

CITY OF FAYETTE
FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION

June 30, 2004

HAGEN & KALLEVANG, P.C.
Certified Public Accountants

CITY OF FAYETTE

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CITY OF FAYETTE
OFFICIALS

<u>Name</u>	<u>Title</u> (Before January 2004)	<u>Term Expires</u>
William B. Dohrmann	Mayor	January 2004
Doug McReynolds	Mayor Pro-Tem	
Dan Boberg	Council Member	January 2004
Braulic Caballero	Council Member	January 2004
Lew Churbuck	Council Member	January 2004
Robert Lamphier	Council Member	January 2004
Christie Dennis	City Clerk/Administrator	January 2004
David James Hanson	Attorney	January 2004
JoAnn Capell	Treasurer	

(After January 2004)

William B. Dohrmann	Mayor	January 2006
Doug McReynolds	Mayor Pro-Tem	
Braulic Caballero	Council Member	January 2006
Matt Cowley	Council Member	January 2006
Robert Lamphier	Council Member	January 2006
Jason Rohde	Council Member	January 2006
Christie Dennis	City Clerk/Administrator	January 2006
David James Hanson	Attorney	January 2006
JoAnn Capell	Treasurer	

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Members of the City Council
City of Fayette, Iowa

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 Fayette, 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 Fayette's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe 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. Also, as permitted by the Code of Iowa, the accounting records of the City have not been audited for all prior years. Accordingly, we are unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2003.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2003, as discussed in the preceding paragraph, 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 Fayette 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 12, 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; and Statement No. 38, Certain Financial Statement Note Disclosures, and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences.

In accordance with Government Auditing Standards, we have also issued our report dated December 10, 2004 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 10 and 24 and 25 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. 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, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2003, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Hagen & Kallway, P.C.

December 10, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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

2004 FINANCIAL HIGHLIGHTS

Revenues of the City's governmental activities increased 72.4%, or approximately \$610,000, from fiscal 2003 to fiscal 2004.

	Increase (Decrease)
Taxes	\$ 30,000
Grants	24,000
Charges for service	12,000
Investment earnings	(66,000)
Sale of assets	745,000
All others, net	<u>(134,000)</u>
	<u>\$ 611,000</u>

Disbursements increased 9.5%, or approximately \$95,000, in fiscal 2004 from fiscal 2003.

Public safety	\$ (45,000)
Public works	(353,000)
Culture and recreation	456,000
Debt service	125,000
Capital project	(76,000)
All others, net	<u>(12,000)</u>
	<u>\$ 95,000</u>

The City's total cash basis net assets increased 32%, or approximately \$406,000, from June 30 2003 to June 30, 2004. Of this amount, the assets of the governmental activities increased approximately \$364,000 and the assets of the business type activities increased by approximately \$42,000.

USING THIS ANNUAL REPORT

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

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

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Other Supplementary Information provides detailed information about the non-major governmental funds and debt of the City.

Basis of Accounting

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

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

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

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

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

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

Fund Financial Statements

The City has two kinds of funds:

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

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

- 2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains two Enterprise Funds to provide separate information for the water and sewer funds, considered to be major funds of the City.

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

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

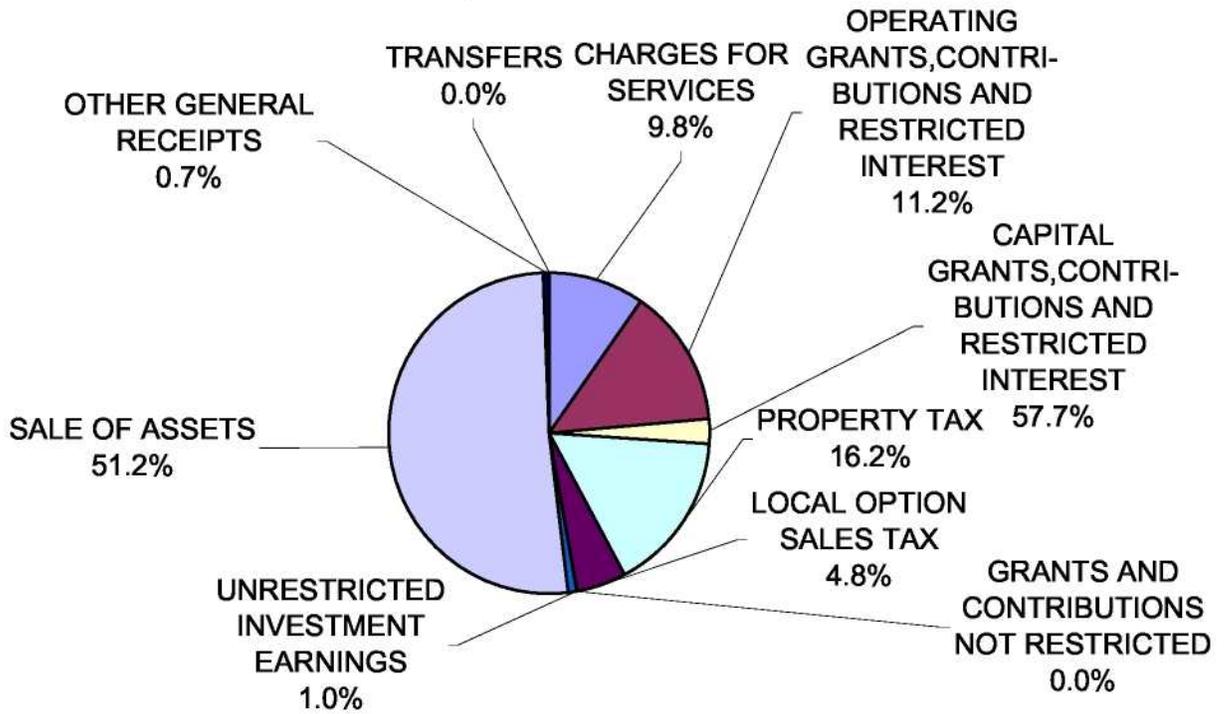
GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from a year ago, increasing from \$855,781 to \$1,208,251. The analysis that follows focuses on the changes in cash balances for governmental activities.

