

CITY OF BROOKLYN

INDEPENDENT AUDITOR'S REPORT
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTAL INFORMATION
SCHEDULE OF FINDINGS
June 30, 2004

Juli Ochs, CPA

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City Of Brooklyn

Officials

(before July 1, 2004)

Loren Rickard	Mayor	Jan. 2006
Ronald Stonebraker	Mayor Pro tem	Jan. 2008
Denise Ford	Council Member	Jan. 2006
John McNaul	Council Member	Jan. 2008
Darrel Heetland	Council Member	Jan. 2008
Dean Huls	Council Member	Jan. 2006
Karen Willett	Clerk	Indefinite
Louise Van Ersvelde	Treasurer	Indefinite
Fred Stiefel	Attorney	Indefinite

(after July 1, 2004)

Loren Rickard	Mayor	Jan. 2006
Ronald Stonebraker	Mayor Pro tem	Jan. 2008
Denise Ford	Council Member	Jan. 2006
John McNaul	Council Member	Jan. 2008
Darrel Heetland	Council Member	Jan. 2008
Dean Huls	Council Member	Jan. 2006
Lorraine Willett	Clerk	Indefinite
Louise Van Ersvelde	Treasurer	Indefinite
Fred Stiefel	Attorney	Indefinite

CITY OF BROOKLYN

Juli Ochs, CPA
1344 240th St.
Victor, Iowa 52347
319-647-2295 (Home)

Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

I 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 Brooklyn, Iowa, as of and for the year ended June 30, 2004. These financial statements are the responsibility of city officials. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards of the United States of America, 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 I 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 officials, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

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

In my 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 Brooklyn as of June 30, 2004, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

As discussed in Note 12, during the year ended June 30, 2004 the City of Brooklyn 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, I have also issued my reports dated September 21, 2004 on my consideration of the City of Brooklyn's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, and contracts and grants. Those reports are an

integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of my audit.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 8 and 32 through 34 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. I applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. I did not audit the information and express no opinion on it.

My audit was performed for the purpose of forming an opinion on the aforementioned financial statements taken as a whole. Other supplementary information included in Schedules 1 through 4 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in my audit of the aforementioned financial statements and, in my opinion, is fairly stated in all material respects in relation to the aforementioned financial statements taken as a whole.

Juli Ochs, CPA

September 21, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

This discussion and analysis of the City of Brooklyn's financial performance is an overview of the City's financial activities for the fiscal year which ended on June 30, 2004. Readers should consider this information in conjunction with the City's financial statements, which follow:

Financial Highlights

- Total revenues of the City increased 2.8% or approximately \$94,613 from fiscal 2003 to fiscal 2004. The property tax increased about \$1,623 from fiscal 2003 and the business type activities all showed increased revenues.
- Disbursements increased 5.3% or approximately \$163,487 in fiscal 2004 from fiscal 2003. The business type activities which include water, sewer, gas, and electric all showed increased disbursements.
- The City's total cash balance increased 18% or approximately \$231,759 from June 30, 2003 to June 30, 2004. Assets of governmental activities increased about \$29,551 and the assets of the business type activities increased by approximately \$202,208.

USING THIS ANNUAL REPORT

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

Management's Discussion and analysis shows basic financial statement and an overview of cash receipts and disbursements. The cash basis of accounting does not take into consideration accounts receivable or accounts payable.

The Statement of Activities include public safety, public works, health and social services, culture and recreation, general government, debt service, and capital projects. These activities are financed mainly by property taxes and state/federal grants.

The Business Type Activities include the water system, sanitary sewer system, gas system and electric system. These activities are financed by fees charged to the users.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As Brooklyn, Iowa completed the year, its governmental funds reported a combined fund balance of \$308,730, which is an increase of \$29,551 over last year's total of \$279,179. Major reasons for changes in balances of major funds from 2003 year are:

- The General Fund cash balance decreased approximately \$8,000 due to major cuts in funding by the State.
- The Urban Renewal Tax Increments Fund balance in 2004 was about the same as 2003, but we received \$26,500 more than in 2003 because additional areas have been added to the TIF area. This enabled us to continue to make annual payments on projects and to reimburse some funds for projects done several years ago.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Sewer Utility Fund balance increased by \$89,307 to \$191,286 due mainly to increase in user fees.
- The Electric Fund balance increased by \$93,163 to \$629,994 due primarily to a rate increase and major construction, which was completed in 2003.

