

CITY OF MALVERN

**INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS**

JUNE 30, 2004

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City of Malvern

Officials

<u>Name</u>	<u>Title</u> (Before January 2004)	<u>Term Expires</u>
Karl Hertz	Mayor	January 2004
Bob Blum	Council Member	January 2004
Cheryl Smith	Council Member	January 2004 (resigned 02/10/03)
Dwain Pelzer	Council Member	January 2004
Julie Edmonson	Council Member	January 2004 (appointed 03/10/03)
Danny Means	Council Member	January 2006
Gary Perkins	Council Member	January 2006

<u>Name</u>	<u>Title</u> (After January 2004)	<u>Term Expires</u>
Dwain Pelzer	Mayor	January 2006
Danny Means	Council Member	January 2006
Gary Perkins	Council Member	January 2006
Ervin Crouch	Council Member	January 2008
Tom Mulholland	Council Member	January 2008
Renaee Pearce	Council Member	January 2008
Julie Powles	City Clerk	Indefinite
T. J. Pattermann	Attorney	Indefinite

City of Malvern

December 8, 2004

Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Malvern, 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 Malvern's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

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

As described in Note 16, during the year ended June 30, 2004, the City adopted Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*; Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*; Statement No. 38, *Certain Financial Statement Note Disclosures*; and Statement No. 41, *Budgetary Comparison Schedule – Perspective Differences*.

Continued...

December 8, 2004
Independent Auditor's Report
City of Malvern

In accordance with *Government Auditing Standards*, we have also issued our reports dated December 8, 2004 on our consideration of the City of Malvern's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. 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 7 through 12 and 30 through 32 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. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Malvern's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2003 (none of which are presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Malvern 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

Receipts of the City's governmental activities increased 5.5%, or approximately \$38,417, from fiscal 2003 to fiscal 2004. Property tax increased approximately \$15,238.

Disbursements increased 14.2%, or approximately \$101,794, in fiscal 2004 from fiscal 2003. Public safety decreased by \$4,006, and public works decreased by \$9,690. Culture and recreation increased by \$2,229, community and economic development increased by \$8,562, general government increased \$63,708, and capital projects increased by \$40,991. Debt service remained the same.

The City's total cash basis net assets increased by 8.6%, or approximately \$53,418, from June 30, 2003 to June 30, 2004. Of this amount, the assets of the governmental activities increased approximately \$48,646, and business type activities increased by \$4,772.

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.

Basis of Accounting

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

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-Wide Financial Statement

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

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

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

- ❖ Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- ❖ Business Type Activities include the sanitary sewer system. This activity is financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General fund, 2) the Special Revenue Funds, such as Road Use Tax and Urban Renewal Tax Increment, 3) the Debt-Service Fund, and 4) the Capital Projects Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operation 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 moderately from a year ago, increasing from \$275 thousand to \$324 thousand. The analysis that follows focuses on the changes in cash balances for governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities (Expressed in Thousands)			
	Year Ended June 30,		
	2004	2003	
Receipts and other financing sources:			
Property tax	\$ 298	\$ 283	
Tax increment financing collections	0	36	
Other city tax	86	63	
Licenses and permits	2	2	
Use of money and property	22	22	
Intergovernmental	150	133	
Charges for service	82	80	
Special assessments	19	15	
Miscellaneous	73	60	
	<u>732</u>	<u>694</u>	
Disbursements and other financing uses:			
Public safety	58	62	
Public works	238	248	
Culture and recreation	152	150	
Community and economic development	12	4	
General government	173	109	
Debt service	62	62	
Capital projects	123	82	
	<u>818</u>	<u>717</u>	
Deficiency of receipts under disbursements	(86)	(23)	
Other financing sources, net	<u>135</u>	<u>0</u>	
Net change in cash basis net assets	49	(23)	
Cash basis net assets beginning of year	<u>275</u>	<u>298</u>	
Cash basis net assets end of year	\$ <u>324</u>	\$ <u>275</u>	

The City's total receipts for governmental activities increased by 5.5%, or \$38,417. The total cost of all programs and services increased by approximately 14.2%, or \$101,794, with no new programs added this year. The increase in receipts was primarily the result of revenues for local option sales tax and intergovernmental receipts.

The cost of all governmental activities this year was \$818 thousand compared to \$716 thousand last year; partially due to paying the property and liability insurance premium twice in one fiscal year. However, as shown in the Statement of Activities and Net Assets, the taxpayers ultimately financed for these activities was only \$499 thousand because some of the cost was paid by those directly benefited from the programs or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest. Overall, the City's governmental activities receipts, including intergovernmental aid and fees for service, increased in 2004 from approximately \$694 thousand to approximately \$732 thousand, principally due to receiving additional local option sales tax and grant proceeds and loans for the wastewater lagoon project in capital projects.

