

CITY OF ALBIA
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2004

Peak & Gerdes, LLP
Certified Public Accountants
103 Benton Avenue East
Albia, Iowa 52531

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City Of Albia

Officials

<u>Name</u>	<u>Title</u> (Before January, 2004)	<u>Term Expires</u>
Larry Johnson	Mayor	January 1, 2004
Richard Clark	Mayor Pro Tem	January 1, 2006
Jeff Stoffa	Council Member	January 1, 2006
Norm Braun	Council Member	January 1, 2006
Angie Folkerts	Council Member	January 1, 2004
Jan Haselhuhn	Council Member	January 1, 2004
Helen Foster	Council Member	January 1, 2004

(After January, 2004)

Richard Clark	Mayor	January 1, 2006
Jim Keller	Council Member	January 1, 2006
Dan Stouthammer	Council Member	January 1, 2008
Jeff Stoffa	Council Member	January 1, 2006
Jan Haselhuhn	Council Member	January 1, 2008
Helen Foster	Council Member	January 1, 2006
Norm Braun	Council Member	January 1, 2006
Carl E. Gragg	City Clerk/Treasurer	January 1, 2006
John Pabst	Attorney	January 1, 2006

Library Board

Joanna Albers	Library Trustee	July 1, 2005
Dave Paxton	Library Trustee	July 1, 2006
Dorothy Cabell	Library Trustee	July 1, 2006
Lelah Marlin	Library Trustee	July 1, 2008
Sylvia Rosenthal	Library Trustee	July 1, 2008
Matt Foster	Library Trustee	July 1, 2008
Marty Ryan	Library Trustee	July 1, 2008
Sharon Crall	Library Trustee	July 1, 2008
Sharon O'Donnell	Library Trustee	July 1, 2008

Cemetery Board

John Botts	Cemetery Trustee	July 1, 2004
Ken Simondale	Cemetery Trustee	July 1, 2004
Lester Poole	Cemetery Trustee	July 1, 2004
Marge Adler	Cemetery Trustee	July 1, 2006
Coleen Putnam	Cemetery Trustee	July 1, 2008
Kenny Williams	Cemetery Trustee	July 1, 2008
Mary Woodcock	Cemetery Trustee	July 1, 2008

City of Albia

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<u>Planning and Zoning</u>		
Homer Renwick	Commissioner	February 1, 2005
Ray Vitko, Jr.	Commissioner	February 1, 2005
Chris Anderson	Commissioner	February 1, 2006
Robert Reed	Commissioner	February 1, 2006
Rich Bartels	Commissioner	February 1, 2008
John Freshwater	Commissioner	February 1, 2009
Rino Della Vedova	Commissioner	February 1, 2009
<u>Board of Adjustment and Review</u>		
Andy Winborn	Board Member	August 3, 2004
Sue Palmer	Board Member	August 3, 2005
Angie Folkets	Board Member	August 3, 2006
Steve Goodlow	Board Member	August 3, 2007
Kenneth Geyer	Board Member	August 3, 2008
<u>Historic Preservation Board</u>		
Michael Judge	Board Member	January 1, 2005
Camillia Williamson	Board Member	January 1, 2005
John Scieszinski	Board Member	January 1, 2005
Ann Miletich	Board Member	January 1, 2006
Robert Reed	Board Member	January 1, 2006
<u>Low-Rent Housing</u>		
Mary Lou Rinehart	Board Member	May 8, 2006
Marilyn Koffman	Board Member	May 8, 2006
Dan Johnson	Board Member	May 8, 2006
Jack Baker	Board Member	May 8, 2006
Kathy Welsh	Board Member	May 8, 2006
<u>Albia Waterworks Board</u>		
Jack Scieszinski	Board Member	April 2, 2005
John Scieszinski	Board Member	April 2, 2007
Bob Russell	Board Member	April 2, 2009
<u>Albia Parks Commission</u>		
Dan Tometich	Commissioner	October 18, 2004
Julie Baylor	Commissioner	October 18, 2004
Kim Howie	Commissioner	October 18, 2005
Ted Banning	Commissioner	October 18, 2006
Steve Parks	Commissioner	October 18, 2006

City of Albia

PEAK & GERDES, LLP
CERTIFIED PUBLIC ACCOUNTANTS
103 BENTON AVENUE EAST
ALBIA, IOWA 52531

(641) 932-3295

Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Albia, 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 Albia'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 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, the discretely preserved component unit, each major fund and the aggregate remaining fund information of the City of Albia as of June 30, 2004, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

As described in note 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; 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 July 9, 2004 on our consideration of the City of Albia's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and contracts. 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 8 through 13 and 28 through 29 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 Albia'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 three years ended June 30, 2003 (none of which are presented herein) and expressed unqualified opinions on those financial statements. Other supplemental information included in Schedules 1 through 4, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Peak & Gerdes, LLP
Certified Public Accountants

July 9, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Albia 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, comparison 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 78.3%, or approximately \$1,629,000, from fiscal 2003 to fiscal 2004. Bond proceeds increased \$1,721,200 and local option sales tax increased approximately \$119,000.

Disbursements decreased 2.9%, or approximately \$59,000, from fiscal 2004 to fiscal 2003. Debt service disbursements decreased approximately \$87,000, and capital projects disbursements increased approximately \$58,000.

The City's total cash basis net assets increased 121.3%, or approximately \$1,636,000, from June 30, 2003 to June 30, 2004. Of this amount, the assets of the governmental activities increased approximately \$1,749,000 and the assets of the business type activities decreased by approximately \$113,000.

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 nonmajor 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 operation 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 three kinds of activities:

- (1) 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.
- (2) Business Type Activities include the landfill, airport and the sanitary sewer system. These activities are financed primarily by user charges.
- (3) The Component unit includes the activities of the City's Municipal Waterworks. The City has included the Waterworks activities because its relationship with the City is such that exclusion would cause the City's financial statements to be misleading or incomplete.

