

CITY OF SIBLEY
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2004

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CITY OF SIBLEY

OFFICIALS

<u>NAME</u>	<u>TITLE</u>	<u>TERM EXPIRES</u>
(Before January 2004)		
Betty Kingston	Mayor	January 1, 2004
Dan Janssen	Mayor Pro tem	January 1, 2004
Jerry Johnson	Council Member	January 1, 2006
Vicky Plotz Van Westen	Council Member	January 1, 2006
Larry Pedley	Council Member	January 1, 2006
Dolores Fink	Council Member	January 1, 2004
(After January 2004)		
Jerry Johnson	Mayor	January 1, 2006
Larry Pedley	Mayor Pro tem	January 1, 2006
Dan Janssen	Council Member	January 1, 2008
Vicky Plotz Van Westen	Council Member	January 1, 2006
Richard Matoloni	Council Member	January 1, 2008
Betty Kingston	Council Member - appointed to vacant position until special election	April 2, 2004
Mike Schulte	Council Member -special election held March 30, 2004	January 1, 2008
Dan Zulkosky	Administrator	Indefinite
Dianne Gruis	Clerk/Treasurer	Indefinite
Harold D. Dawson	Attorney	Indefinite

Dan Heard, CPA
David O. Halse, CPA
Kyle Ebel, CPA
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Certified Public Accountants
710 SOUTH UNION STREET, P.O. BOX 108
ROCK RAPIDS, IOWA 51246

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, each major fund and the aggregate remaining fund information of the City of Sibley, 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 Sibley's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which are 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 Sibley 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 13, during the year ended June 30, 2004, the City adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences.

In accordance with Government Auditing Standards, we have also issued our reports dated August 2, 2004 on our consideration of the City of Sibley'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.

Management's Discussion and Analysis and budgetary comparison information on pages 6 through 12 and 34 through 36 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 Sibley'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 supplementary information included in Schedules 1 through 5, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Wells Heard Halse & Co.

August 2, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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

2004 FINANCIAL HIGHLIGHTS

- Revenues of the City's governmental activities decreased 6.8%, or approximately \$168,000, from fiscal 2003 to fiscal 2004. Property tax increased approximately \$97,000 and grant proceeds increased \$610,000.
- Disbursements increased 5.9%, or approximately \$137,000, in fiscal 2004 from fiscal 2003. Public safety, debt service and general government disbursements increased approximately \$60,000, \$46,000 and \$424,000, respectively.
- The City's total cash basis net assets decreased 6.77%, or approximately \$184,000, from June 30 2003 to June 30, 2004. Of this amount, the assets of the governmental activities decreased approximately \$152,000 and the assets of the business type activities decreased by approximately \$31,000.

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. In addition, the Schedule of Expenditures of Federal Awards provides details of various federal programs benefiting the City.

Basis of Accounting

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

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

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

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

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

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

Fund Financial Statements

The City has two kinds of funds:

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

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

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

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased from a year ago, decreasing from \$672,000 to \$520,000. The analysis that follows focuses on the changes in cash balances for governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities		
(Expressed in Thousands)		
	Year ended June 30,	
	2004	2003
Receipts and transfer:		
Program receipts:		
Charges for service	\$ 211	\$ 188
Operating grants, contributions and restricted interest	289	321
Capital grants, contributions and restricted interest	613	5
General receipts:		
Property tax	931	829
Unrestricted investment earnings	3	36
Bond proceeds	-	569
Other general receipts	123	104
Transfers, net	142	428
Total receipts and transfers	<u>2,312</u>	<u>2,480</u>
Disbursements:		
Public safety	316	256
Public works	295	363
Health and social services	2	2
Culture and recreation	297	484
Community and economic development	6	-
General government	695	271
Debt service	491	445
Capital projects	362	506
Total disbursements	<u>2,464</u>	<u>2,327</u>
Increase (decrease) in cash basis net assets	(152)	153
Cash basis net assets beginning of year	<u>672</u>	<u>519</u>
Cash basis net assets end of year	<u>\$ 520</u>	<u>\$ 672</u>

The City's total receipts for governmental activities decreased by 6.8%, or \$168,000. The total cost of all programs and services increased by approximately \$137,000, or 5.9%, with no new programs added this year. The significant decrease in receipts was primarily the result of no new bond proceeds during the current year.

The City increased property tax rates for 2004 by an average of 13 percent. This increase raised the City's property tax receipts by approximately \$102,000 in 2004. Based on decreases in the total assessed valuation, property tax receipts are budgeted to decrease by an \$44,664 next year.

The cost of all governmental activities this year was \$2.464 million compared to \$2.327 million last year. However, as shown in the Statement of Activities and Net Assets on pages 14-15, the amount taxpayers ultimately financed for these activities was only \$1.351 million because some of the cost was paid by those directly benefited from the programs

(\$211,000) or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest (\$902,000). Overall, the City's governmental activities receipts, including intergovernmental aid and fees for service, increased in 2004 from approximately \$514,000 to approximately \$1,113,000, principally due to receiving three Community Development Block Grants for Hope Haven Project, Housing Rehab Project and Day Care Project. The City paid for the remaining "public benefit" portion of governmental activities with approximately \$1,351,000 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)		
	Year ended June 30,	
	2004	2003
Receipts and transfer:		
Program receipts:		
Charges for service		
Electric	\$ 1,921	\$ 1,997
Water	475	549
Golf	266	-
Other nonmajor	761	385
General receipts:		
Unrestricted investment earnings	27	36
Total receipts	<u>3,450</u>	<u>2,967</u>
Disbursements:		
Electric	1,650	1,934
Water	539	442
Golf	316	-
Other nonmajor	835	327
Transfers	142	428
Total disbursements	<u>3,482</u>	<u>3,131</u>
Increase (decrease) in cash basis net assets	(32)	(164)
Cash basis net assets beginning of year	<u>2,045</u>	<u>2,209</u>
Cash basis net assets end of year	<u>\$ 2,013</u>	<u>\$ 2,045</u>