Changes in Cash Basis Net Assets of Business Type Activities (Expressed in Thousands)		
	Year Ended June 30,	
	2004	2003
Operating receipts		
Charges for service	\$ 184	\$ 182
Operating disbursements		
Water	128	75
Sewer	42	35
	<u>170</u>	<u>110</u>
Excess of operating receipts over disbursements	14	72
Non-operating receipts and transfers		
Interest on investments	2	4
Miscellaneous	3	2
Debt service	(14)	(14)
	<u>(9)</u>	<u>(8)</u>
Net change in cash basis net assets	5	64
Cash basis net assets beginning of year	<u>343</u>	<u>279</u>
Cash basis net assets end of year	\$ <u>348</u>	\$ <u>343</u>

Total business type activities receipts for the fiscal year were \$184 thousand compared to \$182 thousand last year. There was no significant increase or decrease. The cash balance increased by \$5 thousand.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Malvern completed the year, its governmental funds reported a combined fund balance of \$323,944, an increase of \$48,646 above last year’s total of \$275,298. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- ❖ The General Fund cash balance decreased \$96,200 from the prior year of \$103,090 to \$6890. This decrease resulted from paying the property and liability insurance twice in one fiscal year and buying a new City shop building.
- ❖ The Road Use Tax Fund, Employee Benefit Fund, and Local Option Sales Tax Fund all have shown increases in cash balances from the prior year. The Road Use Tax Fund had an increase of \$68,673, Employee Benefits Fund increased \$2,773, and Local Option Sales Tax Fund increased \$68,890. The Urban Renewal Tax Increment fund decreased \$8,864.
- ❖ The Debt Service Fund cash balance increased by \$1,183 to \$85,147 during the fiscal year. This increase was due to an increase in property tax.
- ❖ The Capital Projects Fund cash balance increased by \$12,191 to \$(34,351) during the fiscal year. The wastewater lagoon project and lift station project were both being constructed over this fiscal year and draw downs of money from the SRF loans, CDBG grants and bank loans were all being utilized.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- ❖ The Sewer Fund cash balance increased by \$26,875 to \$106,144, due to passing of an ordinance that charges water/sewer customers more to help pay for the wastewater lagoon payment and build a reserve.
- ❖ The Water Fund cash balance decreased by \$22,103 to \$242,056 during the fiscal year due to several water main breaks and leak repairs.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City budget was amended but expenditures were still exceeded in public works, community and economic development and general government. The budget amendment increased the expenditures \$73,000 due to payments in debt service and unexpected water main repairs. A wastewater lagoon project was not completed. Receipts and disbursements were budgeted in this fiscal year for the project.

DEBT ADMINISTRATION

At June 30, 2004, the City had approximately \$579,000 in bonds and other long-term debt, compared to approximately \$624,000 last year as shown below:

Outstanding Debt at Year End (Expressed in Thousands)			
	Year Ended June 30,		
	2004	2003	
General obligation notes	\$ 553	\$ 586	
Revenue notes	26	38	
	<u>\$ 579</u>	<u>\$ 624</u>	

Debt decreased as a result of \$45,000 in payments of notes and bonds over the course of the fiscal year.

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 was \$553,000 at fiscal year end, which is significantly below the City's constitutional debt limit of \$1.8 million.

At June 30, 2004, the City also had approximately \$190,000 in anticipatory warrants compared to approximately \$54,000 last year.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City of Malvern'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. The City increased the tax rates approximately .82006 from the previous year.

These indicators were taken into account when adopting the budget for fiscal year 2005. Due to increasing the water and sewer rates to help finance a new \$1,199,000 wastewater lagoon project, the City decreased the debt service levy by approximately 8.8%, but increased the employee benefits levy by approximately 5.6%. The tax rate for the employee benefits levy increased from \$1.56 per thousand to \$2.44 per thousand of taxable valuation in 2005 since the general levy tax rate of \$8.10 per thousand of taxable valuation was no longer sufficient to fund all existing debt and operations. Due to the residential property tax rollback, the residential properties were taxable at 48.46% of assessed valuation in 2005 compared to 51.39% in 2004.

Budget disbursements are expected to increase by \$70,094 from 2004 due to a wastewater lagoon project under construction, a new HVAC system that was installed in the Liberty Memorial Community Building and a new library addition in the fundraising stages.

If these estimates are realized, the city's budgeted cash balance is expected to decrease by approximately \$248,819 by the close of 2005.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Julie Greenwood, City Clerk, 501 Main Street, Malvern, Iowa.

City of Malvern
Basic Financial Statements

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

		Program Receipts	
	Disbursements	Charges for Service	Operating Grants Contributions and Restricted Interest
Functions/Programs:			
Governmental activities:			
Public safety	\$ 57,574	1,520	0
Public works	238,082	67,348	159,106
Culture and recreation	151,843	13,790	68,526
Community and economic development	12,421	0	8,476
General government	173,022	505	0
Debt service	62,150	0	0
Capital projects	122,955	0	0
Total governmental activities	818,047	83,163	236,108
Business type activities:			
Water	142,277	118,680	0
Sewer	41,855	64,815	0
Total business type activities	184,132	183,495	0
Total	\$ 1,002,179	266,658	236,108

General Receipts:

Property tax levied for:
 General purposes
 Employee benefits
 Tax increment financing
 Debt service
Local option sales tax
Grants and contributions not restricted to specific purpose
Unrestricted interest on investments
Anticipatory warrants
 Total general receipts and transfers

