

	Business-Type Activities - Enterprise Funds				
	<u>Landfill</u>	<u>Solid Waste</u>	<u>Storm Water</u>	<u>Airport</u>	<u>Total</u>
OPERATING RECEIPTS:					
Charges for service	\$142,839	\$188,506	\$20,917	\$ 76,435	\$428,697
Use of money and property				47	47
Miscellaneous				100	100
TOTAL OPERATING RECEIPTS	<u>142,839</u>	<u>188,506</u>	<u>20,917</u>	<u>76,582</u>	<u>428,844</u>
OPERATING DISBURSEMENTS:					
Business type activities	<u>143,399</u>	<u>206,643</u>		<u>458,693</u>	<u>808,735</u>
TOTAL OPERATING DISBURSEMENTS	<u>143,399</u>	<u>206,643</u>		<u>458,693</u>	<u>808,735</u>
EXCESS (DEFICIENCY) OF OPERATING RECEIPTS OVER (UNDER) OPERATING DISBURSEMENTS	(560)	(18,137)	20,917	(382,111)	(379,891)
NONOPERATING RECEIPTS:					
Intergovernmental				<u>357,016</u>	<u>357,016</u>
EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS	(560)	(18,137)	20,917	(25,095)	(22,875)
CASH BALANCES - BEGINNING OF YEAR	<u>3,743</u>	<u>14,544</u>		<u>42,742</u>	<u>61,029</u>
CASH BALANCES - END OF YEAR	<u>\$ 3,183</u>	<u>\$ (3,593)</u>	<u>\$20,917</u>	<u>\$ 17,647</u>	<u>\$ 38,154</u>
CASH BASIS FUND BALANCES:					
Unreserved	<u>\$ 3,183</u>	<u>\$ (3,593)</u>	<u>\$ 20,917</u>	<u>\$ 17,647</u>	<u>\$ 38,154</u>
TOTAL CASH BASIS FUND BALANCES	<u>\$ 3,183</u>	<u>\$ (3,593)</u>	<u>\$ 20,917</u>	<u>\$ 17,647</u>	<u>\$ 38,154</u>

See Accompanying Independent Auditors' Report

CITY OF CHEROKEE
 SCHEDULE OF INDEBTEDNESS
 YEAR ENDED JUNE 30, 2004

	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount of Original Issue</u>	<u>Balance Beginning of Year</u>
General obligation bonds and notes:				
Essential corporate purpose (miscellaneous projects)	12-1-93	3.90 - 4.10%	\$ 975,000	\$ 200,000
Essential corporate purpose (miscellaneous projects)	2-1-98	3.75 - 4.70%	1,900,000	1,540,000
Essential corporate purpose (miscellaneous projects)	3-1-00	4.90 - 5.35%	750,000	505,000
Park garage	8-15-00	6.35%	24,000	5,000
Sioux Valley Memorial Hospital Wellness Center	11-01-00	5.40 - 6.25%	1,000,000	905,000
Essential corporate purpose (miscellaneous projects)	7-1-02	2.50 - 4.70%	1,430,000	1,265,000
Essential corporate purposes	7-14-03	1.75%	3,200,000	
1993 refunding 2004 A	4-15-04	1.25 - 3.35%	1,785,000	
Essential corporate purpose 2004 B	6-15-04	2.40 - 4.50%	<u>3,200,000</u>	
TOTAL				<u>\$4,420,000</u>
Revenue Notes:				
Sewer	9-30-99	4.23%	\$2,170,000	\$2,025,000
Water	4-01-02	3.25 - 5.00%	1,330,000	1,190,000
Sewer	6-19-02	3.00%	* 4,293,000	<u>2,190,484</u>
TOTAL				<u>\$5,405,484</u>

* Authorized \$4,293,000, issued \$3,389,701

Schedule 3

<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>
	\$ 200,000		\$ 7,847	
	65,000	\$1,475,000	68,463	
	90,000	415,000	26,543	
	5,000		159	
	50,000	855,000	51,970	
	50,000	1,215,000	54,715	
\$3,200,000	3,200,000		25,978	
1,785,000		1,785,000		
<u>3,200,000</u>	<u> </u>	<u>3,200,000</u>	<u> </u>	<u> </u>
<u>\$8,185,000</u>	<u>\$3,660,000</u>	<u>\$8,945,000</u>	<u>\$235,675</u>	<u>\$ </u>
	\$ 77,000	\$1,948,000	\$ 85,658	
	150,000	1,040,000	53,952	
\$1,199,217	<u>160,000</u>	<u>3,229,701</u>	<u>91,433</u>	<u> </u>
<u>\$1,199,217</u>	<u>\$ 387,000</u>	<u>\$6,217,701</u>	<u>\$231,043</u>	<u>\$ </u>