Total business type activities receipts for the fiscal year were \$3.450 million compared to \$2.967 million last year. This significant increase was due primarily to the reclassifying the golf course as an enterprise fund and a power refund of \$313,838. The cash balance decreased by approximately \$32,000 from the prior year because the golf course is not yet self-supporting. Total disbursements and transfers for the fiscal year increased by 11.2% to a total of \$3.482 million.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As City of Sibley completed the year, its governmental funds reported a combined fund balance of \$519,559, a decrease of more than \$152,000 below last year's total of \$672,056. 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 \$102,166 from the prior year to \$(803,770). This decrease was due to general increases in expenses and reduced earnings on cash investments during the fiscal year. The City intends to continue close monitoring of the expenditures to insure only necessary purchase is made.
- The Road Use Tax Fund cash balance increased by \$29,354 to \$272,225 during the fiscal year. This increase was attributable to increased State Road Use Tax received and reduction of expenditures during the fiscal year.
- The Urban Renewal Tax Increment Fund was established to account for urban renewal projects within the City's business district. At the end of the fiscal year, the cash balance was \$(410), an increase of \$23,042 from the previous year. The increase was the result of transferring in 40,000 to cover the bond payment for the urban renewal tax increment financing revenue bonds. These proceeds have been used for various construction and refurbishing projects within the urban renewal district. The bonds and interest will be redeemed with incremental property tax generated from the increased taxable valuation in the district.
- The Debt Service Fund cash balance increased by \$2,130 to \$56,530 during the fiscal year. This increase was due to an increase in property tax. Bond principal and interest payments increased by \$5,665 in fiscal 2004.
- The Capital Projects Funds cash balance decreased by \$135,203 due mainly to the Feldkamp Estates project expenditures.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance decreased by \$184,512 to \$75,616, due primarily to an increase in the plant repairs and transfers for debt service requirements and transfers to Economic Development and Urban Renewal Tax Increment Fund.
- The Sewer Fund cash balance decreased by \$109,171 to \$157,603, due primarily to an increase in the plant repairs and transfers for debt service requirements and transfers to Economic Development and Urban Renewal Tax Increment Fund.
- The Electric Fund cash balance decreased by \$74,757 to \$185,546, due primarily to an increase in the cost of wholesale purchased power.
- The Golf Course Fund cash balance decreased by \$58,587 to \$(58,587), this is the first year that the golf course is being treated as business type fund. The City intends the golf course to be self-sufficient in the future years and eliminate the deficit balance.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget one time. The amendment was approved on May 10, 2004 and resulted in an increase in operating disbursements related to a cost overrun of approximately \$25,000 on various maintenance projects for the Enterprise Funds. Additionally the amendment added the CDBG Grants for Housing Rehab and Hope Haven an equal amount to both the other financing sources and the community and Economic Development and general government expenditures.

DEBT ADMINISTRATION

At June 30, 2004, the City had approximately \$3,634,000 in bonds and other long-term debt, compared to approximately \$4,253,000 last year, as shown below.

	Outstanding Debt at Year-End	
	(Expressed in Thousands)	
	June 30,	
	2004	2003
General obligation bonds	\$ 130,000	\$ 260,000
Capital Loan Notes	1,570,000	1,825,000
Revenue notes	1,890,000	2,090,000
Capital Leases	44,079	78,269
Total	\$ 3,634,079	\$ 4,253,269

Debt decreased as a result of making payments of \$619,190. The City continues to carry a general obligation bond rating of A3 assigned by national rating agencies to the City's debt since 1990. The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$1,700,000 is significantly below its constitutional debt limit of \$2.4 million.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

City of Sibley'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. The City's employment growth has mirrored its population growth during 1999-2004, averaging per year gains of 2.2 percent. Unemployment in the City now stands at 3.1 percent, versus 3.2 percent a year ago. This compares with the State's unemployment rate of 3.4 percent and the national rate of 3.9 percent.

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 slowing of the 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 \$5.1 million, a decrease of 9% over the final 2004 budget. Budgeted disbursements are expected to go down approximately \$500,000. Decreases in construction projects represent the largest decreases. 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 decrease by approximately \$395,000 by the close of 2005.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Dianne Gruis, City Clerk, 808 Third Ave., Sibley, Iowa, 51249.

City of Sibley, Iowa
Basic Financial Statements

City of Sibley
Statement of Activities and Net Assets - Cash Basis
June 30, 2004

Functions/Programs	Disbursements	Program Revenues		
		Charges for Service	Operating Grants Contributions and Restricted Interest	Capital Grants Contributions and Restricted Interest
Governmental activities:				
Public safety	\$ 315,545	\$ -	\$ 11,344	\$ -
Public works	295,345	14,852	232,872	-
Health and social services	1,830	-	-	-
Culture and recreation	297,228	75,601	9,154	-
Community and economic development	6,104	-	15,379	-
General government	695,054	22,965	-	532,291
Debt service	491,450	-	8,153	2,904
Capital projects	361,990	97,571	11,953	78,086
Total governmental activities	2,464,546	210,989	288,855	613,281
Business type activities:				
Electric	1,650,470	1,920,526	-	-
Water	538,550	474,899	-	-
Golf	315,563	266,476	-	-
Other nonmajor	834,836	760,823	-	-
Total business type activities	3,339,419	3,422,724	-	-
Total	5,803,965	3,633,713	288,855	613,281
General Receipts:				
Property tax levied for:				
General purposes				
Tax incremental financing				
Unrestricted interest on investment				
Miscellaneous				
Sale of assets				
Transfers				
Total general receipts and transfers				
Change in cash basis net assets				
Cash basis net assets beginning of year, as restated				
Cash basis net assets end of year				
Cash Basis Net Assets				
Restricted:				
Streets				
Urban renewal purposes				
Debt service				
Unrestricted				
Total cash basis net assets				

See notes to financial statements.

