

CITY OF WEST UNION
FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION

June 30, 2004

HAGEN & KALLEVANG, P.C.
Certified Public Accountants

CITY OF WEST UNION

TABLE OF CONTENTS

		<u>Page No.</u>
OFFICIALS		1
INDEPENDENT AUDITOR'S REPORT		2-3
MANAGEMENT'S DISCUSSION AND ANALYSIS		4-10
BASIC FINANCIAL STATEMENTS	<u>Exhibit</u>	
Government-wide Financial Statement: Statement of Activities and Net Assets – Cash Basis	A	11
Governmental Fund Financial Statements: Statement of Cash Receipts, Disbursements and Changes in Cash Balances	B	12
Reconciliation of the Statement of Cash Receipts, Disbursements and Changes in Cash Balances to the Statement of Activities and Net Assets	C	13
Proprietary Fund Financial Statements: Statement of Cash Receipts, Disbursements and Changes in Cash Balances	D	14
Reconciliation of the Statement of Cash Receipts, Disbursements and Changes in Cash Balances to the Statement of Activities and Net Assets	E	15
Notes to Financial Statements		16-25
REQUIRED SUPPLEMENTARY INFORMATION		
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances – Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Funds		26
Notes to Required Supplementary Information – Budgetary Reporting		27
OTHER SUPPLEMENTARY INFORMATION	<u>Schedule</u>	
Statement of Cash Receipts, Disbursements and Changes in Cash Balances – Nonmajor Governmental Funds	1	28
Schedule of Indebtedness	2	29
Bond and Note Maturities	3	30
Schedule of Receipts by Source and Disbursements by Function - All Governmental Funds	4	31
INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING		32-33
SCHEDULE OF FINDINGS		34-36

CITY OF WEST UNION

OFFICIALS

<u>Name</u>	<u>Title</u> (Before January 2004)	<u>Term Expires</u>
Merlin Dunt	Mayor	January 2004
Donald Eberhart	Council Member	January 2004
Wayne Havenstrite	Council Member	January 2004
Robert Gage	Council Member	January 2004
Tobin Britt	Council Member	January 2006
Dean Pedersen	Council Member	January 2006
Martin E. Games	City Clerk/Administrator	January 2004
Melissa Miller	Assistant City Clerk	January 2004
Jeffrey Clements	Attorney	January 2004
(After January 2004)		
Merlin Dunt	Mayor	January 2006
Tobin Britt	Council Member	January 2006
Dean Pedersen	Council Member	January 2006
Robert Gage	Council Member	January 2008
Karen Helva	Council Member	January 2008
Troy Schott	Council Member	January 2008
Martin E. Games	City Clerk/Administrator	January 2006
Melissa Miller	Assistant City Clerk	January 2006
Jeffrey Clements	Attorney	January 2006

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Members of the City Council
City of West Union, Iowa

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 West Union, 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 West Union'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 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.

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 of the City 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 discussed in Note 14, 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; and Statement No. 38, Certain Financial Statement Note Disclosures, and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences.

In accordance with Government Auditing Standards, we have also issued our report dated November 2, 2004 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 10 and 26 through 27 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We applied limited procedures, 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 performed for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the year ended June 30, 2003 (none of which are presented herein) and expressed an unqualified opinion on those financial statements. Other supplementary included in Schedules 1 through 4 is presented for purposes of additional analysis and is not a required part of the 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.

Hagen & Kallevang, P.C.

November 2, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

City of West Union provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2004. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

Because the City is implementing new reporting standards for this fiscal year with significant changes in content and structure, much of the information is not easily comparable to prior years. However, in future years, comparisons will be more meaningful and will go further in explaining the City's financial position and results of operations.

2004 FINANCIAL HIGHLIGHTS

- Revenues of the City's governmental activities increased 5.2%, or approximately \$86,000, from fiscal 2003 to fiscal 2004. The increase reflects loan proceeds of \$242,000 and the following revenue sources which had significant decreases: Property tax, \$8,000; Local option sales tax, \$17,000; State allocation, \$48,000; and Grants, \$80,000.
- Disbursements increased 3.3%, or approximately \$60,800, in fiscal 2004 from fiscal 2003. The increase reflects capital projects of \$309,000 and decreases in other areas due to less required debt payments and less grant and state funds.
- The City's total cash basis net assets decreased 3.3%, or approximately \$24,000, from June 30 2003 to June 30, 2004. Of this amount, the assets of the governmental activities decreased approximately \$106,000 and the assets of the business type activities increased by approximately \$82,000.

USING THIS ANNUAL REPORT

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

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

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

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

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

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

Other Supplementary Information provides detailed information about the non-major governmental funds.

Basis of Accounting

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

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

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

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

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

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

Fund Financial Statements

The City has two kinds of funds:

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

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

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

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

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

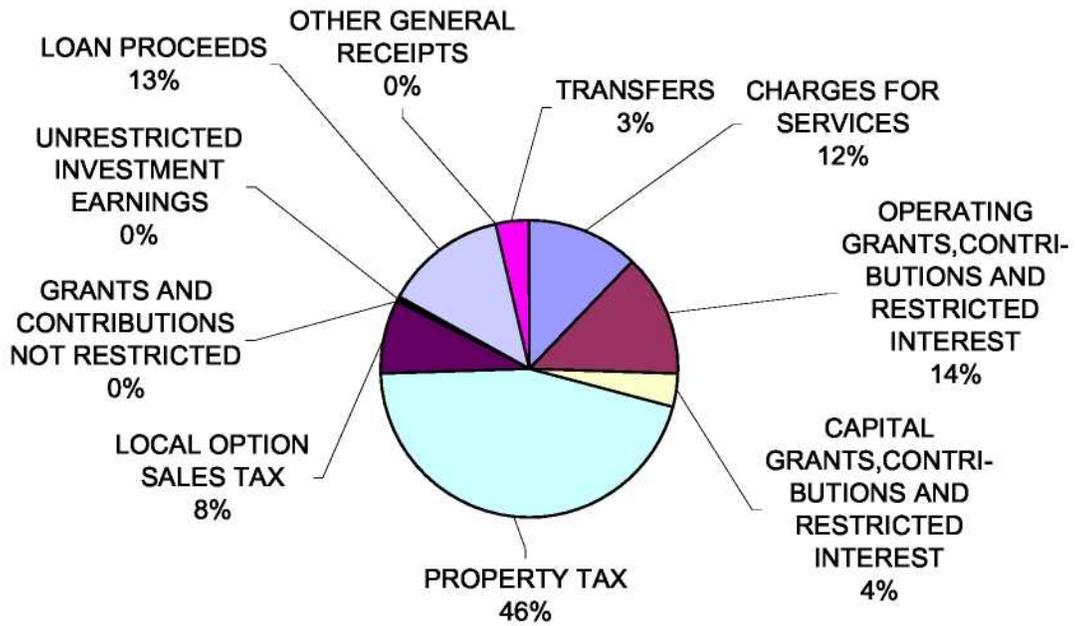
GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased sharply from a year ago, decreasing) from \$526,000 to \$420,000. The analysis that follows focuses on the changes in cash balances for governmental activities.

