

CITY OF CORNING, IOWA

Independent Auditors' Report  
Financial Statements,  
Supplemental Information and  
Schedule of Findings and Questioned Costs

June 30, 2004

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City of Corning, Iowa

Officials

| Name                 | Title                | Term Expires  |
|----------------------|----------------------|---------------|
| Before January, 2004 |                      |               |
| Marvin D. Steffen    | Mayor                | January, 2004 |
| Cindy Peterson       | Council Member       | January, 2006 |
| Frank Dennis         | Council Member       | January, 2006 |
| Debra Goldsmith      | Council Member       | January, 2004 |
| Tim Larsen           | Council Member       | January, 2008 |
| Brent Thompson       | Council Member       | January, 2004 |
| Nancy Carmichael     | City Clerk/Treasurer | January, 2005 |
| Ann Nielsen          | City Attorney        | January, 2005 |
| After January, 2004  |                      |               |
| Guy Brace            | Mayor                | January, 2006 |
| Cindy Peterson       | Council Member       | January, 2006 |
| Frank Dennis         | Council Member       | January, 2006 |
| Timothy Thibodeaux   | Council Member       | January, 2008 |
| Tim Larsen           | Council Member       | January, 2008 |
| Brent Thompson       | Council Member       | January, 2008 |
| Nancy Carmichael     | City Clerk/Treasurer | January, 2006 |
| Ann Nielsen          | City Attorney        | January, 2006 |

# POLLARD AND COMPANY P.C.

## CERTIFIED PUBLIC ACCOUNTANTS

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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 Corning

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 Corning, 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 Corning'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 Corning 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 15 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 of Corning's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. Those reports are an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

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

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Corning's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the year ended June 30, 2003 (none of which is presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 4, including the Schedule of Expenditures of Federal Awards required by the 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.

March 4, 2005

*Pollard and Company P.C.*

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Corning provides this discussion and analysis of the City's financial performance. This provides a narrative overview and analysis of the City's financial activities 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 structures, 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 approximately \$469,284 from fiscal 2003 to fiscal 2004. Property Tax increased \$62,003.
- The City's total disbursements increased \$2,721,198 in fiscal 2004 from fiscal 2003.
- The City received \$425,438 of the CDBG Wastewater Treatment Plant Improvement grant plus \$2,548,908 of a State Revolving Loan at 3% interest and is in the process of finishing construction of a Wastewater Treatment Plant Improvements from the grant/loan proceeds.
- The City's total cash basis net assets increased approximately \$109,587 from June 30, 2003 to June 30, 2004. Of this amount, the assets of the governmental activities increased approximately \$32,700 and the assets of the business type activities increased by approximately \$76,887.

### USING THIS ANNUAL REPORT

The City of Corning was not required to implement the provisions of GASB Statement 34 until the year ending June 30, 2004.

### **Report Components**

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

1. Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.
2. 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.

3. Fund Financial Statements focus on the individual funds of the City government. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most significant (major) funds. For *governmental activities*, these statements tell how these services were financed in the short term as well as what remains for future spending. For *proprietary activities*, these statements offer short-term and long-term financial information about the activities the City operates like businesses, such as the sewer and sanitation services.
4. Notes to the Financial Statements are an integral part of the government-wide and fund financial statements and provide expanded explanation and detail regarding the information reported in the basic statements.
5. Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.
6. Other Supplementary Information provides detailed information about the non-major governmental funds. In addition, the schedule of federal and state awards, and the schedules of compliance with certain debt covenants plus other supplemental financial information is provided to address certain specific needs of various users of the City's annual report.

### **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. This 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 US 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 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 that helps answer this question.

This annual report includes all activities for which the Corning City Council is fiscally responsible.

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 sanitary sewer system and the sanitation 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 Employee Benefits Fund, Road Use Tax and Urban Renewal Tax Increment, 3) the Debt Service Fund, 4) the Capital Projects Funds, and 5) the Permanent Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

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

2. Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains two Enterprise Funds to provide separate information for the sewer and sanitation 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 from a year ago by \$32,700. The analysis that follows focuses on the changes in cash balances for governmental activities.

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Changes in Cash Basis Net Assets of Governmental Activities  
Year Ended June 30, 2004

---

Receipts and Transfers

Program Receipts:

Charge for Service \$ 38,912

Operating Grants, Contributions &  
Restricted Interest \$ 268,699

Capital Grants, Contributions &  
Restricted Interest \$ 548,923

General Receipts

Property Tax \$ 481,368

Grants and Contributions Not  
Restricted to Specific Purposes

Unrestricted Investment Earnings \$ 2,434

Bond Proceeds \$2,548,908

Other General Receipts \$ 8,005

Transfers, net \$ 17,742

Total Receipts and  
Transfers \$3,914,991

Disbursements:

