

CITY OF OSCEOLA
INDEPENDENT AUDITORS' REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2004



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City of Osceola

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January 2004)		
Byron (Fred) Robison	Mayor	Dec 2003
Glen VanAhn	Council Member/Mayor Pro Tem	Dec 2003
Glen Schaff	Council Member	Dec 2003
Peggy Mateer	Council Member	Dec 2003
Ed Davis	Council Member	Dec 2003
George Fotiadis	Council Member	Dec 2003
Osceola Waterworks		
Sandy Kale	Chairperson/Trustee	Dec 2005
Paul Chesnut	Trustee	Dec 2005
Paul Winship	Trustee	Dec 2007
Bruce Harris	Trustee	Dec 2003
Robert Horton	Trustee	Dec 2004
(After January 2004)		
Fred Diehl	Mayor	Dec 2005
Glen Schaff	Council Member	Dec 2005
Peggy Mateer	Council Member	Dec 2005
Ed Davis	Council Member	Dec 2007
George Fotiadis	Council Member	Dec 2007
Dr. James Kimball	Council Member	Dec 2007
Ralph Lesko	City Administrator	Indefinite
Dan Cline	Treasurer/Clerk	Indefinite
Richard Murphy	Attorney	Indefinite
Judy Coe	Librarian	Indefinite
Osceola Waterworks		
Sandy Kale	Chairperson/Trustee	Dec 2005
Paul Chesnut	Trustee	Dec 2005
Paul Winship	Trustee	Dec 2009
Robert Horton	Trustee	Dec 2004
Fred Wood	Trustee	Dec 2009

City of Osceola

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Independent Auditors' 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 Osceola, Iowa, as of and for the year ended June 30, 2004, 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 Osceola's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, 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 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information and the discretely presented component unit of the City of Osceola as of June 30, 2004, 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 17, during the year ended June 30, 2004, 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 reports dated September 2, 2004 on our consideration of the City of Osceola's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. Those reports are 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.

The City has not presented management's discussion and analysis which introduces the basic financial statements by presenting certain financial information as well as management's analytical insights on that information that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Budgetary comparison information on pages 26 and 27 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We applied limited procedures, which consisted 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 financial statements that collectively comprise the City of Osceola's basic financial statements. Other supplementary information included in Schedules 1 through 5, 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 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.

September 2, 2004
Ames, Iowa

City of Osceola

Basic Financial Statements

City of Osceola

Statement of Activities and Net Assets – Cash Basis

As of and for the year ended June 30, 2004

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions, and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions / Programs:				
Governmental activities:				
Public safety	\$ 796,646	1,061	58,792	-
Public works	1,070,219	233,187	388,037	-
Culture and recreation	585,097	151,540	246,174	-
Community and economic development	374,608	3,323	-	-
General government	698,799	-	-	-
Debt service	832,239	-	-	-
Capital projects	1,124,611	-	10,091	70,738
Total governmental activities	5,482,219	389,111	703,094	70,738
Business type activities:				
Sewer	1,323,989	892,433	1,175	-
Component unit:				
Water	1,798,174	1,159,433	258,443	-
Total	\$ 8,604,382	2,440,977	962,712	70,738
General Receipts:				
Property tax levied for:				
General purposes				
Tax increment financing				
Employee benefits				
Debt service				
Special assessments				
Local option sales tax				
Hotel/motel tax				
Utility replacement excise tax				
Bank franchise tax				
Unrestricted interest on investments				
Note proceeds				
Gaming receipts				
Miscellaneous				
Total general receipts				
Change in cash basis net assets				
Cash basis net assets beginning of year, as restated				
Cash basis net assets end of year				
Cash Basis Net Assets				
Restricted:				
Streets				
Urban renewal purposes				
Debt service				
Other purposes				
Unrestricted				
Total cash basis net assets				

See notes to financial statements.

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets			Major Discretely Presented Component Unit
Governmental Activities	Business Type Activities	Total	
(736,793)	-	(736,793)	-
(448,995)	-	(448,995)	-
(187,383)	-	(187,383)	-
(371,285)	-	(371,285)	-
(698,799)	-	(698,799)	-
(832,239)	-	(832,239)	-
(1,043,782)	-	(1,043,782)	-
(4,319,276)	-	(4,319,276)	-
-	(430,381)	(430,381)	-
-	-	-	(380,298)
(4,319,276)	(430,381)	(4,749,657)	(380,298)
1,075,382	-	1,075,382	-
276,036	-	276,036	-
177,995	-	177,995	-
261,402	-	261,402	-
-	20,901	20,901	-
327,288	-	327,288	-
212,189	-	212,189	-
37,872	-	37,872	-
6,343	-	6,343	-
6,540	-	6,540	10,951
500,000	-	500,000	-
1,076,994	-	1,076,994	-
16,736	2,167	18,903	7,405
3,974,777	23,068	3,997,845	18,356
(344,499)	(407,313)	(751,812)	(361,942)
820,147	1,131,509	1,951,656	1,600,793
\$ 475,648	724,196	1,199,844	1,238,851
\$ 9,430	-	9,430	-
464,959	-	464,959	-
(544,803)	175,996	(368,807)	512,095
210,445	-	210,445	-
335,617	548,200	883,817	726,756
\$ 475,648	724,196	1,199,844	1,238,851

City of Osceola

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

As of and for the year ended June 30, 2004

	Special Revenue				
	General	Downtown	Hornel District	Midwest	Little League
		TIF Project		Home Construction	
Receipts:					
Property tax	\$ 1,075,382	-	-	-	-
Tax increment financing collections	-	55,392	-	-	-
Other city tax	239,297	-	-	-	-
Licenses and permits	10,748	-	-	-	-
Use of money and property	1,081,314	-	-	-	2,220
Intergovernmental	49,793	-	-	-	-
Charges for service	412,591	-	-	-	-
Miscellaneous	14,391	-	-	-	226,599
Total receipts	2,883,516	55,392	-	-	228,819
Disbursements:					
Operating:					
Public safety	654,060	-	-	-	-
Public works	439,972	-	-	-	-
Culture and recreation	528,682	-	-	-	-
Community and economic development	-	-	-	374,608	-
General government	262,199	-	-	-	-
Debt service	-	-	10,713	-	-
Capital projects	-	-	-	-	-
Total disbursements	1,884,913	-	10,713	374,608	-
Excess (deficiency) of receipts over (under) disbursements	998,603	55,392	(10,713)	(374,608)	228,819
Other financing sources (uses):					
Note proceeds	-	-	-	500,000	-
Operating transfers in	-	-	-	-	-
Operating transfers out	(219,500)	-	-	-	-
Total other financing sources (uses)	(219,500)	-	-	500,000	-
Net change in cash balances	779,103	55,392	(10,713)	125,392	228,819
Cash balances beginning of year	849,657	59,268	313,260	-	-
Cash balances end of year	\$ 1,628,760	114,660	302,547	125,392	228,819
Cash Basis Fund Balances					
Reserved:					
Debt service	\$ -	-	-	-	-
Unreserved:					
General fund	1,628,760	-	-	-	-
Special revenue funds	-	114,660	302,547	125,392	228,819
Capital projects funds	-	-	-	-	-
Permanent fund	-	-	-	-	-
Total cash basis fund balances	\$ 1,628,760	114,660	302,547	125,392	228,819

See notes to financial statements.