Change in cash basis net assets

Cash basis net assets beginning of year, as restated

Cash basis net assets end of year

Cash Basis Net Assets:

Restricted:
 Streets
 Employee benefits
 Urban renewal purposes
 Debt service
 Property tax relief
Unrestricted

Total cash basis net assets

See notes to financial statements

Net (Disbursement) Receipts and Changes in
Cash Basis Net Assets

Governmental Activities	Business Type Activities	Total
(56,054)	0	(56,054)
(11,628)	0	(11,628)
(69,527)	0	(69,527)
(3,945)	0	(3,945)
(172,517)	0	(172,517)
(62,150)	0	(62,150)
<u>(122,955)</u>	<u>0</u>	<u>(122,955)</u>
(498,776)	0	(498,776)
0	(23,597)	(23,597)
<u>0</u>	<u>22,960</u>	<u>22,960</u>
<u>0</u>	<u>(637)</u>	<u>(637)</u>
(498,776)	(637)	(499,413)
\$ 219,613	0	219,613
32,901	0	32,901
35	0	35
63,333	0	63,333
68,890	0	68,890
26,330	3,251	29,581
1,174	2,158	3,332
<u>135,146</u>	<u>0</u>	<u>135,146</u>
<u>547,422</u>	<u>5,409</u>	<u>552,831</u>
48,646	4,772	53,418
<u>275,298</u>	<u>343,428</u>	<u>618,726</u>
<u>\$ 323,944</u>	<u>348,200</u>	<u>672,144</u>
\$ 80,960	0	80,960
38,643	0	38,643
71,765	0	71,765
85,147	0	85,147
74,890	0	74,890
<u>(27,461)</u>	<u>348,200</u>	<u>320,739</u>
<u>\$ 323,944</u>	<u>348,200</u>	<u>672,144</u>

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

	General	Road Use Tax	Employee Benefits	Special Local Option Sales Tax
Receipts				
Property tax	\$ 207,141	0	31,316	0
Tax increment financing collections	0	0	0	0
Other city tax	12,472	0	1,585	68,890
Licenses and permits	1,702	0	0	0
Use of money and property	21,773	0	0	0
Intergovernmental	20,078	117,740	0	12,000
Charges for service	81,461	0	0	0
Special assessments	18,719	0	0	0
Miscellaneous	73,302	0	0	0
Total receipts	<u>436,648</u>	<u>117,740</u>	<u>32,901</u>	<u>80,890</u>
Disbursements				
Operating:				
Public safety	56,783	0	791	0
Public works	166,301	49,067	13,815	0
Culture and recreation	142,325	0	3,518	6,000
Community and economic development	12,421	0	0	0
General government	161,018	0	12,004	0
Debt service	0	0	0	0
Capital projects	0	0	0	0
Total disbursements	<u>538,848</u>	<u>49,067</u>	<u>30,128</u>	<u>6,000</u>
Excess (deficiency) of receipts over (under) disbursements	(102,200)	68,673	2,773	74,890
Other financing sources (uses):				
Anticipatory warrants issued	0	0	0	0
Operating transfers in	6,000	0	0	0
Operating transfers out	0	0	0	(6,000)
Total other financing sources (uses)	<u>6,000</u>	<u>0</u>	<u>0</u>	<u>(6,000)</u>
Net change in cash balances	(96,200)	68,673	2,773	68,890
Cash balances beginning of year	<u>103,090</u>	<u>12,287</u>	<u>35,870</u>	<u>6,000</u>
Cash balances end of year	<u>\$ 6,890</u>	<u>80,960</u>	<u>38,643</u>	<u>74,890</u>
Cash Basis Fund Balances				
Reserved:				
Debt service	\$ 0	0	0	0
Unreserved:				
General fund	6,890	0	0	0
Special revenue funds	0	80,960	38,643	74,890
Debt service	0	0	0	0
Total cash basis fund balances	<u>\$ 6,890</u>	<u>80,960</u>	<u>38,643</u>	<u>74,890</u>

See notes to financial statements

<u>Revenue</u>			
<u>Urban Renewal Tax Increment</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total</u>
0	60,194	0	298,651
35	0	0	35
0	3,139	0	86,086
0	0	0	1,702
0	0	0	21,773
0	0	0	149,818
0	0	0	81,461
0	0	0	18,719
0	0	0	73,302
<u>35</u>	<u>63,333</u>	<u>0</u>	<u>731,547</u>
0	0	0	57,574
8,899	0	0	238,082
0	0	0	151,843
0	0	0	12,421
0	0	0	173,022
0	62,150	0	62,150
0	0	122,955	122,955
<u>8,899</u>	<u>62,150</u>	<u>122,955</u>	<u>818,047</u>
(8,864)	1,183	(122,955)	(86,500)
0	0	135,146	135,146
0	0	0	6,000
0	0	0	(6,000)
<u>0</u>	<u>0</u>	<u>135,146</u>	<u>135,146</u>
(8,864)	1,183	12,191	48,646
<u>80,629</u>	<u>83,964</u>	<u>(46,542)</u>	<u>275,298</u>
<u>71,765</u>	<u>85,147</u>	<u>(34,351)</u>	<u>323,944</u>
0	85,147	0	85,147
0	0	0	6,890
71,765	0	0	266,258
0	0	(34,351)	(34,351)
<u>71,765</u>	<u>85,147</u>	<u>(34,351)</u>	<u>323,944</u>