See Accompanying Independent Auditors' Report

CITY OF CHEROKEE
 BOND AND NOTE MATURITIES
 JUNE 30, 2004

General Obligation Bonds and Notes

Year Ending June 30,	<u>Miscellaneous Projects</u>					
	<u>Issued 2-1-1998</u>		<u>Issued 3-1-2000</u>		<u>Issued 11-29-2000</u>	
	<u>Interest Rates</u>	<u>Amount</u>	<u>Interest Rates</u>	<u>Amount</u>	<u>Interest Rates</u>	<u>Amount</u>
2005	4.20%	\$ 75,000	5.20%	\$ 95,000	6.00%	\$ 50,000
2006	4.25%*	145,000	5.25%	100,000	6.00%	55,000
2007	4.30%*	155,000	5.30%*	105,000	6.00%	60,000
2008	4.35%*	165,000	5.35%*	115,000	5.90%	60,000
2009	4.40%*	170,000			5.90%	65,000
2010	4.45%*	180,000			5.90%	70,000
2011	4.55%*	185,000			5.40%	70,000
2012	4.65%*	195,000			5.45%	75,000
2013	4.70%*	205,000			5.50%	80,000
2014					5.55%	85,000
2015					5.60%	90,000
2016					5.70%	95,000
TOTAL		<u>\$1,475,000</u>		<u>\$ 415,000</u>		<u>\$ 855,000</u>

Year Ending June 30,	<u>Revenue Notes</u>					
	<u>Sewer Issued 9-30-99</u>		<u>Water Issued 4-2-02</u>		<u>Sewer Issued 6-19-02</u>	
	<u>Interest Rates</u>	<u>Amount</u>	<u>Interest Rates</u>	<u>Amount</u>	<u>Interest Rates</u>	<u>Authorized Amount</u>
2005	4.23%	\$ 81,000	4.10%	\$ 155,000	3.00%	\$ 165,000
2006	4.23%	84,000	4.35%	160,000	3.00%	169,000
2007	4.23%	88,000	4.55%	170,000	3.00%	175,000
2008	4.23%	91,000	4.75%	175,000	3.00%	180,000
2009	4.23%	95,000	4.90%	185,000	3.00%	185,000
2010	4.23%	99,000	5.00%	195,000	3.00%	191,000
2011	4.23%	103,000			3.00%	196,000
2012	4.23%	107,000			3.00%	202,000
2013	4.23%	112,000			3.00%	208,000
2014	4.23%	118,000			3.00%	215,000
2015	4.23%	122,000			3.00%	221,000
2016	4.23%	127,000			3.00%	228,000
2017	4.23%	132,000			3.00%	235,000
2018	4.23%	138,000			3.00%	242,000
2019	4.23%	144,000			3.00%	249,000
2020	4.23%	150,000			3.00%	256,000
2021	4.23%	157,000			3.00%	264,000
2022					3.00%	272,000
2023					3.00%	280,000
TOTAL		<u>\$1,948,000</u>		<u>\$1,040,000</u>		<u>\$4,133,000</u>

* Expected to be refunded from 4-15-2004 bond proceeds in escrow at June 30, 2004.

See Accompanying Independent Auditors' Report

Miscellaneous Projects						
Issued 7-1-2002		Issued 4-15-2004		Issued 6-15-2004		Total
Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	
3.45%	\$ 50,000	1.25%	\$ 100,000			\$ 370,000
3.75%	90,000	1.60%	165,000	2.40%	\$ 285,000	840,000
4.00%	90,000	1.95%	280,000	2.85%	295,000	985,000
4.20%	85,000	2.30%	295,000	3.20%	305,000	1,025,000
4.35%	210,000	2.55%	180,000	3.45%	315,000	940,000
4.50%	220,000	2.75%	185,000	3.65%	300,000	955,000
4.60%	230,000	3.00%	185,000	3.85%	310,000	980,000
4.70%	240,000	3.20%	195,000	4.05%	325,000	1,030,000
		3.35%	200,000	4.20%	340,000	825,000
				4.35%	355,000	440,000
				4.50%	370,000	460,000
						95,000
TOTAL	<u>\$1,215,000</u>		<u>\$1,785,000</u>		<u>\$3,200,000</u>	<u>\$8,945,000</u>

