

**CITY OF MANSON**  
**INDEPENDENT AUDITORS' REPORTS**  
**PRIMARY GOVERNMENT**  
**BASIC FINANCIAL STATEMENTS AND**  
**SUPPLEMENTARY INFORMATION**

**JUNE 30, 2004**

CITY OF MANSON  
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CITY OF MANSON  
OFFICIALS  
JUNE 30, 2004

(Before January 1, 2004)

<u>NAME</u>	<u>TITLE</u>	<u>TERM EXPIRES</u>
David George	Mayor	December 31, 2003
Gwen Ewing	Mayor Pro-Tem Council Member	December 31, 2005
Joe Horan	Council Member	December 31, 2003
Randy Kaiser	Council Member	December 31, 2003
Steve Smothers	Council Member	December 31, 2005
Paul Zeka	Council Member	December 31, 2005
Becky Thompson	Clerk/Treasurer	December 31, 2003

(After January 1, 2004)

David George	Mayor	December 31, 2005
Gwen Ewing	Mayor Pro-Tem Council Member	December 31, 2005
Joe Horan	Council Member	December 31, 2007
Randy Kaiser	Council Member	December 31, 2007
Steve Smothers	Council Member	December 31, 2005
Paul Zeka	Council Member	December 31, 2005
Becky Thompson	Clerk/Treasurer	December 31, 2005

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INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and  
Members of the City Council  
City of Manson  
Manson, IA 50563

We have audited the accompanying financial statements of the governmental activities, business type activities, each major fund, and the aggregate remaining fund information of the City of Manson, as of and for the year ended June 30, 2004, which collectively comprise the basic financial statements of the City's primary government as listed in the table of contents. These financial statements are the responsibility of City of Manson's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

The financial statements referred to above include only the primary government of the City of Manson, which consists of all funds, organizations, institutions, agencies, departments, and offices that comprise the City's legal entity. The financial statements do not include financial data for the City's legally separate component units, which accounting principles generally accepted in the United States of America require to be reported with the financial data of the City's primary government. As a result, the primary government financial statements do not purport to, and do not, present fairly the financial position - cash basis of the reporting entity of the City of Manson as of June 30, 2004, and the changes in its financial position - cash basis for the year then ended in conformity with the basis of accounting described in Note 1.

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

As described in Note 11, during the year ended June 30, 2004, the City of Manson adopted Governmental Accounting Standards Board Statement Number 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*; Statement Number 37, *Basic Financial Statements and Management's Discussion and Analysis - for State and Local Governments: Omnibus*; Statement Number 38, *Certain Financial Statements Note Disclosure*; and Statement Number 41, *Budgetary Comparison Schedule - Perspective Differences*.

In accordance with *Government Auditing Standards*, we have also issued a report dated January 24, 2005 on our consideration of The City of Manson's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Budgetary comparison information on pages 15 through 17 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We applied limited procedures, consisting 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.

The City has not presented management's discussion and analysis which introduces the basic financial statements by presenting certain financial information as well as management's analytical insight on that information that the Government Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements of the City's primary government. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements of the City's primary government for the three years ended June 30, 2003 (none of which are presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 4 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