Debt Service	Capital Projects		Permanent	Other	
General	Industrial	Burlington	Cemetery	Nonmajor	
Obligation	Park	Northern	Perpetual	Governmental	
Bonds/Notes	Sewer	Building	Care	Funds	Total
261,402	-	-	-	177,995	1,514,779
-	-	-	-	220,644	276,036
6,267	-	-	-	331,785	577,349
-	-	-	-	-	10,748
-	-	-	-	-	1,083,534
-	-	-	-	458,775	508,568
-	-	-	-	-	412,591
-	-	-	-	13,125	254,115
267,669	-	-	-	1,202,324	4,637,720
-	-	-	-	142,586	796,646
-	-	-	-	630,247	1,070,219
-	-	-	-	56,415	585,097
-	-	-	-	-	374,608
-	-	-	-	436,600	698,799
821,526	-	-	-	-	832,239
-	550,007	-	-	574,604	1,124,611
821,526	550,007	-	-	1,840,452	5,482,219
(553,857)	(550,007)	-	-	(638,128)	(844,499)
-	-	-	-	-	500,000
-	-	-	-	219,500	219,500
-	-	-	-	-	(219,500)
-	-	-	-	219,500	500,000
(553,857)	(550,007)	-	-	(418,628)	(344,499)
9,054	(37,200)	98,250	77,660	(549,802)	820,147
(544,803)	(587,207)	98,250	77,660	(968,430)	475,648
(544,803)	-	-	-	-	(544,803)
-	-	-	-	-	1,628,760
-	-	-	-	(164,244)	607,174
-	(587,207)	98,250	-	(804,186)	(1,293,143)
-	-	-	77,660	-	77,660
(544,803)	(587,207)	98,250	77,660	(968,430)	475,648

City of Osceola

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

As of and for the year ended June 30, 2004

	<u>Enterprise</u>
	<u>Sewer</u>
Operating receipts:	
Use of money and property	\$ 1,175
Charges for service	892,433
Special assessments	20,901
Miscellaneous	2,167
Total operating receipts	<u>916,676</u>
Operating disbursements:	
Business type activities	<u>990,479</u>
Excess (deficiency) of operating receipts (over) under operating disbursements	<u>(73,803)</u>
Non-operating receipts (disbursements):	
Debt service	<u>(333,510)</u>
Excess (deficiency) of receipts over (under) disbursements	<u>(407,313)</u>
Other financing sources (uses):	
Operating transfers in	219,660
Operating transfers out	<u>(219,660)</u>
Total other financing sources (uses)	<u>-</u>
Net change in cash balances	(407,313)
Cash balances beginning of year	<u>1,131,509</u>
Cash balances end of year	<u>\$ 724,196</u>
Cash Basis Fund Balances	
Reserved for maintenance/replacement	\$ 175,996
Unreserved	<u>548,200</u>
Total cash basis fund balances	<u>\$ 724,196</u>

See notes to financial statements.

City of Osceola

City of Osceola

Notes to Financial Statements

June 30, 2004

(1) Summary of Significant Accounting Policies

The City of Osceola is a political subdivision of the State of Iowa located in Clarke County. It was first incorporated in 1866 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, culture and recreation, community and economic development, and general government services. The City also provides water and sewer utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Osceola 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 Osceola (the primary government) and its component unit. The component unit discussed below is included in the City's reporting entity because of the significance of its operational or financial relationship with the City.

Discretely Presented Component Unit

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

Jointly Governed Organizations

The City participates in a few 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: Emergency Management Commission, Clarke County Development Commission, and the Main Street Board.

City officials are also members of the Clarke County Sanitary Landfill Commission (see Note 10) and the Clarke County Reservoir Commission (see Note 18).

B. Basis of Presentation

Government-wide Financial Statements - 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 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 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 that are not paid from other funds.

Special Revenue:

The Little League Fund is used to account for the costs associated with the recreation complex near the aquatic center and includes the new ball fields, soccer fields and walking/biking pathway.

The Downtown Tax Increment Financing Project Fund is used to account for urban renewal projects financed by tax increment financing.

The Hormel District Fund was established to account for costs associated with the needed improvements under a Tax Increment Financing (TIF) agreement relating to Osceola Foods, Inc.

The Midwest Home Construction Fund was established to account for a Tax Increment Financing (TIF) agreement relating to water, sewer and street improvements for the "Meadows Subdivision".

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

Capital Projects:

The Industrial Park Sewer Fund was established to account for the costs and borrowings for the installation of a sanitary sewer to replace an existing sewer line in accordance with an administrative consent order with the Iowa Department of Natural Resources.

The Burlington Northern Building Fund was established to account for the costs and grants revenue associated with the acquisition and renovation of the train depot and related properties.

The Permanent Fund, Cemetery Perpetual Care is used to account for the funds required to be set aside from the sale of cemetery plots to be used for future maintenance.

The City reports the following major proprietary fund:

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

The City of Osceola 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 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, 2004, disbursements exceeded the amounts budgeted in the public works,

community and economic development, 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 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.

The City's investments are categorized to give an indication of the level of risk assumed by the City at year end. The City's investments are all category 1, which means the investments are insured or registered or the securities are held by the City or its agent in the City's name.