Funds 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 Trust & Agency funds, 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. Enterprise Funds are used to report business type activities. The City maintains three Enterprise Funds to provide separate information for the Airport and Sewer funds, considered to be major funds of the City, and the Landfill fund, considered to be a non-major fund of the City.

The required financial statements for proprietary funds include a statement of cash receipts, disbursements and charges 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 increased sharply from a year ago, increasing from \$.892 million to \$2.642 million. 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 <u>June 30, 2004</u>
Receipts and transfers:	
Program receipts:	
Charges for service	\$ 95
Operating grants, contributions and restricted interest	435
Capital grants, contributions and restricted interest	25
General receipts:	
Property tax	950
Local option sales tax	119
Unrestricted investment earnings	12
Bond proceeds	1,981
Miscellaneous	49
Sale of assets	9
Transfers, net	<u>33</u>
Total operating receipts and transfers	<u>3,708</u>
Disbursements:	
Public safety	453
Public works	352
Culture and recreation	194
Community and economic development	48
General government	290
Debt service	387
Capital projects	<u>235</u>
Total disbursements	<u>1,959</u>
Increase in cash basis net assets	1,749
Cash basis net assets beginning of year	<u>893</u>
Cash basis net assets end of year	<u>\$2,642</u>

The City's total receipts for governmental activities increased by 78.3%, or 1,629,000. The total cost of all programs decreased by approximately \$59,000, or 2.9%, with no new programs added this year. The significant increase in receipts was primarily the result of proceeds received from the issuance of swimming pool bonds.

The City's property tax collections remained relatively steady from fiscal 2003 to fiscal 2004. Approximately \$950,000 and \$947,000 in property taxes were collected in fiscal 2004 and 2003, respectively.

The cost of all governmental activities this year was \$1.959 million. However, as shown on the Statement of Activities and Net Assets, the amount taxpayers ultimately financed for these activities was only \$1.404 million because some of the cost was paid by those directly benefited from the programs (\$95,000) or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest (\$460,000). Overall, the City's governmental activities receipts, including intergovernmental aid and fees for service, was approximately \$555,000. The City paid for the remaining "public benefit" portion of governmental activities with approximately \$1,404,000 in tax (some of which could only be used for certain programs) and with other receipts, such as interest and general entitlements.

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

	<u>Year ended</u> <u>June 30, 2004</u>
Receipts:	
Program receipts:	
Charges for service	
Airport	\$ 5
Sewer	329
Other (Landfill)	15
Capital grants, contributions and restricted interest	438
General receipts:	
Unrestricted interest on investments	10
Miscellaneous	<u>24</u>
Total receipts	<u>821</u>
 Disbursements and transfers:	
Airport	278
Sewer	607
Other (Landfill)	16
Transfers	<u>33</u>
Total disbursements and transfers	<u>934</u>
 Increase (decrease) in cash balance	 (113)
Cash basis net assets beginning of year	<u>455</u>
Cash basis net assets end of year	<u>\$ 342</u>

Total business type activities receipts for the fiscal year were \$.821 million compared to \$.588 million last year. This significant increase was due primarily to the receipt of \$262,000 in a federal grant received for airport construction. The cash balance decreased by approximately \$113,000 from the prior year because of a major sewer construction project which was completed during fiscal 2004. Total disbursements and transfers for the fiscal year increased by 13.8% to a total of \$.934 million.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Albia completed the year, its governmental funds reported a combined fund balance of \$2,642,198, an increase of more than \$892,000 above last year's total of \$1,749,297. 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 decreased \$108,302 from the prior year to \$182,560. Approximately \$58,000 of this decrease relates to the State of Iowa not funding the state allocation funds this fiscal year.

The Road Use Tax Fund cash balance decreased by \$5,401 to \$97,281 during the fiscal year. The increase in receipts of approximately \$7,000 was more than offset by the increase in road maintenance costs incurred.

The Debt Service Fund cash balance increased by \$4,536 to (\$2,055) during the fiscal year. Bond principal and interest payments decreased by \$86,934 in fiscal 2004.

The Aquatic Center Fund is a new fund in fiscal 2004. The cash balance at June 30, 2004 was \$1,851,931. These monies will be used for the construction of a new aquatic center in the City.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

The Airport Fund cash balance decreased by \$125 to \$19,778. A federal grant and donations were used for construction at the airport this year.

The Sewer Fund cash balance decreased by \$116,706 to \$249,235, due primarily to construction projects which were completed during the fiscal year.

BUDGETARY HIGHLIGHTS

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

DEBT ADMINISTRATION

At June 30, 2004, the City of Albia had approximately \$4,735,000 in bonds and other long-term debts, compared to approximately \$3,067,000 last year.

OUTSTANDING DEBT AT YEAR END

General Obligation Bonds and Notes	\$4,245,000
Revenue Bonds	<u>490,000</u>
Total	<u>\$4,735,000</u>

Debt decreased as a result of issuing general obligation bonds for a swimming pool project.

The amount of general obligation debt a political subdivision of the State of Iowa can incur is controlled by constitutional debt limit, which is an amount equal to 5% of the actual value of property within the corporate limits, taken from the last county tax list. The Issuer's debt limit, based upon said valuation, amounts to the following:

Actual Value of Property, 2003	\$97,712,059
Debt Limit	<u>.05</u>
	<u>\$4,885,603</u>

The City's outstanding general obligation debt of \$4,245,000 is below the constitutional debt limit of \$4,885,603.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

City of Albia's elected and appointed officials and citizens considered many factors when setting the fiscal year 2005 budget, tax rates, and fees that will be charged for various City activities. One of those factors is the economy. Unemployment in the City now stands at 4.7 percent; this compares with the State's unemployment rate of 4.8 percent.

These indicators were taken into account when adopting the budget for fiscal year 2005. Amounts available for appropriation in the operating budget are approximately \$4.0 million, keeping in line with 2004 budget year. Property tax valuations were actually lower but with proceeds from a local option sales tax, lead to a slight increase. The City will use these increases to finance a major pool project. Budget disbursements are expected to rise due to wage and cost of living adjustments and increases in the Aquatic Center represent the largest increases.