Net (Expense) Revenue
and Changes in Net Assets

Governmental Activities	Business Type Activities	Total
\$ (304,201)	\$ -	\$ (304,201)
(47,621)	-	(47,621)
(1,830)	-	(1,830)
(212,473)	-	(212,473)
9,275	-	9,275
(139,798)	-	(139,798)
(480,393)	-	(480,393)
(174,380)	-	(174,380)
<u>(1,351,421)</u>	<u>-</u>	<u>(1,351,421)</u>
-	270,056	270,056
-	(63,651)	(63,651)
-	(49,087)	(49,087)
-	(74,013)	(74,013)
-	83,305	83,305
<u>(1,351,421)</u>	<u>83,305</u>	<u>(1,268,116)</u>
791,530	-	791,530
139,212	-	139,212
3,291	27,019	30,310
110,226	-	110,226
13,000	-	13,000
141,665	(141,665)	-
<u>1,198,924</u>	<u>(114,646)</u>	<u>1,084,278</u>
(152,497)	(31,341)	(183,838)
672,056	2,044,952	2,717,008
<u>\$ 519,559</u>	<u>\$ 2,013,611</u>	<u>\$ 2,533,170</u>
\$ 272,225	\$	272,225
(410)		(410)
80,521	339,690	420,211
167,223	1,673,921	1,841,144
<u>\$ 519,559</u>	<u>\$ 2,013,611</u>	<u>\$ 2,533,170</u>

See notes to financial statements.

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

	General	Road Use Tax	Urban Renewal Tax Increment
Receipts:			
Property tax	\$ 466,706	\$ -	\$ -
Tax increment financing collections	-	-	139,212
Other city tax	15,379	-	-
Licenses and permits	22,965	-	-
Use of money and property	3,291	-	-
Intergovernmental	20,498	232,872	-
Charges for service	75,601	-	-
Special assessments	14,852	-	-
Miscellaneous	110,226	-	-
Total Receipts	<u>729,518</u>	<u>232,872</u>	<u>139,212</u>
Disbursements:			
Operating:			
Public safety	315,420	-	-
Public works	91,827	203,518	-
Health and social services	1,830	-	-
Culture and recreation	275,430	-	-
Community and economic development	4,400	-	-
General government	636,993	-	-
Debt service	-	-	156,170
Capital projects	-	-	-
Total Disbursements	<u>1,325,900</u>	<u>203,518</u>	<u>156,170</u>
Excess of receipts over disbursements	<u>(596,382)</u>	<u>29,354</u>	<u>(16,958)</u>
Other financing sources (uses):			
Grant proceeds	532,291	-	-
Sale of capital assets	-	-	-
Operating transfers in	-	-	40,000
Operating transfers out	(38,075)	-	-
Total other financing sources (uses)	<u>494,216</u>	<u>-</u>	<u>40,000</u>
Net change in cash balances	<u>(102,166)</u>	<u>29,354</u>	<u>23,042</u>
Cash balances beginning of year	<u>(701,604)</u>	<u>242,871</u>	<u>(23,452)</u>
Cash balances end of year	<u>\$ (803,770)</u>	<u>\$ 272,225</u>	<u>\$ (410)</u>
Cash Basis Fund Balances			
Reserved:			
Debt service	-	-	-
Unreserved:			
General fund	(803,770)	-	-
Special revenue funds	-	272,225	(410)
Capital projects funds	-	-	-
Total cash basis fund balances	<u>(803,770)</u>	<u>272,225</u>	<u>(410)</u>

See notes to financial statements.

Exhibit B

	Debt Service	Other Nonmajor Governmental Funds	Total
\$	254,000	\$ 70,824	\$ 791,530
	-	-	139,212
	-	-	15,379
	-	-	22,965
	2,904	11,953	18,148
	-	-	253,370
	-	97,571	173,172
	-	8,153	23,005
	-	-	110,226
	<u>256,904</u>	<u>188,501</u>	<u>1,547,007</u>

	-	125	315,545
	-	-	295,345
	-	-	1,830
	-	21,798	297,228
	-	1,704	6,104
	-	57,886	694,879
	335,280	-	491,450
	-	361,990	361,990
	<u>335,280</u>	<u>443,503</u>	<u>2,464,371</u>
	<u>(78,376)</u>	<u>(255,002)</u>	<u>(917,364)</u>

	-	78,086	610,377
	-	13,000	13,000
	80,506	77,272	197,778
	-	(18,038)	(56,113)
	<u>80,506</u>	<u>150,320</u>	<u>765,042</u>
	<u>2,130</u>	<u>(104,682)</u>	<u>(152,322)</u>
	<u>54,400</u>	<u>1,084,132</u>	<u>656,347</u>
\$	<u>56,530</u>	\$ <u>979,450</u>	\$ <u>504,025</u>

	56,530	23,991	80,521
	-	-	(803,770)
	-	12,938	284,753
	-	942,521	942,521
	<u>56,530</u>	<u>979,450</u>	<u>504,025</u>

See notes to financial statements.

City of Sibley, Iowa

City of Sibley, Iowa
 Reconciliation of the Statement of Cash Receipts, Disbursements and
 Changes in Cash Balances to the Statement of Activities and
 Net Assets - Governmental Funds
 As of and for the year ended June 30, 2004

Exhibit C

Total governmental funds cash balances (page 17) \$ 504,025

**Amounts reported for governmental activities in the
 Statements of Net Assets are different because:**

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

15,534

Cash basis net assets of governmental activities (page 15) \$ 519,559

Net change in cash balances (page 17) \$ (152,322)

**Amounts reported for governmental activities in the
 Statements of Net Assets are different because:**

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

(175)

Change in cash balance of governmental activities (page 15) \$ (152,497)

See notes to financial statements.

