

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

**JUNE 30, 2004**

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**City of Neola**

**Officials**

<u>Name</u>	<u>Title</u> <b>(Before January 2004)</b>	<u>Term Expires</u>
Charles Vogt	Mayor	January 2004
Herb Brich	Council Member	January 2004
Ray Wellman	Council Member	January 2004
Mary Kiernan	Council Member	January 2004
Bill Schierbrock	Council Member	January 2006
Mark Pogge	Council Member	January 2006

<u>Name</u>	<u>Title</u> <b>(After January 2004)</b>	<u>Term Expires</u>
Don Fischer	Mayor	January 2006
Bill Schierbrock	Council Member	January 2006
Mark Pogge	Council Member	January 2006
Herb Brich	Council Member	January 2008
Pete Sorenson	Council Member	January 2008
Aaron Wellman	Council Member	January 2008

Mary Meyering	City Clerk	Indefinite
Deb Schierbrock	Deputy Clerk	Indefinite
Ruth Brich	Treasurer	Indefinite
Scott Rogers	Attorney	Indefinite

**City of Neola**

August 25, 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 Neola, 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 Neola'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. Also, as permitted by the Code of Iowa, the accounting records of the City have not been audited for all prior years. Accordingly, we were 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, 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 Neola 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.

Continued...

August 25, 2004  
City of Neola  
Independent Auditors' Report

As described 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*; 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 August 24, 2004 on our consideration of the City of Neola's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. 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 29 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. 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 Neola's basic financial statements. The supplementary information included in Schedules 1 through 3, 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 aforementioned 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, as discussed in the fourth preceding paragraph, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

**City of Neola**

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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The City of Neola 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, comparison 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 14%, or approximately \$64,491, from fiscal 2003 to fiscal 2004. Property tax decreased approximately \$7,062 but tax increment financing increased \$31,652.

Disbursements decreased by 24%, or approximately \$84,919, in fiscal year 2004 from fiscal year 2003.

The City's total cash basis net assets increased 30%, or approximately \$262,968 from June 30, 2003 to June 30, 2004. Of this amount, the assets of the governmental activities increased approximately \$108,213 and the assets of the business type activities increased by approximately \$154,755.

### **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.

Requires 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.

### **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 fund 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 waterworks, the sanitary sewer system and the electrical system. These activities are financed primarily by user charges.

### Fund Financial Statements

The City has two kinds of funds:

- 1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax, Urban Renewal Tax Increment and Local Option Sales Tax. 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 three Enterprise Funds to provide separate information for the water, sewer and electrical 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 \$341,988 to \$450,201. The analysis that follows focuses on the changes in cash balances for governmental activities.

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**Changes in Cash Basis Net Assets of Governmental Activities**

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	<u>Year Ended June 30,</u>	
	2004	2003
Receipts and Transfers:		
Program Receipts:		
Charges for service	\$ 37,042	\$ 39,818
Operating grants, contributions & restricted interest	150,949	105,806
General Receipts:		
Property taxes	135,245	142,307
Tax Increment Financing	44,362	12,710
Local option sales tax	84,032	73,622
Unrestricted investment earnings	6,416	7,778
Other general receipts	16,333	54,629
Transfers, net	<u>(17,391)</u>	<u>(44,173)</u>
 Total Receipts and Transfers	 456,988	 392,497
 Disbursements:		
Public safety	71,652	61,006
Public works	92,590	169,074
Health and social services	3,768	10,337
Culture and recreation	38,072	33,821
General government	92,339	142,129
Debt service	<u>50,354</u>	<u>17,327</u>
Total disbursements	<u>348,775</u>	<u>433,694</u>
 Increase in cash basis net assets	 108,213	 (41,197)
 Cash basis net assets beginning of year	 <u>341,988</u>	 <u>383,185</u>
 Cash basis net assets end of year	 <u>\$ 450,201</u>	 <u>\$ 341,988</u>

The increase in the City's total receipts for governmental activities this fiscal year 2004 was primarily the result of proceeds received from the local option sales tax and urban renewal tax increment financing.

The cost of all governmental activities this year was down by \$84,919 compared to last year. Public works was down because there was no major street work done.