City of Malvern
 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	\$	323,944
<i>Adjustments</i>		
None		0
Cash basis net assets of governmental activities	\$	323,944
Net change in cash balances	\$	48,646
<i>Adjustments</i>		
None		0
Change in cash balance of governmental activities	\$	48,646

See notes to financial statements

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

	Enterprise Funds		
	Water	Sewer	Total
Operating receipts:			
Charges for service	\$ 118,680	64,815	183,495
Operating disbursements:			
Business type activities	<u>128,209</u>	<u>41,855</u>	<u>170,064</u>
Excess (deficiency) of operating receipts over (under) operating disbursements	(9,529)	22,960	13,431
Non-operating receipts (disbursements):			
Interest on investments	1,494	664	2,158
Miscellaneous	0	3,251	3,251
Debt service	<u>(14,068)</u>	<u>0</u>	<u>(14,068)</u>
Total non-operating receipts (disbursements)	<u>(12,574)</u>	<u>3,915</u>	<u>(8,659)</u>
Net change in cash balances	(22,103)	26,875	4,772
Cash balances beginning of year	<u>264,159</u>	<u>79,269</u>	<u>343,428</u>
Cash balances end of year	\$ <u>242,056</u>	<u>106,144</u>	<u>348,200</u>
 Cash Basis Fund Balances			
Unreserved	\$ <u>242,056</u>	<u>106,144</u>	<u>348,200</u>

See notes to financial statements

City of Malvern
 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	\$	348,200
<i>Adjustments</i>		
None		0
Cash basis net assets of business type activities	\$	348,200
Net change in cash balances	\$	4,772
<i>Adjustments</i>		
None		0
Change in cash balance of business type activities	\$	4,772

See notes to financial statements

City of Malvern
Notes to Financial Statements
June 30, 2004

NOTE (1) Summary of Significant Accounting Policies

The City of Malvern is a political subdivision of the State of Iowa located in Mills County. It was first incorporated in 1869 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, culture 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, the City of Malvern has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City. The City has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Mills County Assessor's Conference Board, Mills County Emergency Management Commission and Mills County E911 Board.

B. Basis of Presentation

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

City of Malvern
Notes to Financial Statements
June 30, 2004

NOTE (1) Summary of Significant Accounting Policies - Continued

B. Basis of Presentation - Continued

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

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

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

The Statement of Activities and Net Assets demonstrates the degree to which 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 Urban Renewal Tax Increment Fund is used to account for urban renewal projects financed by tax increment financing.

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

The Employee Benefit Fund is used to account for property taxes levied to pay employee benefits.

City of Malvern
Notes to Financial Statements
June 30, 2004

NOTE (1) Summary of Significant Accounting Policies - Continued

B. Basis of Presentation - Continued

Special Revenue (continued):

The Local Option Sales Tax Fund is used to account for receipts required from the tax authorized by referendum and used for property tax relief.

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

The Capital Projects Fund is used to account for all resources used in the construction of capital facilities with the exception of those financed through enterprise funds.

The City reports the following major proprietary fund:

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 sanitary sewer system.

C. Measurement Focus and Basis of Accounting

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

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

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2004, disbursements exceeded the amounts budgeted in the public works, community and economic development and general government functions.

City of Malvern
Notes to Financial Statements
June 30, 2004

NOTE (1) Summary of Significant Accounting Policies - Continued

E. Property Tax Calendar

The City's property tax rates were extended against the assessed valuation of the City as of January 1, 2002, to compute the amounts which became liens on property on July 1, 2003. These taxes were due and payable in two installments on September 30, 2003 and March 31, 2004, at the Mills County Treasurer's Office. These taxes are recognized as income to the City when they are received from the county.

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's cash, which consists of cash in bank and certificates of deposit, totaled \$672,144.

NOTE (3) Notes Payable

Annual debt service requirements to maturity of general obligation notes are as follows:

Year Ended June 30,	General Obligation Notes		Revenue Note		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2005	\$ 34,943	27,206	12,791	1,818	47,734	29,024
2006	36,712	25,437	13,431	700	50,143	26,137
2007	38,571	23,579	0	0	38,571	23,579
2008	40,524	21,626	0	0	40,524	21,626
2009	42,575	19,575	0	0	42,575	19,575
2010-2014	247,473	63,276	0	0	247,473	63,276
2015-2016	111,958	6,882	0	0	111,958	6,882
Total	\$ 552,756	187,581	26,222	2,518	578,978	190,099

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

City of Malvern
Notes to Financial Statements
June 30, 2004

NOTE (3) Notes Payable - Continued

The City has a general obligation debt limit of approximately \$1,800,000 which was not exceeded during the year ended June 30, 2004.

The resolution providing for the issuance of the revenue note includes the provision that the debt is secured by the equipment purchased and debt service payments are due on an annual basis. The City has complied with the provision.