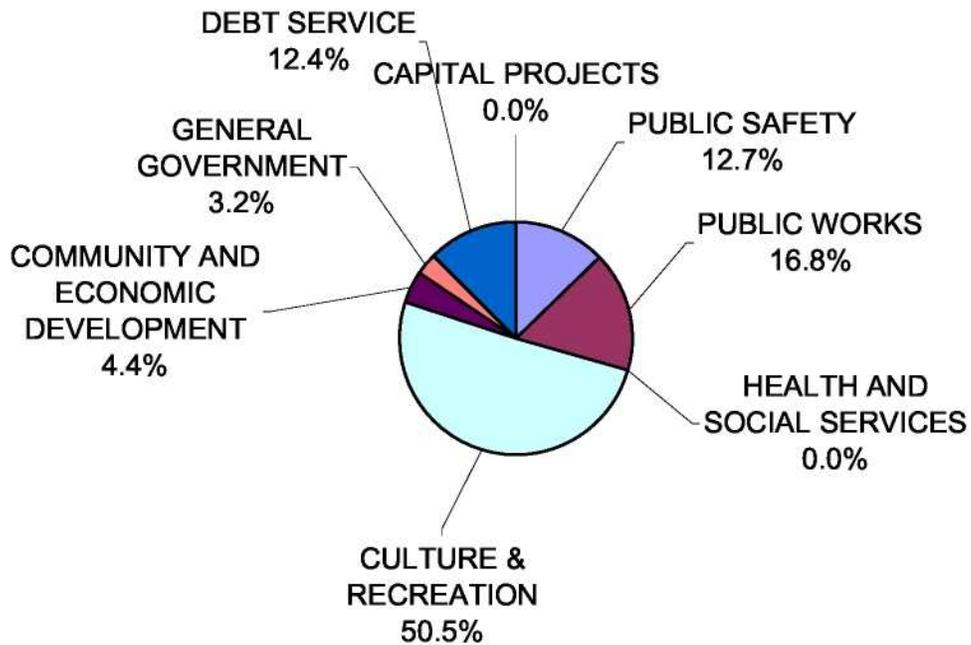
Changes in Cash Basis Net Assets of Governmental Activities

	Year ended June 30,	
	2004	2003
		(Unaudited)
Receipts and transfers:		
Program receipts:		
Charges for service	\$ 143,039	\$ 130,789
Operating grants, contributions and restricted interest	200,004	213,102
Capital grants, contributions and restricted interest	36,702	-
General receipts:		
Property tax	235,090	204,585
Local option sales tax	70,312	76,920
Grants and contributions not restricted to specific purposes	-	-
Unrestricted investment earnings	14,277	80,471
Sale of assets	745,348	-
Other general receipts	10,057	89,117
Transfers, net	-	48,968
Total receipts and transfers	<u>1,454,829</u>	<u>843,952</u>
Disbursements:		
Public safety	138,264	182,887
Public works	183,239	535,923
Health and social services	-	-
Culture and recreation	550,933	94,550
Community and economic development	48,526	56,791
General government	34,846	40,295
Debt service	135,116	9,682
Capital projects	-	76,077
Total disbursements	<u>1,090,924</u>	<u>996,205</u>
Decrease in cash basis net assets	363,905	(152,253)
Cash basis net assets beginning of year	<u>844,346</u>	<u>996,599</u>
Cash basis net assets end of year	<u>\$ 1,208,251</u>	<u>\$ 844,346</u>

Receipts by Source



Disbursements by Function



The City's total receipts for governmental activities increased by 72.4%, or \$611,000. The total cost of all programs and services increased by approximately \$95,000, or 9.5%, with no new programs added this year. The significant increase in receipts was primarily the result of proceeds received when real estate which the City had been given as partial financial interest in by a benefactor in prior year were sold.

The City lowered property tax rates for 2004 by an average of 2 percent. The City has decreased their tax levy for ten consecutive years as more general obligation debt was paid off and have tried to live within our resources. Even though the State rollback went down another .28%, and the State took away the City's consolidated tax payment of \$20,000, we were fortunate enough to have our valuation increase so we didn't have to raise our levy.

The cost of all governmental activities this year was \$1,090,924 compared to \$996,205 last year. However, as shown in the Statement of Activities and Net Assets on page 11 the amount taxpayers ultimately financed for these activities was only \$711,179 because some of the cost was paid by those directly benefited from the programs (\$143,039) or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest (\$236,706). The City paid for the remaining "public benefit" portion of governmental activities with approximately \$711,179 in tax (some of which could only be used for certain programs) and with other receipts, such as interest and sale of asset proceeds.

Changes in Cash Basis Net Assets of Business Type Activities

	Year ended June 30,	
	<u>2004</u>	<u>2003</u>
Receipts:		
Program receipts:		
Charges for service		
Water	\$ 133,957	\$ 133,720
Sewer	140,344	138,828
Total receipts	<u>274,301</u>	<u>272,548</u>
Disbursements and transfers:		
Water	130,648	136,066
Sewer	101,490	135,505
Transfers, net	-	48,968
Total disbursements and transfers	<u>232,138</u>	<u>320,539</u>
Increase (decrease) in cash balance	42,163	(47,991)
Cash basis net assets beginning of year	<u>432,658</u>	<u>480,649</u>
Cash basis net assets end of year	<u>\$ 474,821</u>	<u>\$ 432,658</u>

Total business type activities receipts for the fiscal year were \$274,301 compared to \$272,548 last year. The cash balance increased by \$142,163 from the prior year. Total disbursements and transfers for the fiscal year decreased by 27.6% to a total of \$88,401.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As Fayette completed the year, its governmental funds reported a combined fund balance of \$1,208,251, an increase of \$363,805 above last year's total of \$844,544. 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 increased \$16,779 from the prior year to \$217,196. A portion of this increase was due to more property tax receipts because of increased property valuations. The remainder was from donations for our future sports complex.