(3) Bonds and Notes Payable

Annual debt service requirements to maturity for general obligation bonds, urban renewal tax increment financing revenue bonds, general obligation notes, revenue bonds, and other long-term debt are as follows:

Year Ending June 30,	General Obligation Bonds		General Obligation Notes		Special Obligation Loan Agreement Anticipation Project Note	
	Principal	Interest	Principal	Interest	Principal	Interest
2005	\$ 195,000	45,125	103,696	96,563	-	2,916
2006	205,000	36,215	109,672	90,585	97,200	2,916
2007	215,000	26,777	166,039	102,586	-	-
2008	225,000	16,808	155,219	94,962	-	-
2009	140,000	6,300	161,257	87,769	-	-
2010	-	-	129,484	80,138	-	-
2011	-	-	133,916	73,781	-	-
2012	-	-	138,612	67,022	-	-
2013	-	-	148,587	59,847	-	-
2014	-	-	153,858	52,117	-	-
2015	-	-	164,442	44,012	-	-
2016	-	-	105,359	35,300	-	-
2017	-	-	111,628	29,031	-	-
2018	-	-	118,270	22,389	-	-
2019	-	-	125,307	15,352	-	-
2020	-	-	132,001	7,897	-	-
	<u>\$ 980,000</u>	<u>131,225</u>	<u>2,157,347</u>	<u>959,351</u>	<u>97,200</u>	<u>5,832</u>

Year Ending June 30,	Tax Increment Financing (TIF) Bonds		Revenue Bonds		Other Long-term Debt	
	Principal	Interest	Principal	Interest	Principal	Interest
	2005	\$ 20,127	4,490	218,000	139,009	16,423
2006	14,929	2,729	226,000	130,880	9,804	909
2007	16,264	1,423	235,000	122,442	10,099	615
2008	-	-	244,000	113,666	10,402	312
2009	-	-	253,000	104,538	-	-
2010	-	-	263,000	95,057	-	-
2011	-	-	272,000	85,194	-	-
2012	-	-	282,000	74,979	-	-
2013	-	-	293,000	64,382	-	-
2014	-	-	304,000	53,359	-	-
2015	-	-	138,000	41,910	-	-
2016	-	-	142,000	37,770	-	-
2017	-	-	120,852	33,510	-	-
2018	-	-	-	-	-	-
2019	-	-	-	-	-	-
2020	-	-	-	-	-	-
	<u>\$ 51,320</u>	<u>8,642</u>	<u>2,990,852</u>	<u>1,096,696</u>	<u>46,728</u>	<u>3,402</u>

Component Unit – Annual debt service requirements to maturity for the water revenue bonds are as follows:

Year Ending June 30,	Primary Government Total		Component Unit Revenue Bonds	
	Principal	Interest	Principal	Interest
	2005	\$ 553,246	289,669	191,000
2006	662,605	264,234	196,000	116,560
2007	642,402	253,843	205,000	109,980
2008	634,621	225,748	170,000	102,990
2009	554,257	198,607	175,000	97,890
2010	392,484	175,195	181,000	92,640
2011	405,916	158,975	186,000	87,210
2012	420,612	142,001	192,000	81,630
2013	441,587	124,229	197,000	75,870
2014	457,858	105,476	203,000	69,960
2015	302,442	85,922	210,000	63,870
2016	247,359	73,070	216,000	57,570
2017	232,480	62,541	222,000	51,090
2018	118,270	22,389	229,000	44,430
2019	125,307	15,352	236,000	37,560
2020	132,001	7,897	217,914	30,480
	<u>\$ 6,323,447</u>	<u>2,205,148</u>	<u>3,226,914</u>	<u>1,242,685</u>

The resolutions providing for the issuance of the water and sewer revenue bonds include the following provisions:

- a) The bonds will only be redeemed from the future earnings of the enterprise activity and the bond holders hold a lien on the future earnings of the fund.
- b) Sufficient monthly transfers shall be made to separate sinking accounts for the purpose of making the bond principal and interest payments when due.
- c) Additional monthly transfers shall be made to a sewer revenue bond reserve account, after first making the required payments to the sewer sinking account, until a specific minimum balance has been accumulated. The reserve account shall be used solely for the purpose of paying the principal and interest on the sewer revenue bonds outstanding, whenever the funds in the sinking account are insufficient to pay such principal and interest when due.

In May 2002 the Osceola Municipal Waterworks entered into a loan and disbursement agreement to borrow \$4,066,000 under the Iowa Drinking Water Facilities Financing Program. At June 30, 2004, \$3,116,914 is the outstanding balance under the agreement. Amounts borrowed are converted to a water revenue bond when the loan is closed and are payable solely from the future net revenues of the Waterworks.

In October 2003 the City entered into a loan disbursement agreement to borrow \$2,670,000 under the Clean Water State Revolving Fund for wastewater treatment improvements. Amounts are advanced on the loan as construction costs incurred are submitted for reimbursement. As of June 30, 2004, \$1,574,852 is the outstanding balance under the loan agreement. Amounts borrowed are converted to a sewer revenue bond when the loan is closed and are payable solely from the future net revenues of the sewer utility.

The urban renewal tax increment financing revenue bonds were issued for the purpose of defraying a portion of the costs of carrying out an urban renewal project of the City. The bonds are payable solely from the income and proceeds of the Special Revenue, Urban Renewal Tax Increment Fund and the taxes to be paid into the fund in accordance with Chapter 403.19 of the Code of Iowa. The proceeds of the urban renewal tax increment financing revenue bonds shall be expended only for purposes which are consistent with the plans of the City's urban renewal area. The bonds are not a general obligation of the City. However, the debt is subject to the constitutional debt limitation of the City.

(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.

Plan members are required to contribute 3.70% of their annual covered 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 firefighters, the percentages are 9.35% and 17%, 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 contributions to IPERS for the years ended June 30, 2004, 2003 and 2002 were \$83,439, \$80,838 and \$77,154, respectively, equal to the required contributions for each year.

(5) Compensated Absences

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

Type of Benefit	Amount
Vacation	\$ 89,300
Compensatory and personal time	19,600
Sick leave	10,000
Total	<u>\$ 118,900</u>

This liability has been computed based on rates of pay in effect at June 30, 2004.

(6) Interfund Transfers

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

Transfer to	Transfer from	Amount
Capital Projects:		
Clay Street Paving	General	\$ 219,500
Enterprise:		
Sewer Sinking	Sewer Utility	150,000
Sewer Sinking	Sewer Reserve	69,660
		<u>\$ 439,160</u>

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

(7) Budget Overexpenditure

Per the Code of Iowa, disbursements may not legally exceed budgeted appropriations at the functional level. During the year ended June 30, 2004, disbursements in the Public Works, Community and Economic Development, Debt Service, Capital Projects, and Business Type Activities functions exceeded the amounts budgeted.