January 24, 2005

## BASIC FINANCIAL STATEMENTS

CITY OF MANSON  
 STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS  
 AS OF AND FOR THE YEAR ENDED JUNE 30, 2004

		Program Receipts		
FUNCTIONS/PROGRAMS:	Disbursements	Charges for Service	Operating Grants and Contributions	Capital Grants and Contributions
Governmental activities:				
Public safety .....	\$ 209,850	\$ 50,770	\$ 23,584	
Public works .....	194,765	104,996	175,733	
Health and social services .....	5,900			
Culture and recreation .....	1,073,006	31,727	1,681	
Community and economic development .....	114,078	9,525	112,179	
General government .....	184,539			
Debt service .....	<u>122,303</u>			
Total governmental activities	<u>1,904,441</u>	<u>197,018</u>	<u>313,177</u>	
Business-type activities:				
Water .....	182,320	202,777		
Sewer .....	<u>145,292</u>	<u>40,068</u>		
Total business-type activities	<u>327,612</u>	<u>242,845</u>		
<b>TOTAL</b>	<b><u>\$2,232,053</u></b>	<b><u>\$439,863</u></b>	<b><u>\$313,177</u></b>	<b><u>\$</u></b>
General Receipts:				
Property taxes levied for:				
General purposes .....				
Debt service .....				
Grants and contributions not restricted to specific purpose .....				
Unrestricted investment earnings ..				
Bond proceeds .....				
Miscellaneous .....				
Total general receipts				
Change in cash basis net assets .....				
Cash basis net assets - beginning of year .....				
Cash basis net assets - end of year				
Cash basis net assets				
Restricted:				
Streets .....				
Other purposes .....				
Unrestricted .....				
Total cash basis net assets				

See Notes to Financial Statements

Exhibit A

<u>Net (Disbursement) Receipts and Changes in Cash Basis Net Assets</u>		
<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
\$ (135,496)		\$ (135,496)
85,964		85,964
(5,900)		(5,900)
(1,039,598)		(1,039,598)
7,626		7,626
(184,539)		(184,539)
<u>(122,303)</u>		<u>(122,303)</u>
<u>(1,394,246)</u>		<u>(1,394,246)</u>
	\$ 20,457	
	<u>(105,224)</u>	
	<u>(84,767)</u>	<u>(84,767)</u>
<u>(1,394,246)</u>	<u>(84,767)</u>	<u>(1,479,013)</u>
417,342		417,342
107,710		107,710
33,466		33,466
6,184	676	6,860
901,293		901,293
<u>6,986</u>		<u>6,986</u>
<u>1,472,981</u>	<u>676</u>	<u>1,473,657</u>
78,735	(84,091)	(5,356)
<u>794,280</u>	<u>301,180</u>	<u>1,095,460</u>
<u>\$ 873,015</u>	<u>\$217,089</u>	<u>\$1,090,104</u>
\$ 326,052		\$ 326,052
50,593		50,593
<u>496,370</u>	<u>\$217,089</u>	<u>713,459</u>
<u>\$ 873,015</u>	<u>\$217,089</u>	<u>\$1,090,104</u>

See Notes to Financial Statements

CITY OF MANSON  
 STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND  
 CHANGES IN CASH BALANCES  
 GOVERNMENTAL FUNDS  
 AS OF AND FOR THE YEAR ENDED JUNE 30, 2004

	General	Special Revenue Road Use
RECEIPTS:		
Property tax .....	\$319,448	
Licenses and permits .....	3,469	
Use of money and property .....	8,734	
Intergovernmental .....	46,661	\$157,663
Charges for service .....	178,210	
Miscellaneous .....	49,915	
TOTAL RECEIPTS	606,437	157,663
DISBURSEMENTS:		
Operating:		
Public safety .....	209,850	
Public works .....	90,858	103,907
Health and social services .....	5,900	
Culture and recreation .....	1,073,006	
Community and economic development .....	1,900	
General government .....	86,618	
Debt service .....		
TOTAL DISBURSEMENTS	1,468,132	103,907
EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS	(861,695)	53,756
OTHER FINANCING SOURCES (USES):		
Bond proceeds .....	901,293	
Operating transfers in .....	1	
Operating transfers out .....		
TOTAL OTHER FINANCING SOURCES (USES)	901,294	
EXCESS (DEFICIENCY) OF RECEIPTS AND OTHER FINANCING SOURCES OVER (UNDER) DISBURSEMENTS AND OTHER FINANCING USES.....	39,599	53,756
CASH BALANCE - BEGINNING OF YEAR .....	456,771	272,296
CASH BALANCE - END OF YEAR	\$ 496,370	\$326,052
CASH BASIS FUND BALANCES:		
Reserved:		
Debt service .....		
Unreserved:		
General fund .....	\$ 496,370	
Special revenue funds .....		\$326,052
Capital projects fund .....		
TOTAL CASH BASIS FUND BALANCES	\$ 496,370	\$326,052