- The Road Use Tax Fund cash balance decreased by \$952 to \$320,612 during the fiscal year. The City uses this fund to upgrade and maintain the condition of all City roads.
- The Bolger Fund cash balance increased from \$271,271 to \$610,422 during the fiscal year. The City had been given in prior years non-controlling financial interests in several real estate holdings of a benefactor. During the year the benefactor disposed of the properties by which the City received its proportionate share amounting to \$745,348.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- Water Fund cash balance increased by \$3,309 to \$161,240, due primarily to an increase in the sale of water and reductions in debt service payments over the prior year.
- The Sewer Fund cash balance increased by \$38,854 to \$313,581, due primarily to an increase in the sale of water which affects sewer usage.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget one time. The amendment was approved on May 17, 2004 and resulted in an increase in revenues due to the sale of properties in Texas we received from a benefactor, from donations received for our sports complex project and funds from a Police grant and a Library grant from the Gates Foundation. Revenues were decreased by \$20,000 because the State of Iowa took away the consolidated payments from all cities in Iowa. Operating disbursements were amended to provide for the golf course project and opera house renovation project and for the Library to spend the Gates grant on computers. The City had sufficient cash balances to absorb these additional costs.

DEBT ADMINISTRATION

At June 30, 2004, the City had approximately \$737,654 in bonds and other long-term debt, compared to approximately \$869,028 last year, as shown below.

Outstanding Debt at Year-End

	June 30,	
	<u>2004</u>	<u>2003</u>
General obligation bonds	\$ 425,500	\$ 501,000
Special assessment capital notes	35,000	65,000
Revenue bonds	<u>277,154</u>	<u>303,028</u>
	<u>\$ 737,654</u>	<u>\$ 869,028</u>

Debt decreased as a result of paying down the principal on all bonds.

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 \$425,500 is significantly below its constitutional debt limit of \$1,228,606.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Fayette'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. Inflation has been modest here due in part to the slowing of the residential housing market in 2003-2004.

In fiscal year 2005 our valuation went down due to utility company values being lower which gives us \$8,048 less in the General Fund. The rollback went down another 2.93% and township valuations also went down. Due to this and the purchase of a new ambulance increasing the debt service levy the City had to raise the tax levy by \$0.79 to \$12.73238 per \$1,000 valuation.

The City is budgeting for \$1,192,461 in receipts and \$1,162,945 in disbursements for an increase to the cash balance of \$29,516. The City has added no major new programs or initiative to the 2005 budget except for some additional capital project costs compared to the prior year.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Christie Dennis, PO Box 28, Fayette, Iowa, 52142, (563) 425-4316.

BASIC FINANCIAL STATEMENTS

CITY OF FAYETTE

STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS

As of and for the year ended June 30, 2004

Functions/Programs	Disbursements	Charges for Services	Program Receipts		Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
			Operating Grants, Contributions, and Restricted Interest	Capital Grants, Contributions, and Restricted Interest	Governmental Activities	Business Type Activities	Total
Governmental activities							
Public safety	\$ (138,264)	\$ 30,877	\$ 23,960	\$ -	\$ (83,427)	\$ -	\$ (83,427)
Public works	(183,239)	63,727	112,521	-	(6,991)	-	(6,991)
Health and social services	-	-	-	-	-	-	-
Culture and recreation	(550,933)	19,499	29,670	-	(501,764)	-	(501,764)
Community and economic development	(48,526)	6,354	29,798	-	(12,374)	-	(12,374)
General government	(34,846)	2,013	4,055	-	(28,778)	-	(28,778)
Debt service	(135,116)	20,569	-	-	(114,547)	-	(114,547)
Capital projects	-	-	-	36,702	36,702	-	36,702
Total governmental activities	<u>(1,090,924)</u>	<u>143,039</u>	<u>200,004</u>	<u>36,702</u>	<u>(711,179)</u>	<u>-</u>	<u>(711,179)</u>
Business type activities							
Water	(130,648)	133,957	-	-	-	3,309	3,309
Landfill/recycling	(101,490)	140,344	-	-	-	38,854	38,854
Total business type activities	<u>(232,138)</u>	<u>274,301</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>42,163</u>	<u>42,163</u>
Total	<u>\$ (1,323,062)</u>	<u>\$ 417,340</u>	<u>\$ 200,004</u>	<u>\$ 36,702</u>	<u>(711,179)</u>	<u>42,163</u>	<u>(669,016)</u>
General Receipts							
Property tax levied for							
General purposes					\$ 179,226	-	179,226
Tax increment financing					46,506	-	46,506
Debt service					9,358	-	9,358
Local option sales tax					70,312	-	70,312
Grants and contributions not restricted to specific purpose					-	-	-
Unrestricted interest on investments					14,277	-	14,277
Bond proceeds					-	-	-
Miscellaneous					10,057	-	10,057
Sale of assets					745,348	-	745,348
Transfers					-	-	-
Total general receipts and transfers					<u>1,075,084</u>	<u>-</u>	<u>1,075,084</u>
Change in cash basis net assets					363,905	42,163	406,068
Cash basis net assets beginning of year					<u>844,346</u>	<u>432,658</u>	<u>1,277,004</u>
Cash basis net assets end of year					<u>\$ 1,208,251</u>	<u>\$ 474,821</u>	<u>\$ 1,683,072</u>
Cash Basis Net Assets							
Restricted							
Streets					\$ 320,612	\$ -	\$ 320,612
Urban renewal purposes					1,202	-	1,202
Debt service					67,498	25,000	92,498
Other purposes					818,939	-	818,939
Unrestricted					217,196	449,821	667,017
Total cash basis net assets					<u>\$ 1,208,251</u>	<u>\$ 474,821</u>	<u>\$ 1,683,072</u>

See notes to financial statements.