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

	Enterprise Funds		
	Electric	Water	Golf
Operating receipts:			
Use of money and property	\$ 6,631	\$ 2,207	\$ -
Licenses and permits	-	-	-
Charge for service	1,920,526	474,899	266,476
Miscellaneous	-	-	-
Total operating receipts	1,927,157	477,106	266,476
Operating disbursements:			
Governmental activities:			
Public works	-	-	-
Health and social services	-	-	-
Community and economic development	-	-	-
General government	-	-	-
Capital projects	-	74,136	-
Business type activities	1,650,159	464,414	315,563
Total operating disbursements	1,650,159	538,550	315,563
Excess (deficiency) of operating receipts over (under)	276,998	(61,444)	(49,087)
Non-operating receipts (disbursements):			
Debt service	-	-	-
Total non-operating receipts (disbursements)	-	-	-
Excess (deficiency) of receipts over (under) disbursement	276,998	(61,444)	(49,087)
Operating transfers in	-	-	-
Operating transfers out	(351,755)	(123,068)	(9,500)
Net change in cash balances	(74,757)	(184,512)	(58,587)
Cash balances beginning of year	260,304	260,128	-
Cash balances end of year	\$ 185,547	\$ 75,616	\$ (58,587)
Cash Basis Fund Balances			
Reserved for debt service	\$ -	\$ -	\$ -
Unreserved	185,547	75,616	(58,587)
Total cash basis fund balances	\$ 185,547	\$ 75,616	\$ (58,587)

See notes to financial statements.

Enterprise Funds		Internal Service Funds		
Other Nonmajor Enterprise	Total	Employee Health	Payroll	Total
\$ 18,181	\$ 27,019	\$ 673	\$ -	\$ 673
11,525	11,525	-	-	-
749,298	3,411,199	137,355	888,727	1,026,082
-	-	5,765	-	5,765
<u>779,004</u>	<u>3,449,743</u>	<u>143,793</u>	<u>888,727</u>	<u>1,032,520</u>
9,370	9,370	-	-	-
18,383	18,383	-	-	-
61,664	61,664	-	-	-
-	-	145,055	887,951	1,033,006
66,225	140,361	-	-	-
369,749	2,799,885	-	-	-
<u>525,391</u>	<u>3,029,663</u>	<u>145,055</u>	<u>887,951</u>	<u>1,033,006</u>
253,613	420,080	(1,262)	776	(486)
(309,445)	(309,445)	-	-	-
<u>(309,445)</u>	<u>(309,445)</u>	<u>-</u>	<u>-</u>	<u>-</u>
(55,832)	110,635	(1,262)	776	(486)
449,676	449,676	-	-	-
<u>(107,018)</u>	<u>(591,341)</u>	<u>-</u>	<u>-</u>	<u>-</u>
286,826	(31,030)	(1,262)	776	(486)
1,496,593	2,017,025	39,894	3,743	43,637
<u>\$ 1,783,419</u>	<u>\$ 1,985,995</u>	<u>\$ 38,632</u>	<u>\$ 4,519</u>	<u>\$ 43,151</u>
\$ 339,690	\$ 339,690	\$ -	\$ -	\$ -
1,443,729	1,646,305	38,632	4,519	43,151
<u>\$ 1,783,419</u>	<u>\$ 1,985,995</u>	<u>\$ 38,632</u>	<u>\$ 4,519</u>	<u>\$ 43,151</u>

See notes to financial statements.

City of Sibley, Iowa
 Reconciliation of the Statement of Cash Receipts, Disbursements and
 Changes in Cash Balances to the Statement of Activities and
 Net Assets - Proprietary Funds
 Year ended June 30, 2004

Exhibit E

Total enterprise funds cash balances (page 21) \$ 1,985,995

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

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

27,616

Cash basis net assets of business type activities (page 15)

\$ 2,013,611

Net change in cash balances (page 21)

\$ (31,030)

**Amounts reported for business type activities in the
 Statements of Net Assets are different because:**

The Internal Service Fund is used by management to charge the costs of partial
 self funding of the City's health insurance benefit to individual funds. The change
 on net assets of the Internal Service Fund is reported with business type
 activities.

(311)

Change in cash balance of business type activities (page 15)

\$ (31,341)

See notes to financial statements.

City of Sibley, Iowa
Notes to Financial Statements
June 30, 2004

(1) Summary of Significant Accounting Policies

The City of Sibley is a political subdivision of the State of Iowa located in Sample County. It was first incorporated in 1875 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, health and social services, culture and recreation, community and economic development, and general government services. The City also provides electric, garbage, water and sewer utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Sibley has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City. The City has no component units, which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations

The City 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: Osceola County Assessor's Conference Board, Osceola County Emergency Management Commission, Osceola County Landfill Commission and Osceola County Public Safety Commission.

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 Fund is used to account for road construction and maintenance.

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

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

The City reports the following major proprietary funds:

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

The Electric Fund accounts for the operation and maintenance of the City's electricity and generator substation system.

The Golf Course Fund accounts for the operation and maintenance of the City's golf course and clubhouse.

The City also reports the following additional proprietary funds:

An Internal Service Fund is utilized to account for the processing of employee health and payroll of the City.