<u>Total</u>	
\$	401,000
	413,000
	433,000
	446,000
	465,000
	485,000
	299,000
	309,000
	320,000
	333,000
	343,000
	355,000
	367,000
	380,000
	393,000
	406,000
	421,000
	272,000
	<u>280,000</u>
TOTAL	<u>\$7,121,000</u>

CITY OF CHEROKEE
SCHEDULE OF RECEIPTS BY SOURCE AND DISBURSEMENTS BY FUNCTION
ALL GOVERNMENTAL FUNDS
FOR THE LAST FOUR YEARS

	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
RECEIPTS:				
Property and other city tax	\$2,073,806	\$1,976,920	\$1,759,691	\$1,537,736
Tax increment financing collections	203,467	225,979	217,464	115,298
Licenses and permits	27,128	24,229	15,873	15,576
Use of money and property	88,240	88,156	92,330	76,703
Intergovernmental	1,184,756	695,258	568,809	804,360
Charges for service	82,648	75,819	42,366	43,817
Special assessments	24,633	46,920	7,840	7,780
Miscellaneous	<u>1,204,605</u>	<u>427,510</u>	<u>386,990</u>	<u>237,559</u>
TOTAL REVENUES	<u>\$4,889,283</u>	<u>\$3,560,791</u>	<u>\$3,091,363</u>	<u>\$2,838,829</u>
DISBURSEMENTS:				
Public safety	\$ 825,650	\$ 851,784	*	*
Public works	475,612	1,332,189	*	*
Culture and recreation	672,576	887,527	*	*
Community and economic development .	99,075	115,244	*	*
General government	288,555	304,447	*	*
Debt service	4,033,976	2,273,282	*	*
Capital projects	<u>2,984,197</u>	<u> </u>		
TOTAL EXPENDITURES	<u>\$9,379,641</u>	<u>\$5,764,473</u>	<u>\$4,330,890</u>	<u>\$4,241,162</u>

* Information not available

CITY OF CHEROKEE
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 YEAR ENDED JUNE 30, 2004

Grantor/Program	CFDA Number	Agency Pass-Through Number	Program Expenditures
Direct:			
United States Department of Transportation:			
Airport improvement program	20.106	3-19-0099-03	<u>\$ 337,981</u>
Total Direct			<u>337,981</u>
Indirect:			
U.S. Department of Housing and Urban Development:			
Iowa Department of Economic Development:			
Community development block grants/state's program	14.228	02-CRL-003	76,060
U.S. Department of Justice:			
Iowa Department of Public Safety:			
Local law enforcement block grants program	16.592	03LE-0152	8,172
U.S. Department of Transportation:			
Iowa Department of Transportation:			
Highway planning and construction.....	20.205	Various	598,089
Safety incentive grants for use of seatbelts	20.604		3,500
Environmental Protection Agency:			
Iowa Department of Natural Resources:			
Capitalization grants for state revolving funds	66.458	CS192127-02	<u>1,199,217</u>
Total Indirect			<u>1,885,038</u>
TOTAL			<u>\$2,223,019</u>

Basis of Presentation - The Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Cherokee and is presented in conformity with an other comprehensive basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The Honorable Mayor and
Members of the City Council
City of Cherokee
Cherokee, IA 51012

We have audited the financial statements of the primary government of the City of Cherokee, Iowa as of and for the year ended June 30, 2004, and have issued our report thereon dated August 12, 2004. Our report expressed an unqualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

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

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2004 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. Prior year statutory comments have not been resolved.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Cherokee internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance 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 Cherokee'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 II of the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a 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 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 items II-A-04 is a material weakness. Prior year reportable conditions have been resolved except for item II-A-04.

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 Cherokee, and other parties to whom the City of Cherokee 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 Cherokee 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.