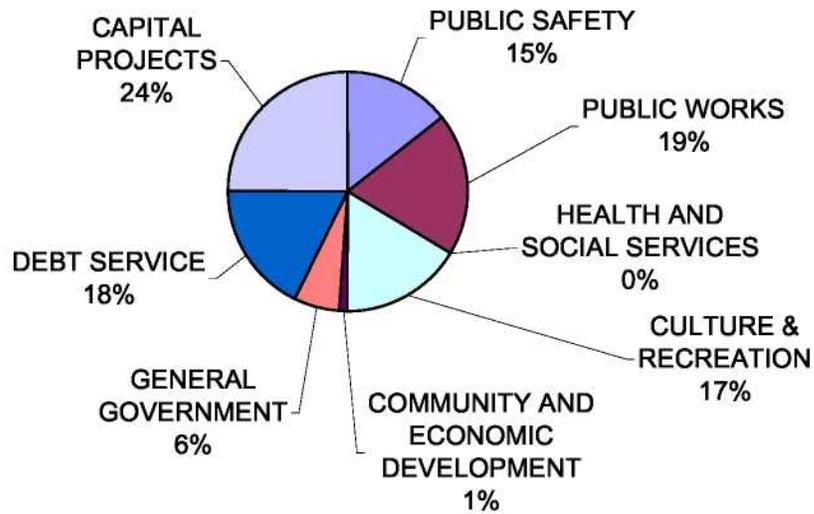
Changes in Cash Basis Net Assets of Governmental Activities (Expressed in Thousands)

	Year ended June 30,	
	<u>2004</u>	<u>2003</u>
Receipts and transfers:		
Program receipts:		
Charges for service	\$ 220	\$ 159
Operating grants, contributions and restricted interest	242	405
Capital grants, contributions and restricted interest	67	49
General receipts:		
Property tax	819	818
Local option sales tax	142	158
Grants and contributions not restricted to specific purposes	9	-
Unrestricted investment earnings	5	10
Loan proceeds	242	-
Other general receipts	-	62
Transfers, net	<u>63</u>	<u>84</u>
Total receipts and transfers	<u>1,809</u>	<u>1,745</u>
Disbursements:		
Public safety	279	398
Public works	362	418
Health and social services	-	-
Culture and recreation	318	311
Community and economic development	18	17
General government	118	110
Debt service	340	429
Capital projects	<u>480</u>	<u>171</u>
Total disbursements	<u>1,915</u>	<u>1,854</u>
Decrease in cash basis net assets	(106)	(109)
Cash basis net assets beginning of year	<u>526</u>	<u>635</u>
Cash basis net assets end of year	<u>\$ 420</u>	<u>\$ 526</u>

Receipts by Source



Disbursements by Function



The City's total receipts for governmental activities increased by 5.2%, or \$86,000. The total cost of all programs and services increased by approximately \$61,000, or 3.3%, with no new programs added this year. The increase in receipts was primarily the result of proceeds received from loans.

The City maintained property tax rates for 2004 at the same rate as 2003, \$11.28 per thousand of taxable valuation. Property tax receipts are budgeted to decrease by \$6,000 next year.

The cost of all governmental activities this year was \$1.915 million compared to \$1.854 last year. However, as shown in the Statement of Activities and Net Assets on page 10, the amount taxpayers ultimately financed for these activities was only \$1.384 million because some of the cost was paid by those directly benefited from the programs (\$220,000) or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest (\$311,000).

Changes in Cash Basis Net Assets of Business Type Activities
(Expressed in Thousands)

	Year ended June 30,	
	<u>2004</u>	<u>2003</u>
Receipts:		
Program receipts:		
Charges for service		
Water	\$ 217	\$ 220
Sewer	242	245
Capital grants, contributions and restricted interest	-	-
General receipts:		
Unrestricted interest on investments	3	4
Bond proceeds	-	-
Other general receipts	33	11
Total receipts	<u>495</u>	<u>480</u>
Disbursements and transfers:		
Water	176	220
Sewer	174	174
Transfers	63	85
Total disbursements and transfers	<u>413</u>	<u>479</u>
Increase (decrease) in cash balance	82	1
Cash basis net assets beginning of year	<u>200</u>	<u>199</u>
Cash basis net assets end of year	<u>\$ 282</u>	<u>\$ 200</u>

Total business type activities receipts for the fiscal year were \$495,000 compared to \$480,000 last year. This increase was due primarily to the receipts of \$20,000 from private developer for utility extensions. The cash balance increased by \$82,000 from the prior year. Total disbursements and transfers for the fiscal year decreased by 13.8% to a total of \$413,000.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As City of West Union completed the year, its governmental funds reported a combined fund balance of \$420,218, a decrease of more than \$105,000 above last year's total of \$525,775. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance increased \$31,765 from the prior year to \$136,467. The majority of this increase was the result of budget cuts made by the City in response to decreases in state municipal assistance payments and the refinancing of City Hall Building loan in the amount of \$92,000.
- The Road Use Tax Fund cash balance increased by \$13,280 to \$67,227 during the fiscal year. The City intends to use this money to upgrade equipment in upcoming years.
- The Urban Renewal Tax Financing Increment Fund balance decreased \$53,382 to \$4,555. This decrease was the result of transfers of \$233,332 to the debt service fund to apply to loan payments made for improvements made within the City's Tax Increment Financing districts.
- The Debt Service fund balance increased \$74,000 to \$22,345. This increase was the result of additional transfers from the Urban Renewal Tax Increment fund to apply to loan payments made for improvements made within the City's Tax Increment Financing districts.
- The Aquatic Center Project cash balance decreased \$116,678 from the prior year to \$8,768. The City used funds that had been accumulating from the receipt of local option sales tax revenues, as well as public donations, to pay for costs as construction of the project began.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

The Water Fund cash balance increased by \$26,290 to \$129,809. The City intends to use these funds for further improvements to the water system.

The Sewer Fund cash balance increased by \$55,469 to \$152,003. The City intends to use these funds to keep the City's sewer system in compliance with state and federal regulations.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget one time. The amendment was approved on May 3, 2004, and increased revenues for the fiscal year by \$116,500 and increased expenditures by \$106,410. The beginning cash balance for the fiscal year was increased by \$66,426 to reflect the actual balance on hand on July 1, 2003. A public hearing was held prior to the approval of the budget amendment and no public comments were received during the hearing.