See Notes to Financial Statements

Exhibit B

Other Nonmajor Governmental Funds	Total Governmental Funds (Memorandum Only)
\$205,604	\$ 525,052
	3,469
	8,734
112,179	316,503
	178,210
	49,915
<u>317,783</u>	<u>1,081,883</u>
	209,850
	194,765
	5,900
	1,073,006
112,178	114,078
97,921	184,539
<u>122,303</u>	<u>122,303</u>
<u>332,402</u>	<u>1,904,441</u>
<u>(14,619)</u>	<u>(822,558)</u>
	901,293
	1
<u>(1)</u>	<u>(1)</u>
<u>(1)</u>	<u>901,293</u>
(14,620)	78,735
<u>65,213</u>	<u>794,280</u>
<u>\$ 50,593</u>	<u>\$ 873,015</u>
\$ 5,954	\$ 5,954
	496,370
29,960	356,012
<u>14,679</u>	<u>14,679</u>
<u>\$ 50,593</u>	<u>\$ 873,015</u>

See Notes to Financial Statements

CITY OF MANSON  
 STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND  
 CHANGES IN CASH BALANCES  
 PROPRIETARY FUNDS  
 AS OF AND FOR THE YEAR ENDED JUNE 30, 2004

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
<b>OPERATING RECEIPTS:</b>			
Charges for service .....	\$202,777	\$ 40,068	\$242,845
Use of money and property .....	676		676
<b>TOTAL RECEIPTS</b>	<u>203,453</u>	<u>40,068</u>	<u>243,521</u>
<b>OPERATING DISBURSEMENTS:</b>			
Business type activities .....	<u>182,320</u>	<u>124,033</u>	<u>306,353</u>
<b>TOTAL OPERATING DISBURSEMENTS</b>	<u>182,320</u>	<u>124,033</u>	<u>306,353</u>
<b>EXCESS (DEFICIENCY) OF OPERATING RECEIPTS OVER (UNDER) OPERATING DISBURSEMENTS</b>	<u>21,133</u>	<u>(83,965)</u>	<u>(62,832)</u>
<b>NONOPERATING RECEIPTS (DISBURSEMENTS):</b>			
Debt service .....	_____	<u>(21,259)</u>	<u>(21,259)</u>
<b>TOTAL NONOPERATING RECEIPTS (DISBURSEMENTS)</b>	_____	<u>(21,259)</u>	<u>(21,259)</u>
<b>EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS</b>	21,133	(105,224)	(84,091)
<b>CASH BALANCE - BEGINNING OF YEAR .....</b>	<u>151,723</u>	<u>149,457</u>	<u>301,180</u>
<b>CASH BALANCE - END OF YEAR</b>	<u>\$172,856</u>	<u>\$ 44,233</u>	<u>\$217,089</u>
<b>CASH BASIS FUND BALANCES:</b>			
Unreserved .....	<u>\$172,856</u>	<u>\$ 44,233</u>	<u>\$217,089</u>
<b>TOTAL CASH BASIS FUND BALANCES</b>	<u>\$172,856</u>	<u>\$ 44,233</u>	<u>\$217,089</u>

See Notes to Financial Statements

NOTES TO FINANCIAL STATEMENTS

CITY OF MANSON  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2004

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The City of Manson, Iowa is a political subdivision of the State of Iowa located in Calhoun County. The City operates under the Mayor-Council form of government with the Mayor and City Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, culture, recreation, public improvements, and general administrative services. The City also provides water and sewer utilities for its citizens.

**A. Reporting Entity**

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

These financial statements present the primary government of the City of Manson. Therefore, the City has elected not to include any potential component units in these financial statements.