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**Changes in Cash Basis Net Assets of Business Type Activities**

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	<u>Year ended June 30,</u>	
	2004	2003
Receipts:		
Program receipts:		
Charges for service		
Water	\$ 124,536	\$ 122,209
Sewer	43,007	42,720
Electric	273,148	257,215
Capital grants, contributions and restricted interest	72,361	0
General receipts:		
Unrestricted interest on investments	4,644	7,172
Bond proceeds	66,443	0
Other general receipts	2,755	28,278

Transfers	<u>17,391</u>	<u>44,173</u>
Total receipts and transfers	604,285	501,767
Disbursements and transfers:		
Water	62,715	149,307
Sewer	33,461	38,198
Electric	233,278	349,136
Capital projects	119,834	0
Debt service	<u>240</u>	<u>33,618</u>
Total disbursements	<u>449,528</u>	<u>570,259</u>
Increase (decrease) in cash balance	154,757	(68,492)
Cash basis net assets beginning of year	<u>258,085</u>	<u>326,577</u>
Cash basis net assets end of year	<u>\$ 412,842</u>	<u>\$ 258,085</u>

Total business type activities receipts for the fiscal year were \$604,285 compared to \$501,767 last year. The increase was due to a grant and loan the City received to construct a new water tower which will be dispersed in the next fiscal year.

#### **Use of Funds in Governmental Activities**

With a few exceptions, governmental program revenues remain similar to the prior year. The exceptions were the TIF and the Local Option Sales Tax increases. We had done some street work in the new urban renewal tax district which was reflected there. Total governmental revenues compared to the previous year are shown on page 3 and Page 4. The City also received a grant for emergency sirens and a generator to continue service for our citizens.

Governmental expenses were down because projects for public safety and public works had been completed. Total governmental expenses are shown on page 4.

#### **Use of Funds in Business Type Activities**

The increases to these business type activities were due to the state revolving loan and CDBG grant the City received for the new water tower project. This will be completed this year and will be reflected in the next budget.

Business type expenses decreased because of the new building to house electrical items was completed prior to the start of the fiscal year. There will be an increase in the next fiscal year due to the water tower project.

#### **Budgetary Highlights**

The budget was amended once due to increased costs associated with public safety, repairs at the fire hall and taxes on the medical clinic. This was done on May 24, 2004. The City had sufficient cash balances to do this.

## Debt Administration

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### Outstanding Debt at Year- End

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	June 30	
	2004	2003
General Obligation Bonds	\$ 315,697	\$ 348,805
Revenue notes	<u>350,000</u>	<u>0</u>
Total	<u>\$ 665,697</u>	<u>\$ 348,805</u>

Debt increased as a result of issuing \$350,000 in revenue bonds for the construction of a new water tower and main work. The water rates were raised in 1997 in anticipation of building a new water plant and also a new water tower.

The City continues to carry a general obligation bond rating of A3 assigned by national rating agencies to the City's debt since 1995. The City's outstanding general obligation debt of \$665,697 is below its constitutional debt limit of approximately \$828,203.

### Next Year's Budget and Rates

For the year ending June 30, 2005 the general fund has been budgeted fairly consistently with this year. The City has to replace a bridge and that project may be started before the end of the fiscal year. If this is done then an amendment will be done to reflect this. The water tower project should be completed by the end of this year.

The City tries to budget for projects that will need to be done but because of property tax credit reimbursements being funded at less than 100% it is hard to pick and chose projects that should be done but can be held for another year if not funded.

### Financial Contact

The City's financial statements are designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional financial information, please contact the City Clerk at 105 Pearl Street, P.O. Box 67, Neola,, IA 51559 or telephone 712-485-2307.

Mary Meyerring

Neola City Clerk

## **Basic Financial Statements**

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

	Disbursements	Charges for Service	Program Receipts Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
<b>Functions/Programs:</b>				
Governmental activities:				
Public safety	\$ 71,652	0	64,906	0
Public works	92,590	36,339	78,043	0
Health and social services	3,768	0	0	0
Culture and recreation	38,072	0	8,000	0
General government	92,339	703	0	0
Debt service	50,354	0	0	0
Total governmental activities	348,775	37,042	150,949	0
Business type activities:				
Water	182,789	124,536	0	72,361
Sewer	33,461	43,007	0	0
Electrical	233,278	273,148	0	0
Total business type activities	449,528	440,691	0	72,361
Total	\$ 798,303	477,733	150,949	72,361
<b>General Receipts:</b>				
Property tax levied for:				
General purposes				
Employee benefits				
Tax increment financing				
Local option sales tax				
Unrestricted interest on investments				
Loan proceeds				
Miscellaneous				
Transfers				
Total general receipts and transfers				
Change in cash basis net assets				
Cash basis net assets beginning of year				
Cash basis net assets end of year				
<b>Cash Basis Net Assets</b>				
Restricted:				
Streets				
Capital projects				
Employee benefits				
Meter deposits				
Unrestricted				
<b>Total cash basis net assets</b>				