(8) Related Party Transactions

No related party transactions were noted.

(9) Risk Management

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

(10) Clarke County Sanitary Landfill Commission

The City, in conjunction with three other municipalities, has created the Clarke County Sanitary Landfill Commission. The Commission was established for the primary purpose of providing for the collection and disposal of solid waste produced or generated by each participant. The Commission is governed by a board composed of an appointed representative of the governing body of each participating governmental jurisdiction.

The Commission may not be accumulating sufficient financial resources and the municipalities may be obligated for a proportionate share of the debt, closure and post closure costs, therefore, the City has an ongoing financial obligation.

(11) Lease

The City and Municipal Waterworks have entered into a five year lease agreement with Southern Iowa Gaming Co. for the lease of certain real estate surrounding West Lake and the use of the lake in the operation of an excursion gambling boat.

The Gaming Co. must pay the City and Waterworks \$150,000 per year in equal monthly installments, which will increase each year by 1% until termination of the lease. In addition, 1.25% of the adjusted gross gambling receipts will be remitted to the City on a monthly basis. The amounts received under this agreement during the year ended June 30, 2004 were \$1,010,727 for the 1.25% of adjusted gross gambling receipts and \$156,351 for the real estate rent.

The City also leases hangars at the airport for a fee ranging from \$45 - \$100 per month per leased hangar. During the year ended June 30, 2004, the City received \$8,137 in hangar rent.

(12) Forgivable Loan

The City has entered into a five year \$100,000 forgivable loan with the State of Iowa, Department of Economic Development (IDED) and Interstate Nuclear Services. The loan bears interest at 9% per annum. Repayment of the loan is not required if conditions of the agreement are complied with.

The City's liability for the repayment of this note to the IDED is limited to those amounts the City collects through its good faith enforcement of the security interest which secures its loan to Interstate Nuclear Services.

(13) R.I.S.E. Grant/Loan

The City was awarded a Revitalize Iowa's Sound Economy (R.I.S.E.) Grant on November 1, 1996 in the amount of \$309,000. The money was used for paving and traffic signals at a new intersection. The loan was approximately 24% of the total, or

\$75,205. It is payable in annual installments of \$10,713, including interest at 3% per annum, from January 2001 thru 2008.

(14) Workers' Compensation

The City is a member of the Iowa Municipalities Workers' Compensation Association (IMWCA) which provides workers' compensation coverage to its members. The Association is governed by a board of directors elected by representatives of the governing bodies of each participating governmental jurisdiction. The City has executed a Worker's Compensation coverage Agreement with the Association which extends through June 30, 2004 and has authorized the Association to issue general obligation bonds to provide funds with which to pay claims. The annual premium for the fiscal year ended June 30, 2004 was \$40,718.

(15) Deficit Fund Balances

The City had deficit balances in the following funds at June 30, 2004:

Special Revenue Funds:	
Employee Benefits	\$ 96,034
North Elem TIF Project	98,915
Debt Service Fund:	
General Obligation Bonds/Notes	544,803
Capital Projects Funds:	
2004 Housing Rehabilitation	2,850
2001 Paving Project	10,135
Highway 69 Sewer	187,343
Clay Street Paving	159,172
Clarke County Reservoir	18,305
Recreation Complex	288,266
Industrial Park Sewer	587,207
Downtown Traffic Signals	81,774
Housing and Land Acquisition	56,341

The deficits will be eliminated upon receipt of funds or transfers in the next fiscal year.

(16) Construction Commitments

The City has entered into various construction contracts totaling approximately \$6,690,300. The unpaid contract balances as of June 30, 2004 totaled approximately \$366,500 which will be paid as work on the projects progresses.

(17) Accounting Change and Restatements

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, 2004. 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.

(18) Clarke County Reservoir Commission

The City and the Osceola Waterworks Board, along with four other entities, have created the Clarke County Reservoir Commission. The Commission was established for the primary purpose of designing, locating, and planning for a new reservoir and regional recreational facility in Clarke County. The governing body of the Commission shall consist of a representative of the governing body of each participating sponsor, or designated substitute, which substitute shall be approved by the body represented, and one person jointly selected by the representatives of the governing bodies.

The Commission may not be accumulating sufficient financial resources and the members may be obligated for a proportionate share of the ongoing financial responsibilities.

Required Supplementary Information

City of Osceola
 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	Major Component		Budgeted Amounts	Budget to Net Variance
			Unit Included in the Budget	Net		
Receipts:						
Property tax	\$ 1,514,779	-	-	1,514,779	1,523,391	(8,612)
Tax increment financing collections	276,036	-	-	276,036	271,492	4,544
Other city tax	577,349	-	-	577,349	640,760	(63,411)
Licenses and permits	10,748	-	-	10,748	6,925	3,823
Use of money and property	1,083,534	1,175	167,302	1,252,011	32,600	1,219,411
Intergovernmental	508,568	-	102,092	610,660	1,390,769	(780,109)
Charges for service	412,591	892,433	1,159,433	2,464,457	2,617,613	(153,156)
Special assessments	-	20,901	-	20,901	-	20,901
Miscellaneous	254,115	2,167	7,405	263,687	1,097,030	(833,343)
Total receipts	<u>4,637,720</u>	<u>916,676</u>	<u>1,436,232</u>	<u>6,990,628</u>	<u>7,580,580</u>	<u>(589,952)</u>
Disbursements:						
Public safety	796,646	-	-	796,646	799,419	2,773
Public works	1,070,219	-	-	1,070,219	924,371	(145,848)
Culture and recreation	585,097	-	-	585,097	623,936	38,839
Community and economic development	374,608	-	-	374,608	100	(374,508)
General government	698,799	-	-	698,799	747,978	49,179
Debt service	832,239	-	-	832,239	272,699	(559,540)
Capital projects	1,124,611	-	-	1,124,611	621,492	(503,119)
Business type activities	-	1,323,989	1,798,174	3,122,163	2,811,719	(310,444)
Total disbursements	<u>5,482,219</u>	<u>1,323,989</u>	<u>1,798,174</u>	<u>8,604,382</u>	<u>6,801,714</u>	<u>(1,802,668)</u>
Excess (deficiency) of receipts over (under) disbursements	(844,499)	(407,313)	(361,942)	(1,613,754)	778,866	(2,392,620)
Other financing sources, net	500,000	-	-	500,000	-	500,000
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(344,499)	(407,313)	(361,942)	(1,113,754)	778,866	(1,892,620)
Balances beginning of year	820,147	1,131,509	1,600,793	3,552,449	3,571,348	(18,899)
Balances end of year	<u>\$ 475,648</u>	<u>724,196</u>	<u>1,238,851</u>	<u>2,438,695</u>	<u>4,350,214</u>	<u>(1,911,519)</u>

See accompanying independent auditors' report.

