

CITY OF MILFORD
INDEPENDENT AUDITORS' REPORTS
PRIMARY GOVERNMENT
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION

JUNE 30, 2004

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CITY OF MILFORD
OFFICIALS

Before January 1, 2004

<u>NAME</u>	<u>TITLE</u>	<u>TERM EXPIRES</u>
Virgil Wahlman	Mayor	January 1, 2006
Lyn Johnson	Mayor Pro-Tem	January 1, 2004
Detlef Ball	Council Member	January 1, 2004
Lyn Johnson	Council Member	January 1, 2004
Michael Anderson	Council Member	January 1, 2006
Terresa Netsch	Council Member	January 1, 2006
Howard Kyle	Council Member	January 1, 2006
Bryan Read	City Administrator/Treasurer	Indefinite
David Stein, Sr.	Attorney	Indefinite

After January 1, 2004

Virgil Wahlman	Mayor	January 1, 2006
Terresa Netsch	Mayor Pro-Tem	January 1, 2006
Michael Anderson	Council Member	January 1, 2006
Terresa Netsch	Council Member	January 1, 2006
Howard Kyle	Council Member	January 1, 2006
Detlef Ball	Council Member	January 1, 2008
Rick Kilts	Council Member	January 1, 2008
Bryan Read	City Administrator/Treasurer	Indefinite
David Stein, Sr.	Attorney	Indefinite

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INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and
Members of the City Council
City of Milford
Milford, 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 Milford, 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 Milford'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 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 Milford, 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 - cash basis of the reporting entity of the City of Milford as of June 30, 2004, and the changes in its financial position - cash basis 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 Milford 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.

As described in Note 10, during the year ended June 30, 2004, the City of Milford adopted Governmental Accounting Standards Board Statement Number 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*; Statement Number 37, *Basic Financial Statements and Management's Discussion and Analysis - for State and Local Governments: Omnibus*; Statement Number 38, *Certain Financial Statements Note Disclosure*; and Statement Number 41, *Budgetary Comparison Schedule - Perspective Differences*.

In accordance with *Government Auditing Standards*, we have also issued a report dated August 19, 2004 on our consideration of The City of Milford'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.

Budgetary comparison information on pages 17 through 19 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, 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.

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 insight on that information that the Government Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements of the City's primary government. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements of the City's primary government for the three years ended June 30, 2003 (none of which are presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 4 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Wintner, Starn & Co., LLP

August 19, 2004

BASIC FINANCIAL STATEMENTS

CITY OF MILFORD
 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	\$ 570,181	\$ 26,540	\$ 79,298	
Public works	373,108	4,462	206,053	
Health and social services	1,000			
Culture and recreation	247,327	1,817	25,182	
Community and economic development	75,296	37,725		
General government	289,622			
Debt service	217,665			
Capital projects	<u>117,238</u>			
Total governmental activities	<u>1,891,437</u>	<u>70,544</u>	<u>310,533</u>	
Business-type activities:				
Sewer	75,765	80,337		
Solid waste	<u>200,095</u>	<u>205,621</u>		
Total business-type activities	<u>275,860</u>	<u>285,958</u>		
TOTAL	<u>\$2,167,297</u>	<u>\$ 356,502</u>	<u>\$ 310,533</u>	<u>\$</u>
General Receipts:				
Property taxes levied for:				
General purposes				
Tax increment financing				
Debt service				
Local option sales tax				
Grants and contributions not restricted to specific purpose				
Unrestricted investment earnings				
Miscellaneous				
Total general receipts				
Change in cash balance				
Cash balance - beginning of year				
Cash balance - end of year				
Cash basis net assets				
Restricted:				
TIF supported projects				
Debt service				
Other purposes				
Unrestricted				
Total cash basis net assets				