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

CONTRACTING THE CITY'S FINANCIAL MANAGEMENT

The financial report is designed to provide our citizens, taxpayer, 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 Carl Gragg, City Clerk, 120 South "A" Street, Albia, Iowa 52531.

Basic Financial Statements

City of Albia

Statement of Activities and Net Assets - Cash Basis

As of and for the year ended June 30, 2004

Functions / Programs	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Primary Government:				
Governmental activities:				
Public safety	\$ 452,930	18,901	41,635	-
Public works	352,137	7,338	308,664	-
Culture and recreation	193,891	31,860	40,443	25,185
Community and economic development	47,637	-	44,361	-
General government	289,948	37,257	-	-
Debt service	387,104	-	-	-
Capital projects	235,007	-	-	-
Total governmental activities	1,958,654	95,356	435,103	25,185
Business type activities:				
Airport	278,334	4,601	-	262,408
Sewer	606,878	328,607	-	175,642
Other	15,649	15,756	-	-
Total business type activities	900,861	348,964	-	438,050
Total primary government	\$ 2,859,515	444,320	435,103	463,235
Component unit:				
Water utility	\$ 1,104,715	1,088,250	-	-
General Receipts:				
Property tax levied for:				
General purposes				
Debt service				
Local option sales tax				
Unrestricted interest on investments				
Bond proceeds (net of \$18,800 discount)				
Miscellaneous				
Sale of assets				
Transfers				
Total general receipts and transfers				
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				
Total cash basis net assets				

See notes to financial statements.

Exhibit A

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets			
Primary Government			Component Unit
Governmental Activities	Business Type Activities	Total	Water Utility
(392,394)	-	(392,394)	-
(36,135)	-	(36,135)	-
(96,403)	-	(96,403)	-
(3,276)	-	(3,276)	-
(252,691)	-	(252,691)	-
(387,104)	-	(387,104)	-
(235,007)	-	(235,007)	-
<u>(1,403,010)</u>	<u>-</u>	<u>(1,403,010)</u>	<u>-</u>
-	(11,325)	(11,325)	-
-	(102,629)	(102,629)	-
-	107	107	-
<u>-</u>	<u>(113,847)</u>	<u>(113,847)</u>	<u>-</u>
<u>(1,403,010)</u>	<u>(113,847)</u>	<u>(1,516,857)</u>	<u>-</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>(16,465)</u>
637,069	-	637,069	-
313,309	-	313,309	-
118,680	-	118,680	-
11,364	9,756	21,120	4,080
1,981,200	-	1,981,200	-
48,610	24,112	72,722	-
8,700	-	8,700	4,000
33,375	(33,375)	-	-
<u>3,152,307</u>	<u>493</u>	<u>3,152,800</u>	<u>8,080</u>
1,749,297	(113,354)	1,635,943	(8,385)
892,901	455,620	1,348,521	292,422
<u>\$ 2,642,198</u>	<u>342,266</u>	<u>2,984,464</u>	<u>284,037</u>
\$ 97,281	-	97,281	-
(2,055)	238,757	236,702	123,274
2,364,412	-	2,364,412	-
182,560	103,509	286,069	160,763
<u>\$ 2,642,198</u>	<u>342,266</u>	<u>2,984,464</u>	<u>284,037</u>

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

As of and for the year ended June 30, 2004

	General	Special Revenue Road Use Tax	Debt Service	Capital Projects Aquatic Center	Other Nonmajor Governmental Funds	Total
Receipts:						
Property tax	\$ 543,015	-	313,309	-	94,054	950,378
Other city tax	14,100	-	-	118,680	-	132,780
Licenses and permits	10,933	-	-	-	-	10,933
Use of money and property	20,964	-	-	21,214	9,722	51,900
Intergovernmental	91,327	308,664	-	-	3,263	403,254
Charges for service	6,588	-	-	-	-	6,588
Special assessments	5,269	-	-	-	-	5,269
Miscellaneous	53,015	-	-	-	70,559	123,574
Total receipts	745,211	308,664	313,309	139,894	177,598	1,684,676
Disbursements:						
Operating:						
Public safety	424,626	-	-	-	28,304	452,930
Public works	10,927	314,065	-	-	27,145	352,137
Culture and recreation	147,113	-	-	-	46,778	193,891
Community and economic development	-	-	-	-	47,637	47,637
General government	280,647	-	-	-	9,301	289,948
Debt service	-	-	387,104	-	-	387,104
Capital projects	-	-	-	235,007	-	235,007
Total disbursements	863,313	314,065	387,104	235,007	159,165	1,958,654
Excess (deficiency) of receipts over(under) disbursements	(118,102)	(5,401)	(73,795)	(95,113)	18,433	(273,978)
Other financing sources (uses):						
Bond proceeds (net of \$18,800 discount)	-	-	-	1,981,200	-	1,981,200
Sale of capital assets	8,700	-	-	-	-	8,700
Operating transfers in	2,750	-	78,331	-	-	81,081
Operating transfers out	(1,650)	-	-	(34,156)	(11,900)	(47,706)
Total other financing sources (uses)	9,800	-	78,331	1,947,044	(11,900)	2,023,275
Net change in cash balances	(108,302)	(5,401)	4,536	1,851,931	6,533	1,749,297
Cash balances beginning of year	290,862	102,682	(6,591)	-	505,948	892,901
Cash balances end of year	\$ 182,560	97,281	(2,055)	1,851,931	512,481	2,642,198
Cash Basis Fund Balances						
Reserved:						
Debt Service	\$ -	-	(2,055)	-	-	(2,055)
Unreserved:						
General fund	182,560	-	-	-	-	182,560
Special revenue funds	-	97,281	-	-	343,542	440,823
Capital projects fund	-	-	-	1,851,931	-	1,851,931
Permanent funds	-	-	-	-	168,939	168,939
Total cash basis fund balances	\$ 182,560	97,281	(2,055)	1,851,931	512,481	2,642,198

See notes to financial statements.