See notes to financial statements

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

Governmental Activities	Business Type Activities	Total
(6,746)	0	(6,746)
21,792	0	21,792
(3,768)	0	(3,768)
(30,072)	0	(30,072)
(91,636)	0	(91,636)
(50,354)	0	(50,354)
<u>(160,784)</u>	<u>0</u>	<u>(160,784)</u>
0	14,108	14,108
0	9,546	9,546
0	<u>39,870</u>	<u>39,870</u>
<u>0</u>	<u>63,524</u>	<u>63,524</u>
(160,784)	63,524	(97,260)
\$ 126,411	0	126,411
8,834	0	8,834
44,362	0	44,362
84,032	0	84,032
6,416	4,644	11,060
0	66,443	66,443
16,333	2,755	19,088
(17,391)	<u>17,391</u>	<u>0</u>
<u>268,997</u>	<u>91,233</u>	<u>360,230</u>
108,213	154,757	262,970
<u>341,988</u>	<u>258,085</u>	<u>600,073</u>
\$ <u>450,201</u>	<u>412,842</u>	<u>863,043</u>
\$ 120,439	0	120,439
0	18,970	18,970
1,729	0	1,729
0	4,216	4,216
<u>328,033</u>	<u>389,656</u>	<u>717,689</u>
\$ <u>450,201</u>	<u>412,842</u>	<u>863,043</u>

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

	Special Revenue				Total
	General	Road Use Tax	Local Option Sales Tax	Other Nonmajor Governmental Funds	
<b>Receipts</b>					
Property tax	\$ 125,360	0	0	8,760	134,120
Tax increment financing collections	0	0	0	44,362	44,362
Other city tax	1,051	0	84,032	74	85,157
Licenses and permits	703	0	0	0	703
Use of money and property	12,716	0	0	0	12,716
Intergovernmental	67,234	78,043	0	0	145,277
Charges for service	36,339	0	0	0	36,339
Special assessments	1,111	0	0	0	1,111
Miscellaneous	14,594	0	0	0	14,594
Total receipts	<u>259,108</u>	<u>78,043</u>	<u>84,032</u>	<u>53,196</u>	<u>474,379</u>
<b>Disbursements</b>					
Operating:					
Public safety	71,652	0	0	0	71,652
Public works	68,516	22,751	0	1,323	92,590
Health and social services	3,768	0	0	0	3,768
Culture and recreation	38,072	0	0	0	38,072
General government	82,805	0	0	9,534	92,339
Debt service	17,326	0	0	33,028	50,354
Total disbursements	<u>282,139</u>	<u>22,751</u>	<u>0</u>	<u>43,885</u>	<u>348,775</u>
Excess (deficiency) of receipts over (under) disbursements	(23,031)	55,292	84,032	9,311	125,604
<b>Other financing sources (uses):</b>					
Operating transfers in	77,975	0	0	33,028	111,003
Operating transfers out	0	0	(84,032)	(44,362)	(128,394)
Total other financing sources (uses)	<u>77,975</u>	<u>0</u>	<u>(84,032)</u>	<u>(11,334)</u>	<u>(17,391)</u>
Net change in cash balances	54,944	55,292	0	(2,023)	108,213
Cash balances beginning of year	<u>273,089</u>	<u>65,147</u>	<u>0</u>	<u>3,752</u>	<u>341,988</u>
Cash balances end of year	<u>\$ 328,033</u>	<u>120,439</u>	<u>0</u>	<u>1,729</u>	<u>450,201</u>
<b>Cash Basis Fund Balances</b>					
Unreserved:					
General fund	\$ 328,033	0	0	0	328,033
Special revenue funds	0	120,439	0	1,729	122,168
Total cash basis fund balances	<u>\$ 328,033</u>	<u>120,439</u>	<u>0</u>	<u>1,729</u>	<u>450,201</u>

See notes to financial statements

City of Neola  
 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

<b>Total governmental funds cash balances (page 16)</b>	\$	<u>450,201</u>
<b>Cash basis net assets of governmental activities (page 15)</b>	\$	<u>450,201</u>
<b>Net change in cash balances (page 16)</b>	\$	<u>108,213</u>
<b>Change in cash balance of governmental activities (page 15)</b>	\$	<u>108,213</u>