CITY OF FAYETTE

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
GOVERNMENTAL FUNDS

As of and for the year ended June 30, 2004

	General	Special Revenue		Other Nonmajor Governmental Funds	Total
		Road Use Tax	Bolger		
Receipts					
Property tax	\$ 142,951	\$ -	\$ -	\$ 45,633	\$ 188,584
Tax increment financing collections	-	-	-	46,506	46,506
Other city tax	-	-	-	70,312	70,312
Licenses and permits	2,013	-	-	-	2,013
Use of money and property	7,702	5,664	8,613	56	22,035
Intergovernmental	27,385	112,521	-	28,298	168,204
Charges for service	46,367	-	-	60,114	106,481
Special assessments	-	-	-	20,569	20,569
Miscellaneous	38,137	2,013	-	44,627	84,777
Total receipts	<u>264,555</u>	<u>120,198</u>	<u>8,613</u>	<u>316,115</u>	<u>709,481</u>
Disbursements					
Operating					
Public safety	137,854	-	-	410	138,264
Public works	-	122,631	-	60,608	183,239
Health and social services	-	-	-	-	-
Culture and recreation	106,635	-	407,179	37,119	550,933
Community and economic development	1,344	-	13,593	33,589	48,526
General government	34,846	-	-	-	34,846
Debt service	-	-	-	135,116	135,116
Capital projects	-	-	-	-	-
Total disbursements	<u>280,679</u>	<u>122,631</u>	<u>420,772</u>	<u>266,842</u>	<u>1,090,924</u>
Excess of receipts over disbursements	<u>(16,124)</u>	<u>(2,433)</u>	<u>(412,159)</u>	<u>49,273</u>	<u>(381,443)</u>
Other financing sources (uses)					
Bond proceeds	-	-	-	-	-
Sale of capital assets	-	-	745,348	-	745,348
Operating transfers in	66,563	70,434	7,500	126,005	270,502
Operating transfers out	(33,660)	(68,953)	(1,538)	(166,351)	(270,502)
Total other financing sources (uses)	<u>32,903</u>	<u>1,481</u>	<u>751,310</u>	<u>(40,346)</u>	<u>745,348</u>
Net change in cash balances	16,779	(952)	339,151	8,927	363,905
Cash balances beginning of year	200,417	321,564	271,271	51,094	844,346
Cash balances end of year	<u>\$ 217,196</u>	<u>\$ 320,612</u>	<u>\$ 610,422</u>	<u>\$ 60,021</u>	<u>\$ 1,208,251</u>
Cash Basis Fund Balances					
Reserved					
Debt service	\$ -	\$ -	\$ -	\$ 67,498	\$ 67,498
Unreserved					
General fund	217,196	-	-	-	217,196
Special revenue funds	-	320,612	610,422	(11,424)	919,610
Capital projects fund	-	-	-	(265)	(265)
Permanent fund	-	-	-	4,212	4,212
Total cash basis fund balances	<u>\$ 217,196</u>	<u>\$ 320,612</u>	<u>\$ 610,422</u>	<u>\$ 60,021</u>	<u>\$ 1,208,251</u>

See notes to financial statements.

CITY OF FAYETTE

RECONCILIATION OF THE STATEMENT OF CASH
RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES
TO THE STATEMENT OF ACTIVITIES AND NET ASSETS -
GOVERNMENTAL FUNDS

As of and for the year ended June 30, 2004

Total governmental funds cash balances (page 12)	\$ 1,208,251
Amounts reported for governmental activities in the Statement of Activities and Net Assets are different because:	
None	<u> -</u>
Cash basis net assets of governmental activities (page 11)	<u>\$ 1,208,251</u>
Net change in cash balances (page 12)	\$ 363,905
Amounts reported for governmental activities in the Statement of Activities and Net Assets are different because:	
None	<u> -</u>
Change in cash balance of governmental activities (page 11)	<u>\$ 363,905</u>

See notes to financial statements.

CITY OF FAYETTE

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES
PROPRIETARY FUNDS

As of and for the year ended June 30, 2004

	Enterprise Funds		Total
	Water	Sewer	
Operating receipts:			
Use of money and property	\$ 4,258	\$ 4,152	\$ 8,410
Charges for service	117,332	132,978	250,310
Miscellaneous	12,367	3,214	15,581
Total operating receipts	<u>133,957</u>	<u>140,344</u>	<u>274,301</u>
Operating disbursements:			
Business type activities	<u>106,932</u>	<u>82,787</u>	<u>189,719</u>
Total operating disbursements	<u>106,932</u>	<u>82,787</u>	<u>189,719</u>
Excess of operating receipts over (under) operating disbursements	<u>27,025</u>	<u>57,557</u>	<u>84,582</u>
Non-operating receipts (disbursements):			
Debt service	<u>(23,716)</u>	<u>(18,703)</u>	<u>(42,419)</u>
Total non-operating receipts (disbursements)	<u>(23,716)</u>	<u>(18,703)</u>	<u>(42,419)</u>
Excess of receipts over (under) disbursements	3,309	38,854	42,163
Operating transfers in (out)	-	-	-
Net change in cash balances	3,309	38,854	42,163
Cash balances beginning of year	<u>157,931</u>	<u>274,727</u>	<u>432,658</u>
Cash balances end of year	<u>\$ 161,240</u>	<u>\$ 313,581</u>	<u>\$ 474,821</u>
Cash Basis Fund Balance			
Reserved for debt service	\$ 25,000	\$ -	\$ 25,000
Unreserved	<u>136,240</u>	<u>313,581</u>	<u>449,821</u>
Total cash basis fund balances	<u>\$ 161,240</u>	<u>\$ 313,581</u>	<u>\$ 474,821</u>

See notes to financial statements.

CITY OF FAYETTE

RECONCILIATION OF THE STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
TO THE STATEMENT OF ACTIVITIES AND NET ASSETS -
PROPRIETARY FUNDS

As of and for the year ended June 30, 2004

Total enterprise funds cash balances (page 14)	\$ 474,821
Amounts reported for business type activities in the Statement of Activities and Net Assets are different because:	
None	<u> -</u>
Cash basis net assets of business type activities (page 11)	<u>\$ 474,821</u>
Net change in cash balances (page 14)	\$ 42,163
Amounts reported for business type activities in the Statement of Activities and Net Assets are different because:	
None	<u> -</u>
Change in cash balance of business type activities (page 11)	<u>\$ 42,163</u>

CITY OF FAYETTE
NOTES TO FINANCIAL STATEMENTS

Year ended June 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Fayette is a political subdivision of the State of Iowa located in Fayette County. It was first incorporated in 1874 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, health and social services, culture and recreation, community and economic development, and general government services. The City also provides water and sewer utilities for its citizens.

A. Reporting Entity

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

These financial statements present the City of Fayette (the primary government) and the following component unit: the Fayette Fire Department. The component unit is included in the City's reporting entity because of the significance of their operational or financial relationship with the City.