DEBT ADMINISTRATION

At June 30, 2004, the City had approximately \$726,975 in bonds and other long-term debt, compared to approximately \$805,953 last year to third parties, as shown below.

Outstanding Debt at Year-End (Expressed in Thousands)

	Year ended June 30,	
	2004	2003
General obligation bonds	\$ 312,000	\$ 506,201
Revenue notes	264,975	299,752
Local Option Tax Bond		
Anticipatory note	<u>150,000</u>	<u>-</u>
Total	<u>\$ 726,975</u>	<u>\$ 805,953</u>

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$556,500 only 12.7% of its constitutional debt limit of \$4,373,000.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

West Union elected and appointed officials and citizens considered many factors when setting the fiscal year 2005 budget, tax rates, and fees that will be charged for various City activities. Amounts available for appropriation in the operating budget are \$2,558,000, over the final 2004 budget. Budgeted revenues are \$2,056,000 and expenditures are set at \$1,979,000. If these estimates are realized, the City's budgeted cash balance is expected to increase by approximately \$77,000 by the close of 2005.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Martin Games, City Clerk, 612 Highway 150 South, West Union, Iowa 52175.

FINANCIAL STATEMENTS

CITY OF WEST UNION

STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS

As of and for the year ended June 30, 2004

Functions/Programs	Program Receipts				Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
	Disbursements	Charges for Services	Operating Grants, Contributions, and Restricted Interest	Capital Grants, Contributions, and Restricted Interest	Governmental Activities	Business Type Activities	Total
Governmental activities							
Public safety	\$ (278,575)	\$ 8,564	\$ 15,973	\$ -	\$ (254,038)	\$ -	\$ (254,038)
Public works	(362,200)	159,550	213,135	-	10,485	-	10,485
Health and social services	(280)	-	-	-	(280)	-	(280)
Culture and recreation	(318,031)	38,120	16,557	511	(262,843)	-	(262,843)
Community and economic development	(18,055)	710	70	-	(17,275)	-	(17,275)
General government	(117,983)	13,203	-	-	(104,780)	-	(104,780)
Debt service	(339,885)	-	-	-	(339,885)	-	(339,885)
Capital projects	(480,316)	-	-	65,000	(415,316)	-	(415,316)
Total governmental activities	(1,915,325)	220,147	245,735	65,511	(1,383,932)	-	(1,383,932)
Business type activities							
Water	(176,317)	234,047	-	-	-	57,730	57,730
Sewer	(173,688)	260,717	-	-	-	87,029	87,029
Total business type activities	(350,005)	494,764	-	-	-	144,759	144,759
Total	\$ (2,265,330)	\$ 714,911	\$ 245,735	\$ 65,511	(1,383,932)	144,759	(1,239,173)
General Receipts							
Property tax levied for							
General purposes					609,486	-	609,486
Tax increment financing					186,333	-	186,333
Debt service					22,971	-	22,971
Local option sales tax					141,878	-	141,878
Grants and contributions not restricted							
to specific purpose					8,740	-	8,740
Unrestricted interest on investments					3,967	-	3,967
Bond proceeds					242,000	-	242,000
Transfers					63,000	(63,000)	-
Total general receipts and transfers					1,278,375	(63,000)	1,215,375
Change in cash basis net assets					(105,557)	81,759	(23,798)
Cash basis net assets beginning of year, as restated					525,775	200,053	725,828
Cash basis net assets end of year					\$ 420,218	\$ 281,812	\$ 702,030
Cash Basis Net Assets							
Restricted							
Streets					\$ 67,228	\$ -	\$ 67,228
Urban renewal purposes					4,555	-	4,555
Debt service					22,345	15,345	37,690
Other purposes					180,787	-	180,787
Unrestricted					145,303	266,467	411,770
Total cash basis net assets					\$ 420,218	\$ 281,812	\$ 702,030

See notes to financial statements.

CITY OF WEST UNION

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
GOVERNMENT FUNDS

As of and for the year ended June 30, 2004

	General	Special Revenue		Debt Service	Capital Projects		Other Nonmajor Governmental Funds	Total
		Road Use Tax	Urban Renewal Tax Financing Increment		Aquatic Center Project			
Receipts								
Property tax	\$ 447,188	\$ -	\$ -	\$ 22,010	\$ -	\$ 112,552	\$ 581,750	
Tax increment financing collections	-	-	178,698	-	-	-	178,698	
Other city tax	44,216	-	-	961	-	147,408	192,585	
Licenses and permits	7,526	-	-	-	-	-	7,526	
Use of money and property	7,998	-	-	1,082	503	1,836	11,419	
Intergovernmental	36,408	212,300	7,635	-	-	1,333	257,676	
Charges for service	144,773	-	-	-	-	-	144,773	
Miscellaneous	16,700	7,120	-	-	65,172	41,349	130,341	
Total receipts	<u>704,809</u>	<u>219,420</u>	<u>186,333</u>	<u>24,053</u>	<u>65,675</u>	<u>304,478</u>	<u>1,504,768</u>	
Disbursements								
Operating								
Public safety	221,869	-	-	-	-	56,706	278,575	
Public works	175,921	186,220	-	-	-	59	362,200	
Health and social services	280	-	-	-	-	-	280	
Culture and recreation	215,699	-	-	-	-	102,332	318,031	
Community and economic development	11,672	-	6,383	-	-	-	18,055	
General government	95,978	-	-	-	-	21,998	117,976	
Debt service	26,031	-	-	313,854	-	-	339,885	
Capital projects	-	-	-	-	367,822	112,494	480,316	
Total disbursements	<u>747,450</u>	<u>186,220</u>	<u>6,383</u>	<u>313,854</u>	<u>367,822</u>	<u>293,589</u>	<u>1,915,318</u>	
Excess of receipts over disbursements	<u>(42,641)</u>	<u>33,200</u>	<u>179,950</u>	<u>(289,801)</u>	<u>(302,147)</u>	<u>10,889</u>	<u>(410,550)</u>	
Other financing sources (uses)								
Bond proceeds	92,000	-	-	-	150,000	-	242,000	
Sale of capital assets	-	-	-	-	-	-	-	
Operating transfers in	20,776	-	-	363,801	35,469	90,956	511,002	
Operating transfers out	(38,370)	(19,920)	(233,332)	-	-	(156,380)	(448,002)	
Total other financing sources (uses)	<u>74,406</u>	<u>(19,920)</u>	<u>(233,332)</u>	<u>363,801</u>	<u>185,469</u>	<u>(65,424)</u>	<u>305,000</u>	
Net change in cash balances	31,765	13,280	(53,382)	74,000	(116,678)	(54,535)	(105,550)	
Cash balances beginning of year	104,702	53,948	57,937	(51,655)	125,446	235,322	525,700	
Cash balances end of year	<u>\$ 136,467</u>	<u>\$ 67,228</u>	<u>\$ 4,555</u>	<u>\$ 22,345</u>	<u>\$ 8,768</u>	<u>\$ 180,787</u>	<u>\$ 420,150</u>	
Cash Basis Fund Balances								
Reserved								
Debt service	\$ -	\$ -	\$ -	\$ 22,345	\$ -	\$ -	\$ 22,345	
Unreserved								
General fund	136,467	-	-	-	-	-	136,467	
Special revenue funds	-	67,228	4,555	-	-	107,979	179,762	
Capital projects fund	-	-	-	-	8,768	(7,972)	796	
Permanent fund	-	-	-	-	-	80,780	80,780	
Total cash basis fund balances	<u>\$ 136,467</u>	<u>\$ 67,228</u>	<u>\$ 4,555</u>	<u>\$ 22,345</u>	<u>\$ 8,768</u>	<u>\$ 180,787</u>	<u>\$ 420,150</u>	