Public Safety \$ 228,525

Public Works \$ 159,288

Culture and Recreation \$ 151,168

Community & Economic Development \$ 136,784

General Government \$ 138,457

Debt Service \$ 99,841

Capital Projects \$2,968,228

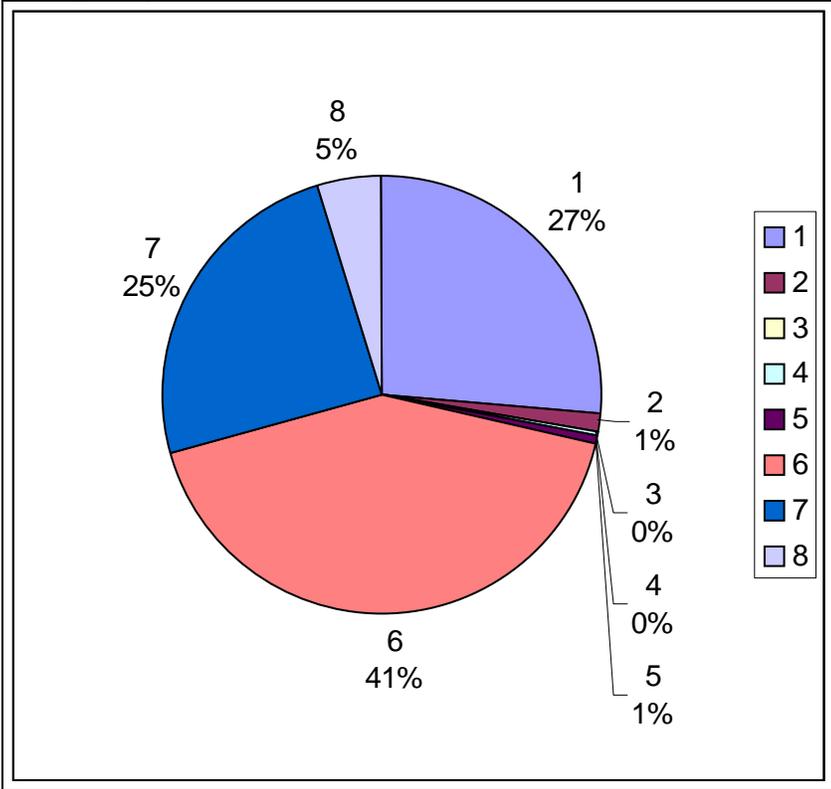
Total Disbursements \$3,882,291

Increase in Cash Basis Net Assets \$ 32,700

Cash Basis Net Assets Beginning of Year \$ 405,717

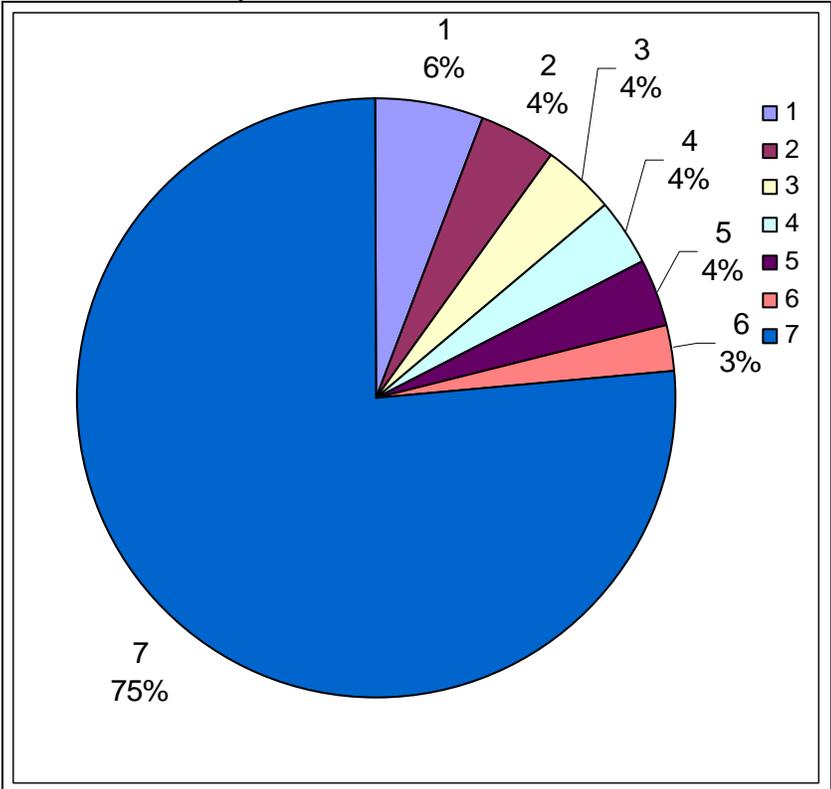
Cash Basis Net Assets End of Year \$ 438,417

### Receipts by Source



- 461001 1. property tax
- 20367 2. tax increment financin
- 2868 3. other city taxes
- 4740 4. licenses and permits
- 10423 5. use of money & prope
- 728630 6. intergovernmental
- 428093 7. charge for service
- 82007 8. miscellaneous
- 3914991

### Disbursements by Function



- 228525 1. public safety
- 159288 2. public works
- 151168 3. culture and recreation
- 136784 4. community/economic development
- 138457 5. general government
- 99841 6. debt service
- 2968228 7. capital projects
- 3882291

The City increased property tax rates for 2004 by \$62,003 primarily to cover employee benefits because of increased insurance costs and employee wage increases that in turn raised the employers contribution amount to IPERS and payroll taxes.

The cost of all governmental activities this year was \$3,882,291 compared to \$1,182,464 last year.

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Changes in Cash Basis Net Assets of Business Type Activities  
Year Ended June 30, 2004

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Receipts:

Program receipts:

|                         |                |
|-------------------------|----------------|
| Use of Money & Property | 387            |
| Charge for Service      | 389,401        |
| <u>total receipts</u>   | <u>389,788</u> |

Disbursements & Transfers:

|                            |                |
|----------------------------|----------------|
| Sewer                      | 200,631        |
| Garbage                    | 94,528         |
| Transfers                  | 17,742         |
| <u>total disbursements</u> | <u>312,901</u> |

|   |         |
|---|---------|
| Increase (decrease) in cash balance     | 76,887  |
| Cash Basis Net Assets Beginning of Year | 447,125 |
| Cash Basis Net Assets End of Year       | 524,012 |

Total Business type activities receipts for the fiscal year were \$389,788 compared to \$393,213 last year. Total disbursements increased from \$273,788 because of increased garbage rates, wastewater treatment plant expenses and transfers.

**INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS**

As the City of Corning completed the year, its governmental funds reported a combined fund balance of \$ 438,417, an increase of \$32,700 above last year's total of \$405,717. 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 reduced its deficit through decreased spending.
- The Road Use Tax Fund cash balance increased by \$28,509.
- The Urban Renewal Tax Increment Fund was established to account for two major urban renewal projects within the City's business district. One of which was paid off in FY04-05 through the collection of incremental property tax generated from the increased taxable valuation in the district.

## INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Sewer Fund cash balance increased due primarily to an increase in the sewer rates needed to repay the State Revolving Loan.

## BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget one time. It was approved on June 14, 2004 to allow for increased Public Safety expenses, increased Culture and Recreation expenses, increased General Government expenses, and to include the Wastewater Treatment Plant Improvements. The City received an SRF Loan and CDBG grant to cover the wastewater expenses.

## DEBT ADMINISTRATION

The City's long-term debt is comprised of General Obligation debt for a street paving project. Additionally, the City of Corning is indebted to the State of Iowa through the State Revolving Loan Fund for the wastewater treatment plant improvements. The amount of debt for Tax Increment Projects is \$ 72000. Debt for the Places/Pamida project will be retired in 2010 and the Vanishing Point/Might Wash project was retired in the fall of 2004. 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 \$485,000 is significantly below its constitutional debt limit of \$1,199,129.

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### Outstanding Debt at Year-End

|                             | June 30,  |         |
|-----------------------------|-----------|---------|
|                             | 2004      | 2003    |
| General Obligation Bonds    | 485,000   | 540,000 |
| Urban Renewal Tax Increment | 72,000    | 84,000  |
| State Revolving Loan        | 3,031,160 | 482,252 |

## ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES.

The City of Corning'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 has not grown. The State of Iowa grew two employees while local government lost four employees. Adams County's unemployment rate is 5.2% and the State unemployment rate is 4.2%. The median household income is \$30,453. Adams County's employees are mostly located in education and health services representing 22.68% of the total.

