

CITY OF POLK CITY, IOWA
INDEPENDENT AUDITORS' REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTAL INFORMATION
AND FINDINGS

JUNE 30, 2004

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City of Polk City, Iowa

Officials

Name		Title		Term Expires
Mary Burton		Mayor		January, 2006
Tim Rhoades		Mayor Pro Tem		January, 2008
Dan Lane		Council Member		January, 2006
Gary Heuertz		Council Member		January, 2006
Jerry Karbeling		Council Member		January, 2008
Ronald Anderson		Council Member		January, 2008
Mike Sparks		City Administrator		Indefinite
Deanna Deason		Clerk/Treasurer		Indefinite
Sharon Nickles		Deputy Clerk		Indefinite
Brick Gentry, et al, P.C.		City Attorney		Indefinite

POLLARD AND COMPANY P.C.

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IOWA SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

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

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 Polk City, Iowa, as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Polk City as of June 30, 2004, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

As discussed in Note 13 to the financial statements, during the year ended June 30, 2004, the City adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences.

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

The Management's Discussion and Analysis and the budgetary comparison information are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the year ended June 30, 2003 (none of which is presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 3 is presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

October 12, 2004

Pollard and Company P.C.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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

2004 FINANCIAL HIGHLIGHTS

- Revenues of the City's governmental activities increased by 49.77%, or \$1,395,754 from fiscal 2003 to fiscal 2004. Property tax increased \$37,157.
- Disbursements increased 45.51%, or \$832,403, in fiscal 2004 from fiscal 2003. Public safety disbursements decreased \$141,295. Debt service and capital projects disbursements increased \$64,507 and \$994,416, respectively.
- The City's total cash basis net assets increased 48.54%, or \$1,775,934 from June 30, 2003 to June 30, 2004. Of this amount, the assets of the governmental activities increased \$1,538,592 and the assets of the business type activities increased by \$237,342.

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

Fund Financial Statements

The City has two kinds of funds:

- 1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Urban Renewal Tax Increment, 3) the Debt Service Fund, and 4) the Capital Projects 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 two Enterprise Funds to provide separate information for the water and sewer funds, considered to be major funds of the City.

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased sharply from a year ago, increasing from \$3,065,780 to \$4,604,372. The analysis that follows focuses on the changes in cash balances for governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities		
	<u>Year ended June 30,</u>	
	<u>2004</u>	<u>2003</u>
Receipts and transfers:		
Program receipts:		
Charges for service	370,726	231,515
Operating grants, contributions and restricted interest	278,574	267,197
General receipts:		
Property tax	398,930	373,850
Tax Increment Financing	354,939	417,265
Local option sales tax	2,658,926	1,310,018
Debt service	89	267
Unrestricted investment earnings	24,612	86,593
Miscellaneous	113,182	117,519
Total receipts and transfers	<u>4,199,978</u>	<u>2,804,224</u>
Disbursements:		
Public Safety	462,316	603,611
Public Works	448,439	370,468
Health and Social Services	8,188	3,931
Culture and Recreation	267,846	193,084
Community and Economic Development	61,973	286,607
General Government	342,961	360,272
Debt Service	75,517	11,010
Capital Projects	994,416	
Intra-Fund Loans		512,641
Total disbursements	<u>2,661,386</u>	<u>2,341,624</u>
Increase in cash basis net assets	1,538,592	462,600
Cash basis net assets beginning of year	<u>3,065,780</u>	<u>2,603,180</u>
Cash basis net assets end of year	<u>4,604,372</u>	<u>3,065,780</u>

RECEIPTS BY SOURCE

Unrestricted investment earnings	0.60%
Miscellaneous	2.70%
Operating grants, contributions and restricted interest	6.63%
Tax increment financing	8.45%
Charges for service	8.83%
Property tax	9.50%
Local Option Sales Tax	63.29%

DISBURSEMENTS BY FUNCTION

Health and Social Services	.30%
Community and Economic Development	2.33%
Debt Service	2.84%
Culture and Recreation	10.06%
General government	12.89%
Public Works	16.85%
Public Safety	17.37%
Capital Projects	37.36%

The City's total receipts for governmental activities increased by 49.77% or \$1,395,754. The total cost of all programs and services increased by \$319,762 or 13.66%, which included the addition of a capital projects program. The significant increase in receipts was primarily the result of local option sales tax receipts.

