

CITY OF COLFAX, IOWA

Independent Auditors' Reports
Basic Financial Statements and
Supplemental Information
and Findings

June 30, 2004

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City of Colfax, Iowa
Officials

Name		Title		Term Expires
Keith Warrick		Mayor		January, 2008
Kent Deal		Council Member		January, 2008
Bob Brown		Council Member		January, 2008
Bryan Poulter		Council Member		January, 2008
Elizabeth Wheeler		Council Member		January, 2006
David Annis		Council Member		January, 2006
Kathy Mathews		Clerk		Indefinite
Larry Opfer		Treasurer		Indefinite
Ken Walker		City Attorney		Indefinite

POLLARD AND COMPANY P.C.

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IOWA SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and Members of the City Council
City of Colfax

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 Colfax, 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's management. Our responsibility is to express an opinion 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 opinion.

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 of Colfax 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 a note to the financial statements, during the year ended June 30, 2004, the City adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences.

In accordance with Government Auditing Standards, we have also issued our reports as dated below 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. Those reports are an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis and the budgetary comparison information 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 of Colfax'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 is 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 are 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.

March 18, 2005

Pollard and Company P.C.

CITY OF COLFAX MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Colfax 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 ending June 30, 2004. We encourage readers to consider this information in conjunction with the City's financial statements and the accompanying notes, which follow.

Because Colfax 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.

FINANCIAL HIGHLIGHTS

- Receipts from Colfax's governmental activities increased 11% or \$130,833 from fiscal 2003 to fiscal 2004, mainly from grants \$112,855 and hotel/motel tax \$12,802.
- Disbursements decreased \$274,420 in fiscal 2004 from fiscal 2003. Public safety increased \$47,039, public works increased \$15,939, culture and recreation increased \$79,279, general government decreased \$10,970, debt service increased \$44,807, proprietary increased \$16,738, and capital projects decreased \$689,235.
- The City's total cash basis net assets (savings & CD accounts) decreased \$317,860 from June 30, 2003 to June 30, 2004. The assets of the government activities and the assets of the business type activities continued to remain consistent with past years.

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.

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.

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 New 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, and debt service. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the waterworks, sanitary sewer system, and garbage/landfill. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

- 1) Government 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, CDBG, and Urban Renewal Tax Increment, 3) the Debt Service Fund, and 4) 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. Transfers In and Out are an accounting device used to accumulate and allocate costs internally among the City's various functions.

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

- 2) Proprietary funds are used to report business type activities. The City maintains three funds to provide separate information for the water, sewer, and garbage/landfill funds considering these to be major funds of the City.

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased from a year ago, decreasing from \$476,196 to (\$83,063). The analysis that follows focuses on the changes in cash balances for governmental activities.

	Changes in Cash Basis Net Assets of Governmental Activities	
	Year ended June 30,	
	<u>2004</u>	<u>2003</u>
Receipts and transfers:		
Program receipts:		
Charges for service	179,847	133,017
Operating grants, contributions and restricted interest	194,087	248,518
Capital grants, contributions and restricted interest	215,407	48,121
General receipts:		
Property tax	526,036	567,795
Unrestricted investment earnings	8,087	7,760
Other general receipts	133,142	120,562
Total receipts and transfers	1,256,606	1,125,773
Disbursements:		
Public safety	349,459	302,420
Public works	266,345	250,406
Culture and recreation	215,444	136,165
Community and economic development	246,697	24,714
General government	300,788	311,758
Debt service	181,621	136,814
Capital projects		689,235
Total disbursements	1,560,354	1,851,512
Increase<decrease> in cash basis net assets	<303,748>	<725,739>
Other financing sources		834,000
Increase<decrease> in cash basis net assets	<303,748>	108,261
Cash basis net assets beginning of year	220,685	367,935
Cash basis net assets end of year	<83,063>	476,196

The City's total receipts for governmental activities increased \$130,833. The total cost of all programs and services decreased \$291,158 with no new programs added this year.

The City decreased property tax rates for 2004. Based on decreases in the total assessed valuation, property tax receipts are budgeted to remain very similar next year.