See notes to financial statements.

CITY OF WEST UNION

RECONCILIATION OF THE STATEMENT OF CASH
RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES
TO THE STATEMENT OF ACTIVITIES AND NET ASSETS -
GOVERNMENTAL FUNDS

As of and for the year ended June 30, 2004

Total governmental funds cash balances (page 12)	\$ 420,150
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Amounts reported for governmental activities in the Statement of Activities and Net Assets are different because:

The Internal Service Fund is used by management to charge the costs of partial self funding of the City's health insurance benefit plan to individual funds. The assets of the Internal Service Fund are included in governmental activities in the Statement of Net Assets.

68

Cash basis net assets of governmental activities (page 11)	\$ <u>420,218</u>
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Net change in cash balances (page 12)	\$ (105,550)
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Amounts reported for governmental activities in the Statement of Activities and Net Assets are different because:

The Internal Service Fund is used by management to charge the costs of employee health benefits to individual funds. The change on net assets of the Internal Service Fund is reported with governmental activities.

(7)

Change in cash balance of governmental activities (page 11)	\$ <u>(105,557)</u>
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CITY OF WEST UNION
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES
PROPRIETARY FUNDS

As of and for the year ended June 30, 2004

	Enterprise Funds			Internal Service Fund
	Water	Sewer	Total	Payroll Revolving
Operating receipts:				
Use of money and property	\$ 1,368	\$ 1,456	\$ 2,824	\$ -
Charges for service	217,407	242,365	459,772	-
Miscellaneous	15,272	16,896	32,168	541,577
Total operating receipts	<u>234,047</u>	<u>260,717</u>	<u>494,764</u>	<u>541,577</u>
Operating disbursements:				
Governmental activities:				
Business type activities	153,047	173,688	326,735	-
Nonprogram	-	-	-	541,584
Total operating disbursements	<u>153,047</u>	<u>173,688</u>	<u>326,735</u>	<u>541,584</u>
Excess (deficiency) of operating receipts over (under) operating disbursements	<u>81,000</u>	<u>87,029</u>	<u>168,029</u>	<u>(7)</u>
Non-operating receipts (disbursements):				
Debt service	(23,270)	-	(23,270)	-
Total non-operating receipts (disbursements)	<u>(23,270)</u>	<u>-</u>	<u>(23,270)</u>	<u>-</u>
Excess (deficiency) of receipts over (under) disbursemen	57,730	87,029	144,759	(7)
Operating transfers out	(31,440)	(31,560)	(63,000)	-
Net change in cash balances	26,290	55,469	81,759	(7)
Cash balances beginning of year	103,519	96,534	200,053	75
Cash balances end of year	<u>\$ 129,809</u>	<u>\$ 152,003</u>	<u>\$ 281,812</u>	<u>\$ 68</u>
Cash Basis Fund Balance				
Reserved for debt service	\$ 15,345	\$ -	\$ 15,345	\$ -
Unreserved	114,464	152,003	266,467	68
Total cash basis fund balances	<u>\$ 129,809</u>	<u>\$ 152,003</u>	<u>\$ 281,812</u>	<u>\$ 68</u>

See notes to financial statements.

CITY OF WEST UNION

RECONCILIATION OF THE STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
TO THE STATEMENT OF ACTIVITIES AND NET ASSETS -
PROPRIETARY FUNDS

As of and for the year ended June 30, 2004

Total enterprise funds cash balances (page 14)	\$ 281,812
--	------------

Amounts reported for business type activities in the Statement of Activities and Net Assets are different because:

The Internal Service Fund is used by management to charge the costs of payroll and related benefits to individual funds. The assets of the Internal Service Fund are included in governmental activities in the Statement of Net Assets.

_____ -

Cash basis net assets of business type activities	\$ <u>281,812</u>
---	-------------------

Net change in cash balances (page 14)	\$ 81,759
---------------------------------------	-----------

Amounts reported for business type activities in the Statement of Activities and Net Assets are different because:

The Internal Service Fund is used by management to charge the costs of payroll and related benefits to individual funds. The change in net assets of the Internal Service Fund is reported with governmental activities.

_____ -

Change in cash balance of business type activities	\$ <u>81,759</u>
--	------------------

CITY OF WEST UNION
NOTES TO FINANCIAL STATEMENTS

Year ended June 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of West Union is a political subdivision of the State of Iowa located in Fayette County. It was first incorporated in 1857 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, health and social services, culture and recreation, community and economic development, and general government services. The City also provides water and sewer utilities for its citizens.

A. Reporting Entity

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

The following component unit is an entity which is legally separate from the City, but is so intertwined with the City that it is, in substance, part of the City.

The West Union Volunteer Fire Department has been established to collect donations which are used to purchase items which are not included in the City's budget.

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 and commissions: Fayette County Solid Waste Management Commission, Fayette County Emergency Management Commission, Fayette County Joint E911 Service Board, Fayette County Economic Development Board, Upper Explorerland Regional Housing Authority, and West Union Industrial Development Corporation.

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. Government 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.

CITY OF WEST UNION
NOTES TO FINANCIAL STATEMENTS
Year ended June 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

The Capital Projects Pool Fund is utilized to account for all resources used in the acquisition and construction of a pool facility.

The City reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the City's water system.

The Sewer Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

CITY OF WEST UNION
NOTES TO FINANCIAL STATEMENTS
Year ended June 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The City also reports the following additional proprietary fund:

An Internal Service Fund is utilized to account for payroll and related benefits by departments of the City.