Inflation in the State continues to be somewhat lower than the national Consumer Price Index increase.

These indicators were taken into account when adopting the budget for fiscal year 2005. For the year ending June 30, 2004, the General Fund has been budgeted fairly consistently with this year. The City will see a small increase in General Fund Property Tax dollars through the increased valuation of property. Those dollars will offset the increased expenses for economic development and salaries. No significant capital asset items are budgeted in governmental activities for next year.

The business-type activities will operate for the full year with the sanitation (garbage collection and disposal) department operation. Waste management of Creston handles those duties as well as providing recycling bins for the community. An increase to the consumer of \$.50 per month was approved by Ordinance in February, 2004 and a 45 cent increase in rates was approved by Ordinance in September 2004 to cover an increase in landfill tipping fees.

The Wastewater Treatment Plant improvement project has received a State Revolving Loan Fund loan and \$500,000 in CDBG funds. The Corning City Council did need to increase sewer rates to 130% of water usage to meet loan obligations.

#### **CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City Clerk's office at 601 6<sup>th</sup> Street, Corning, Iowa or telephone at (641) 322-4230.

Guy Brace  
Mayor

City of Corning, 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  | \$ 228,525    | \$ -                 | \$ -   | \$ -  |
| Public works   | 159,288       | 7,013                | 148,502  | -   |
| Culture and recreation   | 151,168       | 31,899               | 120,197  | -   |
| Community and economic development   | 136,784       | -                    | -  | 123,410   |
| General government   | 138,457       | -                    | -  | -   |
| Debt service   | 99,841        | -                    | -  | -   |
| Capital projects   | 2,968,228     | -                    | -  | 425,513   |
| Total governmental activities  | 3,882,291     | 38,912               | 268,699  | 548,923   |
| Business type activities   |               |                      |  |   |
| Sewer  | 200,631       | 295,839              | -  | -   |
| Sanitation   | 94,528        | 93,949               | -  | -   |
| Total business type activities   | 295,159       | 389,788              | -  | -   |
| Total  | \$ 4,177,450  | \$ 428,700           | \$ 268,699   | \$ 548,923  |
| General Receipts   |               |                      |  |   |
| Property tax levied for  |               |                      |  |   |
| General purposes   |               |                      |  |   |
| Tax increment financing  |               |                      |  |   |
| Debt service   |               |                      |  |   |
| Unrestricted interest on investments   |               |                      |  |   |
| Bond proceeds  |               |                      |  |   |
| Miscellaneous  |               |                      |  |   |
| Transfers  |               |                      |  |   |
| Total general receipts and transfers   |               |                      |  |   |
| Change in cash basis net assets  |               |                      |  |   |
| Cash basis net assets beginning of year  |               |                      |  |   |
| Cash basis net assets end of year  |               |                      |  |   |
| Cash basis net assets  |               |                      |  |   |
| Restricted   |               |                      |  |   |
| Streets  |               |                      |  |   |
| Urban renewal purposes   |               |                      |  |   |
| Debt service   |               |                      |  |   |
| Unrestricted   |               |                      |  |   |
| Total cash basis net assets  |               |                      |  |   |
| <i>There were no reconciling items between the Governmental and Proprietary Fund Statements of Cash Receipts, Disbursements and Changes in Cash Balances and the above Statement. See notes to financial statements.</i> |               |                      |  |   |
|  |               |                      |  |   |

| Net (Disbursements) Receipts and Changes in Cash Basis Net Assets |                          |                |
|---|--------------------------|----------------|
| Governmental Activities   | Business Type Activities | Total          |
|   |                          |                |
| \$ (228,525)  | \$ -                     | \$ (228,525)   |
| (3,773)   | -                        | (3,773)        |
| 928   | -                        | 928            |
| (13,374)  | -                        | (13,374)       |
| (138,457)   | -                        | (138,457)      |
| (99,841)  | -                        | (99,841)       |
| (2,542,715)   | -                        | (2,542,715)    |
| (3,025,757)   | -                        | (3,025,757)    |
|   |                          |                |
| -   | 95,208                   | 95,208         |
| -   | (579)                    | (579)          |
| -   | 94,629                   | 94,629         |
| \$ (3,025,757)  | \$ 94,629                | \$ (2,931,128) |
|   |                          |                |
|   |                          |                |
|   |                          |                |
| 377,090   | -                        | 377,090        |
| 20,367  | -                        | 20,367         |
| 83,911  | -                        | 83,911         |
| 2,434   | -                        | 2,434          |
| 2,548,908   | -                        | 2,548,908      |
| 8,005   | -                        | 8,005          |
| 17,742  | (17,742)                 | -              |
| 3,058,457   | (17,742)                 | 3,040,715      |
|   |                          |                |
|   |                          |                |
|   |                          |                |
| 32,700  | 76,887                   | 109,587        |
| 405,717   | 447,125                  | 852,842        |
| \$ 438,417  | \$ 524,012               | \$ 962,429     |
|   |                          |                |
|   |                          |                |
|   |                          |                |
| \$ 102,700  | \$ -                     | \$ 102,700     |
| 6,143   | -                        | 6,143          |
| 53,320  | 73,963                   | 127,283        |
| 276,254   | 450,049                  | 726,303        |
| \$ 438,417  | \$ 524,012               | \$ 962,429     |
|   |                          |                |
|   |                          |                |