C. Measurement Focus and Basis of Accounting

The City of Sibley 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 general government and business type activities functions.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2004 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

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

The City's investments at June 30, 2004 are as follows:

Type	Carrying Amount	Fair Value
GNMA Mortgage Securities	\$ 16,702	\$ 8,322

(3) Bonds and Notes Payable

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

Year Ending June 30,	General Obligation Bonds		Revenue Bonds		Capital Loan Notes		Totals	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2005	\$ 130,000	\$ 7,200	\$ 205,000	\$ 98,016	\$ 265,000	\$ 79,075	\$ 600,000	\$ 184,291
2006			175,000	86,618	285,000	65,768	460,000	152,386
2007			185,000	77,211	260,000	51,170	445,000	128,381
2008			190,000	67,320	275,000	37,388	465,000	104,708
2009			200,000	56,935	105,000	22,372	305,000	79,307
2010 - 2014			935,000	107,648	380,000	45,985	1,315,000	153,633
Totals	\$ 130,000	\$ 7,200	\$ 1,890,000	\$ 493,748	\$ 1,570,000	\$ 301,758	\$ 3,590,000	\$ 802,706

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

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

- (a) The bonds will only be redeemed from the future earnings of the enterprise activity and the bondholders hold a lien on the future earnings of the funds.
- (b) Sufficient monthly cash transfers shall be made to separate water revenue bond sinking accounts within the Enterprise Funds for the purpose of making the bond principal and interest payments when due.
- (c) The bond requires a reserve in the water revenue bond sinking account of \$39,500.

(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 ended June 30, 2003, the contribution rates for police employees and the City were 6.04% and 9.07%, respectively, and for the year ended June 30, 2002, the contribution rates for police employees and the City were 6.20% and 9.29%, respectively. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2004, 2003 and 2002 were \$43,063, \$36,880 and \$34,079, respectively, equal to the required contributions for each year.

(5) 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 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, is as follows:

Type of Benefit	Amount
Vacation	\$ 33,933
Sick leave	236,419
Totals	<u>\$ 270,352</u>

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

(6) Anticipatory Warrants

Anticipatory warrants are warrants which are legally drawn on City funds but are not paid for lack of funds, in accordance with Chapter 74 of the Code of Iowa. The warrants bear interest at rates in effect at the time the warrants are first presented for redemption. There were no unpaid anticipatory warrants at the end of the year.

(7) Interfund Transfers

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

Transfer to:	Transfer from:	Amount	
Debt Service	Sewer	47,040	
	Water	33,466	
		<u>80,506</u>	
Tax Increment	Sewer	20,000	
	Water	20,000	
		<u>40,000</u>	
Capital Reserve	Electric	13,950	
	Garbage	15,000	
	Sewer	3,433	
	Water	2,950	
	General		
	Community Center	2,000	
	Miscellaneous Recreation	6,000	
	Park	2,000	
	Fire	13,075	
	Library	5,864	
	Street Department	10,000	
	Airport	3,000	
		<u>77,272</u>	
	Total	<u>\$ 197,778</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 \$0- 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 members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

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

The City'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 \$82,327.

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

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

(10) Deficit Fund Balance

The Special Revenue, Tax Increment Financing Fund had a deficit balance of \$410 at June 30, 2004. The deficit balance was results of debt service payments made during the year were greater than the collections for the payments. The city expects that the deficit in this account to be eliminated in the next year.

The Capital Project, Rolling Hills Fund had a deficit balance of \$2,432 at June 30, 2004. This occurred during the development of the housing development and will be eliminated when the final lots are sold.

The General Fund had a deficit balance of \$803,770 at June 30, 2004. The deficit balance occurred over several years while the golf course was being developed. The city is working towards eliminating this deficit over the next several years.

The Enterprise Funds, Revolving Loan Fund, had a deficit balance of \$7,261 at June 30, 2004. This occurred when more loans were issued then revenues that came in during the year. The city expects the deficit to be reduced as those loans are repaid.

The Enterprise Funds, Golf Course Fund, had a deficit balance of \$58,587 at June 30, 2004. This is the first year that the golf course fund is operating as an enterprise fund. The City goal is to make the golf course self-sufficient in the future years.

(11) Contingency

The City has a self-insurance program in place for the medical insurance that it provides to its employees. Under the program, the employee pays a deductible of \$100 for family coverage and \$50 for single coverage. The insurance policies that the City maintains provide for a \$500 deductible. The City is therefore, liable for the difference in these deductible amounts for each employee. As of June 30, 2004, this total difference amounts to a potential liability to the City of \$6,900.

(12) Litigation

The City is subject to compensatory damages were awarded to individuals in the amount of \$43,750. The City has appealed the award if the award is not over turned will be required to pay the above amount.

(13) Accounting Change and Restatements

Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures, and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences, were implemented for

the year ended June 30, 2004. The statements create new basic financial statements for reporting the City's financial activities. The financial statements now include government-wide financial statement and fund financial statements, which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

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

	Governmental Activities	Business Type Activities
Cash basis net assets June 30, 2003, as previously reported	\$ 656,347	\$ 2,017,025
Internal Service Fund	15,709	27,927
Cash basis net assets July 10, 2003, as restated	<u>\$ 672,056</u>	<u>\$ 2,044,952</u>

Required Supplementary Information

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

	Governmental Funds Actual	Proprietary Funds Actual
Receipts:		
Property tax	\$ 791,530	\$ -
Tax increment financing collections	139,212	-
Other city tax	15,379	-
Licenses and permits	22,965	-
Use of money and property	18,148	27,019
Intergovernmental	253,370	-
Charges for service	173,172	3,411,199
Special assessments	23,005	-
Miscellaneous	110,226	-
Total receipts	1,547,007	3,438,218
Disbursements:		
Public safety	315,545	-
Public works	295,345	9,370
Health and social services	1,830	18,383
Culture and recreation	297,228	-
Community and economic development	6,104	61,664
General government	694,879	-
Debt service	491,450	309,445
Capital projects	361,990	140,361
Business type activities	-	2,799,885
Total disbursements	2,464,371	3,339,108
Excess of receipts over disbursements	(917,364)	99,110
Other financing sources, net	610,377	
Excess of receipts and other financing sources over disbursements and other financing uses	(306,987)	99,110
Balances beginning of year	656,347	2,017,025
Balances end of year	\$ 349,360	\$ 2,116,135

See accompanying independent auditor's report.