Exhibit A

<u>Net (Disbursement) Receipts and Changes in</u> <u>Cash Basis Net Assets</u>		
Governmental Activities	Business-Type Activities	Total
\$ (464,343)		\$ (464,343)
(162,593)		(162,593)
(1,000)		(1,000)
(220,328)		(220,328)
(37,571)		(37,571)
(289,622)		(289,622)
(217,665)		(217,665)
<u>(117,238)</u>		<u>(117,238)</u>
<u>(1,510,360)</u>		<u>(1,510,360)</u>
	\$ 4,572	4,572
	<u>5,526</u>	<u>5,526</u>
	<u>10,098</u>	<u>10,098</u>
<u>(1,510,360)</u>	<u>10,098</u>	<u>(1,500,262)</u>
591,210		591,210
467,036		467,036
97,650		97,650
336,188		336,188
13,453		13,453
8,868	1,049	9,917
<u>78,218</u>		<u>78,218</u>
<u>1,592,623</u>	<u>1,049</u>	<u>1,593,672</u>
82,263	11,147	93,410
<u>1,124,756</u>	<u>94,816</u>	<u>1,219,572</u>
<u>\$1,207,019</u>	<u>\$ 105,963</u>	<u>\$1,312,982</u>
\$ 351,959		\$ 351,959
3,155		3,155
241,307		241,307
<u>610,598</u>	<u>\$ 105,963</u>	<u>716,561</u>
<u>\$1,207,019</u>	<u>\$ 105,963</u>	<u>\$1,312,982</u>

See Notes to Financial Statements
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CITY OF MILFORD
 STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND
 CHANGES IN CASH BALANCES
 GOVERNMENTAL FUNDS
 AS OF AND FOR THE YEAR ENDED JUNE 30, 2004

	<u>Special Revenue</u>		
	TIF		
	<u>General</u>	<u>Supported Projects</u>	<u>Debt Service</u>
RECEIPTS:			
Property tax	\$ 544,666		\$ 97,649
Tax increment financing collections		\$ 467,036	
Other city tax	196,188		
Licenses and permits	40,417		
Use of money and property	17,422	2,355	380
Intergovernmental	103,492		
Charges for service	74,897		
Miscellaneous	<u>36,479</u>		
TOTAL RECEIPTS	<u>1,013,561</u>	<u>469,391</u>	<u>98,029</u>
DISBURSEMENTS:			
Operating:			
Public safety	570,181		
Public works	40,526		
Health and social services	1,000		
Culture and recreation	247,327		
Community and economic development	75,296		
General government	289,622		
Debt service			217,665
Capital projects		<u>117,238</u>	
TOTAL DISBURSEMENTS	<u>1,223,952</u>	<u>117,238</u>	<u>217,665</u>
EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS	<u>(210,391)</u>	<u>352,153</u>	<u>(119,636)</u>
OTHER FINANCING SOURCES (USES):			
Operating transfers in	45,727		99,463
Operating transfers out		<u>(99,463)</u>	
TOTAL OTHER FINANCING SOURCES (USES)	<u>45,727</u>	<u>(99,463)</u>	<u>99,463</u>
EXCESS (DEFICIENCY) OF RECEIPTS AND OTHER FINANCING SOURCES OVER (UNDER) DISBURSEMENTS AND OTHER FINANCING USES	<u>(164,664)</u>	<u>252,690</u>	<u>(20,173)</u>
CASH BALANCE - BEGINNING OF YEAR	<u>775,262</u>	<u>99,269</u>	<u>23,328</u>
CASH BALANCE - END OF YEAR	<u>\$ 610,598</u>	<u>\$ 351,959</u>	<u>\$ 3,155</u>
CASH BASIS FUND BALANCES:			
Reserved:			
Debt service			\$ 3,155
Unreserved:			
General fund	\$ 610,598		
Special revenue funds		\$ 351,959	
Capital projects fund			
TOTAL CASH BASIS FUND BALANCES	<u>\$ 610,598</u>	<u>\$ 351,959</u>	<u>\$ 3,155</u>

See Notes to Financial Statements

Exhibit B

Other Nonmajor Governmental Funds	Total Governmental Funds (Memorandum Only)
\$ 46,545	\$ 688,860
140,000	467,036
121	336,188
206,053	40,417
	20,278
	309,545
	74,897
	<u>36,479</u>
<u>392,719</u>	<u>1,973,700</u>
	570,181
332,582	373,108
	1,000
	247,327
	75,296
	289,622
	217,665
	<u>117,238</u>
<u>332,582</u>	<u>1,891,437</u>
<u>60,137</u>	<u>82,263</u>
	145,190
<u>(45,727)</u>	<u>(145,190)</u>
<u>(45,727)</u>	
14,410	82,263
<u>226,897</u>	<u>1,124,756</u>
<u>\$ 241,307</u>	<u>\$1,207,019</u>
	\$ 3,155
	610,598
\$ 238,602	590,561
<u>2,705</u>	<u>2,705</u>
<u>\$ 241,307</u>	<u>\$1,207,019</u>