C. Measurement Focus and Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

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.

NOTE 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 had no investments at June 30, 2004 subject to risk of loss.

CITY OF WEST UNION
NOTES TO FINANCIAL STATEMENTS

Year ended June 30, 2004

NOTE 3 - BONDS AND NOTES PAYABLE

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

Year Ending June 30,	General Obligation Bonds and Notes	
	Principal	Interest
2005	\$ 106,000	\$ 14,561
2006	181,000	7,287
2007	25,000	1,062
	<u>\$ 312,000</u>	<u>\$ 22,910</u>

Year Ending June 30,	Revenue Bonds and Notes		Total	
	Principal	Interest	Principal	Interest
2005	\$ 10,266	\$ 12,992	\$ 116,266	\$ 27,553
2006	10,780	12,465	191,780	19,752
2007	11,319	11,914	36,319	12,976
2008	11,885	11,333	11,885	11,333
2009	12,479	10,724	12,479	10,724
2010 - 2014	72,401	43,365	72,401	43,365
2015 - 2019	92,405	22,860	92,405	22,860
2020 - 2021	43,440	2,192	43,440	2,192
	<u>\$ 264,975</u>	<u>\$ 127,845</u>	<u>\$ 576,975</u>	<u>\$ 150,755</u>

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

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

- A. The bonds will be redeemed only 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 water and revenue bond sinking account for the purpose of making the bond principal and interest payments when due.

The City has acquired interim financing for an aquatic center construction project for a total up to \$1,100,000 at 4.0% per annum. As of June 30, 2004 the City has borrowed \$150,000. The note is due June 1, 2005. The note will be paid from local option sales tax collections.

The City has passed a resolution to internally borrow funds from available account balances at a rate of 5% per annum. The Street Improvement Fund is expected to loan \$94,500 to a newly established account, Commercial Urban Renewal Area Tax Increment Revenue Fund, in the near future.

CITY OF WEST UNION
NOTES TO FINANCIAL STATEMENTS
Year ended June 30, 2004

NOTE 4 - LEASES

As Lessor

- A. The City entered into an operating lease agreement to rent approximately 20 acres of land adjacent to the West Union airport to Ronald C. and Donna M. Bodensteiner from March 1, 1997, until notice of cancellation or default by lessee. Rent for the above land is \$1,600 annually, payable in two equal installments on or before March 15 and December 1.
- B. The City entered into several operating leases for hangars at the City's airport. The leases are with various local companies and individuals. The City charges \$30 per month per hangar. The City received \$720 in hangar rent for the year ending June 30, 2004.
- C. The City entered into an operating lease agreement with RACOM Corporation to rent space on its water tower sufficient to mount a two-way radio antenna, housing for the base station, equipment and transmission line from March 3, 1981, until written notice is given by either party 180 days prior to the date of desired termination. Rent for the space is \$400 annually, payable on or before January 1 each year.
- D. The City entered into an operating lease agreement with Burnham & Wood Funeral Home, Inc. to rent space on its water tower sufficient to mount a two-way radio antenna, housing for the base station, equipment and transmission line from November 1, 1991 until written notice is given by either party 180 days prior to the date of desired termination. No cash payment is required, but Burnham & Wood Funeral Home, Inc. is required to allow the West Union ambulance service to use part of the excess space free of charge.
- E. The City entered into an operating lease agreement with Fayette County, Iowa to rent real estate located at the intersection of South Walnut and Railroad Streets. The lease runs annually beginning May 1, 2002 at \$220 per month payable the first day of each month. During the same period the County provides the City radio, telephone and dispatch services at \$220 per month. Therefore there is no exchange of funds to either party unless one or the other agreement is terminated by giving a 90 day notice.
- F. The City entered into an operating lease agreement with State Farm Insurance to rent to them the south part of the building known locally as 612 Hwy. 150 South. The lease period runs from August 1, 2000 through July 31, 2003. The rental rate of \$800.00 per month was due on execution of this lease and the first of each month thereafter. The tenant has the option to extend the lease for three additional three year periods if specified terms and conditions are met. The tenant did not extend the agreement as of the year end.

CITY OF WEST UNION
NOTES TO FINANCIAL STATEMENTS
Year ended June 30, 2004

NOTE 4 - LEASES (continued)

- G. The City entered into an operating lease agreement on June 1, 1998 with Donald Kamaus, CPA to rent him the south half of the lower level, except storage area, of the building known locally as 612 Hwy. 150 South. The lease period runs from June 1, 2001 through May 31, 2004. The rental rate of \$450 per month was due on execution of this lease and the first of each month thereafter. Either party may terminate this lease for any reason upon giving written notice to the other at least 120 days in advance. During the year the tenant gave notice to not continue with the lease as of June 30, 2003.
- H. The City entered into an operating lease agreement with Alpine Long Distance L.C. on January 1, 2001 to rent space on its water tower to mount telecommunication equipment and housing for the base station from January 1, 2001 until written notice is given by either party 120 days prior to termination. No cash payment is required by Alpine Long Distance, L.C. in exchange for high speed internet connection and internet service to the City Hall, Police Department and the Library facilities during the term of the agreement.

As Lessee

- I. The City entered into an operating lease agreement with the North Fayette Community School District for tennis courts. The lease runs from January 1, 1978 to December 31, 2016. The City shall pay \$1 annually on or before January 1 and provide general maintenance of the tennis courts. Major maintenance and repairs shall be paid equally by the City and lessor.
- J. The City entered into an operating lease agreement with Hawkeye Alarm & Signal Company for two alarm receiving panels. The lease runs from January 1, 1987 to December 31, 1989 and thereafter until written notice is given by either party 30 days prior to the date of desired termination. The City pays \$84 per alarm or \$168 annually, payable in advance.
- K. The City entered into an operating lease agreement with the Zion Lutheran Church, West Union, Iowa. The City is renting a parking lot from the Church on an annual basis beginning March 1, 1982. No cash payment is required, but the City is required to provide for snow removal, maintenance and police the parking area. This lease is cancelable by either party with 30 days written notice.
- L. The City entered into an operating lease agreement with Baumler Implement, Inc., West Union, Iowa. The City is renting a tractor on an annual basis beginning April 1, 2001. The City traded in an old tractor as the initial payment. A payment of \$7,000 is due each July 1 starting in 2002 until the option to buy out in July 2006. The buy out is scheduled for \$36,769.

CITY OF WEST UNION
 NOTES TO FINANCIAL STATEMENTS

Year ended June 30, 2004

NOTE 4 - LEASES (continued)

M. The City entered into an operating lease with option to purchase a copier. The lease is for five years with monthly payments of \$59.90. At the end of the lease the copier can be purchased for \$140. The City's rent expense was \$659.