<u>Changes in Cash Basis Net Assets of Business Type Activities</u>		
	<u>Year ended June 30,</u>	
	<u>2004</u>	<u>2003</u>
Receipts:		
Program receipts:		
Charges for service:		
Water	283,754	278,355
Sewer	336,916	322,488
Landfill	132,462	133,866
General receipts:		
Restricted interest on investments-water sinking	5,551	8,056
Total receipts	758,683	742,765
Disbursements and transfers:		
Water	227,293	141,934
Sewer	432,544	345,755
Landfill	112,958	118,368
Transfers		150,000
Total disbursements and transfers	772,795	756,057
Increase (decrease) in cash balance	<14,112>	<13,292>
Cash basis net assets beginning of year	1,236,184	930,756
Cash basis net assets end of year	1,222,072	917,464

Total business type activities receipts for the fiscal year were increased due to additional billings in the Colfax Valley area.

INDIVIDUAL MAJOR GOVERNMENT FUND ANALYSIS

The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund decreased \$93,924 partially due to a decrease in state allocations totaling \$34,814 and an increase in the culture and recreation expenditures.
- The Employee Benefit Fund cash balance decreased \$82,537 as the prior year fund balance was used to pay benefits.
- The Debt Service Fund cash balance decreased \$41,896 due to disbursements exceeding property tax receipts.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance increased \$62,401.
- The Sewer Fund cash balance decreased \$96,017 due to debt service payments.
- The Garbage/Landfill cash balance increased \$19,504.

BUDGETARY HIGHLIGHTS

During the course of the year, the City did not amend its budget.

DEBT ADMINISTRATION

At June 30, 2004, the City had approximately \$2,755,794 in bonds and other long-term debt, compared to approximately \$2,997,115 last year, as shown below.

Outstanding Debt at Year-End		
	<u>2004</u>	<u>June 30,</u> <u>2003</u>
General obligation bonds	732,294	876,651
Revenue notes	2,023,500	2,120,464
Total	2,755,794	2,997,115

The City's outstanding general obligation debt of \$732,294 is below its constitutional debt limit of \$3.1 million.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

City of Colfax's elected and appointed officials considered many factors when setting the fiscal year 2005 budget, tax rates, and fees that will be charged for various City activities. One of those factors is the economy.

Inflation in the State continues to be somewhat lower than the national Consumer Price Index increase. The State's CPI increase was 3.2 percent for fiscal year 2004 compared with the national rate of 3.4 percent. Inflation has been modest here due in part to the slow residential housing market and modest increases in energy prices in 2003-2004.

These indicators were taken into account when adopting the budget for fiscal year 2005. Amounts available for appropriation in the operating budget are \$2.5 million, an increase over the final 2004 budget. Budgeted disbursements are expected to remain fairly similar. The City has added no major new programs or initiatives to the 2005 budget.

If these estimates are realized, the City's budgeted cash balance is expected to increase 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 Kathy L. Mathews, City Clerk, 15 E Howard, Colfax, Iowa.

City of Colfax, Iowa
Statement of Activities and Net Assets – Cash Basis
As of and for the year ended June 30, 2004

	Disbursements	Program Receipts		
		Charges for Services	Operating Grants, Contributions, and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions/Programs				
Governmental Activities				
Public safety	\$ 349,459	\$ 136,810	\$ -	\$ -
Public works	266,345	-	185,735	-
Culture and recreation	215,444	43,037	-	-
Community and economic development	246,697	-	-	215,407
General government	300,788	-	8,352	-
Debt service	181,621	-	-	-
Total governmental activities	1,560,354	179,847	194,087	215,407
Business Type Activities				
Water	227,293	289,694	-	-
Sewer	432,544	336,527	-	-
Landfill	112,958	132,462	-	-
Total business type activities	772,795	758,683	-	-
Total	\$ 2,333,149	\$ 938,530	\$ 194,087	\$ 215,407
General Receipts				
Property tax levied for				
General purposes				
Tax increment financing				
Debt service				
Hotel/motel tax				
Unrestricted interest on investments				
Miscellaneous				
Total general receipts				
Change in cash basis net assets				
Cash basis net assets beginning of year				
Cash basis net assets end of year				
Cash basis net assets				
Restricted				
Streets				
Debt service				
Other purposes				
Unrestricted (deficit)				
Total cash basis net assets				
<i>There were no reconciling items between the Governmental and Fiduciary Fund Statements of Cash Receipts, Disbursements and Changes in Cash Balances and the above Statement. See notes to financial statements.</i>				