The cost of all governmental activities this year was \$2,661,386 compared to \$1,828,983 last year. However, as shown in the Statement of Activities and Net Assets, the amount taxpayers ultimately financed for these activities was only \$2,012,086 because some of the cost was paid by those directly benefited from the programs (\$370,726) or by other governments and organizations that subsidize certain programs with grants, contributions and other restricted interest (\$278,574). Overall, the City's governmental activities receipts, including intergovernmental aid and fees for service, increased in 2004 from \$498,712 to \$649,300. The City paid for the remaining "public benefit" portion of governmental activities with \$753,958 in property taxes (some of which could only be used for certain programs) local option sales tax and with other receipts, such as interest and miscellaneous income.

Changes in Cash Basis Net Assets of Business Type Activities

	<u>Year ended June 30</u>	
	<u>2004</u>	<u>2003</u>
Receipts:		
Program receipts:		
Charges for service:		
Water	\$ 325,431	\$ 308,011
Sewer	401,910	208,355
Inter-Fund Loan		512,641
General receipts:		
Unrestricted interest on investments	<u>1,152</u>	<u>2,133</u>
Total receipts	<u>727,341</u>	<u>1,031,140</u>
Disbursements:		
Water	278,007	361,995
Sewer	194,417	603,402
Debt service	<u>17,575</u>	<u>0</u>
Total disbursements	<u>489,999</u>	<u>965,397</u>
Increase in cash balance	237,342	65,743
Cash basis net assets beginning of year	<u>594,236</u>	<u>528,493</u>
Cash basis net assets end of year	<u>\$ 831,578</u>	<u>594,236</u>

Total business type activities receipts for the fiscal year were \$727,341 compared to \$1,031,140 last year. This significant decrease was due primarily to the lack of inter-fund loans during the current year. The cash balance increased by approximately \$237,342 from the prior year because no major capital expenditure was undertaken during the year. Total disbursements for the year decreased by 49.22% to a total of \$475,398.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As Polk City completed the year, its governmental funds reported a combined fund balance of \$4,604,372, an increase of \$1,538,592. Of that increase \$1,348,908 is attributable to an increase in local option sales tax receipts. Charges for licenses and permits increased \$114,380. Miscellaneous/Other income accounted for the balance of the increase.

- The General Fund cash balance increased \$739,833 from the prior year \$2,421,943. All of this increase is attributable in an increase in local option sales tax receipts. The City intends to use these receipts for capital improvement projects.
- The Urban Renewal Tax Increment Fund was established several years ago to account for major urban renewal projects. At the end of the fiscal year the balance was \$730,348, an increase of \$290,341. These proceeds will be used to repay County overpayments and finance various construction and refurbishing projects within the urban renewal district.
- The Capital Projects Fund was established in year ended June 2004 to isolate from the General Fund items of a Capital nature. At the end of the year the balance available was \$275,552. These funds will be used solely for Capital improvement projects.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance increased by \$47,424 to \$293,542 due primarily to increase in service revenue. There was no increase in the unit cost – the extra revenue was generated by increased demand.
- The Sewer Fund cash balance increased by \$189,918 to \$538,036, due primarily to increase in service revenue. There was no increase in the unit cost- the extra revenue was generated by increased demand.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget two times. The first amendment was approved on March 14, 2005 and resulted in an increase in both operating disbursements and receipts. The second amendment was approved on May 16, 2005 for additional disbursements and receipts in certain City departments. The City had sufficient cash balances to absorb these additional costs.