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

As of and for the year ended June 30, 2004

	Airport Sinking Fund	Sewer	Other Nonmajor Proprietary Fund Landfill	Total
Operating receipts:				
Use of money and property	\$ 4,601	-	-	4,601
Charges for service	-	328,607	15,756	344,363
Total operating receipts	<u>4,601</u>	<u>328,607</u>	<u>15,756</u>	<u>348,964</u>
Operating disbursements:				
Business type activities	278,334	497,885	15,649	791,868
Total operating disbursements	<u>278,334</u>	<u>497,885</u>	<u>15,649</u>	<u>791,868</u>
Excess (deficiency) of operating receipts over (under) operating disbursements	<u>(273,733)</u>	<u>(169,278)</u>	107	<u>(442,904)</u>
Non-operating receipts (disbursements):				
Intergovernmental	262,408	175,642	-	438,050
Interest on investments	350	7,306	2,100	9,756
Miscellaneous	10,850	11,992	1,270	24,112
Debt service	-	(108,993)	-	(108,993)
Total non-operating receipts (disbursements)	<u>273,608</u>	<u>85,947</u>	<u>3,370</u>	<u>362,925</u>
Excess (deficiency) of receipts over (under) disbursements	(125)	(83,331)	3,477	(79,979)
Operating transfers out	-	(33,375)	-	(33,375)
Net change in cash balances	(125)	(116,706)	3,477	(113,354)
Cash balances beginning of year	19,903	365,941	69,776	455,620
Cash balances end of year	<u>\$ 19,778</u>	<u>249,235</u>	<u>73,253</u>	<u>342,266</u>
Cash Basis Fund Balances				
Reserved for debt service	\$ -	238,757	-	238,757
Unreserved	19,778	10,478	73,253	103,509
Total cash basis fund balances	<u>\$ 19,778</u>	<u>249,235</u>	<u>73,253</u>	<u>342,266</u>

See notes to financial statements.

City of Albia

Exhibit D

Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Agency Fund

As of and for the year ended June 30, 2004

	<u>UDAG</u>
Operating receipts:	
Miscellaneous	<u>\$ 20,000</u>
Total operating receipts	<u>20,000</u>
Operating disbursements:	
Non program	<u>20,000</u>
Total operating disbursements	<u>20,000</u>
Excess of operating receipts over operating disbursements	<u>-</u>
Cash balance beginning of year	<u>-</u>
Cash balance end of year	<u><u>\$ -</u></u>

City of Albia

Notes to Financial Statements
June 30, 2004

(1) Summary of Significant Accounting Policies

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

A. Reporting Entity

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

These financial statements present the City of Albia (the primary government) and its component unit. The component unit discussed below is included in the City's reporting entity because of the significance of its operational or financial relationship with the City. Certain disclosures about the discretely presented component unit are not included because the component unit has been audited separately and a report has been issued under separate cover. The audited financial statements are available at the City Clerk's office.

Discretely Presented Component Unit

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

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: Area XV Regional Planning Commission, Monroe County Assessor's Conference Board and the Monroe County Joint E-911 Service Board.

B. Basis of Presentation

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

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

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

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

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

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

The City reports the following major governmental funds:

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

Special Revenue:

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

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

Capital Projects:

The Aquatic Center Fund is used to account for the construction of the new aquatic center.

The City reports the following major proprietary funds:

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

The Airport Sinking Fund accounts for the operation and maintenance of the City's Airport.

C. Measurement Focus and Basis of Accounting

The City of Albia 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 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 debt service and capital projects activities functions.

(2) **Cash and Pooled Investments**

Because there was no deposit resolution at one bank, and was exceeded at the other bank, it is unclear if 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 the 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 meeting the disclosure requirements of Government Accounting Standards Board Statement No. 3.

(3) Bonds and Notes Payable

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

Primary Government									
Year Ending June 30,	General Obligation Bonds		Notes Payable		Revenue Bonds		Total		
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	
	2005	\$ 235,000	\$ 161,065	\$ 9,000	\$ 2,961	\$ 90,000	\$ 20,593	\$ 334,000	\$ 184,619
2006	255,000	150,974	9,000	2,580	95,000	16,903	359,000	170,457	
2007	310,000	140,028	10,000	2,200	100,000	12,912	420,000	155,140	
2008	470,000	127,326	10,000	1,777	100,000	8,713	580,000	137,816	
2009	485,000	109,678	10,000	1,354	105,000	4,462	600,000	115,494	
2010	515,000	90,660	11,000	931	-	-	526,000	91,591	
2011	535,000	69,823	11,000	465	-	-	546,000	70,288	
2012	265,000	52,654	-	-	-	-	265,000	52,654	
2013	275,000	39,455	-	-	-	-	275,000	39,455	
2014	280,000	30,255	-	-	-	-	280,000	30,255	
2015	300,000	20,620	-	-	-	-	300,000	20,620	
2016	250,000	10,000	-	-	-	-	250,000	10,000	
	<u>\$ 4,175,000</u>	<u>\$ 1,002,538</u>	<u>\$ 70,000</u>	<u>\$ 12,268</u>	<u>\$ 490,000</u>	<u>\$ 63,583</u>	<u>\$ 4,735,000</u>	<u>\$ 1,078,389</u>	

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

- (a) The bonds will only be redeemed from the future earnings of the enterprise activity and the bond holders hold a lien on the future earnings of the funds.
- (b) Sufficient monthly transfers shall be made to the sewer revenue bond sinking account for the purpose of making the bond principal and interest payments when due.

Even though not required, the City has established a reserve account for its revenue bonds.

(4) Pension and Retirement Benefits

The City contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of annual covered payroll except for police employees, in which case the percentages are 5.93% and 8.90%, respectively. For the year end June 30, 2003, the contribution rates for police employees and the City were 6.04% and 9.07%, respectively, and for the year ended June 30, 2002, the contribution rates for police employees and the City were 6.20% and 9.29%, respectively. Contribution requirements are established by state statute. The City's contribution to IPERS for the years ended June 30, 2004, 2003 and 2002 were \$36,448, \$37,150 and \$39,163 respectively, equal to the required contributions for each year.