City of Osceola

Notes to Required Supplementary Information – Budgetary Reporting

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. 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 activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, there were no budget amendments.

During the year ended June 30, 2004, disbursements exceeded the amounts budgeted in the public works, community and economic development, debt service, capital projects and business type activities functions.

Other Supplementary Information

City of Osceola

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				
	Employee Benefits	Urban Renewal Tax Increment	Road Use Tax	Local Option Sales Tax	Motel TIF
Receipts:					
Property tax	\$ 177,995	-	-	-	-
Tax increment financing collections	-	17,043	-	-	79,248
Other city tax	4,497	-	-	327,288	-
Intergovernmental	-	-	388,037	-	-
Miscellaneous	-	-	3,034	-	-
Total receipts	182,492	17,043	391,071	327,288	79,248
Disbursements:					
Operating:					
Public safety	142,586	-	-	-	-
Public works	-	-	434,829	-	79,248
Culture and recreation	56,415	-	-	-	-
General government	109,312	-	-	327,288	-
Capital projects	-	-	-	-	-
Total disbursements	308,313	-	434,829	327,288	79,248
Excess (deficiency) of receipts over (under) disbursements	(125,821)	17,043	(43,758)	-	-
Other financing sources:					
Operating transfers in	-	-	-	-	-
Net change in cash balances	(125,821)	17,043	(43,758)	-	-
Cash balances beginning of year	29,787	1,472	53,188	-	-
Cash balances end of year	\$ (96,034)	18,515	9,430	-	-
Cash Basis Fund Balances					
Unreserved:					
Special revenue funds	\$ (96,034)	18,515	9,430	-	-
Capital projects funds	-	-	-	-	-
Total cash basis fund balances	\$ (96,034)	18,515	9,430	-	-

See accompanying independent auditors' report.

Special Revenue			Capital Projects				
Community Builders TIF	Car Wash TIF	North Elem TIF Project	2004 Housing Rehabilitation	2001 Paving Project	Highway 69 Sewer	Clay Street Paving	Clarke County Reservoir
-	-	-	-	-	-	-	-
112,387	5,520	6,446	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
112,387	5,520	6,446	-	-	-	-	-
-	-	-	-	-	-	-	-
113,410	2,760	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	2,850	-	-	378,712	18,305
113,410	2,760	-	2,850	-	-	378,712	18,305
(1,023)	2,760	6,446	(2,850)	-	-	(378,712)	(18,305)
-	-	-	-	-	-	219,500	-
(1,023)	2,760	6,446	(2,850)	-	-	(159,212)	(18,305)
1,023	-	(105,361)	-	(10,135)	(187,343)	40	-
-	2,760	(98,915)	(2,850)	(10,135)	(187,343)	(159,172)	(18,305)
-	2,760	(98,915)	-	-	-	-	-
-	-	-	(2,850)	(10,135)	(187,343)	(159,172)	(18,305)
-	2,760	(98,915)	(2,850)	(10,135)	(187,343)	(159,172)	(18,305)

City of Osceola

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

As of and for the year ended June 30, 2004

	Capital Projects			Total
	Recreation Complex	Downtown Traffic Signals	Housing and Land Acquisition	
Receipts:				
Property tax	\$ -	-	-	177,995
Tax increment financing collections	-	-	-	220,644
Other city tax	-	-	-	331,785
Intergovernmental	-	70,738	-	458,775
Miscellaneous	-	-	10,091	13,125
Total receipts	-	70,738	10,091	1,202,324
Disbursements:				
Operating:				
Public safety	-	-	-	142,586
Public works	-	-	-	630,247
Culture and recreation	-	-	-	56,415
General government	-	-	-	436,600
Capital projects	86,483	64,683	23,571	574,604
Total disbursements	86,483	64,683	23,571	1,840,452
Excess (deficiency) of receipts over (under) disbursements	(86,483)	6,055	(13,480)	(638,128)
Other financing sources:				
Operating transfers in	-	-	-	219,500
Net change in cash balances	(86,483)	6,055	(13,480)	(418,628)
Cash balances beginning of year	(201,783)	(87,829)	(42,861)	(549,802)
Cash balances end of year	\$ (288,266)	(81,774)	(56,341)	(968,430)
Cash Basis Fund Balances				
Unreserved:				
Special revenue funds	\$ -	-	-	(164,244)
Capital projects funds	(288,266)	(81,774)	(56,341)	(804,186)
Total cash basis fund balances	\$ (288,266)	(81,774)	(56,341)	(968,430)

See accompanying independent auditors' report

City of Osceola
Schedule of Indebtedness
Year ended June 30, 2004

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
<u>Primary Government</u>			
General obligation bonds:			
General corporate purpose	Jun 1, 1993	4.875-5.50%	\$ 925,000
General corporate purpose	Aug 1, 1998	4.00-4.5%	1,235,000
General obligation notes:			
Economic Development Note	Sep 3, 1997	8.00%	100,000
Fire truck	Dec 10, 1999	4.49%	280,000
Aquatic Facility, Series A	Feb 15, 2001	5.95%	1,150,000
Aquatic Facility, Series B	Feb 15, 2001	5.95%	400,000
General Corporate Purpose	Sep 12, 2003	2.50-4.30%	500,000
Special Obligation Loan Agreement			
Anticipation (Project) Note:			
Clarke County Recreation Complex	Dec 3, 2002	3.00%	290,000
Urban Renewal Tax Increment			
Financing (TIF) Revenue Bonds	Jul 18, 1995	8.75%	114,000
	Nov 6, 1996	8.75%	900,000
Revenue bonds:			
State Revolving Fund (SRF) Loan	May 2, 1994	4.37%	1,880,000
State Revolving Fund (SRF) Loan	Oct 27, 2003	3.00%	2,670,000
Other Long-term Debt:			
RISE Loan	Nov 1, 1996	3.00%	75,205
Fire Equipment	Jul 28, 1998	0.00%	30,000
Truck	Nov 16, 2000	5.36%	26,067
Total City of Osceola			
<u>Component Unit</u>			
Revenue Bonds:			
Water	Nov 1, 1996	4.25-5.10%	485,000
Water	May 14, 2002	3.00%	4,066,000