DEBT ADMINISTRATION

At June 30, 2004 the City had \$632,882 in long-term debt compared to \$642,882 last year, as shown below.

Outstanding Debt at Year-End		
	June 30,	
	<u>2004</u>	<u>2003</u>
General obligation bonds	\$ 0	10,000
Urban Renewal Tax increment		
Financing revenue bonds	375,000	375,000
Anticipatory warrants	<u>257,882</u>	<u>257,882</u>
Total	<u>632,882</u>	<u>642,882</u>

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. As the City has no longer any general obligation debt the Constitutional limit is not a factor.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Polk City'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. Given the strength of the City's cash assets all rates and fees remained unchanged.

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 Colin Adams, Finance Director, 112 3rd Street, Polk City, Iowa.

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

	Disbursements	Program Receipts		
		Charges for Services	Operating Grants, Contributions, and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions/Programs				
Governmental Activities				
Public safety	\$ 462,316	\$ 61,005	\$ 47,682	\$ -
Public works	448,439	229,547	195,251	-
Health and social services	8,188	-	-	-
Culture and recreation	267,846	27,651	24,717	-
Community and economic development	61,973	10,619	-	-
General government	342,691	41,904	10,924	-
Debt service	75,517	-	-	-
Capital projects	994,416	-	-	-
Total governmental activities	2,661,386	370,726	278,574	-
Business type activities				
Water	278,007	325,431	-	-
Sewer	211,992	401,910	-	-
Total business type activities	489,999	727,341	-	-
Total	\$ 3,151,385	\$ 1,098,067	\$ 278,574	\$ -
General Receipts				
Property tax levied for				
General purposes				
Tax increment financing				
Debt service				
Local option sales tax				
Unrestricted interest on investments				
Miscellaneous				
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 (deficit)				
Streets				
Urban renewal purposes				
Debt service				
Capital Projects				
Unrestricted				
Total cash basis net assets				

There were no reconciling items between the Governmental and Fiduciary Fund Statements of Cash Receipts, Disbursements and Changes in Cash Balances and the above Statement. See notes to financial statements.

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
Governmental Activities	Business Type Activities	Total
\$ (353,629)	\$ -	\$ (353,629)
(23,641)	-	(23,641)
(8,188)	-	(8,188)
(215,478)	-	(215,478)
(51,354)	-	(51,354)
(289,863)	-	(289,863)
(75,517)	-	(75,517)
(994,416)	-	(994,416)
(2,012,086)	-	(2,012,086)
-	47,424	47,424
-	189,918	189,918
-	237,342	237,342
\$ (2,012,086)	\$ 237,342	\$ (1,774,744)
\$ 398,930	\$ -	\$ 398,930
354,939	-	354,939
89	-	89
2,658,926	-	2,658,926
24,612	-	24,612
113,182	-	113,182
3,550,678	-	3,550,678
1,538,592	237,342	1,775,934
3,065,780	594,236	3,660,016
\$ 4,604,372	\$ 831,578	\$ 5,435,950
\$ 179,203	\$ -	\$ 179,203
730,348	-	730,348
275,493	-	275,493
257,552	-	257,552
3,161,776	831,578	3,993,354
\$ 4,604,372	\$ 831,578	\$ 5,435,950