(5) **Compensated Absences**

City employees accumulate a limited amount of earned but unused vacation, holiday and compensatory leave hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for compensated absences payable to employees at June 30, 2004 primarily relating to the General Fund, was \$36,243. The liability has been computed based on rates of pay as of June 30, 2004.

(6) **Budget Overexpenditure**

Per the Code of Iowa, disbursements may not legally exceed budgeted appropriations at the functional level. During the year ended June 30, 2004, disbursements in the Debt Service and Capital Project functions exceeded the amounts budgeted.

(7) **Interfund Transfers**

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

Transfer to	Transfer From	Amount
General	Permanent: Cemetery Perpetual Care and Memorial	<u>\$2,750</u>
Debt Service	General	1,650
	Capital Projects: Aquatic Center	34,156
	Enterprise: Sewer	33,375
	Special Revenue: Street Construction	<u>9,150</u>
		<u>78,331</u>
Total		<u>\$81,081</u>

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

(8) **Related Party Transactions**

The City had business transactions between the City and City officials, totaling \$18,345 during the year ended June 30, 2004.

(9) **Risk Management**

The City is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 490 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 300 percent of the total current member's basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The City's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The City's annual contributions to the Pool for the year ended June 30, 2004 were \$43,844.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional and public officials' liability risks up to \$250,000 per claim. Claims exceeding \$250,000 are reinsured in an amount not to exceed \$1,750,000 per claim and \$5,000,000 in aggregate per year. For members requiring specific coverage from \$2,000,000 to \$10,000,000, such excess coverage is also reinsured. Automobile physical damage risks are retained by the Pool up to \$50,000 each accident, each location, with excess coverage reinsured on an individual-member basis. All property risks are also reinsured on an individual-member basis.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event that a series of casualty claims exhausts total member's equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. As of June 30, 2004, settled claims have not exceeded the risk pool or reinsurance company coverage since the Pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their capital contributions. If a member withdraws after the sixth year, the member is refunded 100 percent of its capital contributions, however, the refund is reduced by an amount equal to the annual operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

The City also carries commercial insurance purchased from other insurers for coverage associated with workers compensation. The City assumes liability for any deductibles, and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(10) Deficit Fund Balance

The Debt Service Fund had a deficit balance of \$2,055 at June 30, 2004. This deficit will be eliminated through subsequent property tax collections. This deficit was caused because the City did not levy enough property taxes to cover the applicable disbursements from this fund.

(11) Construction Commitment

The City entered into a contract for approximately \$2,500,000 for construction of a new aquatic center. This contract will be paid as work on the project progresses. This project should be completed in fiscal year 2005.

(12) Grant Award

In the spring of 2004, the City received a \$600,000 Community Development Block Grant for the repair of water lines in the city.

(13) Contingency

In prior years, the City received payments in lieu of taxes from the local housing agency. However it was later determined that some of these funds should have been distributed to the other political subdivisions in the county. The City Attorney's position was that the City owed the other political subdivisions in the County for the past five years only, which would amount to approximately \$21,000. However, in fiscal year 2004, the City agreed to pay approximately \$64,000 to the other political subdivisions in settlement of the payments in lieu of taxes from the local housing agency. The City and other political subdivisions signed an agreement whereby the other political subdivisions will receive the City's share of the payments in lieu of taxes until the City's liability has been satisfied. At June 30, 2004, the City owed over \$60,000 to the other political subdivisions.

(14) 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 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. Non major funds are presented in total in one column. The government-wide financial statement reports the City's governmental and business type activities.

Required Supplementary Information

City of Albia

Budgetary Comparison Schedule
of Receipts, Disbursements, and Changes in Balances -
Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Funds - Primary Government

Required Supplementary Information

Year ended June 30, 2004

	Governmental Funds Actual	Proprietary Funds Actual	Net	Budgeted Amounts	Final to Net Variance
Receipts:					
Property tax	\$ 950,378	-	950,378	934,452	15,926
Other city tax	132,780	-	132,780	24,082	108,698
Licenses and permits	10,933	-	10,933	24,300	(13,367)
Use of money and property	51,900	14,357	66,257	-	66,257
Intergovernmental	403,254	438,050	841,304	750,160	91,144
Charge for service	6,588	344,363	350,951	860,857	(509,906)
Special assessments	5,269	-	5,269	-	5,269
Miscellaneous	123,574	24,112	147,686	-	147,686
Total receipts	1,684,676	820,882	2,505,558	2,593,851	(88,293)
Disbursements:					
Public safety	452,930	-	452,930	498,929	45,999
Public works	352,137	-	352,137	382,138	30,001
Culture and recreation	193,891	-	193,891	214,552	20,661
Community and economic development	47,637	-	47,637	68,000	20,363
General government	289,948	-	289,948	335,902	45,954
Debt service	387,104	-	387,104	317,351	(69,753)
Capital projects	235,007	-	235,007	-	(235,007)
Business type activities	-	900,861	900,861	981,818	80,957
Total disbursements	1,958,654	900,861	2,859,515	2,798,690	(60,825)
Excess (deficiency) of receipts over (under) disbursements	(273,978)	(79,979)	(353,957)	(204,839)	(149,118)
Other financing sources, net	2,023,275	(33,375)	1,989,900	-	1,989,900
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	1,749,297	(113,354)	1,635,943	(204,839)	1,840,782
Balances beginning of year	892,901	455,620	1,348,521	1,216,669	131,852
Balances end of year	\$ 2,642,198	342,266	2,984,464	1,011,830	1,972,634

See accompanying independent auditor's report.

City of Albia

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, there were no budget amendments.

During the year ended June 30, 2004, disbursements exceeded the amounts budgeted in the debt service and capital projects functions.