See accompanying independent auditors' report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
\$ 400,000	-	70,000	330,000	20,000
765,000	-	115,000	650,000	33,513
<u>1,165,000</u>	<u>-</u>	<u>185,000</u>	<u>980,000</u>	<u>53,513</u>
57,810	-	12,790	45,020	4,374
219,216	-	32,537	186,679	9,897
1,097,259	-	39,672	1,057,587	65,287
381,653	-	13,592	368,061	22,708
-	500,000	-	500,000	13,193
<u>1,755,938</u>	<u>500,000</u>	<u>98,591</u>	<u>2,157,347</u>	<u>115,459</u>
97,200	-	-	97,200	2,780
57,474	-	6,154	51,320	2,515
350,000	-	350,000	-	23,187
<u>407,474</u>	<u>-</u>	<u>356,154</u>	<u>51,320</u>	<u>25,702</u>
1,527,000	7,700	111,000	1,416,000	66,730
1,666,152	-	99,000	1,574,852	50,122
<u>3,193,152</u>	<u>7,700</u>	<u>210,000</u>	<u>2,990,852</u>	<u>116,852</u>
49,065	-	9,241	39,824	1,472
6,000	-	6,000	-	-
13,457	-	6,553	6,904	721
68,522	-	21,794	46,728	2,193
<u>\$ 6,687,286</u>	<u>507,700</u>	<u>871,539</u>	<u>6,323,447</u>	<u>316,499</u>
140,000	-	30,000	110,000	6,945
3,267,914	-	151,000	3,116,914	98,037
<u>\$ 3,407,914</u>	<u>-</u>	<u>181,000</u>	<u>3,226,914</u>	<u>104,982</u>

City of Osceola
Bond and Note Maturities
June 30, 2004

General Obligation Notes									
Year Ending June 30,	Economic Development		Fire Truck		Aquatic Facility		General Corporate Purpose		Total
	Issued Sept 3, 1997		Issued Dec 10, 1999		Issued Feb 15, 2001		Issued Sept 12, 2003		
	Interest Rate	Amount	Interest Rate	Amount	Interest Rate	Amount	Interest Rate	Amount	
2005	8.00%	\$ 13,838	4.49%	\$ 34,067	5.95%	\$ 55,791		\$	\$ 103,696
2006	8.00%	14,965	4.49%	35,597	5.95%	59,110			109,672
2007	8.00%	16,217	4.49%	37,195	5.95%	62,627	2.50%	50,000	166,039
2008			4.49%	38,865	5.95%	66,354	3.00%	50,000	155,219
2009			4.49%	40,955	5.95%	70,302	3.25%	50,000	161,257
2010					5.95%	74,484	3.50%	55,000	129,484
2011					5.95%	78,916	3.75%	55,000	133,916
2012					5.95%	83,612	4.00%	55,000	138,612
2013					5.95%	88,587	4.10%	60,000	148,587
2014					5.95%	93,858	4.20%	60,000	153,858
2015					5.95%	99,442	4.30%	65,000	164,442
2016					5.95%	105,359			105,359
2017					5.95%	111,628			111,628
2018					5.95%	118,270			118,270
2019					5.95%	125,307			125,307
2020					5.95%	132,001			132,001
		<u>\$ 45,020</u>		<u>\$ 186,679</u>		<u>\$ 1,425,648</u>		<u>\$ 500,000</u>	<u>\$ 2,157,347</u>

Urban Renewal Tax Increment Financing (TIF) Revenue Bonds			Other Long-term Debt				
Year Ending June 30,	Issued Jul 18, 1995		RISE Loan		Truck		Total
	Interest Rate	Amount	Interest Rates	Amount	Interest Rates	Amount	
2005	8.75%	\$ 20,127	3.00%	\$ 9,520	5.36%	\$ 6,904	\$ 16,424
2006	8.75%	14,929	3.00%	9,804			9,804
2007	8.75%	16,264	3.00%	10,099			10,099
2008		-	3.00%	10,401			10,401
2009		-					
Total		<u>\$ 51,320</u>		<u>\$ 39,824</u>		<u>\$ 6,904</u>	<u>\$ 46,728</u>

See accompanying independent auditors' report.

City of Osceola
Bond and Note Maturities
June 30, 2004

Revenue Bonds					
Year	Sewer Revenue Bond		Sewer Revenue Bond		Total
	Issued May 2, 1994		Issued Oct 27, 2003		
Ending June 30,	Interest Rates	Amount	Interest Rates	Amount	
2005	4.37%	\$ 116,000	3.00%	\$ 102,000	\$ 218,000
2006	4.37%	121,000	3.00%	105,000	226,000
2007	4.37%	126,000	3.00%	109,000	235,000
2008	4.37%	132,000	3.00%	112,000	244,000
2009	4.37%	138,000	3.00%	115,000	253,000
2010	4.37%	144,000	3.00%	119,000	263,000
2011	4.37%	150,000	3.00%	122,000	272,000
2012	4.37%	156,000	3.00%	126,000	282,000
2013	4.37%	163,000	3.00%	130,000	293,000
2014	4.37%	170,000	3.00%	134,000	304,000
2015		-	3.00%	138,000	138,000
2016		-	3.00%	142,000	142,000
2017		-	3.00%	120,852	120,852
Total		<u>\$ 1,416,000</u>		<u>\$ 1,574,852</u>	<u>\$ 2,990,852</u>

Revenue Bonds - Component Unit					
Year	Water		Water		Total
	Issued Nov 1, 1996		Issued May 14, 2002		
Ending June 30,	Interest Rates	Amount	Interest Rates	Amount	
2005	4.90%	\$ 35,000	3.00%	\$ 156,000	\$ 191,000
2006	5.00%	35,000	3.00%	161,000	196,000
2007	5.10%	40,000	3.00%	165,000	205,000
2008		-	3.00%	170,000	170,000
2009		-	3.00%	175,000	175,000
2010		-	3.00%	181,000	181,000
2011		-	3.00%	186,000	186,000
2012		-	3.00%	192,000	192,000
2013		-	3.00%	197,000	197,000
2014		-	3.00%	203,000	203,000
2015		-	3.00%	210,000	210,000
2016		-	3.00%	216,000	216,000
2017		-	3.00%	222,000	222,000
2018		-	3.00%	229,000	229,000
2019		-	3.00%	236,000	236,000
2020		-	3.00%	217,914	217,914
Total		<u>\$ 110,000</u>		<u>\$ 3,116,914</u>	<u>\$ 3,226,914</u>

See accompanying independent auditors' report.