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

	Water	Water Capital Project	Sewer	Electric	Total
Operating receipts:					
Charges for service	\$ 124,536	0	43,007	273,148	440,691
Total operating receipts	<u>124,536</u>	<u>0</u>	<u>43,007</u>	<u>273,148</u>	<u>440,691</u>
Operating disbursements:					
Business type activities	62,715	0	33,461	233,278	329,454
Total operating disbursements	<u>62,715</u>	<u>0</u>	<u>33,461</u>	<u>233,278</u>	<u>329,454</u>
Excess of operating receipts over operating disbursements	61,821	0	9,546	39,870	111,237
Non-operating receipts (disbursements):					
Intergovernmental	0	72,361	0	0	72,361
Interest on investments	2,024	0	844	1,776	4,644
Miscellaneous	2,755	0	0	0	2,755
Loan proceeds	0	66,443	0	0	66,443
Capital projects	0	(119,834)	0	0	(119,834)
Debt service	(240)	0	0	0	(240)
Total non operating receipts (disbursements)	<u>4,539</u>	<u>18,970</u>	<u>844</u>	<u>1,776</u>	<u>26,129</u>
Excess of receipts over disbursements	66,360	18,970	10,390	41,646	137,366
Other financing sources (uses)					
Operating transfers in	25,210	0	16,806	8,403	50,419
Operating transfers out	(33,028)	0	0	0	(33,028)
Total other financing sources (uses)	<u>(7,818)</u>	<u>0</u>	<u>16,806</u>	<u>8,403</u>	<u>17,391</u>
Net change in cash balances	58,542	18,970	27,196	50,049	154,757
Cash balances beginning of year	<u>161,838</u>	<u>0</u>	<u>55,143</u>	<u>41,104</u>	<u>258,085</u>
Cash balances end of year	<u>\$ 220,380</u>	<u>18,970</u>	<u>82,339</u>	<u>91,153</u>	<u>412,842</u>

**Cash Basis Fund Balances**

Reserved:					
Meter deposits	\$ 4,216	0	0	0	4,216
Capital projects	0	18,970	0	0	18,970
Unreserved	<u>216,164</u>	<u>0</u>	<u>82,339</u>	<u>91,153</u>	<u>389,656</u>
Total cash basis fund balances	<u>\$ 220,380</u>	<u>18,970</u>	<u>82,339</u>	<u>91,153</u>	<u>412,842</u>

See notes to financial statements

City of Neola  
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

<b>Total enterprise funds cash balances (page 18)</b>	\$ <u>412,842</u>
<b>Cash basis net assets of business type activities (page 15)</b>	\$ <u>412,842</u>
<b>Net change in cash balances (page 18)</b>	\$ <u>154,757</u>
<b>Change in cash balance of business type activities (page 15)</b>	\$ <u>154,757</u>

See notes to financial statements

City of Neola  
Notes to Financial Statements  
June 30, 2004

**NOTE (1) Summary of Significant Accounting Policies**

The City of Neola is a political subdivision of the State of Iowa located in Pottawattamie County, 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, and general government services. The City also provides water, sewer and electric utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Neola 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: Pottawattamie County Landfill Association, Pottawattamie County Assessor's Conference Board, Pottawattamie County Emergency Management Commission, and Pottawattamie County E911 Service 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 Neola  
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 Road Use Tax Fund is used to account for road construction and maintenance.

The Local Option Sales Tax Fund is used to account for local option sales tax received by the City.

City of Neola  
Notes to Financial Statements  
June 30, 2004

**NOTE (1) Summary of Significant Accounting Policies – Continued**

B. Basis of Presentation - Continued

The City reports the following major proprietary funds:

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

The Water Fund – Capital Projects Account accounts for all resources used in the construction of capital facilities for the enterprise fund.

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

The Electric Fund accounts for the operation and maintenance of the City's electrical system.

C. Measurement Focus and Basis of Accounting

The City of Neola 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 health and social services, general government and debt service functions.

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 Pottawattamie County Treasurer's Office. These taxes are recognized as income to the City when they are received from the county.

City of Neola  
Notes to Financial Statements  
June 30, 2004

**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.

Cash, which consists of cash on hand, cash in bank and certificates of deposit, totaled \$863,043 at June 30, 2004.