See Notes to Financial Statements

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

	<u>Solid Waste</u>	<u>Nonmajor Proprietary Fund Sewer</u>	<u>Total</u>
OPERATING RECEIPTS:			
Charges for service	\$205,621	\$ 80,337	\$285,958
Use of money and property	<u>947</u>	<u>102</u>	<u>1,049</u>
TOTAL RECEIPTS	<u>206,568</u>	<u>80,439</u>	<u>287,007</u>
OPERATING DISBURSEMENTS:			
Business type activities	<u>200,095</u>	<u>75,765</u>	<u>275,860</u>
TOTAL OPERATING DISBURSEMENTS	<u>200,095</u>	<u>75,765</u>	<u>275,860</u>
EXCESS OF RECEIPTS OVER DISBURSEMENTS	6,473	4,674	11,147
CASH BALANCE - BEGINNING OF YEAR	<u>87,547</u>	<u>7,269</u>	<u>94,816</u>
CASH BALANCE - END OF YEAR	<u>\$ 94,020</u>	<u>\$ 11,943</u>	<u>\$105,963</u>
CASH BASIS FUND BALANCES:			
Unreserved	<u>\$ 94,020</u>	<u>\$ 11,943</u>	<u>\$105,963</u>
TOTAL CASH BASIS FUND BALANCES	<u>\$ 94,020</u>	<u>\$ 11,943</u>	<u>\$105,963</u>

See Notes to Financial Statements

Exhibit D

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

	Agency Fund
RECEIPTS:	
Additions	\$ 995
Interest	85
TOTAL RECEIPTS	<u>1,080</u>
DISBURSEMENTS:	
Deductions	<u>437</u>
EXCESS OF RECEIPTS OVER DISBURSEMENTS	643
CASH BALANCE - BEGINNING OF YEAR	<u>10,950</u>
CASH BALANCE - END OF YEAR	<u>\$ 11,593</u>

See Notes to Financial Statements
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NOTES TO FINANCIAL STATEMENTS

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Milford, Iowa is a political subdivision of the State of Iowa located in Dickinson 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 solid waste and sewer 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 Milford but do not include any component units. Milford Municipal Utilities is considered a component unit of the City of Milford. The financial statements of this component unit are audited by other auditors and are presented on the accrual basis of accounting. Therefore, the City has elected not to include Milford Municipal Utilities or any other potential component units in these financial statements. Complete financial statements of Milford Municipal Utilities can be obtained from their administrative offices.

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: Dickinson County Assessor's Conference Board, Upper Des Moines Opportunity Board, Dickinson County Emergency Management Commission, and Dickinson County Joint E911 Service Board.

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 primary government 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 results 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 and proprietary funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds. The only nonmajor proprietary fund is included in a separate column in the fund financial statements.

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.

Special Revenue:

The TIF Supported Projects Fund is used to account for projects financed by tax increment financing.

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

Additionally, the City reports the following major proprietary fund:

The Solid Waste Fund accounts for the operation and maintenance of the City's solid waste utility.

C. Measurement Focus and Basis of Accounting

The City of Milford 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 or 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, debt service, and capital projects 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.

3. BONDS AND NOTES PAYABLE

Annual debt service requirements to maturity for general obligation bonds and notes and urban renewal tax increment financial revenue bonds are as follows:

Year Ending June 30,	General <u>Obligation Bond</u>		General <u>Obligation Notes</u>		Urban Renewal Tax Increment Financing <u>Revenue Bonds</u>		<u>Total</u>	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2005	\$ 45,000	\$ 2,700	\$ 25,000	\$ 4,250	\$ 99,555	\$ 27,387	\$169,555	\$34,337
2006			30,000	3,000	106,020	22,116	136,020	25,116
2007			30,000	1,500	112,597	16,497	142,597	17,997
2008					114,079	10,776	114,079	10,776
2009					95,000	4,513	95,000	4,513
Total	\$ 45,000	\$ 2,700	\$85,000	\$ 8,750	\$527,251	\$81,289	\$657,251	\$92,739

The City of Milford reserves the right to call and redeem the Corporate Purpose Bonds issued January 1, 1990, which mature in the years 2004 to 2005 inclusive, prior to maturity. These bonds may be called and redeemed in whole or from time to time in part, in one or more units of \$5,000, in inverse order of their maturity (and within a maturity by lot), upon terms of par and accrued interest on any interest payment date.