Wintner, Steve R. LHP

August 12, 2004

WINTHER, STAVE & Co., LLP
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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH
REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND
INTERNAL CONTROL OVER COMPLIANCE

The Honorable Mayor and
Members of the City Council
City of Cherokee
Cherokee, IA 51012

Compliance

We have audited the compliance of the City of Cherokee, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2004. The City of Cherokee's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal programs is the responsibility of the City of Cherokee's management. Our responsibility is to express an opinion on the City of Cherokee's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Cherokee's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Cherokee's compliance with those requirements.

In our opinion, the City of Cherokee complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended June 30, 2004.

Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City of Cherokee's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted a matter involving the internal control over compliance and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the City of Cherokee's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts, and grants. The reportable condition is described as item III-A-04 in the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a 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 non-compliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program 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 compliance 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 III-A-04 is a material weakness.

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 Cherokee and other parties to whom the City of Cherokee 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.



August 12, 2004

CITY OF CHEROKEE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2004

Part I: Summary of the Independent Auditors' Results

- a. An unqualified opinion was issued on the financial statements which 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.
- b. A reportable condition in internal control over financial reporting was disclosed by the audit of the financial statements, including a material weakness.
- c. The audit did not disclose any non-compliance which is material to the financial statements.
- d. A reportable condition in internal control over the major programs was disclosed by the audit of the financial statements, including a material weakness.
- e. An unqualified opinion was issued on compliance with requirements applicable to the major program.
- f. The audit disclosed audit findings which are required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- g. The major programs were:
 - CFDA number 20.106 - airport improvement program
 - CFDA number 20.205 - highway planning and construction
 - CFDA number 66.458 - capitalization grants for state revolving funds
- h. The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- i. The City of Cherokee did not qualify as a low-risk auditee.

CITY OF CHEROKEE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - Continued
YEAR ENDED JUNE 30, 2004

Part II: Findings Related to the Financial Statements

Instances of Non-Compliance:

No matters were noted.

Reportable Condition:

II-A-04 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that one individual has custody of receipts, prepares bank deposits, picks up bank statements, and performs posting of cash receipts to the cash receipts journal.

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

Response - We will consider our control procedures.

Conclusion - Response accepted.

CITY OF CHEROKEE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - Continued
YEAR ENDED JUNE 30, 2004

Part III: Findings and Questioned Costs for Federal Awards

Instance of Non-Compliance:

No matters were noted.

Reportable Condition:

All programs displayed on the Schedule of Expenditures of Federal Awards.

III-A-04 Segregation of Duties over Federal Receipts - The City did not properly segregate collection, deposit and record-keeping for receipts, including those related to federal programs. See item II-A-04.

CITY OF CHEROKEE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - Continued
YEAR ENDED JUNE 30, 2004

Part IV: Other Findings Related to Statutory Reporting

IV-A-04 Official Depositories - A resolution naming official depositories has been approved by the City. The maximum deposit amounts stated in the resolution was exceeded for one financial institution during the year ended June 30, 2004.

Recommendation - We recommend amounts deposited in financial institutions be regularly reviewed for compliance with the depository resolution.

Response - The maximum deposit amount was temporarily exceeded due to the deposit of loan proceeds. We will regularly review financial institution account balances for compliance with the depository resolution.

Conclusion - Response accepted.

IV-B-04 Certified Budget - Disbursements during the year ended June 30, 2004 exceeded the amounts budgeted in the following functions: public safety, culture and recreation, debt service, capital projects, and business-type. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

Recommendation - The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response - The budget will be amended in the future, if applicable.

Conclusion - Response accepted.

IV-C-04 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.

IV-D-04 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

CITY OF CHEROKEE
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS - Continued
 YEAR ENDED JUNE 30, 2004

Part IV: Other Findings Related to Statutory Reporting - Continued

IV-E-04 Business Transactions - Business transactions between the City and City officials or employees are detailed as follows:

<u>Name, Title, and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Duane Mummert, Park Superintendent	Tooling expense	\$ 1,000
Bill Troth, City Council Member	Repairs	24,791
Kent Wenek, City Building Inspector	Inspections	5,693
	Airport maintenance	<u>1,150</u>
		<u>6,843</u>
Marvin Miller, City Attorney	Legal fees	15,618

In accordance with Chapter 362.5(10) of the Code of Iowa, the transaction with the Park Superintendent does not appear to represent conflicts of interest since the total transaction was less than \$1,500 during the fiscal year.