City of Polk City, Iowa
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		Other Nonmajor Governmental Funds
		Urban Renewal Tax Increment	Capital Project	
Receipts				
Property Taxes	\$ 398,930	\$ -	\$ -	\$ 89
Tax Increment Financing Collections	-	354,939	-	-
Other City Tax- Local Option Sales Tax	2,658,926	-	-	-
Licenses and Permits	198,532	-	-	-
Use of Money and Property	74,921	409	-	107
Intergovernmental	83,323	-	-	195,251
Charges for Services	194,980	-	-	-
Miscellaneous	39,571	-	-	-
Total Receipts	3,649,183	355,348	-	195,447
Disbursements				
Operating				
Public Safety	462,316	-	-	-
Public Works	243,368	-	-	205,071
Health and Social Services	8,188	-	-	-
Culture and Recreation	267,846	-	-	-
Community and Economic Development	61,973	-	-	-
General Government	342,691	-	-	-
Debt Service	-	65,007	-	10,510
Capital Projects	442,968	-	551,448	-
Total Disbursements	1,829,350	65,007	551,448	215,581
Excess (deficiency) of receipts over (under) disbursements				
	1,819,833	290,341	(551,448)	(20,134)
Other financing sources (uses)				
Operating transfers in	-	-	809,000	271,000
Operating transfers out	(1,080,000)	-	-	-
Total other financing sources (uses)	(1,080,000)	-	809,000	271,000
Net change in cash balances	739,833	290,341	257,552	250,866
Cash balance - beginning of year	2,421,943	440,007	-	203,830
Cash balance - end of year	\$3,161,776	\$ 730,348	\$ 257,552	\$ 454,696
Cash basis fund balances				
Unreserved				
Debt service	\$ -	\$ -	\$ -	\$ 275,493
General fund	3,161,776	-	-	-
Special revenue funds	-	730,348	-	179,203
Capital projects fund	-	-	257,552	-
Total cash basis fund balances	\$3,161,776	\$ 730,348	\$ 257,552	\$ 454,696
<i>The accompanying notes to financial statements are an integral part of this statement.</i>				

	Total
\$	399,019
	354,939
	2,658,926
	198,532
	75,437
	278,574
	194,980
	39,571
	<u>4,199,978</u>
	462,316
	448,439
	8,188
	267,846
	61,973
	342,691
	75,517
	994,416
	<u>2,661,386</u>
	1,538,592
	1,080,000
	(1,080,000)
	-
	1,538,592
	3,065,780
\$	<u>4,604,372</u>
\$	275,493
	3,161,776
	909,551
	257,552
\$	<u>4,604,372</u>

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

	Water	Sewer	Total
Operating receipts			
Use of money and property	\$ 503	\$ 649	\$ 1,152
Charges for service	324,928	401,261	726,189
Total operating receipts	325,431	401,910	727,341
Operating disbursements			
Business type activities	278,007	194,417	472,424
Excess of operating receipts over operating disbursements	47,424	207,493	254,917
Non-operating receipts (disbursements)			
Debt service	-	(17,575)	(17,575)
Total non-operating receipts (disbursements)	-	(17,575)	(17,575)
Net change in cash balances	47,424	189,918	237,342
Cash balances - beginning of year	246,118	348,118	594,236
Cash balances - end of year	\$ 293,542	\$ 538,036	\$ 831,578
Cash basis fund balances - Unreserved	\$ 293,542	\$ 538,036	\$ 831,578
<i>See notes to financial statements.</i>			

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

1/ Summary of Significant Accounting Policies

The City of Polk City is a political subdivision of the State of Iowa located in Polk 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, culture, recreation, public improvements and general administrative services.

A. Reporting Entity

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

Jointly Governed Organizations

In 1998, the City joined the Des Moines Area Metropolitan Planning Organization to plan and coordinate the transportation activities for the metropolitan area. The Organization's Board consists of a representative from each governing body. The members make contributions toward the budget of the organization. During the year ended June 30, 2004, no contribution was made.

In 1969, the City, in conjunction with seventeen other cities, created the Metro Waste Authority. The Authority board consists of an elected representative of the governing body of each participating governmental jurisdiction. The purpose of this joint public body is to provide for the economic disposal of all solid waste produced or generated by the jurisdictions and private contractors. During the year ended June 30, 2004, the City paid the Metro Waste Authority \$21,434 for the Curb It Program.

In addition, the City participates in other jointly governed organizations that provide 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 Joint County/Municipal Disaster Services and Emergency Planning Administration for Polk County, the Emergency Communications Services (911) Board and Central Iowa Regional Drinking Water Commission and League of Cities.

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.