Year ended June 30, 2005	7,888
2006	7,888
2007	888
2008	61
2009	1
Thereafter	7

NOTE 5 - 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 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 \$32,920, \$33,451 and \$32,327, respectively, equal to the required contributions for each year.

NOTE 6 - COMPENSATED ABSENCES

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

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$ 31,466

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

CITY OF WEST UNION
NOTES TO FINANCIAL STATEMENTS
Year ended June 30, 2004

NOTE 7 – INTERFUND TRANSFERS

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

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	General	
General	General - Fire Equipment Replacement Account	\$ 6,370
	Special Revenue Emergency	14,406
		<u>\$ 20,776</u>
Debt Service	General	\$ 32,000
	Special Revenue:	
	Urban Renewal Tax	
	Increment Financing	233,332
	Local Option Sales Tax	35,469
	Enterprise	
	Water	31,440
	Sewer	31,560
		<u>\$ 363,801</u>
Capital Projects		
Aquatic Center Project	Special Revenue Local Option Sales Tax	<u>\$ 35,469</u>
Special Revenue	Permanent	
Cemetery Building	Cemetery Mausoleum	<u>\$ 96</u>
Special Revenue	Special Revenue	
Library Endowment	Local Option Sales Tax	<u>\$ 35,470</u>
Capital Projects	Special Revenue	
Street	Road Use Tax	19,920
	Local Option Sales Tax	35,470
		<u>\$ 55,390</u>

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

CITY OF WEST UNION
NOTES TO FINANCIAL STATEMENTS

Year ended June 30, 2004

NOTE 8 – RELATED PARTY TRANSACTIONS

The City had business transactions between the City and City officials totaling \$2,100 during the year ended June 30, 2004.

NOTE 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 any of the past three fiscal years.

NOTE 10 – DEFICIT FUND BALANCE

The Capital Projects, Streets had a deficit balance of \$7,972 at June 30, 2004. The deficit balance was a result of project costs incurred prior to availability of funds. The deficit will be eliminated upon receipt of funds.

NOTE 11 – CONSTRUCTION IN PROGRESS AND SUBSEQUENT EVENTS

The City is currently constructing a new aquatic center. Total estimated cost of this project is \$1,860,000 with \$368,000 paid for as of June 30, 2004. This project is being funded with a combination of private donations, state grant funds, and local option sales tax proceeds.

The City is currently constructing certain street, storm sewer, and water system improvements in the area of the local hospital. As of June 30, 2004, all but \$378.00 of these project costs have been paid. This project is being funded with water system funds, proceeds from the city's local options sales tax and financial participation from the hospital. Total cost of this project is \$182,000.

NOTE 12 – CONTINGENCIES

The City participates in state and federal assisted grant programs. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreement and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the City at June 30, 2004.

CITY OF WEST UNION
 NOTES TO FINANCIAL STATEMENTS
 Year ended June 30, 2004

NOTE 13 – AQUATIC CENTER

The City and a local non-profit organization dedicated to recreation have joined forces on a \$1,933,000 recreation project including a City owned aquatic center that is projected to cost \$1,860,000 of the total. The balance of the project will be owned by the organization. Fund raising and grant application started in the fall of 2002 with contributors having the option to designate, if any, as to what part of the project they would like to fund. The administration is being handled by the Organization. As of June 30, 2004 \$650,000 has been given to the City by the Organization.

NOTE 14 - 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.

The government-wide financial statement reports the City’s governmental and business type activities. Beginning net assets have been restated to include the allocation of the Internal Service Fund.

	<u>Governmental Activities</u>	<u>Business Type Activities</u>
Cash basis net assets June 30, 2003 as previously reported	\$ 525,700	\$ 200,053
Internal Service Fund	<u>75</u>	<u>-</u>
Cash basis net assets July 1, 2003, as restated	<u>\$ 525,775</u>	<u>\$ 200,053</u>

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF WEST UNION

BUDGETARY COMPARISON SCHEDULE
OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN BALANCES -
BUDGET AND ACTUAL (CASH BASIS) -
ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUNDS

REQUIRED SUPPLEMENTARY INFORMATION

As of and for the year ended June 30, 2004

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds Not Required to be Budgeted	Net	Budgeted Amounts		Final to Net Variance
					Original	Final	
Receipts							
Property tax	\$ 581,750	\$ -	\$ -	\$ 581,750	\$ 586,365	\$ 586,365	\$ (4,615)
Tax increment financing collections	178,698	-	-	178,698	171,000	171,000	7,698
Other city tax	192,585	-	-	192,585	210,990	210,990	(18,405)
Licenses and permits	7,526	-	-	7,526	6,300	6,300	1,226
Use of money and property	11,419	2,824	-	14,243	31,330	31,330	(17,087)
Intergovernmental	257,676	-	-	257,676	791,860	791,860	(534,184)
Charges for service	144,773	459,772	-	604,545	623,100	623,100	(18,555)
Miscellaneous	546,432	157,654	541,577	162,509	288,100	313,100	(150,591)
Total receipts	<u>1,920,859</u>	<u>620,250</u>	<u>541,577</u>	<u>1,999,532</u>	<u>2,709,045</u>	<u>2,734,045</u>	<u>(734,513)</u>
Disbursements							
Public safety	278,575	-	-	278,575	305,140	310,790	(32,215)
Public works	362,200	-	-	362,200	374,995	382,205	(20,005)
Health and social services	280	-	-	280	300	350	(70)
Culture and recreation	318,031	-	-	318,031	310,100	346,600	(28,569)
Community and economic development	18,055	-	-	18,055	27,095	27,095	(9,040)
General government	117,976	-	-	117,976	122,500	135,000	(17,024)
Debt service	339,885	-	-	339,885	296,745	341,245	(1,360)
Capital projects	480,316	-	-	480,316	2,165,000	2,165,000	(1,684,684)
Business type activities	-	350,005	-	350,005	387,660	387,660	(37,655)
Nonprogram	416,098	125,486	541,584	-	-	-	-
Total disbursements	<u>2,331,416</u>	<u>475,491</u>	<u>541,584</u>	<u>2,265,323</u>	<u>3,989,535</u>	<u>4,095,945</u>	<u>(1,830,622)</u>
Excess of receipts over disbursements	(410,557)	144,759	(7)	(265,791)	(1,280,490)	(1,361,900)	1,096,109
Other financing sources, net	305,000	(63,000)	-	242,000	1,155,000	1,246,500	(1,004,500)
Excess of receipts and other financing sources over disbursements and other financing uses	(105,557)	81,759	(7)	(23,791)	(125,490)	(115,400)	91,609
Balances beginning of year	525,775	200,053	75	725,753	659,395	725,821	(68)
Balances end of year	<u>\$ 420,218</u>	<u>\$ 281,812</u>	<u>\$ 68</u>	<u>\$ 701,962</u>	<u>\$ 533,905</u>	<u>\$ 610,421</u>	<u>\$ 91,541</u>

See accompanying independent auditor's report.