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

|   | General            | Capital Project   | Employee Benefits | Debt Service     |
|---|--------------------|-------------------|-------------------|------------------|
| <b>Receipts</b>   |                    |                   |                   |                  |
| Property Taxes  | \$ 243,405         | \$ -              | \$ 133,685        | \$ 83,911        |
| Tax Increment Financing Collections                           | -                  | -                 | -                 | -                |
| Other City Tax  | 2,868              | -                 | -                 | -                |
| Licenses and Permits  | 4,740              | -                 | -                 | -                |
| Use of Money and Property                                     | 7,399              | 45                | -                 | -                |
| Intergovernmental   | 31,205             | 425,513           | -                 | -                |
| Charges for Services  | 38,912             | -                 | -                 | -                |
| Miscellaneous   | 80,983             | -                 | -                 | -                |
| <b>Total Receipts</b>   | <b>409,512</b>     | <b>425,558</b>    | <b>133,685</b>    | <b>83,911</b>    |
| <b>Disbursements</b>  |                    |                   |                   |                  |
| Operating   |                    |                   |                   |                  |
| Public Safety   | 185,205            | -                 | 43,320            | -                |
| Public Works  | 7,377              | -                 | 31,714            | -                |
| Culture and Recreation  | 138,367            | -                 | 12,801            | -                |
| Community and Economic Development                            | 6,000              | -                 | -                 | -                |
| General Government  | 121,358            | -                 | 17,099            | -                |
| Debt Service  | -                  | -                 | -                 | 81,845           |
| Capital Projects  | -                  | 2,968,228         | -                 | -                |
| <b>Total Disbursements</b>                                    | <b>458,307</b>     | <b>2,968,228</b>  | <b>104,934</b>    | <b>81,845</b>    |
| Excess (deficiency) of receipts<br>over (under) disbursements | (48,795)           | (2,542,670)       | 28,751            | 2,066            |
| <b>Other financing sources (uses)</b>                         |                    |                   |                   |                  |
| Sewer Revenue Bond Proceeds                                   | -                  | 2,548,908         | -                 | -                |
| Operating transfers in  | 63,900             | -                 | -                 | -                |
| Operating transfers out                                       | -                  | (46,158)          | -                 | -                |
| <b>Total other financing sources (uses)</b>                   | <b>63,900</b>      | <b>2,502,750</b>  | <b>-</b>          | <b>-</b>         |
| <b>Net change in cash balances</b>                            | <b>15,105</b>      | <b>(39,920)</b>   | <b>28,751</b>     | <b>2,066</b>     |
| Cash balance (deficit) - beginning of year                    | (98,384)           | 203,626           | (22,410)          | 51,254           |
| <b>Cash balance (deficit) - end of year</b>                   | <b>\$ (83,279)</b> | <b>\$ 163,706</b> | <b>\$ 6,341</b>   | <b>\$ 53,320</b> |
| <b>Cash basis fund balances (deficit)</b>                     |                    |                   |                   |                  |
| Reserved  |                    |                   |                   |                  |
| Debt service  | \$ -               | \$ -              | \$ -              | \$ 53,320        |
| Unreserved  |                    |                   |                   |                  |
| General fund  | (83,279)           | -                 | -                 | -                |
| Special revenue funds   | -                  | -                 | 6,341             | -                |
| Capital projects fund   | -                  | 163,706           | -                 | -                |
| Permanent fund  | -                  | -                 | -                 | -                |
| <b>Total cash basis fund balances</b>                         | <b>\$ (83,279)</b> | <b>\$ 163,706</b> | <b>\$ 6,341</b>   | <b>\$ 53,320</b> |
| <i>See notes to financial statements.</i>                     |                    |                   |                   |                  |

| Other Nonmajor<br>Governmental<br>Funds | Total       |
|---|-------------|
| \$ -                                    | \$ 461,001  |
| 20,367                                  | 20,367      |
| -                                       | 2,868       |
| -                                       | 4,740       |
| 2,592                                   | 10,036      |
| 271,912                                 | 728,630     |
| -                                       | 38,912      |
| 804                                     | 81,787      |
| 295,675                                 | 1,348,341   |
|   |             |
|   |             |
| -                                       | 228,525     |
| 120,197                                 | 159,288     |
| -                                       | 151,168     |
| 130,784                                 | 136,784     |
| -                                       | 138,457     |
| 17,996                                  | 99,841      |
| -                                       | 2,968,228   |
| 268,977                                 | 3,882,291   |
|   |             |
| 26,698                                  | (2,533,950) |
|   |             |
| -                                       | 2,548,908   |
| -                                       | 63,900      |
| -                                       | (46,158)    |
| -                                       | 2,566,650   |
|   |             |
| 26,698                                  | 32,700      |
|   |             |
| 271,631                                 | 405,717     |
| \$ 298,329                              | \$ 438,417  |
|   |             |
|   |             |
| \$ -                                    | \$ 53,320   |
|   |             |
| -                                       | (83,279)    |
| 275,333                                 | 281,674     |
| -                                       | 163,706     |
| 22,996                                  | 22,996      |
| \$ 298,329                              | \$ 438,417  |
|   |             |

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

|   | Sewer             | Sewer<br>Sinking | Sewer<br>Repairs  | Sanitation      | Total             |
|---|-------------------|------------------|-------------------|-----------------|-------------------|
| <b>Operating receipts</b>   |                   |                  |                   |                 |                   |
| Use of money and property   | \$ -              | \$ 387           | \$ -              | \$ -            | \$ 387            |
| Charges for service   | 295,232           | -                | -                 | 93,949          | 389,181           |
| Miscellaneous   | 220               | -                | -                 | -               | 220               |
| <b>Total operating receipts</b>   | <b>295,452</b>    | <b>387</b>       |                   | <b>93,949</b>   | <b>389,788</b>    |
| <b>Operating disbursements</b>  |                   |                  |                   |                 |                   |
| Business type activities  | 200,631           | -                | -                 | 94,528          | 295,159           |
| <b>Excess (deficiency) of operating receipts<br/>over (under) operating disbursements</b> | <b>94,821</b>     | <b>387</b>       | <b>-</b>          | <b>(579)</b>    | <b>94,629</b>     |
| Operating transfer  | 27,258            | -                | -                 | -               | 27,258            |
| Operating transfers (out)   | (45,000)          | -                | -                 | -               | (45,000)          |
|   | (17,742)          | -                | -                 | -               | (17,742)          |
| <b>Net change in cash balances</b>  | <b>77,079</b>     | <b>387</b>       | <b>-</b>          | <b>(579)</b>    | <b>76,887</b>     |
| Cash balances - beginning of year   | 251,973           | 73,576           | 114,775           | 6,801           | 447,125           |
| <b>Cash balances - end of year</b>  | <b>\$ 329,052</b> | <b>\$ 73,963</b> | <b>\$ 114,775</b> | <b>\$ 6,222</b> | <b>\$ 524,012</b> |
| <b>Cash basis fund balances</b>   |                   |                  |                   |                 |                   |
| Reserved for debt service   | \$ -              | \$ 73,963        | \$ -              | \$ -            | \$ 73,963         |
| Unreserved  | 329,052           | -                | 114,775           | 6,222           | 450,049           |
| <b>Total cash basis fund balances</b>   | <b>\$ 329,052</b> | <b>\$ 73,963</b> | <b>\$ 114,775</b> | <b>\$ 6,222</b> | <b>\$ 524,012</b> |
| <i>See notes to financial statements</i>  |                   |                  |                   |                 |                   |

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

1. Summary of Significant Accounting Policies

The City of Corning is a political subdivision of the State of Iowa located in Adams County. It was first incorporated in 1857 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a nonpartisan 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.