3. BONDS AND NOTES PAYABLE - Continued

The City of Milford also reserves the right to prepay the principal of the General Obligation Street Improvement Note issued March 12, 1997. The City may prepay the principal of these notes in whole or in part at any time prior to and in inverse order of maturity on terms of par and accrued interest. All principal so prepaid shall cease to bear interest on the prepayment date.

The urban renewal tax increment financing revenue bonds were issued for the purpose of defraying a portion of the costs of carrying out urban renewal projects of the City. The bonds are payable solely from tax increment financing collections 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.

The City reserves the right to call and prepay any principal amount of the Urban Renewal Tax Increment Financing Revenue Bonds issued August 17, 1998 and January 8, 1999 at any time. In the event of prepayment on a date other than an interest payment date, interest shall be paid to the date of prepayment only.

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, IA 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 \$38,811, \$34,147, and \$34,085, respectively, equal to the required contributions for each year.

5. COMPENSATED ABSENCES

City employees accumulate a limited amount of earned but unused vacation, sick leave, and compensatory time 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, sick leave, and compensatory time termination payments payable to employees at June 30, 2004, primarily relating to the General Fund is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$ 20,100
Sick leave	25,000
Compensatory time	<u>4,900</u>
Total	<u>\$ 50,000</u>

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

6. 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	Special Revenue: Employee Benefits	\$ 45,727
Debt Service	Special Revenue: TIF Supported Projects	<u>99,463</u>
Total		<u>\$145,190</u>

7. RELATED PARTY TRANSACTIONS

The City had business transactions between the City and City officials and employees, totaling \$497 during the year ended June 30, 2004.

8. LOCAL GOVERNMENT RISK POOL

The City of Milford 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 Milford'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 Milford's annual contributions to the Pool for the year ended June 30, 2004 were \$41,262.

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 the 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 Milford also carries commercial insurance purchased from other insurers for coverage associated with workers' compensation. 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.

9. LITIGATION

The City is party to routine legal proceedings and litigation arising in the normal course of governmental operations. These legal proceedings are not expected to have a material adverse impact on the City's financial condition.

10. ACCOUNTING CHANGES

Governmental Accounting Standards Board (GASB) 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 Statements Note Disclosures*, and Statement No. 41, *Budgetary Comparison Schedule - Perspective Differences* were implemented during fiscal 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.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF MILFORD
 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 Fund Types <u>Actual</u>	Proprietary Fund Type <u>Actual</u>	<u>Total</u>
RECEIPTS:			
Property tax	\$ 688,860		\$ 688,860
Tax increment financing collections	467,036		467,036
Other city tax	336,188		336,188
Licenses and permits	40,417		40,417
Use of money and property	20,278	\$ 1,049	21,327
Intergovernmental	309,545		309,545
Charges for service	74,897	285,958	360,855
Miscellaneous	<u>36,479</u>		<u>36,479</u>
TOTAL RECEIPTS	<u>1,973,700</u>	<u>287,007</u>	<u>2,260,707</u>
DISBURSEMENTS:			
Public safety	570,181		570,181
Public works	373,108		373,108
Health and social services	1,000		1,000
Culture and recreation	247,327		247,327
Community and economic development	75,296		75,296
General government	289,622		289,622
Debt service	217,665		217,665
Capital projects	117,238		117,238
Business-type activities		<u>275,860</u>	<u>275,860</u>
TOTAL DISBURSEMENTS	<u>1,891,437</u>	<u>275,860</u>	<u>2,167,297</u>
EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS	82,263	11,147	93,410
BALANCES - BEGINNING OF YEAR	<u>1,124,756</u>	<u>94,816</u>	<u>1,219,572</u>
BALANCES - END OF YEAR	<u>\$1,207,019</u>	<u>\$ 105,963</u>	<u>\$1,312,982</u>