BUDGETARY HIGHLIGHTS

The City amended its Budget once during the FYE 2004. The amendment was approved on March 1, 2004 and was necessary because of the timing of expenses for the Sewer Improvement Project. The City has sufficient cash balances to absorb these additional costs.

NEXT YEARS BUDGET

City of Brooklyn's elected and appointed officials considered factors such as tax rates and fees that will be charged for various City activities when they adopted the 2005 budget. Employment and inflation seem to stay on an even keel, with little change.

Increased assessed valuations have added to the property tax asking for the general fund by about 8% over the 2004 budget. Proceeds from the urban renewal tax increment financing will increase approximately 20% over 2004. The City will use these increases in receipts to fund programs

We currently offer and to continue to reimburse funds for the TIF projects done in previous years. Budgeted expenditures in 2005 are less than in 2004 because no major construction projects are planned.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide the citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for all money received. If you have questions about this report or need additional information, please contact Lorraine Willett, City Clerk, 138 Jackson St., P.O. Box 145, Brooklyn, Iowa 52211 or call 641-522-7066.

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

Functions/Programs:	Disbursements	Program Receipts	
		Charges for Service	Operating Grants, Contributions, and Restricted Interest
Governmental activities:			
Public safety	\$ 178,061	4,100	35,729
Public works	183,002	61,807	113,854
Health and social services	400	-	-
Culture and recreation	46,610	4,466	11,070
General government	100,688	1,663	59,843
Debt service	47,131	-	409
Capital projects	346,868	-	-
Total governmental activities	902,760	72,036	220,905
Business type activities			
Water	211,468	220,032	-
Sewer	166,120	194,044	-
Gas	590,961	602,334	-
Electric	966,280	1,056,098	-
Total business type activities	1,934,829	2,072,508	-
Total	\$ 2,837,589	2,144,544	220,905

General Receipts:

Property tax levied for:

- General purposes
- Tax increment financing
- Debt service
- Grants and contributions not restricted to a specific purpose
- Unrestricted interest on investments
- Bond proceeds
- Miscellaneous
- Sale of assets

Transfers

Total general receipts and transfers

Change in cash basis net assets

Cash basis net assets beginning of year, net prior period adjustments

Cash Basis Net Assets

Restricted

- Urban renewal projects
- Debt service
- Other purpose

Unrestricted

Total cash basis net assets

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

Capital Grants, Contributions, and Restricted Interest	Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
	Governmental Activities	Business Type Activities	Total
-	(138,232)	-	(138,232)
-	(7,341)	-	(7,341)
-	(400)	-	(400)
-	(31,074)	-	(31,074)
-	(39,182)	-	(39,182)
-	(46,722)	-	(46,722)
1,641	(345,227)	-	(345,227)
<u>1,641</u>	<u>(608,178)</u>	<u>-</u>	<u>(608,178)</u>
-	-	8,564	8,564
-	-	27,924	27,924
-	-	11,373	11,373
-	-	89,818	89,818
-	-	137,679	137,679
<u>1,641</u>	<u>(608,178)</u>	<u>137,679</u>	<u>(470,499)</u>
	\$ 219,687	-	219,687
	155,409	-	155,409
	62,428	-	62,428
	8,788	-	8,788
	576	7,391	7,967
	251,858	-	251,858
	8,423	-	8,423
	25	-	25
	(58,653)	58,653	-
	<u>648,541</u>	<u>66,044</u>	<u>714,585</u>
	40,363	203,723	244,086
	268,367	959,420	1,227,787
	<u>308,730</u>	<u>1,163,143</u>	<u>1,471,873</u>
	65,127	-	65,127
	56,229	623	56,852
	20,048	10,008	30,056
	167,326	1,152,512	1,319,838
	<u>\$ 308,730</u>	<u>1,163,143</u>	<u>1,471,873</u>

See notes to financial statements.