A. Reporting Entity

For financial reporting purposes, the City of Corning 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.

Excluded Component Unit

The Corning Municipal Utilities was established under Chapter 388 of the Code of Iowa, is legally separate from the City, but has the potential to provide specific benefits to, or impose specific burdens on the City. The Municipal Utilities is governed by a three-member board appointed by the Mayor and approved by the City Council. The financial transactions of this component unit have not been displayed because they use a different basis of accounting. Complete financial statements can be obtained from the Municipal Utilities administrative office.

Jointly Governed Organizations

The City also participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the Adams County Assessor's Conference Board.

## B. Basis of Presentation

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

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

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

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

The Statement of Activities and Net Assets demonstrates the degree to which 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.

**Capital Projects:**

The Capital Projects Fund is utilized to account for all resources used in the acquisition of capital facilities.

**Special Revenue:**

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

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

The City reports the following major proprietary funds:

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

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.

In addition, the City had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$7,631 pursuant to Rule 2a-7 under the Investment Company Act of 1940 and are not subject to risk categorization.

3. Urban Renewal Tax Increment Revenue Bond

On June 14, 1993, the City issued a \$180,000 urban renewal tax increment revenue bond pursuant to Chapter 403.9(1) of the Code of Iowa to fund an economic development grant to a local corporation. The bond requires principal installments of \$6,000 each June 1 and December 1, beginning December 1, 1995 and continuing through and including June 1, 2010. No interest is required and the principal is payable from the Special Revenue, Urban Renewal Plan #1 Fund collections. The annual debt service requirements are as follows:

| Year     |  |                  |
|----------|--|------------------|
| Ending   |  |                  |
| June 30, |  | Principal        |
| 2005     |  | \$ 12,000        |
| 2006     |  | 12,000           |
| 2007     |  | 12,000           |
| 2008     |  | 12,000           |
| 2009     |  | 12,000           |
| 2010     |  | 12,000           |
|          |  | <u>\$ 72,000</u> |
|          |  |                  |

4. Bonds and Notes Payable

Primary Government

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

| Year<br>Ending<br>June 30, | General Obligation<br>Bonds and Notes |            | State Revolving Loan/Sewer<br>Revenue Bonds |              | Total        |              |
|----------------------------|---------------------------------------|------------|---|--------------|--------------|--------------|
|                            | Principal                             | Interest   | Principal                                   | Interest     | Principal    | Interest     |
| 2005                       | \$ 60,000                             | \$ 23,960  | \$ 155,000                                  | \$ 90,978    | \$ 215,000   | \$ 114,938   |
| 2006                       | 65,000                                | 21,110     | 116,000                                     | 87,600       | 181,000      | 108,710      |
| 2007                       | 65,000                                | 17,990     | 120,000                                     | 84,120       | 185,000      | 102,110      |
| 2008                       | 70,000                                | 14,838     | 123,000                                     | 80,520       | 193,000      | 95,358       |
| 2009                       | 70,000                                | 11,407     | 127,000                                     | 76,830       | 197,000      | 88,237       |
| 2010                       | 75,000                                | 7,908      | 131,000                                     | 73,020       | 206,000      | 80,928       |
| 2011                       | 80,000                                | 4,120      | 135,000                                     | 69,090       | 215,000      | 73,210       |
| 2012                       | -                                     | -          | 139,000                                     | 65,040       | 139,000      | 65,040       |
| 2013                       | -                                     | -          | 143,000                                     | 60,870       | 143,000      | 60,870       |
| 2014                       | -                                     | -          | 147,000                                     | 56,580       | 147,000      | 56,580       |
| 2015                       | -                                     | -          | 152,000                                     | 52,170       | 152,000      | 52,170       |
| 2016                       | -                                     | -          | 156,000                                     | 47,610       | 156,000      | 47,610       |
| 2017                       | -                                     | -          | 161,000                                     | 42,930       | 161,000      | 42,930       |
| 2018                       | -                                     | -          | 166,000                                     | 38,100       | 166,000      | 38,100       |
| 2019                       | -                                     | -          | 171,000                                     | 33,120       | 171,000      | 33,120       |
| 2020                       | -                                     | -          | 176,000                                     | 27,990       | 176,000      | 27,990       |
| 2021                       | -                                     | -          | 181,000                                     | 22,710       | 181,000      | 22,710       |
| 2022                       | -                                     | -          | 186,000                                     | 17,280       | 186,000      | 17,280       |
| 2023                       | -                                     | -          | 192,000                                     | 11,700       | 192,000      | 11,700       |
| 2024                       | -                                     | -          | 198,000                                     | 5,940        | 198,000      | 5,940        |
| Total                      | \$ 485,000                            | \$ 101,333 | \$ 3,075,000                                | \$ 1,044,198 | \$ 3,560,000 | \$ 1,145,531 |

Through June 30, 2004, the City received \$3,031,160 of the total \$3,075,000 to be received from the sewer revenue bonds. Subsequent to June 30, 2004, the balance was received and therefore the debt service requirements are reflected above.

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

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

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

5. Tax Increment Rebate Agreement

On December 27, 1995, the City entered into a rebate agreement pledging portions of taxes collected pursuant to the authority of Chapter 403.19(2) of the Code of Iowa for urban renewal purposes. The City made an economic development grant to a local property owner for a period of ten years. Taxes collected from Urban Renewal Plan #2 are pledged to the property owner up to a total of \$47,000. As of June 30, 2004, the City has remitted \$46,788 to the property owner under this agreement.

6. Unrecorded Assets

The Library owns stock in Comcast, AT&T, Qwest, Agere, and Lucent Technologies, from a gift received in 1951. These assets with an original cost of \$775 have not been recognized in the City's financial statements. The market value of these assets at June 30, 2004 was \$2,287. The unrecorded assets are to be used by the Corning Public Library.

7. 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 compensation 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. Contribution requirements are established by State statute. The City's contributions to IPERS for the years ended June 30, 2004 and June 30, 2003 were \$19,576, and \$16,030, respectively, which are equal to the required contributions for those years.

8. Compensated Absences

City employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, retirement, or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for these earned termination payments payable to employees at June 30, 2004, primarily relating to the General Fund, is \$45,000. This liability has been computed based on rates of pay as of June 30, 2004.

9. Risk Management

The City of Corning is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage.

10. Budget Overexpenditure

Per the Code of Iowa, disbursements may not legally exceed budget appropriations at the functional level. During the year ended June 30, 2004, disbursements in the Culture and Recreation, Community and Economic Development, General Government, and Debt Service functions exceeded the amounts budgeted.