Other Supplementary Information

City of Albia

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

As of and for the year ended June 30, 2004

	Special				
	Volunteer Fire Department	Police Department	Employee Benefits	Library	Historical Preservation Board
Receipts:					
Property tax	\$ -	-	94,054	-	-
Use of money and property	443	-	-	186	425
Intergovernmental	-	-	-	3,263	-
Miscellaneous	-	6,496	17,731	10,361	35,099
Total receipts	<u>443</u>	<u>6,496</u>	<u>111,785</u>	<u>13,810</u>	<u>35,524</u>
Disbursements:					
Operating:					
Public safety	-	5,650	22,654	-	-
Public works	-	-	15,747	-	-
Culture and recreation	-	-	11,411	35,367	-
Community and economic development	-	-	-	-	42,483
General government	-	-	9,301	-	-
Total disbursements	<u>-</u>	<u>5,650</u>	<u>59,113</u>	<u>35,367</u>	<u>42,383</u>
Excess (deficiency) of receipts over (under) disbursements	<u>443</u>	<u>846</u>	<u>52,672</u>	<u>(21,557)</u>	<u>(6,859)</u>
Other financing uses:					
Operating transfers out	-	-	-	-	-
Net change in cash balances	443	846	52,672	(21,557)	(6,859)
Cash balances beginning of year	31,380	12,995	(24,800)	42,176	53,331
Cash balances end of year	<u>\$ 31,823</u>	<u>13,841</u>	<u>27,872</u>	<u>20,619</u>	<u>46,472</u>
Cash Basis Fund Balances					
Unreserved:					
Special revenue funds	\$ 31,823	13,841	27,872	20,619	46,472
Permanent funds	-	-	-	-	-
Total cash basis fund balances	<u>\$ 31,823</u>	<u>13,841</u>	<u>27,872</u>	<u>20,619</u>	<u>46,472</u>

See accompanying independent auditor's report.

Revenue				Permanent		Total
Cooper Estate Bequest	Cemetery Memorials	Special Assessment Bonds	Street Construction	Cemetery Perpetual Care and Memorial	Library Endowment	
-	-	-	-	-	-	94,054
8,645	-	-	-	23	-	9,722
-	-	-	-	-	-	3,263
192	-	-	-	680	-	70,559
8,837	-	-	-	703	-	177,598
-	-	-	-	-	-	28,304
-	-	-	11,398	-	-	27,145
-	-	-	-	-	-	46,778
5,254	-	-	-	-	-	47,637
-	-	-	-	-	-	9,301
5,254	-	-	11,398	-	-	159,165
3,583	-	-	(11,398)	703	-	18,433
-	-	-	(9,150)	(2,750)	-	(11,900)
3,583	-	-	(20,548)	(2,047)	-	6,533
138,110	2,106	32,214	47,450	76,508	94,478	505,948
141,693	2,106	32,214	26,902	74,461	94,478	512,481
141,693	2,106	32,214	26,902	-	-	343,542
-	-	-	-	74,461	94,478	168,939
141,693	2,106	32,214	26,902	74,461	94,478	512,481

City of Albia

Schedule 2

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	Bonds and Interest Due and Unpaid
General Obligation Bonds and Notes-									
Corporate Purpose Bonds	August 1, 1995	4.10 to 5.90%	\$ 760,000	480,000	-	50,000	430,000	26,403	-
Street Improvement Bonds	August 1, 1997	4.25 to 5.00%	1,000,000	820,000	-	100,000	720,000	39,640	-
Street Improvement Bonds	July 1, 1998	4.20 to 4.70%	775,000	575,000	-	50,000	525,000	26,282	-
Fire Equipment Note	May 4, 1999	4.23%	108,000	78,000	-	8,000	70,000	3,299	-
Corporate Purpose Bonds	December 1, 2002	1.90 to 4.35%	520,000	520,000	-	20,000	500,000	27,450	-
Swimming Pool Bonds	December 1, 2003	2.25 to 4.00%	2,000,000	-	2,000,000	-	2,000,000	34,156	-
Total				<u>\$ 2,473,000</u>	<u>2,000,000</u>	<u>228,000</u>	<u>4,245,000</u>	<u>157,230</u>	<u>-</u>
Revenue Bonds-									
Sewer Revenue Refunding	June 1, 1999	3.60 to 4.25%	\$ 595,000	575,000	-	85,000	490,000	23,993	-
Lease Purchase Agreement-									
Equipment	September 1, 1998	6.50%	\$ 84,375	19,027	-	19,027	-	1,274	-

See accompanying independent auditors report.

City of Albia

Schedule 3

Bond and Note Maturities

June 30, 2004

Year Ending June 30,	General Obligations Bonds and Notes												Total
	Corporate Purpose Bonds Issued August 1, 1995		Street Improvement Bonds Issued August 1, 1997		Street Improvement Bonds Issued July 1, 1998		Fire Equipment Note Issued May 4, 1999		Corporate Purpose Bonds Issued December 1, 2002		Swimming Pool Bonds Issued December 1, 2003		
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	
2005	5.10%	\$ 50,000	4.70%	\$ 105,000	4.40%	\$ 50,000	4.23%	\$ 9,000	2.15%	\$ 30,000	-	\$ -	\$ 244,000
2006	5.25%	55,000	4.75%	110,000	4.45%	50,000	4.23%	9,000	2.55%	40,000	-	-	264,000
2007	5.40%	60,000	4.80%	115,000	4.50%	50,000	4.23%	10,000	2.90%	40,000	2.25%	45,000	320,000
2008	5.55%	60,000	4.90%	125,000	4.55%	55,000	4.23%	10,000	3.20%	40,000	2.60%	190,000	480,000
2009	5.70%	65,000	4.95%	130,000	4.60%	55,000	4.23%	10,000	3.45%	40,000	2.85%	195,000	495,000
2010	5.80%	70,000	5.00%	135,000	4.65%	60,000	4.23%	11,000	3.55%	50,000	3.10%	200,000	526,000
2011	5.90%	70,000	-	-	4.70%	205,000	4.23%	11,000	3.80%	50,000	3.35%	210,000	546,000
2012	-	-	-	-	-	-	-	-	4.00%	50,000	3.95%	215,000	265,000
2013	-	-	-	-	-	-	-	-	4.05%	50,000	3.60%	225,000	275,000
2014	-	-	-	-	-	-	-	-	4.25%	50,000	3.70%	230,000	280,000
2015	-	-	-	-	-	-	-	-	4.35%	60,000	3.85%	240,000	300,000
2016	-	-	-	-	-	-	-	-	-	-	4.00%	250,000	250,000
		<u>\$ 430,000</u>		<u>\$ 720,000</u>		<u>\$ 525,000</u>		<u>\$ 70,000</u>		<u>\$ 500,000</u>		<u>\$ 2,000,000</u>	<u>\$ 4,245,000</u>