City of Brooklyn

Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Governmental Funds

As of and for the year ended June 30, 2004

	General	Special Revenue		Debt Service
		Road Use Tax	Urban Renewal Tax Increment	
Receipts:				
Property Tax	\$ 172,631	\$ -	\$ -	\$ 62,428
Tax increment financing collections	-	-	155,409	-
Other City Tax	4,924	-	-	-
Use of money and property	463	-	-	409
Licenses and permits	533	-	-	-
Intergovernmental	47,735	113,854	-	-
Charges for services	61,659	-	-	-
Miscellaneous	73,463	-	-	-
Total Receipts	361,408	113,854	155,409	62,837
Disbursements:				
Operating:				
Public Safety	154,552	-	-	-
Public Works	68,496	102,001	-	-
Health and social services	400	-	-	-
Culture and recreation	46,365	-	-	-
Community and economic development	-	-	-	-
General government	91,424	-	-	-
Debt service	-	-	-	47,131
Capital projects	-	-	95,136	-
Total Disbursements	361,237	102,001	95,136	47,131
Excess (deficiency) of receipts over (under) disbursements	171	11,853	60,273	15,706
Other financing sources (uses):				
Bond proceeds:				
SRF Loan	-	-	-	-
Operating transfers in (out)	2,550	(5,004)	(61,677)	(20,092)
Total other financing sources (uses)	2,550	(5,004)	(61,677)	(20,092)
Excess (deficiency) of receipts and other financing sources over (under) disbursements & other financing uses	2,721	6,849	(1,404)	(4,386)
Balance beginning of year	88,671	40,112	66,531	60,615
Prior Period Adjustment	(890)	-	-	-
Adjusted Balance beginning of year	87,781	40,112	66,531	60,615
Balance end of year	<u>\$ 90,502</u>	<u>\$ 46,961</u>	<u>\$ 65,127</u>	<u>\$ 56,229</u>
Cash Basis Fund Balances				
Reserved:				
Debt Service	-	-	-	56,229
Unreserved:				
General Fund	90,502	-	-	-
Special Revenue Funds	-	46,961	65,127	-
Capital Project Fund	-	-	-	-
Total cash basis fund balances	<u>90,502</u>	<u>46,961</u>	<u>65,127</u>	<u>56,229</u>

See notes to financial statements.

City of Brooklyn

Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Governmental Funds

As of and for the year ended June 30, 2004

Other Nonmajor Governmental Funds	Total
\$ 47,056	\$ 282,115
-	155,409
-	4,924
113	985
-	533
-	161,589
-	61,659
9,241	82,704
<u>56,410</u>	<u>749,918</u>
23,509	178,061
12,505	183,002
-	400
245	46,610
-	-
9,264	100,688
-	47,131
<u>251,732</u>	<u>346,868</u>
297,255	902,760
<u>(240,845)</u>	<u>(152,842)</u>
251,858	251,858
25,570	(58,653)
277,428	193,205
<u>36,583</u>	<u>40,363</u>
13,328	269,257
-	(890)
13,328	268,367
<u>\$ 49,911</u>	<u>\$ 308,730</u>
-	56,229
-	90,502
42,677	154,765
7,234	7,234
<u>49,911</u>	<u>308,730</u>

See notes to financial statements.

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	Gas	Electric	Total
Receipts:					
Use of money and property	521	671	922	5,277	7,391
Charges for services	206,551	190,720	566,264	992,815	1,956,350
Miscellaneous	13,481	3,324	36,070	63,283	116,158
Total Receipts	<u>220,553</u>	<u>194,715</u>	<u>603,256</u>	<u>1,061,375</u>	<u>2,079,899</u>
Disbursements:					
Business type activities	204,639	157,583	590,961	966,280	1,919,463
Total Disbursements	<u>204,639</u>	<u>157,583</u>	<u>590,961</u>	<u>966,280</u>	<u>1,919,463</u>
Excess (deficiency) of receipts over (under) disbursements	<u>15,914</u>	<u>37,132</u>	<u>12,295</u>	<u>95,095</u>	<u>160,436</u>
Other financing sources (uses):					
Operating transfers in (out)	(2,733)	61,386	-	-	58,653
Total other financing sources (uses)	<u>(2,733)</u>	<u>61,386</u>	<u>-</u>	<u>-</u>	<u>58,653</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements & other financing uses	<u>13,181</u>	<u>98,518</u>	<u>12,295</u>	<u>95,095</u>	<u>219,089</u>
Balance beginning of year	63,908	106,982	232,143	557,475	960,508
Prior Period Adjustment	-	-	-	(1,088)	(1,088)
Adjusted Balance beginning of year	63,908	106,982	232,143	556,387	959,420
Balance end of year	<u>\$ 77,089</u>	<u>\$ 205,500</u>	<u>\$ 244,438</u>	<u>\$ 651,482</u>	<u>\$ 1,178,509</u>
Cash Basis Fund Balances					
Reserved for debt service	-	623	-	-	623
Unreserved	70,260	196,340	244,438	651,482	1,162,520
Total cash basis fund balances	<u>70,260</u>	<u>196,963</u>	<u>244,438</u>	<u>651,482</u>	<u>1,163,143</u>