Blended Component Units

The Fayette Fire Department is legally separate from the City but is so intertwined with the City that it is, in substance, the same as the City. It is reported as part of the City and blended into the Special Revenue Funds. The Fayette Fire Department has been established pursuant to local ordinance to prevent and extinguish fires and to protect lives and property against fires, to promote fire prevention and fire safety and to answer all emergency calls for which there is no other established agency. Although the Fayette Fire Department is legally separate from the City, its purpose is to benefit the City of Fayette (the primary government) by providing the above services and by soliciting contributions and managing those funds.

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: Fayette County Solid Waste Management Commission, Fayette County Emergency Management Commission, Fayette County Joint E911 Service Board, Fayette County Economic Development Board, Upper Explorerland Regional Housing Authority, and Fayette Industrial Development Corporation.

CITY OF FAYETTE
NOTES TO FINANCIAL STATEMENTS
Year ended June 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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. Government activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

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

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

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

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

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

The City reports the following major governmental funds:

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

Special Revenue:

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

The Bolger Fund is used to account for the cash donations and proceeds from disposals of donated real estate provided by Mr. Bolger. The donation is typically unrestricted.

The City reports the following major proprietary funds:

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

CITY OF FAYETTE
NOTES TO FINANCIAL STATEMENTS
Year ended June 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Basis of Presentation (continued)

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

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

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2004, disbursements exceeded the amount budgeted in culture and recreation and debt service functions.

E. Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts and the disclosure of other financial information. Actual results could differ from those estimates.

NOTE 2 - CASH AND POOLED INVESTMENTS

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

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

The City had no investments at June 30, 2004 subject to risk of loss.

CITY OF FAYETTE

NOTES TO FINANCIAL STATEMENTS

Year ended June 30, 2004

NOTE 3 - BONDS AND NOTES PAYABLE

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

Year Ending June 30,	General Obligation Bonds and Notes		Special Assessments Bonds and Notes	
	Principal	Interest	Principal	Interest
2005	\$ 81,500	\$ 22,038	\$ 35,000	\$ 1,698
2006	69,500	17,869	-	-
2007	79,500	14,294	-	-
2008	45,000	10,147	-	-
2009	50,000	7,817	-	-
2010 - 2014	100,000	7,775	-	-
	<u>\$ 425,500</u>	<u>\$ 79,940</u>	<u>\$ 35,000</u>	<u>\$ 1,698</u>

Year Ending June 30,	Revenue Bonds and Notes		Total	
	Principal	Interest	Principal	Interest
2005	\$ 26,612	\$ 14,494	\$ 143,112	\$ 38,230
2006	32,193	12,893	101,693	30,762
2007	12,802	10,914	92,302	25,208
2008	13,443	10,273	58,443	20,420
2009	14,115	9,601	64,115	17,418
2010 - 2014	81,892	36,688	181,892	44,463
2015 - 2019	96,097	14,067	96,097	14,067
	<u>\$ 277,154</u>	<u>\$ 108,930</u>	<u>\$ 737,654</u>	<u>\$ 190,568</u>

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

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

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

CITY OF FAYETTE

NOTES TO FINANCIAL STATEMENTS

Year ended June 30, 2004

NOTE 4 - PENSION AND RETIREMENT BENEFITS

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

Plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of annual covered payroll, except for police employees, in which case the percentages are 5.93% and 8.90%, respectively. For the year ended June 30, 2003, the contribution rates for police employees and the City were 6.04% and 9.07%, respectively, and for the year ended June 30, 2002, the contribution rates for police employees and the City were 6.20% and 9.29%, respectively. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2004, 2003 and 2002 were \$13,427, \$13,453 and \$14,146, respectively, equal to the required contributions for each year.

NOTE 5 - COMPENSATED ABSENCES

City employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, retirement or death. This accumulation is not recognized as a disbursement by the City until used or paid. The City's approximate liability for earned vacation and sick leave payments payable to employees at June 30, 2004, primarily relating to the General Fund, as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$ 8,355
Sick Leave	32,053

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

Sick leave is forfeited if not used by the employee before termination, retirement, or death.

CITY OF FAYETTE

NOTES TO FINANCIAL STATEMENTS

Year ended June 30, 2004

NOTE 6 - INTERFUND TRANSFERS

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

Transfer to		Transfer from	
General		General	
Mary Street account	\$ 30,000	General account	\$ 30,000
General account	288	Mary Street account	288
General account	<u>36,275</u>	General account	122
	<u>\$ 66,563</u>	General account	<u>3,250</u>
			<u>\$ 33,660</u>
Special Revenue:		Special Revenue:	
Road Use Tax	\$ 122	Road Use Tax	\$ 36,597
Road Use Tax	<u>70,312</u>	Road Use Tax	<u>32,356</u>
	<u>\$ 70,434</u>		<u>\$ 68,953</u>
Special Revenue		Special Revenue:	
Bolger	<u>\$ 7,500</u>	Bolger	<u>\$ 1,538</u>
Special Revenue		Special Revenue	
CDBG Housing	<u>\$ 1,538</u>	Employee benefits	<u>\$ 36,275</u>
Debt Service		Special Revenue	
Debt service obligation account	\$ 3,250	Urban Renewal	\$ 7,500
Debt service obligation account	36,597	Tax Increment Financing	<u>52,264</u>
Debt service obligation account	<u>52,264</u>		<u>\$ 59,764</u>
	<u>92,111</u>	Special Revenue	
Debt Service		Local option sales tax	<u>\$ 70,312</u>
Special assessment account	<u>\$ 32,356</u>		

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

CITY OF FAYETTE

NOTES TO FINANCIAL STATEMENTS

Year ended June 30, 2004

NOTE 7 - 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.

NOTE 8 - INDUSTRIAL DEVELOPMENT REVENUE BONDS

The City has issued industrial revenue bonds under the provisions of Chapter 419 of the Code of Iowa. The bonds and related interest are payable solely by the parties for which the bonds were issued. The bond principal and interest do not constitute liabilities of the City. The bonds are as follows at June 30, 2004:

<u>Bond</u>	<u>Original Issue</u>	<u>Outstanding Balance</u>
Child Care Facility Revenue Bonds	\$ 100,000	\$ 87,000
Private College Facility Revenue Bond	9,500,000	9,500,000

NOTE 9 - DEFICIT FUND BALANCE

The Special Revenue, CDBG Housing had a deficit balance of \$1,067 at June 30, 2004. The deficit balance was a result of grant costs incurred prior to reimbursement of grant funds or local match. The deficit will be eliminated upon receipt of those funds.