**NOTE (3) Bonds and Notes Payable**

Annual debt service requirements to maturity for general obligation bonds, urban renewal tax increment financing revenue bonds and revenue notes are as follows:

Year Ending June 30,	General Obligation Bonds		Revenue Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2005	\$ 33,731	\$ 15,413	\$ 13,000	\$ 10,500	\$ 46,731	\$ 25,913
2006	39,384	13,841	13,000	10,110	52,384	23,951
2007	40,067	11,995	14,000	9,720	54,067	21,715
2008	40,783	10,104	14,000	9,300	54,783	19,404
2009	41,732	8,155	15,000	8,880	56,732	17,035
2010-2014	120,000	15,435	80,000	37,470	200,000	52,905
2015-2019	0	0	93,000	24,780	93,000	24,780
2019-2024	0	0	108,000	9,930	108,000	9,930
	<u>\$ 315,697</u>	<u>\$ 74,943</u>	<u>\$ 350,000</u>	<u>\$ 120,690</u>	<u>\$ 665,697</u>	<u>\$ 195,633</u>

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

The City has a general obligation debt limit of approximately \$813,203, which was not exceeded during the year ended June 30, 2004.

City of Neola  
Notes to Financial Statements  
June 30, 2004

**NOTE (3) Bonds and Notes Payable – Continued**

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

- (a) The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the funds.
- (b) Sufficient monthly transfers shall be made to a water revenue note sinking account within the Enterprise Funds for the purpose of making the note principal and interest payments when due.

The City is in compliance with the above provisions.

**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. Contribution requirements are established by state statute. The City's contribution to IPERS for the year ended June 30, 2004 was \$6,042, equal to the required contribution for the year.

**NOTE (5) Compensated Absences**

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

Type of Benefit	Amount
Vacation	<u>\$ 6,085</u>

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

City of Neola  
Notes to Financial Statements  
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	Amount
General	Special Revenue:	
	Local Option Sales Tax	\$ 33,613
	Urban Renewal Tax Increment	44,362
		<u>77,975</u>
Debt Service	Enterprise:	
	Water	33,028
Enterprise:	Special Revenue:	
Water	Local Option Sales Tax	25,210
Sewer		16,806
Electric		8,403
		<u>50,419</u>
		<u>\$ 161,422</u>

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

**NOTE (7) Related Party Transactions**

The City had business transactions between the City and City officials totaling \$4,114 during the year ended June 30, 2004.

**NOTE (8) Risk Management**

The City is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 490 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automotive liability, automobile physical damage, public officials' liability, police professional liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 300 percent of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

City of Neola  
Notes to Financial Statements  
June 30, 2004

**NOTE (8) Risk Management – Continued**

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The City's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The City's annual contributions to the Pool for the year ended June 30, 2004 were \$21,751.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$250,000 per claim. Claims exceeding \$250,000 are reinsured in an amount not to exceed \$1,750,000 per claim and \$5,000,000 in aggregate per year. For members requiring specific coverage from \$2,000,000 to \$10,000,000, such excess coverage is also reinsured. Automobile physical damage risks are retained by the Pool up to \$50,000 each accident, each location, with excess coverage reinsured on an individual-member basis. All property risks are also reinsured on an individual-member basis.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event that a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. As of June 30, 2004, settled claims have not exceeded the risk pool or reinsurance coverage since the pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their capital contributions. If a member withdraws after the sixth year, the member is refunded 100 percent of its capital contributions. However, the refund is reduced by an amount equal to the annual operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

City of Neola  
Notes to Financial Statements  
June 30, 2004

**NOTE (9) Subsequent Events**

In March 2004, the City signed an agreement with the Iowa Department of Transportation for funding for a bridge construction project with an estimated cost of \$153,340. In July 2004, in connection with this project, the City signed an engineering contract and a construction contract. No expenses for this project have been incurred as of June 30, 2004.

The City was awarded a Fall 2003 Iowa West Matching Grant in the amount of \$20,265 to construct a walking trail and welcome sign with landscaping. As of June 30, 2004, no expenses have been incurred on this project.

In July 2004, the City signed a contract with a company for seal coating on City streets in the amount of \$38,525.

**NOTE (10) Construction Project Commitments**

The City has entered into two construction contracts for the construction of a water tower. As of June 30, 2004, the following amounts have been paid in connection with this project:

	<u>Contract Amount</u>	<u>Amount Paid in Prior year</u>	<u>Amount Paid in Current year</u>	<u>Balance to be Paid</u>
Construction				
Contract #1	\$ 77,467	\$ 0	\$ 63,211	\$ 14,256
Contract #2	448,000	0	23,750	424,250
Engineering		47,292	20,028	0
Legal		0	4,063	0
Consulting		0	5,282	0
Loan fees		0	3,500	0
		<u>\$ 47,292</u>	<u>\$ 119,834</u>	<u>\$ 438,506</u>

The retainage amounts included in the balance to be paid are as follows:

Contract #1	\$ 3,327
Contract #2	<u>1,250</u>
	<u>\$ 4,577</u>

This project is being financed through a revenue note and a community development block grant.