City of Brooklyn

Notes to Financial Statements

June 30, 2004

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

The City of Brooklyn is a political subdivision of the State of Iowa located in Poweshiek County. It was first incorporated in 1850 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, recreation, public improvements and general administrative services. The City also provides water and sewer utilities for its citizens. The Brooklyn Municipal Utilities provides electric and gas utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, City of Brooklyn 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 Standard Board criteria.

Blended Component Unit

The Brooklyn Municipal Utilities is an entity which is legally separate from the City, but is so intertwined with the City that it is, in substance, part of the City. The Utilities are reported as part of the City and blended in the Enterprise Fund. Its mission is to provide electric and gas service to the citizens of the City of Brooklyn. The Utilities are governed by a three-member board appointed by the City Council and the Utilities operating budget is subject to the approval of the City Council and is combined with the City's budget.

B. Basis of Presentation

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

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

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

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

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

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

The City reports the following major proprietary funds:

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

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

The Gas Fund accounts for the operation and maintenance of the City Utilities Gas system.

The Electric Fund accounts for the operation and maintenance of the City Utilities Electric system.

The City also reports the following additional fiduciary fund:

The Trust Funds is used to account for monies and properties received and held by the City in a trustee capacity. These include expendable trust funds and non-expendable trust funds.

C. Measurement Focus and Basis of Accounting

The City of Brooklyn 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 Capital Projects function.

(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 instrumentality's; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

In addition, the Utilities had investments in the Iowa Public Agency Investment Trust (IPAIT) which are valued at an amortized cost of \$3,084 pursuant to Rule 2a-7 under the Investment Company Act of 1940 and are not subject to risk categorization.

The City had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3.

(3) Bonds and Notes Payable

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

Year Ending June 30,	General Obligation Bonds		General Obligation Capital Loan Notes		Revenue Bonds & Notes		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2005	33,000	35,787	40,937	-	53,167	74,451	127,104	110,238
2006	35,000	33,368	40,937	-	53,572	72,159	129,509	105,527
2007	36,000	31,863	40,938	-	54,999	69,769	131,937	101,632
2008	38,000	30,315	-	-	61,365	67,337	99,365	97,652
2009	39,000	28,681	-	-	62,922	64,378	101,922	93,059
2010	41,000	27,004	-	-	63,425	61,361	104,425	88,365
2011	43,000	25,241	-	-	69,957	58,261	112,957	83,502
2012	45,000	23,392	-	-	71,439	54,883	116,439	78,275
2013	47,000	21,457	-	-	78,107	51,229	125,107	72,686
2014	49,000	19,436	-	-	79,734	47,293	128,734	66,729
2015	51,000	17,329	-	-	81,396	43,257	132,396	60,586
2016	53,000	15,136	-	-	88,023	39,168	141,023	54,304
2017	55,000	12,857	-	-	94,829	34,537	149,829	47,394
2018	57,000	10,492	-	-	41,609	29,559	98,609	40,051
2019	60,000	8,041	-	-	43,433	27,574	103,433	35,615
2020	62,000	5,461	-	-	46,241	25,562	108,241	31,023
2021	65,000	2,795	-	-	48,220	35,292	113,220	38,087
2021-2035	-	-	-	-	389,834	176,148	389,834	176,148
Total	\$809,000	348,655	122,812	-	1,482,272	1,032,218	2,414,084	1,381,373

The Code of Iowa requires that principal and interest on general obligation bonds and general obligation loan notes be paid from the Debt Service Fund. However, during the year \$32,000 of general obligation bond principal was paid from the Sewer Fund, Sewer Sinking Account.

The resolutions providing for the issuance of the Electric revenue note 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 an electric revenue note sinking fund for the purpose of making the note and interest payments when due. It was noted during the audit that this fund has not been established but the Utility has been keeping track of moneys to fund this payment.
- (c) Sufficient transfers shall be made to a special account to be known and designated as the Principal and Interest Reserve Account into which there shall be set apart and paid from fund on hand at the time of the deliver of the notes a sum equal to \$57,500. Whenever the sum on deposit in the Reserve Account has been reduced to less than the Required Reserve Account Balance there shall be deposited into such Reserve Account the remaining Net Revenues after first making the required deposits into the Sinking Fund until the sum on deposit in the Reserve Account has been restored. It was noted during the audit that this account has not been established.