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
Governmental Activities	Business Type Activities	Total
\$ (212,649)	\$ -	\$ (212,649)
(80,610)	-	(80,610)
(172,407)	-	(172,407)
(31,290)	-	(31,290)
(292,436)	-	(292,436)
(181,621)	-	(181,621)
(971,013)	-	(971,013)
-	62,401	62,401
-	(96,017)	(96,017)
-	19,504	19,504
-	(14,112)	(14,112)
\$ (971,013)	\$ (14,112)	\$ (985,125)
391,365	-	391,365
21,114	-	21,114
113,557	-	113,557
12,802	-	12,802
8,087	-	8,087
120,340	-	120,340
667,265	-	667,265
(303,748)	(14,112)	(317,860)
220,685	1,236,184	1,456,869
\$ (83,063)	\$ 1,222,072	\$ 1,139,009
\$ 28,266	\$ -	\$ 28,266
(25,045)	-	(25,045)
-	675,527	675,527
63,570	-	63,570
(149,854)	546,545	396,691
\$ (83,063)	\$ 1,222,072	\$ 1,139,009

City of Colfax, Iowa
Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Governmental Funds
As of and for the year ended June 30, 2004

		Special Revenue			
		General	Road Use Tax	CDBG	Employee Benefits
Receipts					
	Property Taxes	\$ 347,387	\$ -	\$ -	\$ 43,978
	Tax Increment Financing Collections	-	-	-	-
	Other City Tax	12,802	-	-	-
	Licenses and Permits	23,828	-	-	-
	Use of Money and Property	8,087	-	-	-
	Intergovernmental	8,352	185,735	215,407	-
	Charges for Services	179,847	-	-	-
	Miscellaneous	96,152	-	-	-
	Total Receipts	676,455	185,735	215,407	43,978
Disbursements					
	Operating				
	Public Safety	289,133	-	-	60,326
	Public Works	-	251,521	-	14,824
	Culture and Recreation	199,499	-	-	15,945
	Community and Economic Development	11,325	-	235,372	-
	General Government	265,368	-	-	35,420
	Debt Service	5,054	-	-	-
	Total Disbursements	770,379	251,521	235,372	126,515
Excess (deficiency) of receipts					
	over (under) disbursements	(93,924)	(65,786)	(19,965)	(82,537)
Other financing sources (uses)					
	Operating transfers in	-	-	-	-
	Total other financing sources (uses)	-	-	-	-
Net change in cash balances					
		(93,924)	(65,786)	(19,965)	(82,537)
Cash balance (deficit) - beginning of year					
		(47,939)	94,052	19,965	74,546
Cash balance (deficit) - end of year					
		\$ (141,863)	\$ 28,266	\$ -	\$ (7,991)
Cash basis fund balances (deficit)					
	Unreserved				
	Debt service	\$ -	\$ -	\$ -	\$ -
	General fund	(141,863)	-	-	-
	Special revenue funds	-	28,266	-	(7,991)
	Permanent fund	-	-	-	-
	Total cash basis fund balances	\$ (141,863)	\$ 28,266	\$ -	\$ (7,991)

Debt Service	Other Nonmajor Governmental Funds	Total
\$ 113,557	\$ -	\$ 504,922
-	21,114	21,114
-	-	12,802
-	-	23,828
-	-	8,087
-	-	409,494
-	-	179,847
-	360	96,512
113,557	21,474	1,256,606
-	-	349,459
-	-	266,345
-	-	215,444
-	-	246,697
-	-	300,788
176,567	-	181,621
176,567	-	1,560,354
(63,010)	21,474	(303,748)
21,114	(21,114)	-
21,114	(21,114)	-
(41,896)	360	(303,748)
16,851	63,210	220,685
\$ (25,045)	\$ 63,570	\$ (83,063)
\$ (25,045)	\$ -	\$ (25,045)
-	-	(141,863)
-	-	20,275
-	63,570	63,570
\$ (25,045)	\$ 63,570	\$ (83,063)