NOTE (4) Interest Costs

The City of Malvern paid the following interest costs during the year.

Interest reflected in capital projects costs	\$ 5,253
Interest reflected in debt service costs	<u>30,806</u>
	<u>\$ 36,059</u>

NOTE (5) Pension and Retirement Benefits

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

Plan members are required to contribute 3.70 % of their annual salary and the City is required to contribute 5.75 % of annual covered payroll. Contribution requirements are established by State statute. The City's contribution to IPERS for the years ended June 30, 2004, 2003, and 2002, was \$8,045, \$7,474, and \$8,285, respectively, equal to the required contributions for each year.

NOTE (6) Compensated Absences

City employees accumulate vacation days for subsequent use or for payment at the end of the calendar year during which it was required to be taken. These accumulations are not recognized as disbursements by the City until used or paid. An employee who resigns or voluntarily terminates employment with the City forfeits all vacation leave accrued during the year of termination. Employees are entitled to payment of accrued vacation upon retirement, death, or disability. The City's approximate liability for earned vacation benefits payable to employees at June 30, 2004, primarily relating to the General Fund is \$1,995. This liability is computed on rates of pay effective as of June 30, 2004.

City of Malvern
Notes to Financial Statements
June 30, 2004

NOTE (7) Anticipatory Warrants

Anticipatory warrants are warrants which are legally drawn on City funds but are not paid for lack of funds, in accordance with Chapter 74 of the Code of Iowa. The warrants bear interest at rates in effect at the time the warrants are first presented for redemption.

Changes in anticipatory warrants for the year ended June 30, 2004 were as follows:

	Interest Rate Per Annum	Balance June 30, 2003	Issued During the Year	Redeemed During the Year	Balance June 30, 2004
Liberty Memorial Building Improvements	4.50 %	\$ 17,520	\$ 82,480	\$ 0	\$ 100,000
Sewer Project	4.50 %	37,100	52,666	0	89,766
		\$ 54,620	\$ 135,146	\$ 0	\$ 189,766

NOTE (8) Interfund Transfers

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

Transfer to	Transfer from	Amount
General: Library Building Account	Special Revenue: Local Option Sales Tax	\$ 6,000

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

NOTE (9) Commitments

Law Enforcement Contract

The City extended a contract, beginning July 1, 2004, with Mills County, Iowa whereby the County provides law enforcement services within the City of Malvern through the office of the Sheriff of Mills County, Iowa. The annual contract amount is \$14,132.

Administrative Services Contract

The City renewed its agreement with PeopleService, whereby the City engages PeopleService to manage, operate, and maintain the City's water and wastewater utility system. The Company in turn refunds to the City all cost savings on non-payroll operating expenses. The monthly contracted fee is \$6,796 effective July 1, 2004 through June 30, 2005.

As required in this agreement, PeopleService computes, bills, collects and transmits to the City the revenues from water, sewer and landfill usage.

City of Malvern
Notes to Financial Statements
June 30, 2004

NOTE (9) Commitments - Continued

Rescue Services Contract

Malvern Volunteer Rescue, Inc. is a separate entity established to provide rescue services. In July 1989, the City signed an ambulance service contract with the Organization, which has been extended for successive one year terms. The Organization is required to provide 24 hour phone service, all insurance, maintenance, repairs and supplies for City owned rescue unit vehicles and trained personnel to respond to rescue calls. The City is required to pay the Organization \$1,000 a month for these services.

NOTE (10) Lease Agreement

The City leases a building on an annual basis for the storage of City vehicles, machinery, equipment and tools under an operating lease agreement for \$2,800 per year. The City also leases a copier under an operating lease agreement. Rental expense paid during the fiscal year ended June 30, 2004 totaled \$3,748.

Future minimum required lease payments on the copier are as follows:

Year Ending June 30,		
2005	\$	948
2006		948
2007		<u>395</u>
	\$	<u><u>2291</u></u>

NOTE (11) Risk Management

The City of Malvern 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 (12) Deficit Fund Balances

The General Fund, General Account, had a deficit balance of \$220,998 at June 30, 2004. The deficit will be eliminated with property tax and local option sales tax collections. The Capital Projects Fund had a deficit balance of \$34,351 at June 30, 2004. The deficit will be eliminated with the issuance of general obligation debt.

City of Malvern
Notes to Financial Statements
June 30, 2004

NOTE (13) Construction Contract Commitments

The City had the following commitments at June 30, 2004 for construction projects:

<u>Project</u>	<u>Contract Amount</u>	<u>Paid to Date</u>	<u>Remaining Commitment</u>
Sewer Project:			
Lift Station	\$ 273,772	\$ 0	\$ 273,772
Lagoon	\$ 611,000	\$ 0	\$ 611,000

In June 2004, the City signed a loan agreement for \$799,000 from the State Revolving Fund loan program for the sewer project. There were no loan drawdowns requested as of June 30, 2004.

NOTE (14) Contingencies

The Special Revenue Fund, Urban Renewal Tax Increment Account has a balance of \$71,765 and the urban renewal tax increment financing bonds have all been redeemed. The City may be required to refund the excess balance.