The Capital Projects, Golf Course had a deficit balance of \$265 at June 30, 2004. The deficit balance was a result of project costs incurred prior to availability of funds. The deficit will be eliminated upon receipt of those funds.

NOTE 10 - CONTINGENCIES

The City participates in state and federal assisted grant programs. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreement and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the City at June 30, 2004.

NOTE 11 - GENERAL FUND BALANCE

The City has designated \$124,555 of the \$217,575 General Fund balance to be available for library operations and equipment replacement.

CITY OF FAYETTE

NOTES TO FINANCIAL STATEMENTS

Year ended June 30, 2004

NOTE 12 - ACCOUNTING CHANGE AND RESTATEMENTS

Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures, and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences, were implemented for the year ended June 30, 2004. The statements create new basic financial statements for reporting the City’s financial activities. The financial statements now include 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.

The government-wide financial statement reports the City’s governmental and business type activities.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF FAYETTE

BUDGET COMPARISON SCHEDULE
OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN BALANCES -
BUDGET AND ACTUAL (CASH BASIS) -
ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUNDS

REQUIRED SUPPLEMENTARY INFORMATION

As of and for the year ended June 30, 2004

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds Not Required to be Budgeted	Net	Budgeted Amounts		Final to Net Variance
					Original	Final	
Receipts							
Property tax	\$ 188,584	\$ -	\$ -	\$ 188,584	\$ 178,961	\$ 178,961	\$ 9,623
Tax increment financing collections	46,506	-	-	46,506	52,264	52,264	(5,758)
Other city tax	70,312	-	-	70,312	86,236	86,236	(15,924)
Licenses and permits	2,013	-	-	2,013	2,035	2,035	(22)
Use of money and property	22,035	8,410	1	30,444	47,273	781,710	(751,266)
Intergovernmental	168,204	-	-	168,204	155,156	146,346	21,858
Charges for service	106,481	250,310	-	356,791	434,800	434,800	(78,009)
Special assessments	20,569	-	-	20,569	22,904	22,904	(2,335)
Miscellaneous	84,777	15,581	571	99,787	-	20,054	79,733
Total receipts	<u>709,481</u>	<u>274,301</u>	<u>572</u>	<u>983,210</u>	<u>979,629</u>	<u>1,725,310</u>	<u>(742,100)</u>
Disbursements							
Public safety	138,264	-	410	137,854	155,680	155,680	(17,826)
Public works	183,239	-	-	183,239	270,400	270,400	(87,161)
Health and social services	-	-	-	-	-	-	-
Culture and recreation	550,933	-	-	550,933	130,505	501,776	49,157
Community and economic development	48,526	-	-	48,526	88,187	114,775	(66,249)
General government	34,846	-	-	34,846	43,113	38,727	(3,881)
Debt service	135,116	-	-	135,116	9,582	9,582	125,534
Capital projects	-	-	-	-	-	-	-
Business type activities	-	232,138	-	232,138	261,383	261,383	(29,245)
Total disbursements	<u>1,090,924</u>	<u>232,138</u>	<u>410</u>	<u>1,322,652</u>	<u>958,850</u>	<u>1,352,323</u>	<u>(29,671)</u>
Excess of receipts over disbursements	(381,443)	42,163	162	(339,442)	20,779	372,987	(712,429)
Other financing sources, net	745,348	-	-	745,348	-	25,898	719,450
Excess of receipts and other financing sources over disbursements and other financing uses	363,905	42,163	162	405,906	20,779	398,885	7,021
Balances beginning of year	844,346	432,658	217	1,276,787	1,502,810	1,502,810	(226,023)
Balances end of year	<u>\$ 1,208,251</u>	<u>\$ 474,821</u>	<u>\$ 379</u>	<u>\$ 1,682,693</u>	<u>\$ 1,523,589</u>	<u>\$ 1,901,695</u>	<u>\$ (219,002)</u>

See accompanying independent auditor's report.

CITY OF FAYETTE

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 blended component units, Internal Service Funds, and Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, the budget was amended once to increase budgeted disbursements by \$393,473. 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 and debt service functions.

OTHER SUPPLEMENTARY INFORMATION

CITY OF FAYETTE

SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
NONMAJOR GOVERNMENTAL FUNDS