City of Colfax, Iowa
Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Proprietary Funds
As of and for the year ended June 30, 2004

	Water	Sewer	Landfill	Total
Operating receipts				
Use of money and property	\$ 5,551	\$ 1,611	\$ 115	\$ 7,277
Charges for service	284,143	334,916	132,347	751,406
Total operating receipts	289,694	336,527	132,462	758,683
Operating disbursements				
Business type activities	227,293	272,244	112,958	612,495
Excess of operating receipts over operating disbursements	62,401	64,283	19,504	146,188
Non-operating receipts (disbursements)				
Debt service	-	(160,300)	-	(160,300)
Total non-operating receipts (disbursements)	-	(160,300)	-	(160,300)
Net change in cash balances	62,401	(96,017)	19,504	(14,112)
Cash balances - beginning of year	759,269	441,225	35,690	1,236,184
Cash balances - end of year	\$ 821,670	\$ 345,208	\$ 55,194	\$1,222,072
Cash basis fund balances				
Reserved for debt service	\$ 457,202	\$ 218,325	\$ -	675,527
Unreserved	364,468	126,883	55,194	546,545
Total cash basis fund balances	\$ 821,670	\$ 345,208	\$ 55,194	1,222,072
<i>See notes to financial statements</i>				

City of Colfax, Iowa
 Statement of Cash Receipts, Disbursements and Changes in Cash Balances
 Fiduciary Funds
 As of and for the Year Ended June 30, 2004

		Library Memorials	Tenant Memorial
Receipts			
Donations		\$ 3,188	\$ -
Investment earnings - interest		70	3,562
Total receipts		3,258	3,562
Excess of receipts over disbursements		3,258	3,562
Cash balance - beginning of year		10,135	49,140
Cash balance - end of year		<u>\$ 13,393</u>	<u>\$ 52,702</u>

CITY OF COLFAX, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

1/ Summary of Significant Accounting Policies

The City of Colfax is a political subdivision of the State of Iowa located in Jasper County. It was first incorporated in 1866 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a nonpartisan basis. The City provides numerous services to citizens including public safety, public works, culture, recreation, public improvements, and general administrative services.

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 board 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.

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: Jasper County Assessor's Conference Board, Selective Enforcement Response Team and Safety Coalition of Central Iowa Cities, Jasper County Animal Rescue League and Humane Society and Central Iowa Committee.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

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

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

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

B. Basis of Presentation (continued)

The Statement of Activities and Net Assets demonstrates the degree to which 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 CDBG Fund is used to account for projects financed by Community Development Block Grants.

The Employee Benefits Fund is used to account for the tax levy and the disbursement for the benefits.

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

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.

The Landfill accounts for the operation of the City's solid waste disposal system.

C. Measurement Focus and Basis of Accounting

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

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2004, disbursements exceeded the amounts budgeted in the Public Works, Culture and Recreation, Community and Economic Development and Debt Service functions.

2/ Cash and Pooled Investments

The City's deposits 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 has no investments that are subject to risk categorization.

3/ Contract Payable

In August 2001, the City purchased a shop building from the Iowa Department of Transportation for \$117,000. After payments to date, the remaining payment will be \$23,000 payable in 2005. The contract bears zero interest.

4/ Lease Commitment

In March, 2002, the City entered into a governmental lease purchase agreement for a tractor. The final payment will be \$13,951 in 2005. The agreement stipulates in the event the funds are not budgeted and appropriate in the current or succeeding fiscal year, the lease shall be void.