<u>Budgeted Amounts</u>		Final to Actual Variance Positive (Negative)
<u>Original</u>	<u>Final</u>	
\$ 675,981	\$ 675,981	\$ 12,879
335,000	335,000	132,036
302,331	302,331	33,857
17,365	17,365	23,052
16,600	16,600	4,727
348,038	348,038	(38,493)
289,470	289,470	71,385
<u>50,200</u>	<u>50,200</u>	<u>(13,721)</u>
<u>2,034,985</u>	<u>2,034,985</u>	<u>225,722</u>
401,674	569,674	(507)
418,328	418,328	45,220
5,100	5,100	4,100
281,597	281,597	34,270
63,350	81,350	6,054
256,817	296,817	7,195
217,488	217,488	(177)
210,000	210,000	92,762
<u>296,966</u>	<u>296,966</u>	<u>21,106</u>
<u>2,151,320</u>	<u>2,377,320</u>	<u>210,023</u>
(116,335)	(342,335)	\$ <u>435,745</u>
<u>1,153,608</u>	<u>1,153,608</u>	
<u>\$1,037,273</u>	<u>\$ 811,273</u>	

CITY OF MILFORD
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, except fiduciary funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund 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, one budget amendment increased budgeted disbursements by \$226,000. The 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 and debt service.

OTHER SUPPLEMENTARY INFORMATION

CITY OF MILFORD
 STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND CHANGES IN
 CASH BALANCE - NONMAJOR GOVERNMENTAL FUNDS
 AS OF AND FOR YEAR ENDED JUNE 30, 2004

	Special Revenue			
	Road Use	Local Option Sales Tax	Employee Benefits	Emergency
RECEIPTS:				
Property tax			\$ 46,545	
Other city tax		\$140,000		
Use of money and property		121		
Intergovernmental	\$ 206,053			
TOTAL RECEIPTS	<u>206,053</u>	<u>140,121</u>	<u>46,545</u>	<u> </u>
DISBURSEMENTS:				
Operating:				
Public works	197,468	135,114		
TOTAL DISBURSEMENTS	<u>197,468</u>	<u>135,114</u>		
EXCESS OF RECEIPTS OVER DISBURSEMENTS	<u>8,585</u>	<u>5,007</u>	<u>46,545</u>	
OTHER FINANCING SOURCES (USES):				
Operating transfers out			(45,727)	
TOTAL OTHER FINANCING SOURCES (USES)			<u>(45,727)</u>	
EXCESS OF RECEIPTS OVER DISBURSEMENTS AND OTHER FINANCING USES	<u>8,585</u>	<u>5,007</u>	<u>818</u>	
BALANCES - BEGINNING OF YEAR	<u>176,839</u>		<u>4,866</u>	<u>\$ 42,487</u>
BALANCES - END OF YEAR	<u>\$ 185,424</u>	<u>\$ 5,007</u>	<u>\$ 5,684</u>	<u>\$ 42,487</u>
CASH BASIS FUND BALANCES:				
Unreserved:				
Special revenue funds	\$ 185,424	\$ 5,007	\$ 5,684	\$ 42,487
Capital projects fund				
TOTAL CASH BASIS FUND BALANCES	<u>\$ 185,424</u>	<u>\$ 5,007</u>	<u>\$ 5,684</u>	<u>\$ 42,487</u>

Schedule 1

<u>Capital Projects</u>	Total
Miscellaneous	Nonmajor Governmental Funds
	\$ 46,545
	140,000
	121
	<u>206,053</u>
	<u>392,719</u>
	<u>332,582</u>
	<u>332,582</u>
	<u>60,137</u>
	<u>(45,727)</u>
	<u>(45,727)</u>
	14,410
\$ 2,705	<u>226,897</u>
\$ 2,705	<u>\$ 241,307</u>
	\$ 238,602
\$ 2,705	<u>2,705</u>
\$ 2,705	<u>\$ 241,307</u>

See Accompanying Independent Auditors' Report
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CITY OF MILFORD
SCHEDULE OF INDEBTEDNESS
YEAR ENDED JUNE 30, 2004