Year Ending June 30,	Sewer Revenue Refunding Bonds			Total Revenue Notes
	Issued June 1, 1999			
	Interest Rates	Amount		
2005	4.10%	\$ 90,000		\$ 90,000
2006	4.20%	95,000		95,000
2007	4.20%	100,000		100,000
2008	4.25%	100,000		100,000
2009	4.25%	105,000		105,000
		<u>\$ 490,000</u>		<u>\$ 490,000</u>

See accompanying independent auditor's report.

City of Albia

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

Schedule 4

For the Last Two Years

	2004	2003
Receipts:		
Property tax	\$ 950,378	946,568
Other city tax	132,780	12,229
Licenses and permits	10,933	10,435
Use of money and property	51,900	37,023
Intergovernmental	403,254	628,196
Charges for service	6,588	38,705
Special assessments	5,269	-
Miscellaneous	123,574	144,809
Total	\$1,684,676	1,817,965
Disbursements:		
Operating:		
Public safety	\$ 452,930	445,431
Public works	352,137	305,101
Culture and recreation	193,891	268,111
Community and economic development	47,637	18,382
General government	289,948	309,765
Debt service	387,104	474,038
Capital projects	235,007	176,612
Total	\$1,958,654	1,997,440

See accompanying independent auditor's report.

PEAK & GERDES, LLP
CERTIFIED PUBLIC ACCOUNTANTS
103 BENTON AVENUE EAST
ALBIA, IOWA 52531

(641) 932-3295

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 financial statements of the City of Albia, Iowa, as of and for the year ended June 30, 2004, and have issued our report thereon dated July 9, 2004. Our report expressed an unqualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

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

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior year statutory comments have been resolved except for items II-B-04, II-G-04, II-H-04, II-J-04, II-K-04, II-L-04, and II-N-04.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Albia's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of Albia's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe items I-A-04, I-C-04 and I-F-04 are material weaknesses. Prior year reportable conditions have not been resolved.

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

Peak & Gerdes, LLP
Certified Public Accountants

July 9, 2004

City of Albia

Schedule of Findings
Year ended June 30, 2004

Part II: Other Findings Related to Statutory Reporting:

II-A-04 Official Depositories - A resolution naming official depositories has not been approved by the City for one bank. The maximum deposit amount stated in the resolution for the other bank was exceeded during the year ended June 30, 2004.

Recommendation - The City name official depositories and the maximum amount that may be kept on deposit, as required by Chapter 12C.2 of the Code of Iowa.

Response - We will review this and take action as necessary.

Conclusion - Response accepted.

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

In addition, the fiscal year 2004 budget published in the newspaper does not mathematically foot.

Recommendation – The budget should have been amended in sufficient amounts in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget. Also, procedures should be implemented to ensure the budget amounts mathematically foot.

Response – The budget will be amended in the future, if applicable. Also, procedures will be implemented to ensure the budget mathematically foots.

Conclusion – Response accepted.

II-C-04 Questionable Disbursements - We noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

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

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

<u>Name, Title, and Business Connection</u>	<u>Transaction/Description</u>	<u>Amount</u>
Robert Reed, Planning and Zoning Commissioner and Historic Preservation Board; Owner, Reed Construction	Asphalt, Hauling and Demolition	\$18,345

All transactions were with officials who are not in a decision-making capacity and therefore do not appear to represent conflicts of interest.

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.

City of Albia

Schedule of Findings
Year ended June 30, 2004

II-G-04 Council Minutes - Transactions were found that we believe should have been approved in the Council minutes but were not. The Cooper Estate Bequest Fund and Historical Preservation Board invoices were not approved by the Council.

The Cooper Estate Bequest Fund and Historical Preservation Board Fund invoices were not published in the newspaper. A summary of all receipts was not published in the newspaper. The November 10, 2003, Council minutes were not published in the newspaper. All of this is required by Chapter 372.13(6) of the Code of Iowa. In addition, the November 10, 2003, Council minutes were not signed as required by Chapter 380.7 of the Code of Iowa. The specific vote of each member for entering into a closed session was not documented in the Council minutes as required by Chapter 21.5 of the Code of Iowa.

Recommendation - The City should implement procedures to ensure that all invoices are approved by the City Council. The City should also implement procedures to ensure that all invoices, a summary of all receipts and all Council minutes are published in the newspaper as required by the Code of Iowa and that all Council minutes are signed. In addition, procedures should be implemented to ensure compliance with Chapter 21.5 of the Code of Iowa.

Response - We will implement these recommendations.

Conclusion - Response accepted.

II-H-04 Deposits and Investments - As noted as II-A-04 an instance 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 was noted. In addition, interest income earned from the proceeds of debt were not credited to the project fund.

Recommendation - Interest income earned on the proceeds of debt should be credited to the project fund.

Response - We will implement this recommendation.

Conclusion - Response accepted.

II-I-04 Revenue Bonds and Notes - The City has complied with the provisions of the revenue bond resolutions.

II-J-04 Financial Condition - The Debt Service Fund had a deficit balance of \$2,055 at June 30, 2004. In addition, the balances in the Special Revenue Funds, Special Assessment Bonds and Proprietary Funds, Landfill appears to be excessive.

Recommendation - The City should investigate alternatives to eliminate this deficit in order to return this account to a sound financial position. In addition, procedures should be completed to reduce the funds with excessive balances.

Response - We will continue to monitor this.

Conclusion - Response accepted.