City of Neola  
Notes to Financial Statements  
June 30, 2004

**NOTE (11) Commitments**

The City entered into an agreement with the Pottawattamie County Sheriff's Office for law enforcement services from July 1, 2003 through June 30, 2004, and renewable annually. During the year ended June 30, 2004, the City paid \$32,308 for these services.

In February 2004, the City entered into an agreement with Harrison County Rural Cooperative to restore electric service outages that may occur from time to time due to problems within the City's electrical system. Fees for these services are based on an hourly rate for labor and equipment use charges, plus a monthly retainer. During the year ended June 30, 2004, the City paid the Cooperative \$6,000 for services. The contract is effective through January 31, 2005, and is renewable in one year terms.

**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. The City does not have an Internal Service Fund, therefore, the restatement of beginning net assets is not required.

**Required Supplementary Information**

City of Neola  
 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

	Government Funds Actual	Proprietary Funds Actual	Total
<b>Receipts</b>			
Property tax	\$ 134,120	0	134,120
Tax increment financing collections	44,362	0	44,362
Other city tax	85,157	0	85,157
Licenses and permits	703	0	703
Use of money and property	12,716	4,644	17,360
Intergovernmental	145,277	72,361	217,638
Charges for services	36,339	440,691	477,030
Special assessments	1,111	0	1,111
Miscellaneous	14,594	2,755	17,349
Total receipts	<u>474,379</u>	<u>520,451</u>	<u>994,830</u>
<b>Disbursements</b>			
Public safety	71,652	0	71,652
Public works	92,590	0	92,590
Health and social services	3,768	0	3,768
Culture and recreation	38,072	0	38,072
Community and economic development	0	0	0
General government	92,339	0	92,339
Debt service	50,354	0	50,354
Business type activities	0	449,528	449,528
Total disbursements	<u>348,775</u>	<u>449,528</u>	<u>798,303</u>
Excess (deficiency) of receipts over (under) disbursements	125,604	70,923	196,527
Other financing sources (uses), net	<u>(17,391)</u>	<u>83,834</u>	<u>66,443</u>
Excess of receipts and other financing sources over disbursements and other financing uses	108,213	154,757	262,970
Balances beginning of year	<u>341,988</u>	<u>258,085</u>	<u>600,073</u>
Balances end of year	<u>\$ 450,201</u>	<u>412,842</u>	<u>863,043</u>

See accompanying independent auditor's report

	Budgeted Amounts		Final to Total Variance
	Original	Final	
\$	133,611	133,611	509
	32,613	32,613	11,749
	71,205	71,205	13,952
	425	425	278
	27,200	27,200	(9,840)
	100,280	100,280	117,358
	459,400	459,400	17,630
	0	0	1,111
	10,000	10,000	7,349
	<u>834,734</u>	<u>834,734</u>	<u>160,096</u>
	73,235	83,235	11,583
	156,200	156,200	63,610
	2,400	3,600	(168)
	41,272	41,272	3,200
	9,000	9,000	9,000
	70,100	85,100	(7,239)
	0	0	(50,354)
	462,000	500,800	51,272
	<u>814,207</u>	<u>879,207</u>	<u>80,904</u>
	20,527	(44,473)	241,000
	<u>0</u>	<u>65,000</u>	<u>(1,443)</u>
	20,527	20,527	242,443
	<u>688,843</u>	<u>688,843</u>	<u>(88,770)</u>
\$	<u><u>709,370</u></u>	<u><u>709,370</u></u>	<u><u>153,673</u></u>

City of Neola  
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 major classes of disbursements known as functions, not by fund or fund type. The City of Neola's functions are: public safety, public works, health and social services, culture and recreation, 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, 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 \$65,000, and other financing sources by \$65,000. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2004, disbursements exceeded the amounts budgeted in the health and social services, general government, and debt service functions.