5/ Notes Payable

The annual debt service requirement to maturity for general obligation notes, and the sewer revenue notes is as follows:

Year Ending June 30,	General Obligation Notes		Sewer Revenue Notes		Total Annual Debt Retirement	
	Principal	Interest	Principal	Interest	Principal	Interest
2005	\$ 88,571	\$ 32,572	\$ 91,478	\$ 67,329	\$ 180,049	\$ 99,901
2006	84,603	28,744	95,334	64,146	179,937	92,890
2007	86,677	25,113	98,244	60,820	184,921	85,933
2008	88,853	21,380	102,211	57,378	191,064	78,758
2009	91,139	17,537	105,240	53,785	196,379	71,322
2010	93,541	13,580	109,335	50,067	202,876	63,647
2011	96,065	9,503	112,498	46,191	208,563	55,694
2012	62,845	5,300	116,736	42,182	179,581	47,482
2013	40,000	1,400	121,052	38,006	161,052	39,406
2014			125,452	33,658	125,452	33,658
2015			114,920	29,132	114,920	29,132
2016			108,000	24,930	108,000	24,930
2017			112,000	21,690	112,000	21,690
2018			115,000	18,330	115,000	18,330
2019			118,000	14,880	118,000	14,880
2020			122,000	11,340	122,000	11,340
2021			126,000	7,680	126,000	7,680
2022			130,000	3,900	130,000	3,900
Totals	\$ 732,294	\$ 155,129	\$ 2,023,500	\$ 645,444	\$ 2,755,794	\$ 800,573

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

- a. The bonds will only be redeemed from the future earnings of the sewer activity and the note holders hold a lien on the future earnings of the sewer fund.
- b. Sufficient monthly transfers shall be made to a separate revenue bond sinking account for the purpose of making the next bond principal and interest payments.

The City has established the sinking and reserve funds required by the above resolutions.

6/ Tax Increment Financing

In 1988, 1991, and 1999, the City established three urban renewal districts and made agreements with the county and school, in accordance with Chapter 403.19 of the Code of Iowa, to divide the increase in taxes, as a result of the incremental property tax valuation in those districts.

The taxes so collected are paid into the City's Special Revenue Fund and are to be expended for project costs or debt service associated with the projects affecting the districts. In prior years, the taxes received were not sufficient to pay the debt service. Consequently, the water fund advanced \$77,269 toward debt service. In accordance with the Iowa Code, these advances may be repaid from the tax increment revenues after the general obligation refunding note is retired.

6/ Tax Increment Financing (continued)

In July 2001, the City and Jasper County entered into a 28E agreement to develop the Colfax I-80 Interchange Urban Renewal Project area. The City extended its water and sanitary sewer service to the area. By June 30, 2004, the County had loaned the City \$1,188,406 for the extension costs and \$80,175 to reimburse engineering costs. The County shall collect and retain all tax increment revenues collected from the taxable properties located in the area. If upon maturity of the loan, the revenue collected is not sufficient to fully reimburse the County for all the principal and interest paid by the County, on its loan for this specific purpose, the City will be obligated to repay the unpaid balance plus interest at the rate then being paid by the County on its loan. Since the repayment is contingent on future taxes paid in the Urban Renewal Project area, the amounts of the payments are not readily determinable.

7/ Pension and Retirement Benefits

IPERS

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 salary and the City is required to contribute 5.75% of annual covered payroll except for police and fire employees, in which case the percentages are 5.93% and 8.90%, 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 \$29,122, \$25,796, and \$24,217, respectively, which is equal to the required contributions for each year.

8/ Compensated Absences

City employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, retirement, or death. These accumulations are not recognized as disbursements by the City until used or paid. The liability is computed based on the rate of pay as of June 30, 2004. The City's approximate liability for earned vacation and sick leave termination payments payable to employees at June 30, 2004, primarily relating to the General Fund, was \$21,000.

9/ Related Party Transactions

The City had business transactions between the City and City officials totaling \$180 during the year ended June 30, 2004.

10/ 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.

11/ Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that effect the reported amounts and disclosure of liabilities, contingent liabilities and commitments at the date of the financial statements, and the classification of receipts and disbursements during the reporting period. Actual results could differ from the estimates that were used.

12/ Deficit Fund Balances

At June 30, 2004 the General, Employee Benefits, and Debt Service Funds had deficit balances of \$141,863, \$7,991, and \$25,045, respectively. The deficit in the General Fund will be reduced by transfers from the Proprietary Fund operating accounts. The deficit in the Employee Benefit Fund will be reduced by increasing property tax levies in subsequent years. The deficit in the Debt Service Fund was created because the tax increment financing taxes are less than the debt service payments. Future receipts will be used to offset the deficit.