B. Basis of Presentation (continued)

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

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

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

The Statement of Activities and Net Assets demonstrates the degree to which 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 Sewer Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

C. Measurement Focus and Basis of Accounting

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

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

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

2/ Cash and Pooled Investments

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

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

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

The City had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$479,440 pursuant to Rule 2a-7 under the Investment Company Act of 1940 and are not subject to risk categorization.

3/ Tax Increment Financing

In prior years, the City established urban renewal districts and made agreements with the county and schools, in accordance with Chapter 403.19 of the Code of Iowa, to divide the increase in taxes as a result of the incremental property tax valuation in those districts. The taxes so collected are paid into the City's Special Revenue Fund and are expended for project costs or debt service associated with the projects affecting the districts.

By December 1 each year, the city must certify to the county the amount of tax increment financing taxes required to pay the debt service associated with the Urban Renewal areas. Any excess taxes collected, due to events subsequent to the certification date, must be refunded to the county to be reallocated to the taxing jurisdictions. Due to developers subsequently defaulting on their agreements, the certification was not modified, therefore, the city must refund \$355,348 to the county as of June 30, 2004.

4/ Bonds and Notes Payable

The City has issued urban renewal tax increment revenue bonds for the purpose of defraying a portion of the cost of carrying out urban renewal projects of the City. The principal amount due each year on each bond is calculated on the amount of increment taxes collected for that year. The bonds are payable solely from the income and proceeds of the Urban Renewal Tax Increment Fund and the taxes to be paid into the fund in accordance with Chapter 403.19 of the Code of Iowa. The proceeds of the urban renewal tax increment revenue bonds shall be expended only for purposes that are consistent with the plans of the City's urban renewal area. The bonds are not a general obligation of the City; however, the debt is subject to the constitutional debt limitations of the City. The tax increment revenue bonds outstanding at June 30, 2004 were \$375,000.

5/ Sanitary Sewer Construction Warrants

The City issued sanitary sewer construction warrants in 1979. The bonds were issued in the amount of \$257,882 and are payable solely from the collection of any sewer connection fees established by Ordinance No. 80-108. No warranty, covenant or assurance is given that there is or ever will be sufficient funds in the fund to redeem these instruments, and the holders of the instruments shall not look to any other agency, department, fund or account of the City of Polk City for payment of these warrants. The outstanding value of the warrants at June 30, 2004 was \$257,882. To date, the sewer connection fees have been used to pay partial payments on the accrued interest. Subsequently, the City negotiated the full payment of these bonds for \$50,000 and did so in April, 2005.

6/ 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 salary and the City is required to contribute 5.75% of annual covered payroll except for police and fire employees, in which case the percentages are 5.93% and 8.90%, respectively. Contribution requirements are established by State statute. The City's contribution to IPERS for the years ended June 30, 2004, 2003, and 2002 were \$36,952, \$36,705, and \$28,125 respectively, which are equal to the required contributions for each year.

7/ Compensated Absences

City employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned compensated absences for vacation hours payable to employees at June 30, 2004, primarily relating to the General Fund, is \$29,000.

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

8/ Related Party Transactions

The City had no business transactions between the City and City officials 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 with over 490 members from 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. 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 operation funds at the time of payment to the risk pool. The City of Polk City's annual contributions to the Pool for the year ended June 30, 2004 were \$27,101.

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 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 members' risk-sharing certificate or in the event 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 liability 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 of Polk City also carries commercial insurance purchased from other insurers for coverage associated with workers' compensation and employee dishonesty. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

10/ Commitments

As of June 30, 2004, the City had entered into various contracts for the following projects:

A) Des Moines Waterworks- Increasing Water Supply		
Water Line Purchase	\$	<u>1,051,000</u>
B) Library Building Project		
	\$	<u>850,000</u>

11/ Use of Estimates

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

12/ Accounting Change

Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures, and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences, were implemented for the fiscal year ending June 30, 2004. The statements create new basic financial statements for reporting the City’s financial activities. The financial statements now include a government-wide financial statement and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are represented in total in one column. Implementation of these standards had no effect on the beginning fund balances.