City of Osceola
Bond and Note Maturities
June 30, 2004

General Obligation Bonds					
General Corporate Purpose					
Year Ending June 30,	Issued June 1, 1993		Issued Aug 1, 1998		Total
	Interest Rates	Amount	Interest Rates	Amount	
2005	5.30%	\$ 75,000	4.30%	\$ 120,000	\$ 195,000
2006	5.30%	80,000	4.35%	125,000	205,000
2007	5.40%	85,000	4.40%	130,000	215,000
2008	5.50%	90,000	4.45%	135,000	225,000
2009		-	4.50%	140,000	140,000
Total		<u>\$ 330,000</u>		<u>\$ 650,000</u>	<u>\$ 980,000</u>

Special Obligation Loan Agreement Anticipation (Project) Note Clarke County Recreation Complex Issued Dec 3, 2002		
Year Ending June 30,	Interest Rate	Amount
2005	3.00%	\$ -
2006	3.00%	97,200
		<u>\$ 97,200</u>

See accompanying independent auditors' report.

City of Osceola

Schedule of Receipts By Source and Disbursements By Function -
All Governmental Funds

June 30, 2004

Receipts:

Property tax	\$ 1,514,779
Tax increment financing collections	276,036
Other city tax	577,349
Licenses and permits	10,748
Use of money and property	1,083,534
Intergovernmental	508,568
Charges for service	412,591
Miscellaneous	254,115
	<hr/>
Total	\$ 4,637,720
	<hr/> <hr/>

Disbursements:

Operating:	
Public safety	\$ 796,646
Public works	1,070,219
Culture and recreation	585,097
Community and economic development	374,608
General government	698,799
Debt service	832,239
Capital projects	1,124,611
	<hr/>
Total	\$ 5,482,219
	<hr/> <hr/>

See accompanying independent auditors' report.

City of Osceola
 Schedule of Expenditures of Federal Awards
 Year ended June 30, 2004

Grantor/Program	CFDA Number	Agency Pass-through Number	Program Expenditures
Indirect:			
U.S. Environmental Program Agency:			
Iowa Department of Natural Resources:			
Clean Water State Revolving Fund	66.458	CS192219 01	\$ 533,955
Clean Water State Revolving Fund	66.458		1,014,937
			<u>\$ 1,548,892</u>
U.S. Department of Transportation:			
Seatbelt Enforcement Grant	20.604	PAP-04-157	<u>\$ 352</u>
U.S. Department of Justice:			
Community Oriented Policing Services (COPS) Grant	16.710	2002UMWX015D	<u>\$ 24,412</u>
U.S. Department of Housing and Urban Development:			
Iowa Department of Economic Development:			
Community Development Block Grant	14.228	01-WS-059-00	100,742
Community Development Block Grant	14.228	03-HSG-017	1,350
			<u>\$ 102,092</u>
Total			<u><u>\$ 1,675,748</u></u>

Basis of Presentation – The Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Osceola 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.

See accompanying independent auditors' report.

City of Osceola

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Independent Auditors' Report on Compliance and on Internal Control over Financial Reporting

To the Honorable Mayor and
Members of the City Council:

We have audited the financial statements of the City of Osceola, Iowa, as of and for the year ended June 30, 2004, and have issued our report thereon dated September 2, 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 Osceola's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance 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 Osceola's 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 Osceola'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 and II-C-04 are material weakness. Prior year reportable conditions have not been resolved.

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 Osceola and other parties to whom the City of Osceola 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 Osceola 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.

September 2, 2004
Ames, Iowa

Independent Auditors' Report on Compliance with Requirements
Applicable to Each Major Program and Internal Control over Compliance

City of Osceola

CLINE, DEVRIES & ALLEN, LLP

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Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance

To the Honorable Mayor and
Members of the City Council:

Compliance

We have audited the compliance of the City of Osceola, Iowa, with the types of compliance requirements described in 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. City of Osceola's major federal program is 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 program is the responsibility of the City of Osceola's management. Our responsibility is to express an opinion on the City of Osceola'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 Osceola's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Osceola's compliance with those requirements.

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

Internal Control Over Compliance

The management of the City of Osceola 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 Osceola'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 Osceola'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.

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 Osceola and other parties to whom the City of Osceola 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.

September 2, 2004
Ames, Iowa

City of Osceola

Schedule of Findings

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) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, including material weaknesses.
- (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 program 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 program was CFDA Number 66.458 – Clean Water State Revolving Fund.
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) The City of Osceola did not qualify as a low-risk auditee.

City of Osceola
Schedule of Findings
Year ended June 30, 2004

Part II: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

- 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. The cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal are all done by the same person.

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

Response – We will consider this.

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

- II-B-04 Delinquent Utility Accounts – The City does not have formal, written policies and procedures for handling delinquent utility accounts. Also, monthly utility billings are not being reconciled.

Recommendation – The City should establish written policies and procedures for dealing with utility customers with delinquent account balances. The City should also perform monthly billing reconciliations.

Response – We will do so.

Conclusion – Response accepted.

- II-C-04 Check Signatures – The City's policy is to require dual signatures on all checks written. The City currently has two individuals authorized to sign their checks. Signatures are printed by the City's computer system directly onto the check automatically. This defeats the purpose of requiring dual signatures because it only takes one individual to access the computer to print both signatures.

City of Osceola

Schedule of Findings

Year ended June 30, 2004

Recommendation – If the computer software cannot be modified to prohibit one individual from accessing both signatures with their password, the City should go back to manual signatures on checks to ensure two separate individuals are approving the checks prior to issuance.

Response – We will do so.

Conclusion – Response accepted.

- II-D-04 Financial Records – The City has a few bank accounts under their control that are not being reflected on the City's financial statements or on the Clerk's/Treasurer's report.

Recommendation – The City should include all City controlled money on their financial records in the future.

Response – We will do so.

Conclusion – Response accepted.

- II-E-04 Library Funds – The library does not appear to be making timely deposits on the receipt of revenues from the State of Iowa. They consistently deposit these revenues approximately two months after they receive them.

Recommendation – The City should implement a policy requiring regular, timely deposits for the Library.