As of and for the year ended June 30, 2004

	Special Revenue						Debt Service		Capital Project	Permanent	Total
	Employee Benefits	Urban Renewal Tax Increment Financing	Local Option Sales Tax	Landfill and Recycle	Fayette Fire Department	CDBG Housing	General Obligation	Special Assessments	Golf Course	Upper Iowa University	
Receipts											
Property tax	\$ 36,275	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 9,358	\$ -	\$ -	\$ -	\$ 45,633
Tax increment financing collections	-	46,506	-	-	-	-	-	-	-	-	46,506
Other city tax	-	-	70,312	-	-	-	-	-	-	-	70,312
Use of money and property	-	-	-	-	1	-	-	-	-	55	56
Intergovernmental	-	-	-	-	-	28,298	-	-	-	-	28,298
Charges for service	-	-	-	60,114	-	-	-	-	-	-	60,114
Special assessments	-	-	-	-	-	-	-	20,569	-	-	20,569
Miscellaneous	-	-	-	-	571	6,354	-	-	36,702	1,000	44,627
Total receipts	<u>36,275</u>	<u>46,506</u>	<u>70,312</u>	<u>60,114</u>	<u>572</u>	<u>34,652</u>	<u>9,358</u>	<u>20,569</u>	<u>36,702</u>	<u>1,055</u>	<u>316,115</u>
Disbursements											
Operating											
Public safety	-	-	-	-	410	-	-	-	-	-	410
Public works	-	-	-	60,608	-	-	-	-	-	-	60,608
Health and social services	-	-	-	-	-	-	-	-	-	-	-
Culture and recreation	-	-	-	-	-	-	-	-	37,119	-	37,119
Community and economic development	-	-	-	-	-	33,589	-	-	-	-	33,589
General government	-	-	-	-	-	-	-	-	-	-	-
Debt service	-	-	-	-	-	-	101,693	33,423	-	-	135,116
Capital projects	-	-	-	-	-	-	-	-	-	-	-
Total disbursements	<u>-</u>	<u>-</u>	<u>-</u>	<u>60,608</u>	<u>410</u>	<u>33,589</u>	<u>101,693</u>	<u>33,423</u>	<u>37,119</u>	<u>-</u>	<u>266,842</u>
Excess of receipts over (under) disbursements	<u>36,275</u>	<u>46,506</u>	<u>70,312</u>	<u>(494)</u>	<u>162</u>	<u>1,063</u>	<u>(92,335)</u>	<u>(12,854)</u>	<u>(417)</u>	<u>1,055</u>	<u>49,273</u>
Other financing uses											
Operating transfers in	-	-	-	-	-	1,538	92,111	32,356	-	-	126,005
Operating transfers out	(36,275)	(59,764)	(70,312)	-	-	-	-	-	-	-	(166,351)
Total other financing sources (uses)	<u>(36,275)</u>	<u>(59,764)</u>	<u>(70,312)</u>	<u>-</u>	<u>-</u>	<u>1,538</u>	<u>92,111</u>	<u>32,356</u>	<u>-</u>	<u>-</u>	<u>(40,346)</u>
Net change in cash balances	-	(13,258)	-	(494)	162	2,601	(224)	19,502	(417)	1,055	8,927
Cash balances beginning of year	-	14,460	-	(11,435)	217	(3,677)	6,947	41,273	152	3,157	51,094
Cash balances end of year	<u>\$ -</u>	<u>\$ 1,202</u>	<u>\$ -</u>	<u>\$ (11,929)</u>	<u>\$ 379</u>	<u>\$ (1,076)</u>	<u>\$ 6,723</u>	<u>\$ 60,775</u>	<u>\$ (265)</u>	<u>\$ 4,212</u>	<u>\$ 60,021</u>
Cash Basis Fund Balances											
Reserved											
Debt service	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 6,723	\$ 60,775	\$ -	\$ -	\$ 67,498
Unreserved											
Special revenue funds	-	1,202	-	(11,929)	379	(1,076)	-	-	-	-	(11,424)
Capital projects fund	-	-	-	-	-	-	-	-	(265)	-	(265)
Permanent fund	-	-	-	-	-	-	-	-	-	4,212	4,212
Total cash basis fund balances	<u>\$ -</u>	<u>\$ 1,202</u>	<u>\$ -</u>	<u>\$ (11,929)</u>	<u>\$ 379</u>	<u>\$ (1,076)</u>	<u>\$ 6,723</u>	<u>\$ 60,775</u>	<u>\$ (265)</u>	<u>\$ 4,212</u>	<u>\$ 60,021</u>

See accompanying independent auditor's report.

CITY OF FAYETTE
SCHEDULE OF INDEBTEDNESS

Year ended June 30, 2004

Obligation	Date of Issue	Interest Rates	Amount Originally Issued	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Bonds Due and Unpaid
General Obligation Notes									
Economic Development	Oct 1, 1994	5.1- 6.3%	\$ 50,000	\$ 27,500	\$ -	\$ 4,000	\$ 23,500	\$ 1,669	\$ -
Fire truck/street project	Aug 1, 1996	4.9-5.65%	140,000	23,500	-	11,500	12,000	1,316	-
1997 Street Project	Jul 1, 1997	4.6-5.35	250,000	125,000	-	30,000	95,000	6,598	-
Economic Development	Mar 1, 2001	4.7-5.20	325,000	325,000	-	30,000	295,000	16,295	-
Total				<u>\$ 501,000</u>	<u>\$ -</u>	<u>\$ 75,500</u>	<u>\$ 425,500</u>	<u>\$ 25,878</u>	<u>\$ -</u>
Special Assessment Capital Notes									
Asphalt overlay project	Jan 1, 1998	4.25-4.85%	\$ 200,000	\$ 65,000	\$ -	\$ 30,000	\$ 35,000	\$ 3,123	\$ -
Total				<u>\$ 65,000</u>	<u>\$ -</u>	<u>\$ 30,000</u>	<u>\$ 35,000</u>	<u>\$ 3,123</u>	<u>\$ -</u>
Revenue Bonds									
Water (water tower)	Jul 1, 1979	5.0%	\$ 400,000	\$ 253,028	\$ -	\$ 10,874	\$ 242,154	\$ 12,842	\$ -
Sewer	Aug 1, 1991	5.4 - 6.85	175,000	50,000	-	15,000	35,000	3,403	-
Total				<u>\$ 303,028</u>	<u>\$ -</u>	<u>\$ 25,874</u>	<u>\$ 277,154</u>	<u>\$ 16,245</u>	<u>\$ -</u>

CITY OF FAYETTE
BOND AND NOTE MATURITIES

June 30, 2004

GENERAL OBLIGATION NOTES

Year Ending June 30,	Economic Development Issued Oct. 1, 1994		Fire Truck/Street Issued Aug 1, 1996		Street Project Issued July 1, 1997		Economic Development Issued Mar 1, 2001		Total
	Interest Rate	Amount	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	
2005	5.80%	\$ 4,500	5.65%	\$ 12,000	5.25%	\$ 30,000	4.80%	\$ 35,000	\$ 81,500
2006	6.00	4,500	-	-	5.30	30,000	4.90	35,000	69,500
2007	6.00	4,500	-	-	5.35	35,000	5.00	40,000	79,500
2008	6.00	5,000	-	-	-	-	5.05	40,000	45,000
2009	6.00	5,000	-	-	-	-	5.10	45,000	50,000
2010	-	-	-	-	-	-	5.15	50,000	50,000
2011	-	-	-	-	-	-	5.20	50,000	50,000
		<u>\$ 23,500</u>		<u>\$ 12,000</u>		<u>\$ 95,000</u>		<u>\$ 295,000</u>	<u>\$ 425,500</u>

SPECIAL ASSESSMENT

CAPITAL NOTES

Asphalt Overlay Project

Year Ending June 30,	Issued Jan 1, 1998	
	Interest Rate	Amount
2005	4.85%	\$ 35,000
2006	-	-
2007	-	-
2008	-	-
2009	-	-
		<u>\$ 35,000</u>