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

- II-K-04 IRS Form 1099 – We noted instances in which the City failed to file IRS 1099 – Misc. forms.
- Recommendation – The City implement procedures to ensure all IRS 1099 – Misc. forms are filed in the future.
- Response – We will implement the recommendation.
- Conclusion – Response accepted.
- II-L-04 Transfers – At June 30, 2004, \$1,820 was due from the Debt Service Fund to the Rural Fire Department Fund, and \$9,640 was due from the Rural Fire Department Fund to the Sewer Sinking Fund.
- Recommendation – The City make the above transfers.
- Response – We will implement this recommendation.
- Conclusion – Response accepted.
- II-M-04 Economic Development - The City paid \$10,000 to the Chamber of Commerce and \$10,000 to Monroe County Hitting and Pitching, which may not be an appropriate expenditure of public funds.
- In accordance with Chapter 15A of the Code of Iowa and an Attorney General’s opinion dated August 28, 1986, government financing of economic development may, in appropriate circumstances, serve a public purpose. The opinion advises the governing body to evaluate the public benefits to be obtained and discusses specific criteria to be considered in documenting the public purpose.
- Recommendation – The Council should evaluate and document the public purpose served by the expenditure before authorizing further payments and should require the benefiting organizations to provide documentation of how the funds were used to accomplish economic development activities.
- Response – We will do this.
- Conclusion – Response accepted.
- II-N-04 Disbursements – Instances were noted where the City did not consistently cancel paid invoices. Also, there was not always documented receipt of merchandise or service prior to payment of the invoices. The amount paid to the animal control officer does not agree to the terms of the written contract.
- Recommendation – We recommend the City cancel all paid invoices and agree to the terms of the written contract prior to payment of the invoices. In addition, the City should implement procedures to ensure receipt of merchandise and services is documented prior to the payment of the invoices.
- Response – We will implement these recommendations.
- Conclusion – Response accepted.

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

II-O-04 Leave Accrual – City employees have accrued vacation and compensatory time balances in excess of the maximum allowed by the City personnel policy.

Recommendation – The City implement procedures to ensure City personnel policies are followed in regards to maximum vacation and compensatory time balances.

Response – We are working on this.

Conclusion – Response accepted.

II-P-04 Compliance – One Council member is not paid as required by City Ordinance. An instance was noted where an individual did not pay rent for an airplane hanger. The Sewer Fund reimbursed the City for some non-sewer related costs.

Recommendation – The City pay all Council members as required per City Ordinance, implement procedures to ensure all hanger rent due the City is paid, and that the Sewer Fund pay for only sewer related costs.

Response – The Council member in question does not want paid. In addition, we will implement the other recommendations.

Conclusion – Response accepted.

City of Albia

Schedule of Findings
Year ended June 30, 2004

Part I: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

- I-A-04 Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The issuance of receipt slips, bank deposits and the posting of the cash receipts to the accounting records are sometimes all done by the same person.

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

Response – We will consider this.

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

- I-B-04 Payroll Procedures – Instances were noted where employee I-9's were either not located or incomplete. The library director's time sheet does not document time in and time out, only hours worked is recorded. The hours worked by a police department employee is not consistent with city policy. A police department employee received longevity pay even though it does not appear to be allowable per the union agreement. A full-time employee was not required to work full-time. The library employee time cards were not consistently signed by a supervisor. Taxable fringe benefits are not added to the employee's pay, and consequently applicable taxes were not withheld. Wages reported to the Internal Revenue Service (IRS) on the W3 form do not reconcile to the wages reported to the IRS on the quarterly Form 941's.

Recommendation - Properly completed I-9's should also be on file for all applicable employees. Time in and time out should be recorded on the timesheets. In addition, hours worked and longevity pay should follow city policy and the union agreements, respectively. The City should ensure that full-time employees are required to work full-time, and that all time cards are signed by the employee's supervisor. Also, all taxable fringe benefits should be added to employees pay, with all applicable taxes withheld. Procedures should also be implemented to ensure the wage amounts reported to the IRS are correct.

Response - We will implement these recommendations to the best of our ability.

Conclusion - Response accepted.

- I-C-04 Records of Account - The Albia Police Department maintains the accounting records and bank statements pertaining to three different bank accounts. The Albia Fire Department maintains the accounting records and bank statements pertaining to the volunteer fire department fund. These transactions and the resulting balances are not recorded in the Clerk's records. Chapter 384.20 of the Code of Iowa states in part "a city shall keep accounts which show an accurate and detailed statement of all public funds collected, received, or expended for any city purpose."

City of Albia

Schedule of Findings
Year ended June 30, 2004

Recommendation - For better accountability, financial and budgetary control, the financial activity and balances of all city accounts should be recorded on the Clerk's records.

Response – We will review this situation.

Conclusion - Response accepted.

- I-D-04 Pool Procedures - There is no reconciliation between the dollar value of season tickets issued with the amount of money collected from season ticket sales. In addition, there is no reconciliation between the dollar amount of money collected and the dollar amount of money that should have been collected based on the number of daily admissions.

Recommendation - The City implement procedures to ensure the various reconciliations are performed as documented above. Any variances should be immediately investigated.

Response - We will review our procedures prior to the opening of the pool next summer.

Conclusion - Response accepted.

- I-E-04 Receipts – During our testing, we noted that receipts were not always timely deposited to the bank. In addition, receipts were not always properly classified in the general ledger.

Recommendation - Receipts should be deposited more timely, preferably daily. In addition, the City should implement procedures to ensure all receipts are properly classified in the general ledger.

Response – We will work on more timely deposits, and proper classification of receipts.

Conclusion – Response accepted.

- I-F-04 Community Development Block Grant and Related Construction - Because the City used incorrect match percentages and claimed some unallowable costs, we determined the State of Iowa overpaid the City \$16,422. We identified instances where it appears the construction contractor and subcontractors did not pay the prevailing wages as required by the Davis Bacon Act. In addition, the contract completion date was not met by the contractor. However, the City did not assess liquidated damages on the contractor as allowed by the contract.

Recommendation - The City work with the State of Iowa in order to resolve the above issues.

Response - We will work with the State of Iowa in relation to these issues.

Conclusion - Response accepted.