Jointly Governed Organizations

The City also participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Calhoun County Assessor's Conference Board, Calhoun County Emergency Management Commission, Calhoun County Joint E911 Service Board, Calhoun County Economic Development, Calhoun County Ambulance Authority, North Central Iowa Regional Solid Waste Agency, and Calhoun County Landfill Authority.

**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 primary government 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* results when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

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

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

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental and proprietary funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other 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 that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue:

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

Additionally, the City reports the following major proprietary funds:

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

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

### **C. Measurement Focus and Basis of Accounting**

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

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

**D. Budgets and Budgetary Accounting**

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2004, disbursements did not exceed the amounts budgeted.

**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 ensure 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-ended management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

**3. BONDS AND NOTES PAYABLE**

Annual debt service requirements to maturity for general obligation bonds and sewer revenue note are as follows:

Year Ending June 30,	General Obligation Bonds		Sewer Revenue Note		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2005	\$ 130,000	\$ 47,508	\$ 13,000	\$ 8,190	\$ 143,000	\$ 55,698
2006	145,000	42,985	13,000	7,800	158,000	50,785
2007	145,000	37,710	13,000	7,410	158,000	45,120
2008	115,000	32,145	14,000	7,020	129,000	39,165
2009	125,000	28,435	14,000	6,600	139,000	35,035
2010 - 2014	470,000	84,475	77,000	26,370	547,000	110,845
2015 - 2019	190,000	11,020	89,000	14,160	279,000	25,180
2020 - 2021			40,000	1,800	40,000	1,800
Total	<u>\$1,320,000</u>	<u>\$284,278</u>	<u>\$273,000</u>	<u>\$ 79,350</u>	<u>\$1,593,000</u>	<u>\$363,628</u>

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

- (a) The note is subject to optional redemption at a price of par plus accrued interest after January 2012.
- (b) The note will only be redeemed from the future earnings of the sewer enterprise activity and the note holder holds a lien on the future earnings of the fund.
- (c) Sufficient monthly transfers shall be made to a separate sewer revenue note sinking fund for the purpose of making the note principal and interest payments when due.

During the fiscal year ended June 30, 2004, the City also had the following unsecured short-term note activity with a local financial institution:

				Total
Original date	1-13-03	7-29-03	1-30-04	
Maturity date	7-13-03	2-01-04	8-01-04	
Line of credit	\$100,000	\$100,000	\$100,000	
Interest rate	6.0%	6.0%	6.0%	
Balance - June 30, 2003	\$ 8,301	\$ 0	\$ 0	\$ 8,301
Advances		35,140	14,656	49,796
Repayments	<u>(8,301)</u>	<u>(35,140)</u>	<u>(7,298)</u>	<u>(50,739)</u>
Balance - June 30, 2004	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 7,358</u>	<u>\$ 7,358</u>

#### 4. PENSION AND RETIREMENT BENEFITS

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

Plan members are required to contribute 3.70% of their annual salary and the City is required to contribute 5.75% of annual covered payroll except for police employees, in which case the percentages are 5.93% and 8.90%, respectively. For the year ended June 30, 2003, the contribution rates for police employees and the City were 6.04% and 9.07%, respectively, and for the year ended June 30, 2002, the contribution rates for police employees and the City were 6.20% and 9.29%, respectively. Contribution requirements are established by state statute. The City's contribution to IPERS for the years ended June 30, 2004, 2003, and 2002 were \$18,167, \$19,472, and \$19,325, respectively, equal to the required contributions for each year.

**5. COMPENSATED ABSENCES**

City employees accumulate a limited amount of earned but unused vacation time for subsequent use or for payment upon termination, retirement, or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation time termination payments payable to employees at June 30, 2004, primarily relating to the General Fund is approximately \$8,091. The liability for compensated absences has been computed based on rates of pay as of June 30, 2004.