Recommendation - The transactions exceeding \$1,500 may represent a conflict of interest. The City should consult legal counsel to determine the disposition of each of these matters.

Response - The City Attorney will be asked to comment on these transactions.

Conclusion - Response accepted.

IV-F-04 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.

IV-G-04 Council Minutes - We noted two transactions we believe should have been approved in the Council minutes but were not. Council minutes do not indicate approval of a \$100,000 loan made to the Cherokee Community Foundation from the G. Bacon Bequest Fund. Also, Council minutes do not indicate approval of a \$68,851 payment to Western Iowa Tech from Career Link grant proceeds.

Recommendation - The City Council should approve these transactions and approve all future transactions prior to payments being made.

Response - We will approve these transactions and make sure future payments are only made after approval by the City Council.

Conclusion - Response accepted.

CITY OF CHEROKEE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - Continued
YEAR ENDED JUNE 30, 2004

Part IV: Other Findings Related to Statutory Reporting - Continued

IV-H-04 Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.

IV-I-04 Revenue Notes - The City has not complied with various water and sewer revenue note resolutions. While the City has established the respective water and sewer bond and interest sinking funds required by bond resolutions, balances maintained in these funds as of June 30, 2004 were deficient by approximately \$24,000 and \$164,000, respectively, due to insufficient transfers to the funds. Similarly, the balance maintained in the sewer reserve fund was deficient at June 30, 2004 by approximately \$102,000 due to insufficient transfers to the fund of approximately \$17,000 and payments of approximately \$85,000 from the fund for a construction project. In addition, the City has not maintained user rates for the water and sewer utilities at a level sufficient to produce net revenues to the extent required by the respective bond resolutions.

Recommendation - The City should make transfers to the water and sewer bond and interest sinking funds and the sewer reserve fund necessary to bring the balances into compliance with bond resolution requirements. A transfer should also be made to replace the sewer reserve funds which were not used for interest or principal payments allowed by the bond resolution. The City should also determine whether existing water and sewer user rates will be sufficient to produce the required net revenues or whether user rates should be increased.

Response - We will make the necessary transfers to the respective bond and interest sinking funds and the sewer reserve fund to bring them into compliance. We will also examine existing water and sewer user rates to determine the level required to comply with bond resolution net revenue requirements.

Conclusion - Response accepted.

IV-J-04 Interest on Bond Reserve Fund Balances - We noted interest on cash balances held in the special water and sewer bond reserve funds contained in the Water and Sewer Enterprise Funds is not being credited to the special bond reserve funds and, therefore, is not being used to make payments on indebtedness as required by Chapter 12C.9 of the Code of Iowa.

Recommendation - Interest from cash balances held in the special bond reserve funds should be credited to the respective fund.

Response - We will credit interest on bond reserve balances to the respective bond reserve funds.

Conclusion - Response accepted.

CITY OF CHEROKEE
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS - Continued
 YEAR ENDED JUNE 30, 2004

Part IV: Other Findings Related to Statutory Reporting - Continued

IV-K-04 Financial Condition - The following funds had a deficit balance at June 30, 2004:

Special Revenue - Employee Benefits
 Proprietary - Solid Waste

Recommendation - The City should investigate alternatives to eliminate these deficits in order to return these accounts to a sound financial position.

Response -

Special Revenue - Employee Benefits	Increase tax asking and/or reduce spending
Proprietary - Solid Waste	Reduce spending

Conclusion - Response accepted.

IV-L-04 Constitutional Debt Limit - The total outstanding general obligation bonds of the City at June 30, 2004 is greater than the City's constitutional debt limit established by the State of Iowa. The total outstanding obligations of the City include bonds issued to refund previous bonds at a lower interest rate. As of June 30, 2004, these bonds had been issued; but the proceeds had not yet been used to refund the previous bonds. The proceeds of \$1,652,941 from the bond issue are being held in an escrow account until the respective redemption dates of the previous bonds.

Recommendation - The City should obtain a written determination from its legal counsel of whether the funds held in escrow can be deducted from total outstanding general obligation bonds of the City for purposes of calculating whether the City has exceeded the constitutional debt limitations.

Response - We have been advised by legal counsel that funds held in escrow for refunding debt reduce the total debt outstanding for purposes of comparison with constitutional limits. We will ask for this determination to be placed in writing.

Conclusion - Response accepted.