11. Related Party Transactions

The City had business transactions totaling \$15,127 between the City and City officials during the year ended June 30, 2004.

12. Deficit Fund Balance

The General Fund had a deficit balance of \$83,279 at June 30, 2004. The deficit balance was a result of prior years' disbursements exceeding receipts. Unless additional property tax can be collected through higher assessed values, the deficit will have to be eliminated by lowering disbursements or transfers from other funds.

The USDA Siren Fund had a deficit balance of \$4,053 at June 30, 2004. The deficit was a result of project expenditures being made ahead of receipts.

The CDBG Housing and Urban Renewal Fund had a deficit balance of \$6,893. The deficit was a result of project expenditures being made ahead of receipts.

13. Interfund Transfers

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

|               |                 | Transfer To      |                  |                  |
|---------------|-----------------|------------------|------------------|------------------|
|               |                 | General          | Enterprise       | Total            |
| Transfer from |                 |                  |                  |                  |
|               | Capital project | \$ 18,900        | \$ 27,258        | \$ 46,158        |
|               | Enterprise      | 45,000           | -                | 45,000           |
|               |                 | <u>\$ 63,900</u> | <u>\$ 27,258</u> | <u>\$ 91,158</u> |

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

14. Commitments

The City entered into contracts for the construction and services related to the waste water treatment facility. Expenditures to date are reported in the financial statements. The estimated remaining commitment is \$163,700 at June 30, 2004, and has been financed from proceeds of the sewer revenue bond and the CDBG grant.

15. Accounting Change

The 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 presented in total in one column. Implementation of these standards had no effect on the beginning fund balances.

City of Corning, 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<br>Funds Actual | Enterprise<br>Funds Actual |
|---|------------------------------|----------------------------|
| <b>Receipts</b>   |                              |                            |
| Property Taxes  | \$ 461,001                   | \$ -                       |
| Tax increment financing collections   | 20,367                       | -                          |
| Other city tax  | 2,868                        | -                          |
| Licenses and permits  | 4,740                        | -                          |
| Use of money and property   | 10,036                       | 387                        |
| Intergovernmental   | 728,630                      | -                          |
| Charges for Service   | 38,912                       | 389,181                    |
| Miscellaneous   | 81,787                       | 220                        |
| <b>Total Receipts</b>   | <b>1,348,341</b>             | <b>389,788</b>             |
| <b>Disbursements</b>  |                              |                            |
| Public safety   | 228,525                      | -                          |
| Public works  | 159,288                      | -                          |
| Culture and recreation  | 151,168                      | -                          |
| Community and economic development  | 136,784                      | -                          |
| General government  | 138,457                      | -                          |
| Debt service  | 99,841                       | -                          |
| Capital projects  | 2,968,228                    | -                          |
| Business type activities  | -                            | 295,159                    |
| <b>Total Disbursements</b>  | <b>3,882,291</b>             | <b>295,159</b>             |
| <b>Excess (deficiency) of receipts<br/>over (under) disbursements</b>                                     |                              |                            |
|   | (2,533,950)                  | 94,629                     |
| <b>Other financing sources, net</b>   |                              |                            |
|   | 2,566,650                    | (17,742)                   |
| <b>Excess of receipts and other<br/>financing sources over disbursements<br/>and other financing uses</b> |                              |                            |
|   | 32,700                       | 76,887                     |
| Balance - beginning of year   | 405,717                      | 447,125                    |
| Balance - end of year   | \$ 438,417                   | \$ 524,012                 |
| <i>See accompanying independent auditors' report.</i>   |                              |                            |

| Net                 | Budgeted Amounts    |                   | Final to Net<br>Variance |
|---------------------|---------------------|-------------------|--------------------------|
|                     | Original            | Final             |                          |
| \$ 461,001          | \$ 457,696          | \$ 457,696        | \$ 3,305                 |
| 20,367              | 18,000              | 20,367            | -                        |
| 2,868               | 243                 | 243               | 2,625                    |
| 4,740               | 4,750               | 4,750             | (10)                     |
| 10,423              | 71,000              | 71,000            | (60,577)                 |
| 728,630             | 597,376             | 597,376           | 131,254                  |
| 428,093             | 410,000             | 410,000           | 18,093                   |
| 82,007              | 3,000               | 38,000            | 44,007                   |
| <b>\$ 1,738,129</b> | <b>1,562,065</b>    | <b>1,599,432</b>  | <b>138,697</b>           |
|                     |                     |                   |                          |
|                     |                     |                   |                          |
| 228,525             | 234,882             | 242,882           | 14,357                   |
| 159,288             | 174,918             | 174,918           | 15,630                   |
| 151,168             | 88,396              | 88,896            | (62,272)                 |
| 136,784             | 12,970              | 12,970            | (123,814)                |
| 138,457             | 110,888             | 111,996           | (26,461)                 |
| 99,841              | 83,110              | 83,110            | (16,731)                 |
| 2,968,228           | -                   | 3,200,000         | 231,772                  |
| 295,159             | 812,259             | 812,259           | 517,100                  |
| 4,177,450           | 1,517,423           | 4,727,031         | 549,581                  |
|                     |                     |                   |                          |
|                     |                     |                   |                          |
| (2,439,321)         | 44,642              | (3,127,599)       | 688,278                  |
|                     |                     |                   |                          |
| 2,548,908           | 2,800,100           | 2,800,100         | (251,192)                |
|                     |                     |                   |                          |
|                     |                     |                   |                          |
| 109,587             | 2,844,742           | (327,499)         | 437,086                  |
|                     |                     |                   |                          |
| 852,842             | 604,906             | 604,906           | 247,936                  |
| <b>\$ 962,429</b>   | <b>\$ 3,449,648</b> | <b>\$ 277,407</b> | <b>\$ 685,022</b>        |
|                     |                     |                   |                          |
|                     |                     |                   |                          |

City of Corning, 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 increased budgeted disbursements by \$3,209,608. The budget amendments are reflected in the final budgeted amounts.