**6. INTERFUND TRANSFERS**

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

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Special Revenue: Good Samaritan Center	\$ <u>1</u>
Total		\$ <u>1</u>

**7. CLOSURE AND POSTCLOSURE CARE COSTS**

During the fiscal year ended June 30, 2004, the City incurred approximately \$100 due Calhoun County Landfill Authority for its per capita assessment for costs associated with the landfill which was closed in 1992. To comply with State regulations, the Landfill authority will be incurring future expenses for the monitoring and care of the closed landfill. Member political subdivisions are assessed per capita fees on an annual basis depending on estimated costs to be incurred.

The City is also a member of an operating landfill organization and is annually assessed per capita fees based on the estimated costs of operating the landfill. The City will record any closure and post closure care costs when disbursements are made for such expenses subsequent to the closure of the landfill. There are currently no plans to close the landfill.

**8. RISK MANAGEMENT**

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

**9. CONSTRUCTION COMMITMENTS**

The City has agreed to pay a portion of the cost of a joint street construction project with the State of Iowa. Although the project was completed at June 30, 2000, the City has not been billed by the state for its estimated \$60,000 share of the project costs.

The City has entered into construction contracts totaling approximately \$2,362,000 for housing rehabilitation projects and wastewater treatment facility improvements. As of June 30, 2004, costs of approximately \$879,000 had been incurred. The remaining balances of approximately \$1,483,000 will be paid as work on the projects progresses. In connection with the project, the City entered into real estate contracts for sewer lagoon property totaling approximately \$124,000. As of June 30, 2004, \$15,000 had been paid on the contracts, with the balance of approximately \$109,000 paid by September 30, 2004.

The City has also agreed to pay a portion of the cost of a joint street construction project with Calhoun County. The total balance due of \$60,453 was paid in July 2004.

#### **10. SUBSEQUENT EVENTS**

In August 2004, the City obtained a \$100,000 unsecured line of credit with a financial institution for interim financing of housing rehabilitation projects. In September 2004, the City obtained a \$400,000 unsecured line of credit for interim financing for the wastewater treatment facility project. As of January 24, 2005, no balance was outstanding on either line of credit.

In September 2004, the City issued \$1,504,000 of sewer revenue capital loan notes for the wastewater treatment facility project. The City also raised sewer rental charges in conjunction with the issuance of these notes.

#### **11. ACCOUNTING CHANGES**

Governmental Accounting Standards Board (GASB) 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 Statements Note Disclosures*, and Statement No. 41, *Budgetary Comparison Schedule - Perspective Differences* were implemented during fiscal year ended June 30, 2004. The statements create new basic financial statements for reporting the City's financial activities. The financial statements now include a government-wide financial statement and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF MANSON  
 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 Fund Types <u>Actual</u>	Proprietary Fund Type <u>Actual</u>	<u>Total</u>
<b>RECEIPTS:</b>			
Property and other city taxes .....	\$ 525,052		\$ 525,052
Licenses and permits .....	3,469		3,469
Use of money and property .....	8,734	\$ 676	9,410
Intergovernmental .....	316,503		316,503
Charges for service .....	178,210	242,845	421,055
Miscellaneous .....	49,915		49,915
TOTAL RECEIPTS	<u>1,081,883</u>	<u>243,521</u>	<u>1,325,404</u>
<b>DISBURSEMENTS:</b>			
Public safety .....	209,850		209,850
Public works .....	194,765		194,765
Health and social services .....	5,900		5,900
Culture and recreation .....	1,073,006		1,073,006
Community and economic development .....	114,078		114,078
General government .....	184,539		184,539
Debt service .....	122,303		122,303
Business-type activities .....		<u>327,612</u>	<u>327,612</u>
TOTAL DISBURSEMENTS	<u>1,904,441</u>	<u>327,612</u>	<u>2,232,053</u>
EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS	(822,558)	(84,091)	(906,649)
OTHER FINANCING SOURCES - NET .....	<u>901,293</u>		<u>901,293</u>
EXCESS (DEFICIENCY) OF RECEIPTS AND OTHER FINANCING SOURCES OVER (UNDER) DISBURSEMENTS AND OTHER FINANCING USES	78,735	(84,091)	(5,356)
BALANCES - BEGINNING OF YEAR .....	<u>794,280</u>	<u>301,180</u>	<u>1,095,460</u>
BALANCES - END OF YEAR	<u>\$ 873,015</u>	<u>\$217,089</u>	<u>\$1,090,104</u>