13/ Accounting Change

Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management’s Discussion and Analysis for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences were implemented for the fiscal year ending 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 represented in total in one column. Implementation of these standards had no effect on the beginning fund balances.

14/ Economic Development Loan

With funds from the Iowa Department of Economic Development, the City loaned \$150,000 to a local manufacturing company which employs 40 people. The loan is forgivable to the extent of \$75,000 and repayment is expected on the \$75,000 balance. Principal payment are to be received over 5 years and there is no interest due. Any repayment is to be used by the City for similar projects.

City of Colfax, Iowa
 Budgetary Comparison Schedule of Receipts, Disbursements, and Changes in Balances
 Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Funds
 Required Supplementary Information
 Year ended June 30, 2004

		Governmental Funds Actual	Proprietary Funds Actual	Budgeted Amounts		
				Net	Final	Final to Net Variance
Receipts						
	Property Taxes	\$ 504,922	\$ -	\$ 504,922	\$ 491,244	\$ 13,678
	Tax increment financing collections	21,114	-	21,114	75,000	(53,886)
	Other city tax	12,802	-	12,802	32,234	(19,432)
	Licenses and permits	23,828	-	23,828	5,500	18,328
	Use of money and property	8,087	7,277	15,364	20,000	(4,636)
	Intergovernmental	409,494	-	409,494	261,452	148,042
	Charges for Service	179,847	751,406	931,253	789,100	142,153
	Special assessments	-	-	-	2,000	(2,000)
	Miscellaneous	96,512	-	96,512	-	96,512
	Total Receipts	1,256,606	758,683	\$ 2,015,289	1,676,530	338,759
Disbursements						
	Public safety	349,459	-	349,459	363,887	14,428
	Public works	266,345	-	266,345	256,500	(9,845)
	Health and social services	-	-	-	3,000	3,000
	Culture and recreation	215,444	-	215,444	194,031	(21,413)
	Community and economic development	246,697	-	246,697	19,223	(227,474)
	General government	300,788	-	300,788	309,930	9,142
	Debt service	181,621	-	181,621	61,966	(119,655)
	Business type activities	-	772,795	772,795	857,785	84,990
	Total Disbursements	1,560,354	772,795	2,333,149	2,066,322	(266,827)
Excess (deficiency) of receipts						
	over (under) disbursements	(303,748)	(14,112)	(317,860)	(389,792)	71,932
	Balance - beginning of year	220,685	1,236,184	1,456,869	1,394,993	61,876
	Balance - end of year	\$ (83,063)	\$ 1,222,072	\$ 1,139,009	\$ 1,005,201	\$ 133,808
<i>See accompanying independent auditors' report.</i>						

City of Colfax, Iowa
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. The budget was not amended during the year. The original budget is reflected in the final budgeted amounts.

During the year ended June 30, 2004, disbursements exceeded the amounts budgeted in the Public Works, Culture and Recreation, Community and Economic Development, and Debt Service functions.

City of Colfax, Iowa
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	Permanent	
	Urban Renewal Tax Increment	Cemetery Perpetual Care	Total
Receipts			
Property tax - tax increment financing	\$ 21,114	\$ -	\$ 21,114
Miscellaneous	-	360	360
Total Receipts	21,114	360	21,474
Total Disbursements			
	-	-	-
Excess of receipts over disbursements			
	21,114	360	21,474
Other financing uses			
Operating transfers out	(21,114)	-	(21,114)
Net change in cash balances			
	-	360	360
Cash balance - beginning of year	-	63,210	63,210
Cash balance - end of year	<u>\$ -</u>	<u>\$ 63,570</u>	<u>\$ 63,570</u>
Cash basis fund balances			
Unreserved			
Permanent fund		\$ 63,570	\$ 63,570
Total cash basis fund balances	<u>\$ -</u>	<u>\$ 63,570</u>	<u>\$ 63,570</u>
<i>See accompanying independent auditors' report.</i>			