Response – We will do so.

Conclusion – Response accepted.

City of Osceola
Schedule of Findings
Year ended June 30, 2004

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCE OF NON-COMPLIANCE:

None

REPORTABLE CONDITION:

CFDA Number 66.458: Clean Water State Revolving Fund
Federal Award Year: 2004
US Environmental Program Agency
Passed through the Iowa Department of Natural Resources

- 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 Osceola

Schedule of Findings

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 were exceeded during the year ended June 30, 2004 at one financial institution.

Recommendation – The City should monitor their balances to ensure the maximum amounts stated in the depository resolution are not exceeded.

Response – We will do so.

Conclusion – Response accepted.

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

Recommendation – The budget should have been amended in accordance with Chapter 384.18 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.

IV-E-04 Business Transactions – No business transactions between the City and City officials or employees were noted.

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 – The following instances of non-compliance were noted related to the City council minutes:

City of Osceola

Schedule of Findings

Year ended June 30, 2004

1. Minutes were not always signed in accordance with Chapter 380.7 of the Code of Iowa.
2. Minutes were not always published as required by Chapter 372.13(6) of the Code of Iowa
3. The Council went into closed session several times throughout the fiscal year without documenting the specific exemption under Chapter 21.5 of the Code of Iowa.
4. Annual gross salaries were not published as required by Chapter 372.13 of the Code of Iowa and Attorney General's opinion dated April 12, 1978.

Recommendation – The City should follow all applicable Code of Iowa chapters relating to council minutes and proper documentation.

Response – We will do so.

Conclusion – Response accepted.

- IV-H-04 Deposits and Investments – The City has a certificate of deposit whose interest rate is below the minimum interest rate as established by the State Rate Setting Committee. Also, interest earned on the debt issued during the fiscal year was not credited to the debt service fund or the capital project fund for which the debt was issued in accordance with Chapter 12C.9(2) of the Code of Iowa.

Recommendation – The City should contact the financial institution and collect the rest of the interest that is required to be paid to bring the certificate up to the minimum rate. The City should also make a transfer for the interest earned on the new debt that was not credited to the proper account.

Response – We will do so.

Conclusion – Response accepted.

- IV-I-04 Bonds and Notes – The following instances of non-compliance were noted in relation to the revenue bonds and notes:

1. Tax increment financing debt payments were made from the debt service fund rather than the TIF fund as required by Chapter 403.19(2) of the Code of Iowa.
2. Disbursements from the debt service fund were not limited to the purposes set forth in Chapter 384.4 of the Code of Iowa.

City of Osceola

Schedule of Findings

Year ended June 30, 2004

3. An interest payment on the 2003 general obligation note was paid out of a capital projects fund rather than the debt service fund as required by Chapter 384.4 of the Code of Iowa.
4. The City is not maintaining the minimum balance required in the sewer sinking fund per the resolution authorizing the issuance of the State Revolving Funds loans.
5. The City has over \$452,000 in the water sinking fund and \$60,000 in the water reserve fund at June 30, 2004. Per the resolution authorizing the issuance of the water revenue bonds, the sinking fund is to be depleted at the end of each fiscal year except for one-twelfth of the next principal payment and one-sixth of the next interest payment. There is no requirement for a water reserve fund but the City has chosen to maintain a balance of \$60,000 in that fund.

Recommendation – The City should use transfers to correct the payments that were made from the wrong funds and to bring the sewer sinking fund up to the required minimum balance and the water funds down to the maximum balance. In the future, the City should ensure that all Code of Iowa and bond/note resolution requirements are followed.

Response – We will do so.

Conclusion – Response accepted.

- IV-J-04 Outstanding Checks – Per Chapter 556.11 of the Code of Iowa, checks that are still outstanding after three years should be reported to the State Treasurer annually by November 1st. The City did not do this.

Recommendation – The City should comply with Chapter 556.11 of the Code of Iowa.

Response – We will do so.

Conclusion – Response accepted.

City of Osceola

Schedule of Findings

Year ended June 30, 2004

IV-K-04 Financial Condition – The City had the following deficit balances at June 30, 2004:

Special Revenue Funds:	
Employee Benefits	\$ 96,034
North Elem. TIF Project	98,915
Debt Service Fund:	
General Obligation Bonds/Notes	544,803
Capital Projects Funds:	
2004 Housing Rehabilitation	2,850
2001 Paving Project	10,135
Highway 69 Sewer	187,343
Clay Street Paving	159,172
Clarke Co. Reservoir	18,305
Recreation Complex	288,266
Industrial Park Sewer	587,207
Downtown Traffic Signals	81,774
Housing and Land Acquisition	56,341

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

Response – We will do so.

Conclusion – Response accepted.

IV-L-04 Construction Contracts – For public improvements (other than road, bridge and culvert projects) with a total cost to the City of \$25,000 or more, public hearing and bidding requirements must be followed in accordance with Chapters 384.95 and 384.103 of the Code of Iowa. The City did not follow these requirements for work done with one contractor relating to sewer replacement projects and the total spent was in excess of \$130,000.

Recommendation – The City should follow the public hearing and bidding requirements in accordance with Chapter 384 of the Code of Iowa.

Response – We will do so.

City of Osceola

Schedule of Findings

Year ended June 30, 2004

Conclusion – Response accepted.

- IV-M-04 Water Billing – The City's policy that established sewer billing rates states that there will be a minimum charge of \$2.82 (doesn't include the \$10 surcharge) which is the fee for 1,000 gallons of water usage. The billing software does not appear to be handling the minimum fee properly because customers that used less than 1,000 gallons of water in a month were charged less than the minimum sewer fee of \$2.82.

Recommendation – The City should contact their software provider to determine how to correct the rates so that the customers are being charged the amount stated in the sewer rate schedule.

Response – We will do so.

Conclusion – Response accepted.

- IV-N-04 Payroll – When the City paid out accrued vacation and comp time for employees who left employment with the City during the year, IPERS was withheld from the employees' paychecks. Termination payments paid at separation of employment from the City are not eligible "wages" for IPERS.

Recommendation – The City should contact the proper agency to determine how to correct this and in the future, IPERS should not be withheld from payments for unused vacation and comp time hours.

Response – We will do so.

Conclusion – Response accepted.

- IV-O-04 Form 1099's – The City did not properly prepare Form 1099's as required by the Internal Revenue Service

Recommendation – The City should prepare 1099's as required.

Response – We will do so.

Conclusion – Response accepted.