Less Funds not Required to be Budgeted	Total Actual	Budgeted Amounts		Final to Actual Variance
		Original	Final	
\$ -	\$ 791,530	\$ 781,261	\$ 781,261	\$ 10,269
-	139,212	190,000	190,000	(50,788)
-	15,379	13,049	13,049	2,330
-	22,965	13,800	13,800	9,165
-	45,167	83,700	83,700	(38,533)
-	253,370	284,821	284,821	(31,451)
-	3,584,371	3,510,035	3,510,035	74,336
-	23,005	5,500	5,500	17,505
-	110,226	97,430	97,430	12,796
-	4,985,225	4,979,596	4,979,596	5,629
-	315,545	278,438	337,738	(22,193)
-	304,715	383,460	383,460	(78,745)
-	20,213	7,830	7,830	12,383
-	297,228	338,415	338,415	(41,187)
-	67,768	110,943	413,943	(346,175)
-	694,879	199,110	993,485	(298,606)
-	800,895	499,718	499,718	301,177
-	502,351	925,893	925,893	(423,542)
-	2,799,885	2,963,347	2,988,347	(188,462)
-	5,803,479	5,707,154	6,888,829	(1,085,350)
-	(818,254)	(727,558)	(1,909,233)	1,090,979
-	610,377	(15,500)	1,291,175	(680,798)
-	(207,877)	(743,058)	(618,058)	410,181
-	2,673,372	3,298,269	2,697,924	(24,552)
\$ -	\$ 2,465,495	\$ 2,555,211	\$ 2,079,866	\$ 385,629

See accompanying independent auditor's report.

City of Sibley, 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 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 ended June 30, 2004, disbursements exceeded the amounts budgeted in the health and social services and debt service functions

Other Supplementary Information

City of Sibley
Statement of Cash Receipts, Disbursements and
Changes in Cash Balances - Governmental Funds - Nonmajor Government
As of and for the year ended June 30, 2004

	Special Revenue Employee Benefit	Debt Services Special Assessments
Receipts:		
Property tax	\$ 70,824	\$ -
Use of money and property	-	-
Charges for service	-	-
Special assessments	-	8,153
Total Receipts	70,824	8,153
Disbursements:		
Operating:		
Public safety	-	-
Culture and recreation	-	-
Community and economic development	-	-
General government	57,886	-
Capital projects	-	-
Total Disbursements	57,886	-
Excess of receipts over disbursements	12,938	8,153
Other financing sources (uses):		
Grant proceeds	-	-
Sale of capital assets	-	9,430
Operating transfers in	-	-
Operating transfers out	-	-
Total other financing sources (uses)	-	9,430
Net change in cash balances	12,938	17,583
Cash balances beginning of year	-	6,408
Cash balances end of year	12,938	23,991
Cash Basis Fund Balances		
Reserved:		
Debt service		23,991
Unreserved:		
Special revenue funds	12,938	
Capital projects fund		
Total cash basis fund balances	\$ 12,938	\$ 23,991

See accompanying independent auditor's report.

Capital Projects		Nonmajor Capital Projects	Other Nonmajor Governmental Funds Totals
Housing Development	Capital Project Reserve		
\$ -	\$ -	\$ -	\$ 70,824
-	2,977	8,976	11,953
1,925	81,469	14,177	97,571
-	-	-	8,153
1,925	84,446	23,153	188,501
-	125	-	125
-	21,798	-	21,798
-	1,704	-	1,704
-	-	-	57,886
84,886	16,850	260,254	361,990
84,886	40,477	260,254	443,503
(82,961)	43,969	(237,101)	(255,002)
78,086	-	-	78,086
-	-	3,570	13,000
-	77,272	-	77,272
-	(18,038)	-	(18,038)
78,086	59,234	3,570	150,320
(4,875)	103,203	(233,531)	(104,682)
15,112	339,274	723,338	1,084,132
10,237	442,477	489,807	979,450
			23,991
			12,938
10,237	442,477	489,807	942,521
\$ 10,237	\$ 442,477	\$ 489,807	\$ 979,450

See accompanying independent auditor's report.

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

Obligation	Date of Issue	Interest Rate	Amount Originally Issued	Balance Beginning of Year
General obligation bonds:				
Well # 6	11/1/1990	6.15 to 7 %	\$ 300,000	\$ 60,000
1994 Utility improvements	7/1/1994	4.3 to 5.1 %	720,000	<u>200,000</u>
Total				<u><u>260,000</u></u>
Capital Loan Notes:				
Sewer project	2/1/1996	3.5 to 4.6 %	265,000	95,000
Firetruck and golf course equipment	11/1/1997	4.4 to 5.15%	560,000	315,000
Urban renewal projects	1/1/1997	6.4 to 7.3%	590,000	345,000
Swimming pool and water tower	6/1/1998	5.50%	300,000	220,000
1999 Street and sewer project	5/1/2000	5.2 to 5.6%	160,000	160,000
Benjamin Franklin School Gym	1/18/2001	4.90%	145,000	110,000
2003 Capital Improvements	1/1/2003	2.1 to 4.4%	580,000	<u>580,000</u>
Totals				<u><u>1,825,000</u></u>
Revenue bonds:				
2000 Electric revenue	12/1/2000	4.9 to 5.6%	2,300,000	2,010,000
Water project	4/27/1990	6.4 to 8.5%	395,000	<u>80,000</u>
Totals				<u><u>2,090,000</u></u>
Capital Leases:				
2003 Sterling truck w/leach rear loader #1	11/19/2002		96,850	56,850
Elgin street sweeper	2/14/2001	5.75%	30,000	10,564
Jacobsen lawn motors	2/15/2002		32,544	<u>10,854</u>
Totals				<u><u>\$ 78,268</u></u>

See accompanying independent auditor's report.