REVENUE BONDS

Year Ending June 30,	Water (Tower) Issued Jul 1, 1979		Sewer Issued Aug 1, 1991		Total
	Interest Rates	Amount	Interest Rates	Amount	
2005	5.00%	\$ 11,612	6.80%	\$ 15,000	\$ 26,612
2006	5.00	12,193	6.85	20,000	32,193
2007	5.00	12,802	-	-	12,802
2008	5.00	13,443	-	-	13,443
2009	5.00	14,115	-	-	14,115
2010	5.00	14,820	-	-	14,820
2011	5.00	15,561	-	-	15,561
2012	5.00	16,340	-	-	16,340
2013	5.00	17,157	-	-	17,157
2014	5.00	18,014	-	-	18,014
2015	5.00	18,915	-	-	18,915
2016	5.00	19,861	-	-	19,861
2017	5.00	20,854	-	-	20,854
2018	5.00	21,896	-	-	21,896
2019	5.00	14,571	-	-	14,571
		<u>\$ 242,154</u>		<u>\$ 35,000</u>	<u>\$ 277,154</u>

See accompanying independent auditor's report.

CITY OF FAYETTE

SCHEDULE OF RECEIPTS BY SOURCE AND DISBURSEMENTS BY FUNCTION -
ALL GOVERNMENTAL FUNDS

Years ended June 30,

	2004	(Unaudited) 2003
Receipts		
Property tax	\$ 188,584	\$ 169,919
Tax increment financing collections	46,506	34,666
Other city tax	70,312	76,920
Licenses and permits	2,013	2,078
Use of money and property	22,035	80,471
Intergovernmental	168,204	213,102
Charges for service	106,481	96,534
Special assessments	20,569	32,177
Miscellaneous	84,777	89,117
Total	<u>\$ 709,481</u>	<u>\$ 794,984</u>
Disbursements		
Operating		
Public safety	138,264	182,887
Public works	183,239	535,923
Culture and recreation	550,933	94,550
Community and economic development	48,526	56,791
General government	34,846	40,295
Debt service	135,116	9,682
Capital projects	-	76,077
Total	<u>\$ 1,090,924</u>	<u>\$ 996,205</u>

See accompanying independent auditor's report.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING

To the Honorable Mayor and
Members of the City Council

We have audited the government financial statements of City of Fayette, Iowa, as of and for the year ended June 30, 2004, and have issued our report thereon dated December 10, 2004. Our report on the financial statements, which were prepared in conformity with an other comprehensive basis of accounting expressed a qualified opinion since we were unable to satisfy ourselves as to the distribution by fund of the total fund balances at July 1, 2003. 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 City of Fayette's government financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations and contracts, 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 certain immaterial instances of noncompliance that are described in Part III 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 government 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 statutory comments have been resolved except for items III-B-04, III-G-04 and III-K-04.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered City of Fayette'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 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 City of Fayette's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings.

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

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

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

Hagen & Kalhvang, P.C.

December 10, 2004

CITY OF FAYETTE
SCHEDULE OF FINDINGS
Year ended June 30, 2004

Part I: Summary of the Independent Auditor's Results

- a. A qualified opinion was issued on the financial statements since we were unable to satisfy ourselves as to the distribution by fund of the total fund balances at July 1, 2003.
- b. Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, including a material weakness.
- c. The audit did not disclose any noncompliance which is material to the financial statements.
- d. The City received and expended less than \$500,000 in Federal Awards, therefore a Single Audit was not required.

Part II: Findings Related to the Financial Statements

Instances of Non-Compliance

No material matters were noted

Reportable conditions

II-A-04

Segregation of Duties - The City is not large enough to permit an adequate segregation of duties for an effective system of internal control. The concentration of closely related duties and responsibilities such as the handling of cash receipts and disbursements, recording of the cash transactions and preparing various reports by a small staff makes it impossible to establish an adequate system of automatic checks for good internal control.

Recommendation - We realize this condition will be difficult to improve on. However, we do believe it is important that council be aware this condition does exist and make changes when appropriate and cost effective.

Response -.The City agrees with the recommendation.

Conclusion - Response accepted.

II-B-04

Credit card documentation - We noted reimbursements to individuals for use of their credit card and did not always include invoices for the charges on the statement.

Recommendation - We recommend the supporting documentation for the charge on the credit card statement for reimbursement be present.

Response - We will make sure we have a copy of the actual invoice along with the statement.

Conclusion - Response accepted.

CITY OF FAYETTE
SCHEDULE OF FINDINGS
Year ended June 30, 2004

Part II: Findings Related to the Financial Statements (continued)

II-C-04

Computer System Policies - Upon the review of controls and with increased use of computers by the City, policies and written procedures need updating.

Recommendation - We recommend the City review its policies and procedures related to the use of computers and update where needed. It should preferably be in writing.

Response - We agree with the auditor's recommendation.

Conclusion - Response accepted.

Part III: Other Findings Related to Statutory Reporting

III-A-04

Official Depositories - A resolution naming official depositories has been adopted by the City. The maximum deposit amounts stated in the resolution was exceeded during the year.

Recommendation - We recommend Council increase the limit so the amount per resolution is not exceeded.

Response - When we received money from the sale of the San Antonio property we exceeded our maximum deposit amount. A new resolution has been approved.

Conclusion - Response accepted.

III-B-04

Certified Budget - Disbursements during the year ended June 30, 2004 exceeded the amounts budgeted in two 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 - We will watch this more closely.

Conclusion - Response accepted.

III-C-04

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

III-D-04

Travel Expense - No disbursement of City money for travel expenses of spouses of City officials or employees were noted.

CITY OF FAYETTE
SCHEDULE OF FINDINGS
Year ended June 30, 2004

Part III: Other Findings Related to Statutory Reporting (continued)

III-E-04

Business Transactions - No business transactions between the City and City officials or employees were noted.

III-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.

III-G-04

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

III-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.

III-I-04

Revenue Bonds and Notes - The City has complied with the revenue bond and note resolutions.

III-J-04

Grant Activity - No instances of noncompliance were noted.

III-K-04

Financial Condition - Two accounts have deficit balances totaling \$1,332.

Recommendation - The City should investigate alternatives to eliminate the deficits in order to return the accounts to a sound financial position.

Response - Grant proceeds and/or transfers from the general fund will be made.

Conclusion - Response accepted.