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

City of Corning, 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   |                      |                     |                   |                   |
|---|---------------------------------------|-------------------|----------------------|---------------------|-------------------|-------------------|
|   |                                       | Road Use<br>Tax   | Urban<br>Renewal # 1 | Urban<br>Renewal #2 | CDBG<br>Housing   | USDA<br>Siren     |
| <b>Receipts</b>                                       |                                       |                   |                      |                     |                   |                   |
|   | Tax increment financing collections   | \$ -              | \$ 14,371            | \$ 5,996            | \$ -              | \$ -              |
|   | Use of money and property             | -                 | -                    | -                   | -                 | -                 |
|   | Intergovernmental                     | 148,502           | -                    | -                   | 84,610            | 38,800            |
|   | Miscellaneous                         | 204               | -                    | -                   | -                 | -                 |
|   | <b>Total Receipts</b>                 | <b>148,706</b>    | <b>14,371</b>        | <b>5,996</b>        | <b>84,610</b>     | <b>38,800</b>     |
| <b>Disbursements</b>                                  |                                       |                   |                      |                     |                   |                   |
|   | Operating                             |                   |                      |                     |                   |                   |
|   | Public Works                          | 120,197           | -                    | -                   | -                 | -                 |
|   | Community and Economic Development    | -                 | -                    | -                   | 87,931            | 42,853            |
|   | Debt Service                          | -                 | 12,000               | 5,996               | -                 | -                 |
|   | <b>Total Disbursements</b>            | <b>120,197</b>    | <b>12,000</b>        | <b>5,996</b>        | <b>87,931</b>     | <b>42,853</b>     |
| <b>Excess (deficiency) of receipts</b>                |                                       |                   |                      |                     |                   |                   |
|   | over disbursements                    | 28,509            | 2,371                | -                   | (3,321)           | (4,053)           |
| <b>Cash balance (deficit) - beginning of year</b>     |                                       |                   |                      |                     |                   |                   |
|   |                                       | 74,191            | 3,772                |                     | (3,572)           |                   |
| <b>Cash balance (deficit) - end of year</b>           |                                       |                   |                      |                     |                   |                   |
|   |                                       | <b>\$ 102,700</b> | <b>\$ 6,143</b>      | <b>\$ -</b>         | <b>\$ (6,893)</b> | <b>\$ (4,053)</b> |
| <b>Cash basis fund balances (deficit)</b>             |                                       |                   |                      |                     |                   |                   |
|   | Unreserved                            |                   |                      |                     |                   |                   |
|   | Special revenue funds                 | \$ 102,700        | \$ 6,143             |                     | \$ (6,893)        | \$ (4,053)        |
|   | Permanent fund                        | -                 | -                    | -                   | -                 | -                 |
|   | <b>Total cash basis fund balances</b> | <b>\$ 102,700</b> | <b>\$ 6,143</b>      | <b>\$ -</b>         | <b>\$ (6,893)</b> | <b>\$ (4,053)</b> |
| <i>See accompanying independent auditors' report.</i> |                                       |                   |                      |                     |                   |                   |

|                    |                |               | Permanent               |            |
|--------------------|----------------|---------------|-------------------------|------------|
| Police Contingency | Fire Equipment | Library Trust | Cemetary Perpetual Care | Total      |
| \$ -               | \$ -           | \$ -          | \$ -                    | \$ 20,367  |
| -                  | 2,592          | -             | -                       | 2,592      |
| -                  | -              | -             | -                       | 271,912    |
| -                  | -              | -             | 600                     | 804        |
| -                  | 2,592          | -             | 600                     | 295,675    |
|                    |                |               |                         |            |
|                    |                |               |                         |            |
| -                  | -              | -             | -                       | 120,197    |
| -                  | -              | -             | -                       | 130,784    |
| -                  | -              | -             | -                       | 17,996     |
| -                  | -              | -             | -                       | 268,977    |
|                    |                |               |                         |            |
|                    |                |               |                         |            |
| -                  | 2,592          | -             | 600                     | 26,698     |
|                    |                |               |                         |            |
|                    |                |               |                         |            |
| 13,671             | 72,360         | 88,813        | 22,396                  | 271,631    |
| \$ 13,671          | \$ 74,952      | \$ 88,813     | \$ 22,996               | \$ 298,329 |
|                    |                |               |                         |            |
|                    |                |               |                         |            |
| \$ 13,671          | \$ 74,952      | \$ 88,813     | \$ -                    | \$ 275,333 |
| -                  | -              | -             | 22,996                  | 22,996     |
| \$ 13,671          | \$ 74,952      | \$ 88,813     | \$ 22,996               | \$ 298,329 |
|                    |                |               |                         |            |

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

|  | Date of Issue    | Interest Rates | Amount Originally Issued |
|--|------------------|----------------|--------------------------|
| <b>Obligation</b>  |                  |                |                          |
| <b>General obligation bonds</b>                                  |                  |                |                          |
| Street improvement   | March 1, 2001    | 4.50% - 5.15%  | \$ 640,000               |
| <b>Urban renewal tax increment financing (TIF Revenue Bonds)</b> |                  |                |                          |
|  | October 15, 1993 | 0.00%          | \$ 180,000               |
| <b>State revolving loan</b>                                      |                  |                |                          |
| Sewer revenue bonds  | June 6, 2003     | 3.00%          | \$ 3,035,000             |
| <i>See accompanying independent auditor's report.</i>            |                  |                |                          |

| Balance<br>Beginning<br>of Year | Issued<br>During Year | Redeemed<br>During Year | Balance<br>End of Year | Interest<br>Paid | Interest<br>Due and<br>Unpaid |
|---------------------------------|-----------------------|-------------------------|------------------------|------------------|-------------------------------|
|                                 |                       |                         |                        |                  |                               |
| \$ 540,000                      | \$ -                  | \$ 55,000               | \$ 485,000             | \$ 26,845        | \$ -                          |
|                                 |                       |                         |                        |                  |                               |
| \$ 84,000                       | \$ -                  | \$ 12,000               | \$ 72,000              | \$ -             | \$ -                          |
|                                 |                       |                         |                        |                  |                               |
| \$ 482,252                      | \$ 2,548,908          | \$ -                    | \$ 3,031,160           | \$ 67,053        | \$ -                          |
|                                 |                       |                         |                        |                  |                               |

City of Corning, 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                |
|---|--|---------------------|---------------------|
| <b>Receipts</b>                                       |  |                     |                     |
| Property taxes  |  | \$ 461,001          | \$ 400,684          |
| Tax increment financing collections                   |  | 20,367              | 18,951              |
| Other city tax  |  | 2,868               | -                   |
| Licenses and permits                                  |  | 4,740               | 4,890               |
| Use of money and property                             |  | 10,036              | 8,093               |
| Intergovernmental                                     |  | 728,630             | 333,231             |
| Charges for service                                   |  | 38,912              | 30,225              |
| Miscellaneous   |  | 81,787              | 82,983              |
|   |  |                     |                     |
| Total   |  | <b>\$ 1,348,341</b> | <b>\$ 879,057</b>   |
| <b>Disbursements</b>                                  |  |                     |                     |
| <b>Operating</b>                                      |  |                     |                     |
| Public safety   |  | \$ 228,525          | \$ 230,190          |
| Public works  |  | 159,288             | 132,847             |
| Health and human services                             |  |                     | 1,000               |
| Culture and recreation                                |  | 151,168             | 170,756             |
| Community and economic development                    |  | 136,784             | 113,340             |
| General government                                    |  | 138,457             | 215,004             |
| Debt service  |  | 99,841              | 101,954             |
| Capital projects                                      |  | 2,968,228           | 217,373             |
|   |  |                     |                     |
| Total   |  | <b>\$ 3,882,291</b> | <b>\$ 1,182,464</b> |
| <i>See accompanying independent auditors' report.</i> |  |                     |                     |