Schedule 2

Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
\$ -	\$ 30,000	\$ 30,000	\$ 4,200	\$ 175
-	100,000	100,000	10,200	425
-	130,000	130,000	14,400	600
-	30,000	65,000	4,280	247
-	55,000	260,000	15,898	1,100
-	60,000	285,000	24,673	1,709
-	20,000	200,000	12,100	917
-	20,000	140,000	8,735	640
-	20,000	90,000	5,390	449
-	50,000	530,000	20,375	1,610
-	255,000	1,570,000	91,450	6,672
-	160,000	1,850,000	103,745	7,951
-	40,000	40,000	5,400	217
-	200,000	1,890,000	109,145	8,168
-	12,771	44,079	4,079	264
-	10,564	-	607	-
-	10,854	-	586	-
\$ -	\$ 34,189	\$ 44,079	\$ 5,272	\$ 264

See accompanying independent auditor's report.

City of Sibley
Bond and Note Maturities
June 30, 2004

Year Ending June 30	GENERAL OBLIGATION BONDS				CAPITAL LEASES	
	Well #6 Construction Issued November 1, 1990		1994 Util. Improv. Issued July 1, 1994		Sterling Truck Issued November 19, 2002	
	Interest Rates	Amounts	Interest Rates	Amounts	Interest Rates	Amounts
2005	7.00%	30,000	5.10%	100,000		13,687
2006		-		-		14,670
2007		-		-		15,722
2008		-		-		-
2009		-		-		-
2010		-		-		-
2011		-		-		-
2012		-		-		-
2013		-		-		-
TOTAL		<u>\$ 30,000</u>		<u>\$ 100,000</u>		<u>\$ 44,079</u>

Year Ending June 30	CAPITAL LOAN NOTES					
	Sewer Project Issued February 1, 1996		Firetruck & Golf Course Issued November 1, 1997		Urban Renewal Projects Issued Nov. 1, 1997	
	Interest Rates	Amounts	Interest Rates	Amounts	Interest Rates	Amounts
2005	4.50%	30,000	5.00%	60,000	7.05%	65,000
2006	4.60%	35,000	5.05%	65,000	7.15%	70,000
2007		-	5.10%	65,000	7.25%	70,000
2008		-	5.15%	70,000	7.30%	80,000
TOTAL		<u>\$ 65,000</u>		<u>\$ 260,000</u>		<u>\$ 285,000</u>

Year Ending June 30	CAPITAL LOAN NOTES					
	Swimming Pool & Water Tower Issued June 1, 1998		Utility Improvements Issued January 1, 2003		Street & Sewer Project Issued June 1, 1999	
	Interest Rates	Amounts	Interest Rates	Amounts	Interest Rates	Amounts
2005	5.50%	20,000	2.45%	50,000	5.50%	20,000
2006	5.50%	20,000	2.80%	55,000	5.50%	20,000
2007	5.50%	20,000	3.10%	55,000	5.50%	25,000
2008	5.50%	20,000	3.40%	55,000	5.50%	25,000
2009	5.50%	20,000	3.70%	60,000	5.50%	25,000
2010	5.50%	20,000	4.00%	60,000	5.50%	25,000
2011	5.50%	20,000	4.15%	60,000		-
2012	5.50%	20,000	4.30%	65,000		-
2013	5.50%	20,000	4.40%	70,000		-
2014	5.50%	20,000		-		-
TOTAL		<u>\$ 200,000</u>		<u>\$ 530,000</u>		<u>\$ 140,000</u>

See accompanying independent auditor's report.

REVENUE BONDS

Water Project		Electric Project	
Issued April 27, 1990		Issued Dec. 1, 2000	
Interest Rates	Amounts	Interest Rates	Amounts
6.50%	40,000	5.15%	165,000
	-	5.20%	175,000
	-	5.25%	185,000
	-	5.30%	190,000
	-	5.35%	200,000
	-	5.40%	215,000
	-	5.50%	225,000
	-	5.55%	240,000
	-	5.60%	255,000
	<u>\$ 40,000</u>		<u>\$ 1,850,000</u>

Franklin School Gym	
Issued Jan. 18, 2001	
Interest Rates	Amounts
4.90%	20,000
4.90%	20,000
4.90%	25,000
4.90%	25,000
	-
	-
	-
	-
	-
	<u>\$ 90,000</u>

See accompanying independent auditor's report.

City of Sibley
Schedule of Receipts by Source and Disbursements
By Function - All Governmental Funds
For the Last Four Years

Schedule 4

	2004	2003	2002	2001
Receipts:				
Property tax	\$ 791,530	\$ 694,102	\$ 674,849	\$ 651,050
Tax increment financing collections	139,212	134,590	170,584	184,848
Other city tax	15,379			
Licenses and permits	22,965	14,602	14,416	13,753
Use of money and property	18,148	55,923	64,888	87,057
Intergovernmental	253,370	297,347	302,453	307,411
Charges for service	173,172	173,035	187,594	185,722
Special assessments	23,005	5,430	5,729	39,284
Miscellaneous	110,226	107,381	34,797	250,711
Total	<u>1,547,007</u>	<u>1,482,410</u>	<u>1,455,310</u>	<u>1,719,836</u>
Disbursements:				
Operating:				
Public safety	315,545	256,486	280,678	269,684
Public works	295,345	363,435	366,456	294,950
Health and social services	1,830	1,830	529,907	509,451
Culture and recreation	297,228	483,802	130,407	173,033
Community and economic development	6,104	-	-	-
General government	694,879	270,500	237,375	416,166
Debt service	491,450	444,798	250,343	251,594
Capital projects	361,990	505,595	92,095	166,607
Total	<u>\$ 2,464,371</u>	<u>\$ 2,326,446</u>	<u>\$ 1,887,261</u>	<u>\$ 2,081,485</u>

See accompanying independent auditor's report.