<u>Obligation</u>	<u>Date of Issue</u>	<u>Amount Interest Rates</u>	<u>Originally Issued</u>
General Obligation Bonds:			
Corporate Purpose	January 1, 1990	6.00 - 8.50%	\$ 555,555
General Obligation Notes:			
Corporate purpose	May 1, 1992	4.25 - 6.25%	\$ 300,000
Corporate purpose	March 1, 1994	3.50 - 5.00%	100,000
Street improvement	March 12, 1997	5.00%	230,000
Total			
Urban Renewal Tax Increment Financing (TIF) Revenue Bonds:			
1998 Issue	August 17, 1998	7.50%	\$ 181,152
1999 Issue	January 8, 1999	4.75%	775,000
Total			

See Accompanying Independent Auditors' Report

Schedule 2

<u>Balance Beginning of Year</u>	<u>Issued During Year</u>	<u>Redeemed During Year</u>	<u>Balance End of Year</u>	<u>Interest Paid</u>	<u>Interest Due and Unpaid</u>
\$ <u>90,000</u>	<u> </u>	<u>\$(45,000)</u>	<u>\$ 45,000</u>	<u>\$ 5,625</u>	<u> </u>
\$ <u>10,000</u>	<u> </u>	<u>\$(10,000)</u>	<u> </u>	<u>\$ 500</u>	<u> </u>
<u>110,000</u>	<u> </u>	<u>(25,000)</u>	<u>\$ 85,000</u>	<u>5,576</u>	<u> </u>
<u>\$ 120,000</u>	<u> </u>	<u>\$(35,000)</u>	<u>\$ 85,000</u>	<u>\$ 6,076</u>	<u> </u>
\$ <u>105,444</u>	<u> </u>	<u>\$(18,193)</u>	<u>\$ 87,251</u>	<u>\$ 7,933</u>	<u> </u>
<u>515,000</u>	<u> </u>	<u>(75,000)</u>	<u>440,000</u>	<u>24,539</u>	<u> </u>
<u>\$ 620,444</u>	<u> </u>	<u>\$(93,193)</u>	<u>\$527,251</u>	<u>\$ 32,472</u>	<u> </u>

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CITY OF MILFORD
 BOND AND NOTE MATURITIES
 JUNE 30, 2004

Year Ending June 30,	<u>General Obligation Bond</u>		<u>General Obligation Note</u>		<u>Total</u>
	<u>Corporate Purpose</u> <u>Issued January 1, 1990</u>		<u>Street Improvement</u> <u>Issued March 12, 1997</u>		
	<u>Interest</u> <u>Rates</u>	<u>Amount</u>	<u>Interest</u> <u>Rates</u>	<u>Amount</u>	
2005	6.00%	\$ 45,000	5.00%	\$ 25,000	\$ 70,000
2006			5.00	30,000	30,000
2007			5.00	<u>30,000</u>	<u>30,000</u>
Total		<u>\$ 45,000</u>		<u>\$ 85,000</u>	<u>\$130,000</u>

URBAN RENEWAL TAX
 INCREMENT FINANCING (TIF)
 REVENUE BONDS

Year Ending June 30,	<u>Issued August 17, 1998</u>		<u>Issued January 8, 1999</u>		<u>Total</u>
	<u>Interest</u> <u>Rates</u>	<u>Amount</u>	<u>Interest</u> <u>Rates</u>	<u>Amount</u>	
2005	7.50%	\$ 19,555	4.75%	\$ 80,000	\$ 99,555
2006	7.50	21,020	4.75	85,000	106,020
2007	7.50	22,597	4.75	90,000	112,597
2008	7.50	24,079	4.75	90,000	114,079
2009			4.75	<u>95,000</u>	<u>95,000</u>
Total		<u>\$ 87,251</u>		<u>\$440,000</u>	<u>\$527,251</u>

See Accompanying Independent Auditors' Report

CITY OF MILFORD
 SCHEDULE OF RECEIPTS BY SOURCE AND DISBURSEMENTS BY FUNCTION
 ALL GOVERNMENTAL FUND TYPES
 FOR THE LAST FOUR YEARS