13/ Interfund Transfers

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

		Transfer To	
		Capital Projects	Debt Service
Transfer from			
General		\$ 809,000	\$ 271,000

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

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

	Governmental Funds Actual	Enterprise Funds Actual
Receipts		
Property Taxes	\$ 399,019	\$ -
Tax increment financing collections	354,939	-
Other city tax	2,658,926	-
Licenses and permits	198,532	-
Use of money and property	75,437	1,152
Intergovernmental	278,574	-
Charges for Service	194,980	726,189
Miscellaneous	39,571	-
Total Receipts	4,199,978	727,341
Disbursements		
Public safety	462,316	-
Public works	448,439	-
Health and social services	8,188	-
Culture and recreation	267,846	-
Community and economic development	61,973	-
General government	342,691	-
Debt service	75,517	17,575
Capital projects	994,416	-
Business type activities	-	472,424
Total Disbursements	2,661,386	489,999
Excess of receipts over disbursements		
	1,538,592	237,342
Balance - beginning of year	3,065,780	594,236
Balance - end of year	\$ 4,604,372	\$ 831,578
<i>See accompanying independent auditors' report.</i>		

Net	Budgeted Amounts		Final to Net Variance
	Original	Final	
\$ 399,019	\$ 380,999	\$ 380,999	\$ 18,020
354,939	311,485	321,485	33,454
2,658,926	2,730,000	2,591,000	67,926
198,532	105,460	96,600	101,932
76,589	82,200	121,000	(44,411)
278,574	260,060	265,900	12,674
921,169	875,745	926,361	(5,192)
39,571	32,490	109,581	(70,010)
4,927,319	4,778,439	4,812,926	114,393
462,316	730,613	707,910	245,594
448,439	780,715	751,890	303,451
8,188	7,000	9,000	812
267,846	284,830	355,730	87,884
61,973	440,007	65,007	3,034
342,691	394,268	409,538	66,847
93,092	10,510	285,510	192,418
994,416	1,185,000	809,000	(185,416)
472,424	498,718	595,448	123,024
3,151,385	4,331,661	3,989,033	837,648
1,775,934	446,778	823,893	952,041
3,660,016	3,659,562	3,659,562	454
\$ 5,435,950	\$ 4,106,340	\$ 4,483,455	\$ 952,495

City of Polk City, Iowa
Notes to Required Supplementary Information – Budgetary Reporting
June 30, 2004

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, a budget amendment decreased budgeted disbursements by \$342,628. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2004, disbursements exceeded the amounts budgeted in the Capital Projects function.

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

	Special Revenue		Total
	Road Use Tax	Debt Service	
Receipts			
Property tax	\$ -	\$ 89	\$ 89
Use of money and property	-	107	107
Intergovernmental	195,251	-	195,251
Total Receipts	195,251	196	195,447
Disbursements			
Operating			
Public Works	205,071	-	205,071
Debt Service	-	10,510	10,510
Total Disbursements	205,071	10,510	215,581
Excess (deficiency) of receipts over disbursements			
	(9,820)	(10,314)	(20,134)
Other financing sources			
Operating transfers in	-	271,000	271,000
Net changes in cash balances	(9,820)	260,686	250,866
Cash balance - beginning of year	189,023	14,807	203,830
Cash balance - end of year	\$ 179,203	\$ 275,493	\$ 454,696
Cash basis fund balances			
Unreserved			
Special revenue funds	\$ 179,203	\$ -	\$ 179,203
Debt Service	-	275,493	275,493
Total cash basis fund balances	\$ 179,203	\$ 275,493	\$ 454,696
<i>See accompanying independent auditors' report.</i>			