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

Schedule 5

Grantor/Program	CFDA Number	Grant Number	Expenditures
Indirect:			
U.S. Department of Housing and Urban Development:			
Iowa Department of Economic Development:			
Community Development Block Grants	14.228	02-CF-024	<u>\$ 257,262</u>
Community Development Block Grants	14.228	03-CF-024	<u>223,135</u>
Community Development Block Grants	14.228	03-HSG-080	<u>78,086</u>
Direct:			
Federal Emergency Management Agency			
Emergency Preparedness & Response Directorate			
Assistance to Firefighters Grant Program	84.367	EMW-2003-FG-13575	<u>51,894</u>
Total			<u><u>\$ 610,377</u></u>

Basis of Presentation – The Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Sibley and is presented in conformity with an other comprehensive basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

See accompanying independent auditor's report.

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710 SOUTH UNION STREET, P.O. BOX 108
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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 Sibley, Iowa, as of and for the year ended June 30, 2004, and have issued our report thereon dated August 2, 2004. Our report expressed an unqualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

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

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

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Sibley'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 Sibley's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements.

Reportable conditions are described in Part II of the accompanying Schedule of Findings and Questioned Costs.

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

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Sibley and other parties to whom the City of Sibley 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 Sibley 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.

Wells Heard Halse & Co.

August 2, 2004

Dan Heard, CPA
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Independent Auditor's Report on Compliance with Requirements
Applicable to Each Major Program and Internal Control over Compliance

To the Honorable Mayor and
Members of the City Council:

Compliance

We have audited the compliance of the City of Sibley, Iowa, with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal program for the year ended June 30, 2004. City of Sibley's major federal program is identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the City of Sibley's management. Our responsibility is to express an opinion on the City of Sibley's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Sibley's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Sibley's compliance with those requirements.

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

Internal Control Over Compliance

The management of the City of Sibley is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City of Sibley's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted a matter involving the internal control over compliance and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the City of Sibley's ability to administer

a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. The reportable condition is described as item III-A-04 in the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that non-compliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item III-A-04 is a material weakness.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Sibley and other parties to whom the City of Sibley may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

Wells Heard Halse & Co.

August 2, 2004

City of Sibley, Iowa
Schedule of Findings and Questioned Costs
Year ended June 30, 2004

Part I: Summary of the Independent Auditor's Results:

- (a) An unqualified opinion was issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
- (b) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, including material weaknesses.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) A reportable condition in internal control over the major program was disclosed by the audit of the financial statements, including a material weakness.
- (e) An unqualified opinion was issued on compliance with requirements applicable to the major program.
- (f) The audit disclosed audit findings, which are required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) The major program was CFDA Number 14.228 – Community Development Block Grants/State's Program.
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) The City of Sibley did not qualify as a low-risk auditee.

City of Sibley, Iowa
Schedule of Findings and Questioned Costs
Year ended June 30, 2004

Part II: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

II-A-04 Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The posting of the cash receipts to the cash receipts' journal, reconciliation of the monthly bank statement, and reconciliation of CD amounts are all done by the same person.

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

Response – We will consider this.

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

City of Sibley, Iowa
Schedule of Findings and Questioned Costs
Year ended June 30, 2004

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCE OF NON-COMPLIANCE:

No matters were reported

REPORTABLE CONDITION:

CFDA Number 14.228: Community Development Block Grants/State's Program
Pass-through Agency Number: 02-2F-024; 03-2F-024; and 03-HSG-080
Federal Award Year: 2004
Department of Housing and Urban Development
Passed through the Iowa Department of Economic Development

III-A-04 Segregation of Duties over Federal Receipts – 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 posting of the cash receipts to the cash receipts' journal, reconciliation of the monthly bank statement, and reconciliation of CD amounts are all done by the same person.

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

Response – We will consider this.

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

City of Sibley, Iowa
Schedule of Findings and Questioned Costs
Year ended June 30, 2004

Part IV: Other Findings Related to Statutory Reporting:

- IV-A-04 Official Depositories – A resolution naming official depositories has been approved by the City. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2004.
- IV-B-04 Certified Budget – Disbursements during the year ended June 30, 2004 exceeded the amounts budgeted in the health and social services and debt service type activities functions. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.
- Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.
- Response – The budget will be amended in the future, if applicable.
- Conclusion – Response accepted.
- IV-C-04 Questionable Disbursements – No expenditures that may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 were noted.
- IV-D-04 Travel Expense – No expenditures of City money for travel expenses of spouses of City officials or employees were noted. No travel advances to City officials or employees were noted.
- IV-E-04 Business Transactions – No business transactions between the City and City officials or employees were noted.
- IV-F-04 Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- IV-G-04 Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.
- IV-H-04 Deposits and Investments – No instances of non-compliance with the deposits and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the City’s investment policy were noted.
- IV-I-04 Revenue Bonds and Notes – The City has complied with the revenue bond and note resolutions.

City of Sibley, Iowa
Schedule of Findings and Questioned Costs
Year ended June 30, 2004

Part IV: Other Findings Related to Statutory Reporting, con't.:

- IV-J-04 Economic Development – The City paid \$5,000 to the Osceola Community Hospital Daycare Project 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 Development Committee to provide documentation of how the funds were used to accomplish economic development activities.

Response – We will do this.

Conclusion – Response accepted.

- IV-K-04 Financial Condition – The Capital Projects, Rolling Hills Fund had a deficit balance at June 30, 2004 of \$2,432. The Special Revenue, Tax Increment Financing Fund had a deficit balance at June 30, 2004 of \$410. The General Fund had a deficit balance at June 30, 2004 of \$803,770. The Enterprise Funds, Revolving Loan Fund had a deficit balance at June 30, 2004 of \$7,261. The Enterprise Funds, Golf Course Fund had a deficit balance at June 30, 2004 of \$58,587.

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

Response – The deficits are due to various reasons and the City is taking measures to eliminate the deficits in the funds.

Conclusion – Response accepted.