	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
RECEIPTS:				
Property and other city tax	\$1,025,048	\$1,004,889	\$ 905,735	\$ 859,674
Tax increment financing collections	467,036	590,144	377,004	304,005
Licenses and permits	40,417	29,082	14,781	19,769
Use of money and property	20,278	27,523	55,245	75,063
Intergovernmental	309,545	315,028	327,287	298,194
Charges for service	74,897	37,246	338,621	34,597
Special assessments			4,441	4,300
Miscellaneous	<u>36,479</u>	<u>56,459</u>	<u>32,415</u>	<u>22,415</u>
TOTAL REVENUES	<u>\$1,973,700</u>	<u>\$2,060,371</u>	<u>\$2,055,529</u>	<u>\$1,618,017</u>
DISBURSEMENTS:				
Public safety	\$ 570,181			
Public works	373,108			
Health and social services	1,000			
Culture and recreation	247,327			
Community and economic development	75,296			
General government	289,622			
Debt service	217,665			
Capital projects	<u>117,238</u>			
TOTAL EXPENDITURES	<u>\$1,891,437</u>	*	*	*

* Information not available

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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 Milford
Milford, IA 51012

We have audited the financial statements of the City of Milford, Iowa as of and for the year ended June 30, 2004, and have issued our report thereon dated August 19, 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 Milford'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 II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 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 been resolved except for items II-B-04.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Milford 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 Milford's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

A material weakness is a 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 I-A-04 is a material weakness. Prior year reportable conditions have been resolved except for items I-A-04 and I-B-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 Milford, and other parties to whom the City of Milford 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 Milford 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.

Winter, Stave + Co., LLP

August 19, 2004

CITY OF MILFORD
SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2004

Part I: Findings Related to the Financial Statements

Instances of Noncompliance:

No matters were noted.

Reportable Conditions:

I-A-04 Segregation of Duties - One important aspect of internal control over financial reporting is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted employees were performing incompatible functions.

Recommendation - We realize that it is difficult to appropriately segregate duties when the number of employees is limited. Therefore, we recommend the Council maintain their diligence in the review of the financial records.

Response - We will continue our review.

Conclusion - Response accepted.

I-B-04 Unauthorized Financial Institution Accounts - During our audit, we noted one account with a financial institution has been utilized without approval by the City Council. Also the City did not receive the bank statements or any other type of financial reporting for this account. The City also did not include the activity or balance in this account in its monthly financial reports.

Recommendation - We recommend the City Council approve this account which utilizes the City's Federal I.D. number and approve authorized signers for the accounts. Statements for this account should be delivered to City offices and activity and balance in the account should be reflected in City financial records.

Response - The balance in this account is expected to be used during fiscal 2005 or transferred to other City accounts.

Conclusion - Response accepted.

CITY OF MILFORD
 SCHEDULE OF FINDINGS - Continued
 YEAR ENDED JUNE 30, 2004

Part II: Other Findings Related to Required Statutory Reporting

II-A-04 Official Depositories - A resolution naming official depositories has been approved by the City Council. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2004.

II-B-04 Certified Budget - Disbursements during the year ended June 30, 2004 exceeded the amounts budgeted in the public safety, and debt service functions. Also, disbursements in the community and economic development and general government functions exceeded amounts budgeted before the budget was amended.

Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

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

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

Conclusion - Response accepted.

II-C-04 Questionable Disbursements - We noted no expenditures for parties, banquets, or other entertainment for employees that we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

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

II-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>
Mary Johnson, Wife of Council Member, Lyn Johnson, Owner of JoWaCo Depot	Gasoline	\$436
Rick Kilts, Council Member and Owner of Picadilly Circus Pizza	Supplies	\$ 61

In accordance with Chapter 362.5(10) of the Code of Iowa, these transactions do not appear to represent conflicts of interest since the total transactions with each individual did not exceed \$1,500 in the fiscal year.

CITY OF MILFORD
SCHEDULE OF FINDINGS - Continued
FOR THE YEAR ENDED JUNE 30, 2004

Part II: Other Findings Related to Required Statutory Reporting - Continued

- II-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 ensure that the coverage is adequate for current operations.

- II-G-04 Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not.

- II-H-04 Deposits and Investments - We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy, except that the Council has not reviewed the investment policy in the last five years as stipulated in its investment policy.