**Other Supplementary Information**

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

	Special Revenue				
	Employee Benefits	Urban Renewal Tax Increment	Debt Service Fund	Total	
Receipts:					
Property tax	\$ 8,760	0	0	8,760	
Other city tax	74	44,362	0	44,436	
Total receipts	8,834	44,362	0	53,196	
Disbursements:					
Operating:					
Public works	1,323	0	0	1,323	
General government	9,534	0	0	9,534	
Debt service	0	0	33,028	33,028	
Total disbursements	10,857	0	33,028	43,885	
Excess (deficiency) of receipts over (under) disbursements	(2,023)	44,362	(33,028)	9,311	
Other financing sources (uses):					
Operating transfers in	0	0	33,028	33,028	
Operating transfers out	0	(44,362)	0	(44,362)	
Total other financing sources (uses)	0	(44,362)	33,028	(11,334)	
Net change in cash balances	(2,023)	0	0	(2,023)	
Cash balances beginning of year	3,752	0	0	3,752	
Cash balances end of year	\$ 1,729	0	0	1,729	
 <b>Cash Basis Fund Balances</b>					
Unreserved:					
Special revenue funds	\$ 1,729	0	0	1,729	
Debt service fund	0	0	0	0	
Total cash basis fund balances	\$ 1,729	0	0	1,729	

See accompanying independent auditor's report

City of Neola  
 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 bonds:			
Water treatment plan	Feb 1998	4.55% - 5.20%	\$ 350,000
Fire pumper	July 2000	4.75%	140,000
Total			
Revenue notes:			
Water	March 2004	3.00%	\$ 350,000

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>
\$ 260,000	0	20,000	240,000	12,728
<u>88,805</u>	<u>0</u>	<u>13,108</u>	<u>75,697</u>	<u>4,218</u>
\$ <u>348,805</u>	<u>0</u>	<u>33,108</u>	<u>315,697</u>	<u>16,946</u>
\$ <u>0</u>	<u>350,000</u>	<u>0</u>	<u>350,000</u>	<u>26</u>

City of Neola  
 Bond and Note Maturities  
 June 30, 2004

Year Ending June 30,	<b>General Obligation Bonds</b>				
	Water Treatment Plant Improvements		Fire Department Equipment		
	Issued February 1998		Issued July 2000		
	Interest Rate	Amount	Interest Rate	Amount	Total
2005	4.60 %	\$ 20,000	4.75 %	\$ 13,731	\$ 33,731
2006	4.65 %	25,000	4.75 %	14,384	39,384
2007	4.70 %	25,000	4.75 %	15,067	40,067
2008	4.80 %	25,000	4.75 %	15,783	40,783
2009	4.90 %	25,000	4.75 %	16,732	41,732
2010	5.00 %	30,000		0	30,000
2011	5.10 %	30,000		0	30,000
2012	5.15 %	30,000		0	30,000
2013	5.20 %	30,000		0	30,000
		\$ <u>240,000</u>		\$ <u>75,697</u>	\$ <u>315,697</u>

Year Ending June 30,	<b>Revenue Note</b>	
	Water	
	Issued March 2004	
Interest Rate	Amount	
2005	3.00 %	\$ 13,000
2006	3.00 %	13,000
2007	3.00 %	14,000
2008	3.00 %	14,000
2009	3.00 %	15,000
2010	3.00 %	15,000
2011	3.00 %	16,000
2012	3.00 %	16,000
2013	3.00 %	16,000
2014	3.00 %	17,000
2015	3.00 %	17,000
2016	3.00 %	18,000
2017	3.00 %	19,000
2018	3.00 %	19,000
2019	3.00 %	20,000
2020	3.00 %	20,000
2021	3.00 %	21,000
2022	3.00 %	22,000
2023	3.00 %	22,000
2024	3.00 %	23,000
		\$ <u>350,000</u>

See accompanying independent auditor's report

August 24, 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 Neola, Iowa, as of and for the year ended June 30, 2004, and have issued our report thereon dated August 24, 2004. Our report expressed a qualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Neola'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 an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part 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 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 I-A-04 is a material weakness. Prior audit reportable conditions have been resolved except for item I-A-04.

Continued...

City of Neola  
Report on Compliance and Internal Control

Compliance

As part of obtaining reasonable assurance about whether the City of Neola's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations and contracts, 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 and Questioned Costs.

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 audit statutory comments have been resolved except for items II-B-04, II-E-04, II-L-04 and II-M-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 Neola and other parties to whom the City of Neola 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 Neola 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 Neola  
Schedule of Findings  
Year ended June 30, 2004

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

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

**REPORTABLE CONDITIONS:**

I-A-04 Segregation of Duties – 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 and the posting of the cash receipts to the cash receipts journal are all done by the same person.

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

Response – We will consider this.

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

City of Neola  
 Schedule of Findings  
 Year ended June 30, 2004

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

II-A-04 Official Depositories – A resolution naming official depositories has been approved by the City. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2004.

II-B-04 Certified Budget – Disbursements during the year ended June 30, 2004 exceeded the amounts budgeted in the health and social services, general government and debt service functions. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

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

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

Conclusion – Response accepted.