CITY OF WEST UNION

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 Internal Service Funds and Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund 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, the budget was amended once to increase budgeted disbursements by \$106,410. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2004, disbursements did not exceed the amounts budgeted.

OTHER SUPPLEMENTARY INFORMATION

CITY OF WEST UNION

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			Capital Projects	Permanent		Total
	Emergency	Employee Benefits	Local Option Sales Tax	Cemetery Building	Cemetery Hard Surface Drive	Cemetery Land Acquisition	Library Endowment	Streets	Cemetery Mausoleum	Cemetery Perpetual Care	
Receipts											
Property tax	\$ 13,728	\$ 98,824	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 112,552
Other city tax	678	4,852	141,878	-	-	-	-	-	-	-	147,408
Use of money and property	-	201	-	55	78	225	1,168	13	96	-	1,836
Intergovernmental	-	-	-	-	-	-	511	822	-	-	1,333
Miscellaneous	-	130	-	-	-	1,695	3,698	34,181	-	1,645	41,349
Total receipts	<u>14,406</u>	<u>104,007</u>	<u>141,878</u>	<u>55</u>	<u>78</u>	<u>1,920</u>	<u>5,377</u>	<u>35,016</u>	<u>96</u>	<u>1,645</u>	<u>304,478</u>
Disbursements											
Operating											
Public safety	-	56,706	-	-	-	-	-	-	-	-	56,706
Public works	-	59	-	-	-	-	-	-	-	-	59
Culture and recreation	-	29,207	-	-	-	76	73,049	-	-	-	102,332
Community and economic development	-	-	-	-	-	-	-	-	-	-	-
General government	-	21,998	-	-	-	-	-	-	-	-	21,998
Capital projects	-	-	-	-	-	-	-	112,494	-	-	112,494
Total disbursements	<u>-</u>	<u>107,970</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>76</u>	<u>73,049</u>	<u>112,494</u>	<u>-</u>	<u>-</u>	<u>293,589</u>
Excess (deficiency) of receipts over (under) disbursements	<u>14,406</u>	<u>(3,963)</u>	<u>141,878</u>	<u>55</u>	<u>78</u>	<u>1,844</u>	<u>(67,672)</u>	<u>(77,478)</u>	<u>96</u>	<u>1,645</u>	<u>10,889</u>
Other financing uses											
Operating transfers in	-	-	-	96	-	-	35,470	55,390	-	-	90,956
Operating transfers out	(14,406)	-	(141,878)	-	-	-	-	-	(96)	-	(156,380)
Total other financing sources (uses)	<u>(14,406)</u>	<u>-</u>	<u>(141,878)</u>	<u>96</u>	<u>-</u>	<u>-</u>	<u>35,470</u>	<u>55,390</u>	<u>(96)</u>	<u>-</u>	<u>(65,424)</u>
Net change in cash balances	-	(3,963)	-	151	78	1,844	(32,202)	(22,088)	-	1,645	(54,535)
Cash balances beginning of year	-	21,785	-	5,423	8,094	20,992	85,777	14,116	10,000	69,135	235,322
Cash balances end of year	<u>\$ -</u>	<u>\$ 17,822</u>	<u>\$ -</u>	<u>\$ 5,574</u>	<u>\$ 8,172</u>	<u>\$ 22,836</u>	<u>\$ 53,575</u>	<u>\$ (7,972)</u>	<u>\$ 10,000</u>	<u>\$ 70,780</u>	<u>\$ 180,787</u>
Cash Basis Fund Balances											
Unreserved											
Special revenue funds	\$ -	\$ 17,822	\$ -	\$ 5,574	\$ 8,172	\$ 22,836	\$ 53,575	\$ -	\$ -	\$ -	\$ 107,979
Capital projects fund	-	-	-	-	-	-	-	(7,972)	-	-	(7,972)
Permanent fund	-	-	-	-	-	-	-	-	10,000	70,780	80,780
Total cash basis fund balances	<u>\$ -</u>	<u>\$ 17,822</u>	<u>\$ -</u>	<u>\$ 5,574</u>	<u>\$ 8,172</u>	<u>\$ 22,836</u>	<u>\$ 53,575</u>	<u>\$ (7,972)</u>	<u>\$ 10,000</u>	<u>\$ 70,780</u>	<u>\$ 180,787</u>

See accompanying independent auditor's report.

CITY OF WEST UNION
SCHEDULE OF INDEBTEDNESS

Year ended June 30, 2004

Obligation	Date of Issue	Interest Rates	Amount Originally Issued	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
General Obligation Notes									
Corporate purpose note	June 1, 1994	4.00 - 5.50%	\$ 1,110,000	\$ 160,000	\$ -	\$ 160,000	\$ -	\$ 8,800	\$ -
Municipal building note	June 1, 1995	8.00	160,000	32,000	-	32,000	-	1,280	-
Street equipment note	Oct 15, 1999	4.50	70,000	19,201	-	19,201	-	650	-
Corporate purpose note	June 1, 2000	5.25	240,000	120,000	-	40,000	80,000	6,300	-
Corporate purpose note	Sept 1, 2000	5.25	225,000	175,000	-	20,000	155,000	8,663	-
Municipal building note	Dec 1, 2003	4.25	92,000	-	92,000	15,000	77,000	1,960	-
				<u>\$ 506,201</u>	<u>\$ 92,000</u>	<u>\$ 286,201</u>	<u>\$ 312,000</u>	<u>\$ 27,653</u>	<u>\$ -</u>
Revenue Bonds and Notes									
Water	Dec 1, 1981	5.00%	\$ 396,600	\$ 274,752	\$ -	\$ 9,777	\$ 264,975	\$ 13,493	\$ -
Building lease	June 1, 1995	8.25	125,000	25,000	-	25,000	-	1,031	-
				<u>\$ 299,752</u>	<u>\$ -</u>	<u>\$ 34,777</u>	<u>\$ 264,975</u>	<u>\$ 14,524</u>	<u>\$ -</u>
Local Option Tax Bond									
Anticipation Note	Mar 15, 2004	4.0	\$ 1,100,000	\$ -	\$ 150,000	\$ -	\$ 150,000	\$ -	\$ -

See accompanying independent auditor's report.