NOTE (15) Subsequent Events

On July 1, 2004, the City issued a general obligation municipal building improvement note for \$100,000 in order to redeem anticipatory warrants and costs incurred for the Liberty Memorial Capital Project.

In August 2004, the City approved a well rehabilitation project for \$10,275.

In October 2004, The City approved the purchase of a lawn tractor for \$25,250.

NOTE (16) 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. The accounting change has no effect on beginning net assets.

Required Supplementary Information

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

	Governmental Funds Actual	Proprietary Funds Actual	Net
Receipts			
Property tax	\$ 298,651	0	298,651
Tax increment financing collections	35	0	35
Other city tax	86,086	0	86,086
Licenses and permits	1,702	0	1,702
Use of money and property	21,773	2,158	23,931
Intergovernmental	149,818	0	149,818
Charges for service	81,461	183,495	264,956
Special assessments	18,719	0	18,719
Miscellaneous	73,302	3,251	76,553
Total receipts	<u>731,547</u>	<u>188,904</u>	<u>920,451</u>
Disbursements			
Public safety	57,574	0	57,574
Public works	238,082	0	238,082
Culture and recreation	151,843	0	151,843
Community and economic development	12,421	0	12,421
General government	173,022	0	173,022
Debt service	62,150	0	62,150
Capital projects	122,955	0	122,955
Business type activities	0	184,132	184,132
Total disbursements	<u>818,047</u>	<u>184,132</u>	<u>1,002,179</u>
Excess (deficiency) of receipts over (under) disbursements	(86,500)	4,772	(81,728)
Other financing sources, net	<u>135,146</u>	<u>0</u>	<u>135,146</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	48,646	4,772	53,418
Balances beginning of year	<u>275,298</u>	<u>343,428</u>	<u>618,726</u>
Balances end of year	<u>\$ 323,944</u>	<u>248,200</u>	<u>672,144</u>

See accompanying independent auditor's report

Budgeted Amounts		Final to Net Variance
Original	Final	
298,231	298,231	420
0	0	35
62,053	62,053	24,033
6,000	6,000	(4,298)
63,750	63,750	(39,819)
1,298,200	1,298,200	(1,148,382)
320,165	320,165	(55,209)
0	0	18,719
0	0	76,553
<u>2,048,399</u>	<u>2,048,399</u>	<u>(1,127,948)</u>
79,500	79,500	21,926
159,000	159,000	(79,082)
172,700	172,700	20,857
1,500	10,500	(1,921)
123,800	128,800	(44,222)
80,100	92,100	29,950
1,199,000	1,199,000	1,076,045
170,600	217,600	33,468
<u>1,986,200</u>	<u>2,059,200</u>	<u>1,057,021</u>
62,199	(10,801)	(70,927)
<u>0</u>	<u>0</u>	<u>135,146</u>
62,199	(10,801)	64,219
<u>752,483</u>	<u>752,483</u>	<u>(133,757)</u>
<u>814,682</u>	<u>741,682</u>	<u>(69,538)</u>

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

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

Formal and legal budgetary control is based upon major classes of disbursements known as functions, not by fund or fund type. These functions are: public safety, public works, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. 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 \$73,000. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2004, disbursements exceeded the amounts budgeted in the public works, community and economic development and general government functions.

Other Supplementary Information

City of Malvern
Combining Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
General Fund
As of and for the year ended June 30, 2004

	General	Liberty Memorial Sinking	Park Sinking
Receipts:			
Property tax	\$ 207,141	0	0
Other city tax	12,472	0	0
Licenses and fees	1,702	0	0
Use of money and property	18,309	343	128
Intergovernmental	20,078	0	0
Charges for services	81,461	0	0
Special assessments	18,719	0	0
Miscellaneous	43,302	0	0
Total receipts	403,184	343	128
Disbursements:			
Operating:			
Public safety	56,783	0	0
Public works	166,301	0	0
Culture and recreation	130,742	0	0
Community and economic development	12,421	0	0
General government	161,018	0	0
Total disbursements	527,265	0	0
Excess (deficiency) of receipts over (under) disbursements	(124,081)	343	128
Other financing uses:			
Operating transfers in	0	0	0
Net change in cash balances	(124,081)	343	128
Cash balances beginning of year	(96,917)	17,000	6,692
Cash balances end of year	\$ (220,998)	17,343	6,820

See accompanying independent auditor's report

Schedule 1

Liberty Memorial Trust	Library Building Fund	Library Sinking Fund	Total
0	0	0	207,141
0	0	0	12,472
0	0	0	1,702
222	1,708	1,063	21,773
0	0	0	20,078
0	0	0	81,461
0	0	0	18,719
0	30,000	0	73,302
<u>222</u>	<u>31,708</u>	<u>1,063</u>	<u>436,648</u>
0	0	0	56,783
0	0	0	166,301
649	10,934	0	142,325
0	0	0	12,421
0	0	0	161,018
<u>649</u>	<u>10,934</u>	<u>0</u>	<u>538,848</u>
(427)	20,774	1,063	(102,200)
<u>0</u>	<u>6,000</u>	<u>0</u>	<u>6,000</u>
(427)	26,774	1,063	(96,200)
<u>16,151</u>	<u>105,405</u>	<u>54,759</u>	<u>103,090</u>
<u>15,724</u>	<u>132,179</u>	<u>55,822</u>	<u>6,890</u>