See Accompanying Independent Auditors' Report

<u>Budgeted Amounts</u>		<u>Final to Actual Variance Positive (Negative)</u>
<u>Original</u>	<u>Final</u>	
\$ 529,064	\$ 529,064	\$ (4,012)
3,600	3,600	(131)
25,472	25,472	(16,062)
219,309	451,311	(134,808)
377,716	377,984	43,071
5,500	43,181	6,734
<u>1,160,661</u>	<u>1,430,612</u>	<u>(105,208)</u>
206,048	226,704	16,854
263,975	263,975	69,210
6,435	6,435	535
127,027	1,277,322	204,316
5,900	170,900	56,822
203,766	206,266	21,727
107,610	122,303	
<u>239,900</u>	<u>469,900</u>	<u>142,288</u>
<u>1,160,661</u>	<u>2,743,805</u>	<u>511,752</u>
	(1,313,193)	406,544
	<u>901,293</u>	
	(411,900)	406,544
<u>819,956</u>	<u>1,093,552</u>	<u>1,908</u>
<u>\$ 819,956</u>	<u>\$ 681,652</u>	<u>\$ 408,452</u>

See Accompanying Independent Auditors' Report

CITY OF MANSON  
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, one budget amendment increased budgeted disbursements by \$1,583,144. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2004, disbursements did not exceed the amounts budgeted.

See Accompanying Independent Auditors' Report

OTHER SUPPLEMENTARY INFORMATION

CITY OF MANSON  
 STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND CHANGES IN  
 CASH BALANCES - NONMAJOR GOVERNMENTAL FUNDS  
 AS OF AND FOR YEAR ENDED JUNE 30, 2004

	Special Revenue			Debt Service
	Employee Benefits	Samaritan Center	Good Housing Rehabilitation	Debt Service
<b>RECEIPTS:</b>				
Property tax .....	\$ 97,894			\$107,710
Intergovernmental .....			\$112,179	
TOTAL RECEIPTS	<u>97,894</u>	<u>          </u>	<u>112,179</u>	<u>107,710</u>
<b>DISBURSEMENTS:</b>				
Operating:				
Community and economic development .....			112,178	
General Government .....	97,921			
Debt service .....				122,303
TOTAL DISBURSEMENTS	<u>97,921</u>	<u>          </u>	<u>112,178</u>	<u>122,303</u>
EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS	<u>(27)</u>	<u>          </u>	<u>1</u>	<u>(14,593)</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Operating transfers out .....		\$ (1)		
TOTAL OTHER FINANCING SOURCES (USES)		<u>(1)</u>		
EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS AND OTHER FINANCING USES	<u>(27)</u>	<u>(1)</u>	<u>1</u>	<u>(14,593)</u>
BALANCES - BEGINNING OF YEAR .....	<u>29,976</u>	<u>1</u>	<u>10</u>	<u>20,547</u>
BALANCES - END OF YEAR	<u>\$ 29,949</u>	<u>\$       </u>	<u>\$ 11</u>	<u>\$ 5,954</u>
<b>CASH BASIS FUND BALANCES:</b>				
Reserved:				
Debt service .....				\$ 5,954
Unreserved:				
Special revenue funds .....	\$ 29,949		\$ 11	
Capital projects fund .....				
TOTAL CASH BASIS FUND BALANCES	<u>\$ 29,949</u>	<u>\$       </u>	<u>\$ 11</u>	<u>\$ 5,954</u>