City of Colfax, Iowa
Schedule of Indebtedness
For the year ended June 30, 2004

	Date of Issue	Interest Rates	Amount Originally Issued
Obligation			
General Obligation Notes			
Fire Station and Park Project	March 2, 1998	5.00%	\$ 400,000
Refunding Note	May 10, 1999	4.50%	225,000
Sewer Equipment Note	January 12, 2001	5.00%	12,000
City Hall Note	April 1, 2002	5.00%	35,000
South Sewer	April 14, 2003	3.50%	400,000
Corporate Purpose Note	August 15, 2001	5.00%	150,000
Municipal Swimming Pool Repairs and Improvements to City Park, Ball Fields, and Tennis Courts			
Totals			
Revenue Notes			
Sewer Revenue Bonds	March 15, 2003	3.00%	\$ 1,910,000
Sewer Revenue Note	May 8, 2001	6.25%	250,000
Totals			
<i>The accompanying notes to financial statements are an integral part of this statement.</i>			

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
\$ 239,643	\$ -	\$ 23,951	\$ 215,692	\$ 12,085	\$ -
55,000	-	55,000	-	2,474	-
10,800	-	5,400	5,400	545	-
31,500	-	3,500	28,000	1,550	-
400,000	-	40,000	360,000	13,949	-
139,708	-	16,506	123,202	6,661	-
\$ 876,651	\$ -	\$ 144,357	\$ 732,294	\$ 37,264	\$ -
\$ 1,910,000	\$ -	\$ 77,000	\$ 1,833,000	\$ 57,300	\$ -
210,464	-	19,964	190,500	6,036	-
\$ 2,120,464	\$ -	\$ 96,964	\$ 2,023,500	\$ 63,336	\$ -

City of Colfax, Iowa
 Note Maturities
 For the year ended June 30, 2004

	Fire Station and Park		Sewer Equipment		City Hall	
	Issued March 2, 1998		Issued January 12, 2000		Issued April 1, 2002	
Year Ending June 30,	Interest Rates (%)	Amount	Interest Rates (%)	Amount	Interest Rates (%)	Amount
2005	5.00	\$ 25,688	5.00	\$ 5,400	5.00	\$ 3,500
2006	5.00	26,406			5.00	3,500
2007	5.00	27,727			5.00	3,500
2008	5.00	29,113			5.00	3,500
2009	5.00	30,569			5.00	3,500
2010	5.00	32,097			5.00	3,500
2011	5.00	33,702			5.00	3,500
2012	5.00	10,390			5.00	3,500
2013	5.00	-				-
Totals		<u>\$ 215,692</u>		<u>\$ 5,400</u>		<u>\$ 28,000</u>

	Sewer Revenue Notes		Sewer Revenue Bonds		
	Issued May 8, 2000		Issued March 15, 2003		
Year Ending June 30,	Interest Rates (%)	Amount	Interest Rates (%)	Amount	Total Sewer Revenue
2005	6.25	13,478	3.00	78,000	91,478
2006	6.25	14,334	3.00	81,000	95,334
2007	6.25	15,244	3.00	83,000	98,244
2008	6.25	16,211	3.00	86,000	102,211
2009	6.25	17,240	3.00	88,000	105,240
2010	6.25	18,335	3.00	91,000	109,335
2011	6.25	19,498	3.00	93,000	112,498
2012	6.25	20,736	3.00	96,000	116,736
2013	6.25	22,052	3.00	99,000	121,052
2014	6.25	23,452	3.00	102,000	125,452
2015	6.25	9,920	3.00	105,000	114,920
2016	6.25	-	3.00	108,000	108,000
2017	6.25	-	3.00	112,000	112,000
2018	6.25	-	3.00	115,000	115,000
2019	6.25	-	3.00	118,000	118,000
2020	6.25	-	3.00	122,000	122,000
2021	6.25	-	3.00	126,000	126,000
2022	6.25	-	3.00	130,000	130,000
Totals		<u>\$ 190,500</u>		<u>\$ 1,833,000</u>	<u>\$ 2,023,500</u>

See accompanying independent auditors' report.