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

<u>Obligation</u>	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount Originally Issued</u>
General obligation notes: Downtown sidewalk improvement	Feb 1, 2001	5.00 %	\$ 640,000
Revenue note: Equipment	Apr 17, 2002	5.00 %	\$ 63957
Anticipatory warrants: Liberty Memorial Building improvements	Jul 1, 2002	4.50 %	\$ 100,000
Sewer project	Oct 1, 2002	4.50 %	799,000

See accompanying independent auditor's report

Schedule 2

<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>
<u>586,016</u>	<u>0</u>	<u>33,260</u>	<u>552,756</u>	<u>28,890</u>	<u>0</u>
<u>38,374</u>	<u>0</u>	<u>12,152</u>	<u>26,222</u>	<u>1,916</u>	<u>0</u>
17,520	82,480	0	100,000	1,204	0
<u>37,100</u>	<u>52,666</u>	<u>0</u>	<u>89,766</u>	<u>4,049</u>	<u>0</u>
<u>54,620</u>	<u>135,146</u>	<u>0</u>	<u>189,766</u>	<u>5,253</u>	<u>0</u>

City of Malvern
 Note Maturities
 June 30, 2004

Year Ending June 30,	General Obligation Notes Downtown Sidewalk Improvement Issued Feb 1, 2001		Revenue Note Equipment Issued Apr 17, 2002	
	Interest Rate	Amount	Interest Rate	Amount
2005	5.00 %	\$ 34,943	5.00 %	\$ 12,791
2006	5.00 %	36,712	5.00 %	13,431
2007	5.00 %	38,571	-	0
2008	5.00 %	40,524	-	0
2009	5.00 %	42,575	-	0
2010	5.00 %	44,730	-	0
2011	5.00 %	46,995	-	0
2012	5.00 %	49,374	-	0
2013	5.00 %	51,874	-	0
2014	5.00 %	54,500	-	0
2015	5.00 %	57,259	-	0
2016	5.00 %	54,699	-	0
Total		\$ 552,756		\$ 26,222

See accompanying independent auditor's report

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

	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
Receipts				
Property tax	\$ 298,651	283,413	272,195	277,412
Tax increment financing collections	35	35,693	139,711	68,741
Other city tax	86,086	63,057	75,261	75,844
Licenses and permits	1,702	1,658	833	1,402
Use of money and property	21,773	21,598	25,547	20,898
Intergovernmental	149,818	132,857	235,826	126,767
Charges for service	81,461	80,277	34,740	29,276
Special assessments	18,719	14,866	20,486	23,442
Miscellaneous	<u>73,302</u>	<u>59,711</u>	<u>42,270</u>	<u>113,841</u>
Total	<u>\$ 731,547</u>	<u>693,130</u>	<u>846,869</u>	<u>737,623</u>
Disbursements				
Operating:				
Public safety	\$ 57,574	61,580	56,450	51,386
Public works	238,082	247,772	220,980	204,388
Culture and recreation	151,843	149,614	170,149	154,719
Community and economic development	12,421	3,859	90,747	64,668
General government	173,022	109,314	139,182	117,462
Debt service	62,150	62,150	64,816	37,453
Capital projects	<u>122,955</u>	<u>81,964</u>	<u>121,349</u>	<u>82,804</u>
Total	<u>\$ 818,047</u>	<u>716,253</u>	<u>863,673</u>	<u>712,880</u>

See accompanying independent auditor's report

City of Malvern

December 8, 2004

Independent Auditor's Report on Internal Control over
Financial Reporting and on Compliance

To the Honorable Mayor and
Members of the City Council:

We have audited the financial statements of the City of Malvern, Iowa, as of and for the year ended June 30, 2004, and have issued our report thereon dated December 8, 2004. Our report expressed unqualified opinions on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A material weakness is a reportable 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 caused by error or fraud 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 reportable conditions that are also considered material weaknesses. However, of the reportable conditions described above, we believe items I-A-04 and I-B-04 are also material weaknesses. There were no prior year reportable conditions.

Continued...

City of Malvern
Independent Auditor's Report on
Internal Control and Compliance

Compliance

As part of obtaining reasonable assurance about whether the City of Malvern's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of non-compliance that are described in Part 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 items II-B-04, II-J-04, II-K-04 and II-L-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 Malvern and other parties to whom the City of Malvern 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 Malvern 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.

City of Malvern
Schedule of Findings
Year Ended June 30, 2004

Part I: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

I-A-04 Segregation of Duties

Comment – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The cash receipts listing, bank deposits, posting of the cash receipts to the cash receipts journal, and reconciling are all done by the same person.

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

Response – We will implement additional controls.

Conclusion – Response accepted.

I-B-04 Revised Information System

Comment – The City implemented a new software program during the year. Data processing problems were not addressed in a timely manner in order to provide current and accurate financial information.