See Accompanying Independent Auditors' Report

Schedule 1

<u>Capital Projects</u>	<u>Total Nonmajor Governmental Funds</u>
<u>Street Improvement</u>	
	\$205,604
	<u>112,179</u>
	<u>317,783</u>
	112,178
	97,921
	<u>122,303</u>
	<u>332,402</u>
	<u>(14,619)</u>
	<u>(1)</u>
	<u>(1)</u>
	(14,620)
<u>\$ 14,679</u>	<u>65,213</u>
<u>\$ 14,679</u>	<u>\$ 50,593</u>
	\$ 5,954
	29,960
<u>\$ 14,679</u>	<u>14,679</u>
<u>\$ 14,679</u>	<u>\$ 50,593</u>

See Accompanying Independent Auditors' Report  
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Schedule 2

**CITY OF MANSON**  
**STATEMENT OF INDEBTEDNESS**  
**YEAR ENDED JUNE 30, 2004**

<u>Obligation</u>	<u>Date of issue</u>	<u>Interest Rates</u>	<u>Amount Originally Issued</u>	<u>Balance Beginning of Year</u>	<u>Issued During Year</u>	<u>Redeemed During Year</u>	<u>Balance End of Year</u>	<u>Interest Paid</u>	<u>Interest Due and Unpaid</u>
<b>General Obligation Debt:</b>									
Street improvement bonds .....	October 1, 1999	4.95%	\$270,000	\$190,000		\$(45,000)	\$145,000	\$9,405	0
Street improvement bonds .....	Nov. 1, 2001	3.20 - 4.25%	340,000	315,000		(40,000)	275,000	12,605	0
Aquatic center .....	Dec. 1, 2003	1.90 - 3.90%	900,000		\$900,000		900,000	14,543	0
<b>Revenue Notes:</b>									
Sewer .....	Jan. 24, 2002	3.00%	309,000	285,000		(12,000)	273,000	8,550	0
<b>TOTAL</b>				<b>\$790,000</b>	<b>\$900,000</b>	<b>\$(97,000)</b>	<b>\$1,593,000</b>	<b>\$45,013</b>	<b>\$ 0</b>

See Accompanying Independent Auditors' Report

**CITY OF MANSON**  
**BOND AND NOTE MATURITIES**  
**JUNE 30, 2004**

Year Ending <u>June 30,</u>	General Obligation Bond Issued <u>October 1, 1999</u>		General Obligation Bond Issued <u>November 1, 2001</u>	
	<u>Interest Rates</u>	<u>Amount</u>	<u>Interest Rates</u>	<u>Amount</u>
2005	4.95%	\$ 45,000	3.60%	\$ 40,000
2006	4.95	50,000	4.00	45,000
2007	4.95	50,000	4.20	45,000
2008			4.20	45,000
2009			4.20	50,000
2010			4.25	<u>50,000</u>
		<u>\$145,000</u>		<u>\$275,000</u>

Year Ending <u>June 30,</u>	General Obligation Bond Issued <u>December 1, 2003</u>		General Obligation <u>Total</u>	Sewer Revenue Note Issued <u>January 24, 2002</u>	
	<u>Interest Rates</u>	<u>Amount</u>		<u>Interest Rate</u>	<u>Amount</u>
2005	1.90%	\$ 45,000	\$ 130,000	3.00%	\$ 13,000
2006	2.00	50,000	145,000	3.00	13,000
2007	2.40	50,000	145,000	3.00	13,000
2008	2.60	70,000	115,000	3.00	14,000
2009	3.00	75,000	125,000	3.00	14,000
2010	3.25	80,000	130,000	3.00	15,000
2011	3.35	80,000	80,000	3.00	15,000
2012	3.50	85,000	85,000	3.00	15,000
2013	3.60	85,000	85,000	3.00	16,000
2014	3.70	90,000	90,000	3.00	16,000
2015	3.80	95,000	95,000	3.00	17,000
2016	3.90	95,000	95,000	3.00	17,000
2017				3.00	18,000
2018				3.00	18,000
2019				3.00	19,000
2020				3.00	20,000
2021				3.00	<u>20,000</u>
		<u>\$900,000</u>	<u>\$1,320,000</u>		<u>\$273,000</u>