CITY OF WEST UNION
BOND AND NOTE MATURITIES

June 30, 2004

GENERAL OBLIGATION BONDS AND NOTES

Year Ending June 30.	<u>Corporate Purpose Note</u> <u>Issued June 1, 2000</u>		<u>Corporate Purpose Note</u> <u>Issued Sept 1, 2000</u>		<u>Municipal Building Note</u> <u>Issued Dec 1, 2003</u>		<u>Total</u>
	<u>Interest</u> <u>Rates</u>	<u>Amount</u>	<u>Interest</u> <u>Rates</u>	<u>Amount</u>	<u>Interest</u> <u>Rates</u>	<u>Amount</u>	
2005	5.25%	\$ 40,000	5.25%	\$ 40,000	4.00%	\$ 26,000	\$ 106,000
2006	5.25	40,000	5.25	115,000	4.00	\$ 26,000	181,000
2007		-		-	4.00	25,000	25,000
		<u>\$ 80,000</u>		<u>\$ 155,000</u>		<u>\$ 77,000</u>	<u>\$ 312,000</u>

REVENUE BONDS AND NOTES

Year Ending June 30.	<u>Water</u> <u>Issued Nov 1, 1988</u>	
	<u>Interest</u> <u>Rates</u>	<u>Amount</u>
2005	5.00%	\$ 10,266
2006	5.00	10,780
2007	5.00	11,319
2008	5.00	11,885
2009	5.00	12,479
2010	5.00	13,103
2011	5.00	13,758
2012	5.00	14,446
2013	5.00	15,168
2014	5.00	15,926
2015	5.00	16,723
2016	5.00	17,559
2017	5.00	18,437
2018	5.00	19,359
2019	5.00	20,327
2020	5.00	21,343
2021	5.00	22,097
		<u>\$ 264,975</u>

See accompanying independent auditor's report.

CITY OF WEST UNION

SCHEDULE OF RECEIPTS BY SOURCE AND DISBURSEMENTS BY FUNCTION -
ALL GOVERNMENTAL FUNDS

For the Last Two Years

	Years ended June 30,	
	2004	2003
Receipts		
Property tax	\$ 581,750	\$ 589,872
Tax increment financing collections	178,698	177,693
Other city tax	192,585	208,945
Licenses and permits	7,526	6,305
Use of money and property	11,419	28,602
Intergovernmental	257,676	404,551
Charges for service	144,773	157,216
Miscellaneous	130,341	87,592
Total	\$ 1,504,768	\$ 1,660,776
Disbursements		
Operating		
Public safety	278,575	399,565
Public works	362,200	417,556
Health and social services	280	300
Culture and recreation	318,031	310,812
Community and economic development	18,055	16,678
General government	117,976	109,628
Debt service	339,885	428,524
Capital projects	480,316	171,269
Total	\$ 1,915,318	\$ 1,854,332

See accompanying independent auditor's report.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING

To the Honorable Mayor and
Members of the City Council

We have audited the primary government financial statements of City of West Union, Iowa, as of and for the year ended June 30, 2004, and have issued our report thereon dated November 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 City of West Union's primary government financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations and 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 III 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 III-J-04 and III-L-04.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered City of West Union'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 a 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 City of West Union'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.

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

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of West Union and other parties to whom City of West Union 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 West Union during the course of our audit. Should you have questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Hagen + Kallaway, P.C.

November 2, 2004

CITY OF WEST UNION
SCHEDULE OF FINDINGS
Year ended June 30, 2004

Part I: Summary of the Independent Auditor's 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 a material weakness.
- c. The audit did not disclose any noncompliance which is material to the financial statements.
- d. The City received and expended less than \$500,000 in Federal Awards, therefore a Single Audit was not required.

Part II: Findings Related to the Financial Statements

Instances of Non-Compliance

No material matters were noted

Reportable conditions

II-A-04

Segregation of Duties - The City is not large enough to permit an adequate segregation of duties for an effective system of internal control. The concentration of closely related duties and responsibilities such as the handling of cash receipts and disbursements, recording of the cash transactions and preparing various reports by a small staff makes it impossible to establish an adequate system of automatic checks for good internal control.

Recommendation - We realize this condition will be difficult to improve on. However, we do believe it is important that council be aware this condition does exist and make changes when appropriate and cost effective.

Response -.The City agrees with the recommendation.

Conclusion - Response accepted.

II-A-04

Deposit of Cash Receipts – We noted a reimbursement receipt of \$192 received directly by a department outside of City Clerks that did not get recorded in the records of the City Clerk on a timely basis.

Recommendation - We recommend the City review its receipts procedures so they can be included in the City's records on a timely basis.

Response -.The City agrees with the recommendation.

Conclusion - Response accepted.

CITY OF WEST UNION
 SCHEDULE OF FINDINGS
 Year ended June 30, 2004

Part III: Other Findings Related to Statutory Reporting

III-A-04

Official Depositories - A resolution naming official depositories has been adopted by the City. The maximum deposit amounts stated in the resolution were not exceeded during the year.

III-B-04

Certified Budget - Disbursements during the year ended June 30, 2004 did not exceed the amounts budgeted. 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.

III-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.

III-D-04

Travel Expense - No disbursement of City money for travel expenses of spouses of City officials or employees were noted.

III-E-04

Business Transactions - The following business transactions between the City and City officials or employees were noted:

<u>Name, Title, and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Wayne Havenstrite, Council Member Owner of Wayne & Del's Electronics Owner of Wilbur Ford Sales, Inc.	Office expense Vehicle repair & supplies	\$ 317 65
Robert Gage, Council Member Part owner of Gage & Gage	Plumbing parts and repair	1,106
Melissa Miller, employee Owner of Metro Signs	Services	212
Rory Starks, employee Part owner of R & V Snow Removal	Services	400

In accordance with Chapter 362.5(10) of the Code of Iowa, the transactions do not represent a conflict of interest since amounts are less than \$1,500.

CITY OF WEST UNION
SCHEDULE OF FINDINGS
Year ended June 30, 2004

Part III: Other Findings Related to Statutory Reporting (continued)

III-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.

III-G-04

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

III-H-04

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

III-I-04

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

III-J-04

Construction in Progress - Although the State Street Project is complete, the retainage continues to be held.

Recommendation - Action should be taken to close this project.

Response - Contractor has agreed to forfeit retainage on this project as final settlement.

Conclusion - Response accepted.

III-K-04

Grant Activity - No instances of noncompliance were noted.

III-L-04

Financial Condition - The Capital Projects - Streets had a deficit balance at June 30, 2004 of \$7,972.

Recommendation - The City should investigate alternatives to eliminate this deficit in order to return this account to a sound financial position.

Response - Further local option sales tax revenues will eliminate this deficit.

Conclusion - Response accepted.