Recommendation – We realize the City has been working with software support. However, the City should provide adequate training for data processing personnel. Financial information reports should be reviewed monthly for proper classifications and accurate reconciliations of accounts and funds.

Response – We will do this.

Conclusion – Response accepted.

City of Malvern
Schedule of Findings
Year Ended June 30, 2004

Part II: Other Findings Related to Statutory Reporting:

II-A-04 Official Depositories

Comment - A resolution naming official depositories has been approved by the City. The maximum deposit amounts stated in the resolution was exceeded during the year ended June 30, 2004.

Recommendation – The City should increase the maximum amount stated in the resolution.

Response – We will amend the resolution.

Conclusion - Response accepted.

II-B-04 Certified Budget

Comment - Disbursements during the year ended June 30, 2004 exceeded the amounts budgeted in the public works, community and economic development and general government functions. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

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

Response – The budget will be amended in sufficient amounts in the future, if applicable.

Conclusion – Response accepted.

II-C-04 Entertainment Expense

We noted no disbursements for parties, banquets or other entertainment for employees that we believe may constitute an unlawful expenditure from public funds as defined in an Attorney General's opinion dated April 25, 1979.

II-D-04 Travel Expense

Comment - No disbursements of City money for travel expenses of spouses of City officials or employees were noted. However, we noted one mileage reimbursement was missing support documentation and approval.

Recommendation – We recommend that all payments be properly supported and approved, and support documentation be properly filed.

Response – We will do this.

Conclusion - Response accepted.

City of Malvern
Schedule of Findings
Year Ended June 30, 2004

Part II: Other Findings Related to Statutory Reporting Continued:

II-E-04 Business Transactions

No business transactions were noted 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 insure that the coverage is adequate for current operations.

II-G-04 Council Minutes

Comment- No transactions were found that we believe should have been approved in the Council minutes but were not. Although minutes of Council proceedings were published, they did not include a summary of total receipts by fund as required by Chapter 372.13(6) of the Code of Iowa.

Recommendation – The City should publish the information as required by the Code of Iowa.

Response – We will do this.

Conclusion – Response accepted.

II-H-04 Enterprise Debt

The City is in compliance with provisions of the revenue note resolution.

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.

City of Malvern
Schedule of Findings
Year Ended June 30, 2004

Part II: Other Findings Related to Statutory Reporting Continued:

II-J-04 Excess Balances

Comment – The balances in the Special Revenue Fund Road Use Tax Account, Employee Benefit Account, Local Option Sales Tax Account, Urban and Renewal Tax Increment Account, the Debt Service Fund and Enterprise Funds – Water and Sewer at June 30, 2004, were in excess of the respective fund's disbursements during the year.

Recommendation – The City should consider the necessity of maintaining these substantial balances, and where financially feasible, consider reducing the balances in an orderly manner through revenue reductions. Certain funds can be transferred to the General Fund in order to eliminate the deficit.

Response – We will review this further.

Conclusion – Response accepted.

II-K-04 Financial Condition

Comment – As previously noted, the General Fund, General Account and the Capital Projects Fund had deficit balances at June 30, 2004.

Recommendation – The City should monitor the activity in these funds in order to eliminate the deficits.

Response – We will do this.

Conclusion – Response accepted

II-L-04 Excess Tax Increment Financing Collections

Comment – As noted in our audit, the City may have received excess tax increment financing collections.

Recommendation – The City should consult legal counsel regarding the disposition of the excess balance.

Response – We will do this.

Conclusion – Response accepted

NEWS RELEASE

Schroer & Associates, P.C. today released an audit report on the City of Malvern, Iowa.

The City has implemented new reporting standards for the year ended June 30, 2004, with significant changes in content and structure of the financial statements. The new financial statements now include a Statement of Activities and Net Assets which provides information about the activities of the City as a whole. Also included is Management's Discussion and Analysis of the City's financial statements.

The City's receipts totaled \$1,055,597 for the year ended June 30, 2004, a 19 percent increase from 2003. The receipts included \$315,882 in property tax, \$266,658 from charges for service, \$236,108 from operating grants, contributions and restricted interest, \$68,890 from local option sales tax, \$3,332 from unrestricted investment earnings, \$135,146 for anticipatory warrants and \$29,581 from other general receipts.

Disbursements for the year totaled \$1,002,179, a 19 percent increase from the prior year, and included \$238,082 for public works, \$173,022 for general government, and \$151,843 for culture and recreation. Also, disbursements for business type activities totaled \$184,132.

A copy of the audit report is available for review in the Office of Auditor of State and the City Clerk's office.

December 8, 2004

To the Honorable Mayor and
Members of the City Council
City of Malvern
PO Box 501
Malvern, IA 51551

We have compiled the annual financial report of the City of Malvern for the year ended June 30, 2004, included in the accompanying prescribed form in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants.

Our compilation was limited to presenting in the form prescribed by the State of Iowa information that is the representation of management. We have not audited or reviewed the financial statements referred to above, and accordingly, do not express an opinion or any other form of assurance on them.

These financial statements are presented in accordance with the requirements of the State of Iowa, which differ from generally accepted accounting principles. Accordingly, these financial statements are not designed for those who are not informed about such differences.