**CITY OF MANSON**  
**SCHEDULE OF RECEIPTS BY SOURCE AND DISBURSEMENTS BY FUNCTION**  
**ALL GOVERNMENTAL FUND TYPES**  
**FOR THE LAST FOUR YEARS**

	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
<b>RECEIPTS:</b>				
Property and other city tax .....	\$ 525,052	\$ 575,971	\$ 608,041	\$ 554,914
Licenses and permits .....	3,469	3,534	3,544	3,542
Use of money and property .....	8,734	8,420	17,637	47,713
Intergovernmental .....	316,503	357,012	295,596	209,288
Charges for service .....	178,210	161,308	159,325	160,731
Miscellaneous .....	<u>49,915</u>	<u>24,697</u>	<u>26,665</u>	<u>16,033</u>
<b>TOTAL REVENUES</b>	<b><u>\$1,081,883</u></b>	<b><u>\$1,130,942</u></b>	<b><u>\$1,110,808</u></b>	<b><u>\$ 992,221</u></b>
 <b>DISBURSEMENTS:</b>				
Public safety .....	\$ 209,850	\$ 244,367		
Public works .....	194,765	212,017		
Health and social services .....	5,900	4,000		
Culture and recreation .....	1,073,006	127,900		
Community and economic development .....	114,078	292,958		
General government .....	184,539	183,661		
Debt service .....	122,303	182,650		
Capital projects .....	<u>54,122</u>	<u>54,122</u>		
<b>TOTAL EXPENDITURES</b>	<b><u>\$1,904,441</u></b>	<b><u>\$1,301,675</u></b>	*	*

\* Information not available

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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  
City of Manson, Iowa

We have audited the financial statements of the City of Manson, Iowa, as of and for the year ended June 30, 2004, and have issued our report thereon dated January 24, 2005. 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 U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance 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*. However, we noted a certain immaterial instance of non-compliance that is described in Part II of the accompanying Schedule of Findings.

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

Internal Control Over Financial Reporting

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

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

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

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.



January 24, 2005

CITY OF MANSON  
SCHEDULE OF FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2004

**Part I: Findings Related to the Financial Statements**

**Instances of Noncompliance:**

No matters were noted

**Reportable Conditions:**

I-A-04 Segregation of Duties - One important aspect of internal control over financial reporting is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted employees were performing incompatible functions.

Recommendation - We realize that it is difficult to appropriately segregate duties when the number of employees is limited. Therefore, we recommend the Council maintain their diligence in the review of the financial records.

Response - We will continue our review.

Conclusion - Response accepted.

CITY OF MANSON  
SCHEDULE OF FINDINGS - Continued  
FOR THE YEAR ENDED JUNE 30, 2004

**Part II: Other Findings Related to Required Statutory Reporting**

- II-A-04 Official Depositories - A resolution naming official depositories has been approved by the City. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2004.
- II-B-04 Certified Budget - Disbursements during the year ended June 30, 2004 did not exceed the amount budgeted.
- II-C-04 Questionable Disbursements - We noted no expenditures for parties, banquets, or other entertainment for employees that we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- II-D-04 Travel Expense - No expenditures of City money for travel expenses of spouses of City officials or employees were noted.
- II-E-04 Business Transactions - We noted no business transactions between the City and City officials or employees.
- II-F-04 Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that the coverage is adequate for current operations.
- II-G-04 Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not.
- II-H-04 Revenue Notes - The City has complied with applicable sewer revenue note requirements.
- II-I-04 Deposits and Investments - We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy.
- II-J-04 Code of Ordinances - We noted the City has not compiled a code of ordinances in the past five years as required by Chapter 380.8(2) of the Code of Iowa.
- Recommendation - We recommend the City compile a code of ordinances in accordance with Chapter 380.8(2) of the Code of Iowa.
- Response - We will consider compiling a code of ordinances when our budget allows.
- Conclusion - Response acknowledged.