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

	Date of Issue	Interest Rates	Amount Originally Issued
Obligation			
General Obligation Bonds			
County Building	July 1, 1993	4.20 to 5.75%	\$ 85,000
1979 Sanitary Sewer Construction Warrants			
	December 10, 1981	7.00%	\$ 25,788
	October 26, 1981	7.00%	3,641
	August 10, 1981	7.00%	11,987
	July 13, 1981	7.00%	31,056
	June 22, 1981	7.00%	21,850
	May 11, 1981	7.00%	23,210
	April 13, 1981	7.00%	56,799
	March 9, 1981	7.00%	59,662
	February 9, 1981	7.00%	23,889
			\$ 257,882
Urban Renewal Tax Increment Financing Revenue Bonds			
Edgewater Point	October 23, 2000	0.00%	\$ 375,000

The accompanying notes to financial statements are an integral part of this statement.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
\$ 10,000	\$ -	\$ 10,000	\$ -	\$ 510
			-	
			-	
\$ 25,788	-	-	\$ 25,788	-
3,641	-	-	3,641	-
11,987	-	-	11,987	-
31,056	-	-	31,056	-
21,850	-	-	21,850	-
23,210	-	-	23,210	-
56,799	-	-	56,799	-
59,662	-	-	59,662	-
23,889	-	-	23,889	-
\$ 257,882	\$ -	\$ -	\$ 257,882	\$ 17,575
\$ 375,000	\$ -	\$ -	\$ 375,000	\$ -

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

	2004	2003
Receipts		
Property taxes	\$ 399,019	\$ 373,850
Tax increment financing collections	354,939	417,265
Other city tax	2,658,926	1,310,018
Licenses and permits	198,532	84,152
Use of money and property	75,437	86,860
Intergovernmental	278,574	267,197
Charges for service	194,980	231,515
Miscellaneous	39,571	33,367
Total	<u>\$ 4,199,978</u>	<u>\$ 2,804,224</u>
Disbursements		
Operating		
Public safety	\$ 462,316	\$ 603,611
Public works	448,439	370,468
Health and human services	8,188	3,931
Culture and recreation	267,846	193,084
Community and economic development	61,973	286,607
General government	342,691	360,272
Debt service	75,517	11,010
Capital projects	994,416	
Total	<u>\$ 2,661,386</u>	<u>\$ 1,828,983</u>
<i>See accompanying independent auditors' report.</i>		

POLLARD AND COMPANY P.C.

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

To the Honorable Mayor and
Members of the City Council

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

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

Internal Control Over Financial Reporting

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

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

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

October 12, 2004

Pollard and Company P.C.

City of Polk City, Iowa
Schedule of Findings
Year Ended June 30, 2004

PART I Findings Related to the Financial Statements

Instances Of Noncompliance - No matters were noted.

Reportable Conditions

04-I-A Segregation of Duties

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

- (1) Cash receipts, journalizing and posting.
- (2) Disbursements, check writing, journalizing and posting.

Recommendation

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

Response

We will continue to review the internal control procedures and segregate duties to the extent possible with existing personnel and the new finance officer hired during the year.

Conclusion

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

04-I-B Accounting Manual

It is important that all financial activity and procedures be documented in an accounting manual. This manual is needed for cross-training and as a reference source when employee changes and responsibilities are made.

Recommendation

We suggest that an accounting manual be prepared. Since this project is a large undertaking and therefore time consuming, time tables should be established for each accounting application for implementing this project.

Response

With the hiring of the new finance officer and implementation of GASB 34, this project will be a priority in the next year.

Conclusion

Response accepted.

PART II Other Findings Related to Statutory Reporting

04-II-A 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.

04-II-B Certified Budget

Disbursements during the year ended June 30, 2004 exceeded the amounts budgeted in the capital project function. 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.

04-II-C Questionable Disbursements

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

03-II-D Travel Expense

No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

04-II-E Business Transactions

There were no business transactions between the City and City officials or employees during the year.

04-II-F 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.

04-II-G Council Minutes

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

04-II-H

Deposits and Investments

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