City of Corning, Iowa  
 Schedule of Expenditures of Federal Awards  
 For the year ended June 30, 2004

| Grantor/Program                                    |             |            |  | CFDA<br>Number | Program<br>Expenditures |
|--|-------------|------------|--|----------------|-------------------------|
| Direct:  |             |            |  |                |                         |
| Department of Agriculture                          |             |            |  |                |                         |
| Community Facilities Loans and Grants              |             |            |  | 10.766         | \$ 38,800               |
| Indirect:  |             |            |  |                |                         |
| Environmental Protection Agency:                   |             |            |  |                |                         |
| Iowa Department of Natural Resources               |             |            |  |                |                         |
| State Revolving Fund Program                       |             |            |  | 66.458         | \$ 2,542,790            |
| Department of Housing and Urban Development        |             |            |  |                |                         |
| Community Development Block Grants/State's Program |             |            |  |                |                         |
|  | Housing     | 00-HSG-096 |  | 14.228         | 87,931                  |
|  | Waste Water | 00-WS-043  |  | 14.228         | 425,438                 |
|  |             |            |  |                | \$ 513,369              |
|  |             |            |  |                | \$ 3,094,959            |
|  |             |            |  |                | .                       |

Basis of Presentation – The Schedule of Expenditures of Federal Awards includes the federal grant activity of the City and is presented in conformity with another 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 auditors' report.*

# POLLARD AND COMPANY P.C.

## CERTIFIED PUBLIC ACCOUNTANTS

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

To the Honorable Mayor and  
Members of the City Council

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

#### Compliance

As part of obtaining reasonable assurance about whether the City of Corning'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 Corning's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part 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, we believe all of the reportable conditions described in Part II of the Schedule of Findings and Questioned Costs are material weaknesses. Prior audit reportable conditions have been resolved except for item II-A-04.

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

March 4, 2005

*Pollard and Company P.C.*

# POLLARD AND COMPANY P.C.

## CERTIFIED PUBLIC ACCOUNTANTS

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### REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Honorable Mayor and Members of the City Council:

#### Compliance

We have audited the compliance of the City of Corning, Iowa, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal programs for the year ended June 30, 2004. The City's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City'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 OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance 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's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

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

#### Internal Control Over Compliance

The management of the City 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'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.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. 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 noncompliance with the 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. We noted no matters involving the internal control over compliance and its operation that we considered to be material weaknesses.

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

March 4, 2005

*Pollens and Company P.C.*

CITY OF CORNING, IOWA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2004

Part I: Summary of the Independent Auditors' 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. Material weaknesses and reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements.
- c. The audit did not disclose any non-compliance which is material to the financial statements.
- d. Material weaknesses and reportable conditions in internal control over the major programs were not disclosed by the audit of the financial statements.
- e. An unqualified opinion was issued on compliance with requirements applicable to the major programs.
- f. The audit did not disclose audit findings which are required to be reported in accordance with Office Management and Budget Circular A-133, Section .510(a).
- g. The major programs were CFDA Number 66.458 State Revolving Fund and 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 Corning did not qualify as a low-risk auditee.

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 accounting control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. One person has primary control over receipts, deposits, disbursements, payroll preparation, investing, and recording.

Recommendation

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

Response

We will try to have the Mayor review monthly information including reconciliations and reports and initial reconciliations and reports to document the review.

Conclusion

Response accepted.

Part III: Findings and Questioned Costs for Federal Awards

|                              |                        |
|------------------------------|------------------------|
| INSTANCES OF NON-COMPLIANCE: | No matters were noted. |
| REPORTABLE CONDITIONS:       | No matters were noted. |

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 amount budgeted in the Culture and Recreation, Community and Economic Development, General Government, and Debt Service functions. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

Recommendation

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

Response

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

Conclusion

Response accepted.

IV-C-04 Questionable Disbursements

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

IV-D-04 Travel Expense

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

IV-E-04 Business Transactions

Business transactions between the City and City officials or employees are as follows:

|   | <u>Name, Title and Business Connection</u>                        | <u>Transaction Description</u>          | <u>Amount</u> |
|---|---|---|---------------|
| 1 | Frank Dennis, Council Member<br>Owner, Frank's Body Shop          | Vehicle Maintenance                     | \$ 773        |
| 2 | Mike Yearington, Employee<br>Part owner of Quality Power and Turf | Repairs and Supplies                    | \$ 929        |
| 3 | Kevin Olson, Employee<br>Owner of GO Constructions                | Sanitary Sewer,<br>Construction Per Bid | \$ 5,760      |
| 4 | Kevin Olson, Employee<br>Owner of GO Constructions                | Lake Binder Project<br>Materials        | \$ 7,665      |

In accordance with Chapter 362.5(10) of the Code of Iowa, transactions 1 and 2 (above) do not appear to be a conflict of interest, since total transactions with each individual were less than \$2,500. Transaction 3 does not appear to represent a conflict of interest since it was entered through competitive bidding. Transaction 4 may be a conflict of interest since it exceeded \$2,500.

Recommendation

In accordance with Chapter 362.5(10) of the Code of Iowa, the City should not have transactions in excess of \$2,500 with a related party unless competitive bids are obtained.

Response

We have sought competitive bids when transactions exceed \$2,500 between the City and city officials. Transaction 4 required a substantial contribution by the contractor. GO Construction sold the materials totaling \$7,665 and contributed use of construction equipment and operator labor. The Lake Binder Restroom Project was under the supervision of the Adams County Soil and Conservation District under the 28E Agreement between the City and the District.

Conclusion

Response accepted.

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 deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.

IV-I-04     Financial Condition

As further explained in Note 12 of the financial statements, the General, USDA Siren, and CDBG Housing and Urban Renewal Funds had deficit balances at June 30, 2004.

Recommendation

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

Response

Note 12 of the financial statements indicates the City's plans to eliminate the deficits.

Conclusion

Response accepted.