South Sewer		Pool and Park		
Issued April 14, 2003		Issued August 15, 2001		
Interest Rates (%)	Amount	Interest Rates (%)	Amount	Total General Obligations
3.50	\$ 40,000	5.00	\$ 13,983	\$ 88,571
3.50	40,000	5.00	14,697	84,603
3.50	40,000	5.00	15,450	86,677
3.50	40,000	5.00	16,240	88,853
3.50	40,000	5.00	17,070	91,139
3.50	40,000	5.00	17,944	93,541
3.50	40,000	5.00	18,863	96,065
3.50	40,000	5.00	8,955	62,845
3.50	40,000		-	40,000
	<u>\$ 360,000</u>		<u>\$ 123,202</u>	<u>\$ 732,294</u>

City of Colfax, Iowa
 Schedule of Receipts by Source and Disbursements by Function
 All Government Funds
 As of and for the year ended June 30, 2004

		2004	2003
Receipts			
Property taxes		\$ 504,922	\$ 532,767
Tax increment financing collections		21,114	35,028
Other city tax		12,802	-
Licenses and permits		23,828	18,404
Use of money and property		8,087	7,760
Intergovernmental		409,494	296,639
Charges for service		179,847	114,613
Miscellaneous		96,512	120,562
Total		\$ 1,256,606	\$ 1,125,773
Disbursements			
Operating			
Public safety		\$ 349,459	\$ 302,420
Public works		266,345	250,406
Culture and recreation		215,444	136,165
Community and economic development		246,697	24,714
General government		300,788	311,758
Debt service		181,621	136,814
Capital Projects		-	689,235
Total		\$ 1,560,354	\$ 1,851,512
<i>See accompanying independent auditors' report.</i>			

POLLARD AND COMPANY P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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

To the Honorable Mayor and
Members of the City Council

We have audited the financial statements of the City of Colfax, Iowa as of and for the year ended June 30, 2004, and have issued our report thereon as dated below. 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 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's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

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 item II-B-04.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City'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, we believe the reportable conditions described in the Schedule of Findings are material weaknesses. Prior year reportable conditions have been resolved except for items I-A-04.

This report, a matter of public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Colfax and other parties to whom the City of Colfax may report. This report is intended to be and should not be used by anyone other than these specified parties.

March 18, 2005

Pollard and Company P.C.

CITY OF COLFAX, IOWA
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2004

Part I: Findings Related to the Financial Statements

REPORTABLE CONDITIONS:

I-A-04 Segregation of Duties

One important aspect of internal accounting control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that generally one person has control over each of the following areas:

- (1) Cash receipts, journalizing and posting.
- (2) Disbursements, check writing, signing mailing journalizing and posting.
- (3) Payroll preparation and distribution.

Recommendation

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

Response

We will continue to review the internal control procedures and segregate duties to the extent possible with existing personnel.

Conclusion

Response accepted.

Part II: Other Findings Related to Statutory Reporting

II-A-04 Official Depositories

A resolution naming official depositories has been approved by the City. 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 Works, Culture and Recreation, Community and Economic Development and Debt Service functions. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

Recommendation

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

Response

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

Conclusion

Response accepted.

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

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

II-D-04 Travel Expense
We noted no disbursements of City money for travel expenses of spouses of City officials or employees during the year.

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

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
David Mast, Former City Administrator	Computer Services	\$ 180

In accordance with Chapter 362.5(10) of the Code of Iowa, these transactions do not appear to be a conflict of interest, since the duties of the function are not incompatible with duties as a City Manager.

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 insure 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.

II-I-04 Financial Condition
The General, Employee Benefit and Debt Service Funds had deficit balances at June 30, 2004 of \$141,863, \$7,991, and \$25,045, respectively.

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

Response
The City will transfer, in the year ending June 30, 2005, from unrestricted Enterprise Funds sufficient funds to eliminate the deficit in the General Fund. The deficit in the Employee Benefit Fund will be eliminated by increasing property tax levies in the subsequent year. The deficit in the Debt Service Fund will be eliminated with future tax receipts.

Conclusion
Response accepted.