II-C-04 Questionable Disbursements – Certain disbursements were noted that may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 since the public benefits to be derived have not been clearly documented. These disbursements are detailed as follows:

Paid to	Purpose	Amount
Gurney’s Restaurant and Lounge	Appreciation parties for employees	\$ 473

According to the opinion, it is possible for such disbursements to meet the test of serving a public purpose under certain circumstances, although such items will certainly be subject to a deserved close scrutiny. The line to be drawn between a proper and an improper purpose is very thin.

Recommendation – The Council should determine and document the public purpose served by these disbursements before authorizing any further payments. If this practice is continued, the City should establish written policies and procedures, including the requirements for proper documentation.

Response – We will comply with this recommendation.

Conclusion – Response accepted.

II-D-04 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

City of Neola  
 Schedule of Findings  
 Year ended June 30, 2004

**Part II: Findings Related to the Financial Statements - Continued:**

II-E-04 Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

Name, Title, and Business Connection	Transaction Description	Amount
Herb Brich, Council Member, Owner of Brich Plumbing	Plumbing supplies and Trencher work	\$ 4,114

The transaction with the Council Member appears to represent a conflict of interest since it exceeded \$1,500 during the year and was not entered into through competitive bidding.

Recommendation – The City should contact legal counsel to determine the disposition of this matter.

Response – We will consult our attorney.

Conclusion – Response accepted.

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

II-H-04 Deposits and Investments – We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the City’s investment policy.

II-I-04 Revenue Bonds and Notes – The City has complied with the revenue bond and note resolutions.

City of Neola  
Schedule of Findings  
Year ended June 30, 2004

**Part II: Findings Related to the Financial Statements - Continued:**

II-J-04 Payment of General Obligation Bonds – Certain general obligation bonds were paid from the Enterprise Fund, Water Account. Chapter 384.4 of the Code of Iowa states in part “Moneys pledged or available to service general obligation bonds, and received from sources other than property tax, must be deposited in the Debt Service Fund.”

Recommendation – The City should transfer from the Enterprise Fund, Water Account to the Debt Service Fund, General Obligation Bonds Account for future funding contributions. Payments of the bonds should then be disbursed from the Debt Service Fund.

Response – We will transfer in the future as recommended.

Conclusion – Response accepted.

II-K-04 Additional Compensation – We noted one City employee was paid as a sub-contractor, which does not allow for the withholding of any taxes, for work done on City property.

Recommendation – All wages and/or payments to City employees should be made through the City’s payroll process. The City should ensure that payments to employees for services performed be treated as additional compensation and, accordingly, withhold the appropriate taxes as required by the Internal Revenue Service and the Iowa Department of Revenue and Finance.

Response – The City will pay all employees through the payroll process and will take the necessary steps to correct this situation.

Conclusion – Response accepted.

II-L-04 Excess Balances – The balances in the General Fund, Special Revenue Fund-Road Use Account, and Enterprise Fund – Water and Sewer accounts were in excess of the fund disbursements during the year.

Recommendation – The City should consider the necessity of maintaining this substantial balance and, where financially feasible, consider reducing the balance in an orderly manner through revenue reductions.

Response – We plan on using the excess balances on improvement projects.

Conclusion – Response accepted.

City of Neola  
Schedule of Findings  
Year ended June 30, 2004

**Part II: Findings Related to the Financial Statements - Continued:**

II-M-04 Compensated Time Policy – The City Council has established a policy for the use of compensated time; however, the policy does not state whether the time is paid upon retirement, death or termination.

Recommendation – The City should address this issue in their Compensated Time Policy.

Response – We will do this.

Conclusion – Response accepted.

# News Release

Schroer & Associates, P.C. today released an audit report on the City of Neola, 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 \$1,061,273 for the year ended June 30, 2004, a 16.7 percent increase from 2003. The receipts included \$135,245 in property tax, \$44,362 from tax increment financing collections, \$477,733 from charges for service, \$150,949 from operating grants, contributions and restricted interest, \$72,361 from capital grants, contributions and restricted interest, \$84,032 from local option sales tax, \$11,060 from unrestricted investment earnings, \$66,443 from loan proceeds and \$19,080 from other general receipts.

Disbursements for the year totaled \$798,303, an 8 percent decrease from the prior year, and included \$92,590 for public works, \$92,339 for general government, and \$71,652 for public safety. Also, disbursements for business type activities totaled \$449,528.

The significant increase in receipts is due primarily to grant and loan proceeds for a construction project.

The significant decrease in disbursements is due primarily to a reduction in spending for public works and general government.

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