- (d) An Improvement and Extension Fund is to be established and set apart and paid from fund on hand in the sum of \$50,000. If and to whatever extent it may become necessary to use such accumulated reserve for any allowable purpose, there shall be deposited into the Improvement Fund the remaining Net Revenues after first making the required deposits into the Sinking Fund and the Reserve Account until the sum on deposit in the Improvement Fund has been restored to the Required Improvement Fund Balance. It was noted during the audit that this fund has not been established.
- (e) A Surplus Fund is to be established first for making payments into the Sinking Fund, the Reserve Account and the Improvement Fund, and after the Sinking Fund, Reserve Account and the Improvement Fund contain the Required Reserve Account Balance then the moneys credited to the Surplus Fund may be made available to the Utility. This fund has not been established.

The resolutions providing for the issuance of the Sewer revenue note 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. However, during the year \$14,000 of principal was paid out of the debt service fund.
- (b) Sufficient transfers shall be made into a separate and special fund to pay current expenses. The fund shall be known as the Sewer Utility Operation and Maintenance Fund. There shall be deposited in the fund each month an amount sufficient to meet the current expenses of the month plus an amount equal to 1/12th of expenses payable on an annual basis such as insurance.
- (c) Moneys shall next be disbursed to a separate and special fund to pay principal of and interest on the Notes and Parity Obligations known as the Sewer Revenue Note Principal and Interest Sinking Fund (the "Sinking Fund"). The required amount to be deposited in the Sinking Fund in any month shall be an amount equal to 1/6th of the installment of interest coming due on the next payment and 1/12th of the installment of principal coming due on the next payment date. This fund was established during the fiscal year.

(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 salary and the City is required to contribute 5.75% of annual covered payroll except for police employees, in which case the percentages are 5.93% and 8.90% respectively. Contribution requirements are established by state statute. The City's contribution to IPERS for the years ended June 30, 2004 was \$25,578, equal to the required contribution for the year.

(5) Compensated Absences

City employees accumulate a limited amount of earned but unused holiday, vacation and comp time hours for subsequent use or for payment upon termination, retirement or death. Additionally, the City pays employees half of their accumulated sick pay upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's liability for earned vacation, half sick and comp time leave termination payments payable to employees at June 30, 2004 is \$469 for holiday, \$37,532 for sick time, \$13,711 for vacation and \$3,880 for comp time, for a total liability of \$55,591.

(6) Lease-Purchase Agreement

The Brooklyn Utilities has entered into an agreement for a lease-purchase agreement with the South Iowa Municipal Electric Cooperative Association for an electric project with a variable interest rate ranging from 2.7% to 5.3%. The following is a schedule of the future minimum lease payments and the Present value of net minimum lease payments under the agreement in effect at June 30, 2004:

Year Ending	Amount
June 30, 2005	70,133
2006	70,768
2007	70,231
2008	69,551
2009-2017	<u>632,464</u>
Total Minimum Lease Payments	913,147
Less amount representing interest	<u>(251,147)</u>
Present Value of net minimum lease payments	<u><u>662,000</u></u>

(7) Short Term Loan

In February 2003 the Utilities entered into an Agreement with South Iowa Municipal Electric Cooperative Association, in which the Utility agrees to make a one time payment of \$150,584 in September of 2004 to cover unexpected overages on the aforementioned electric project.

(8) Workers Compensation

The City is a member of the Iowa Municipalities Worker's Compensation Association (IMWCA) which provides worker's compensation coverage to its members. The members own an interest in the assets of the claims payment fund.

(9) Risk Management

The City of Brooklyn 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.

(10) Subsequent Events

The City entered into a construction contract for \$214,152 for Sanitary Sewer Improvements to be financed through State Revolving Funds.

(11) Prior Period Adjustments

The City has made a Prior Period Adjustment in fiscal year 2004. Previous financial statements included the balance for the Sewer Sinking Account, Sewer Fund in the Sewer Account, Sewer Fund. An adjustment has been made to subtract the balance of \$5,004 from the Sewer Account, Sewer Fund and show this as the beginning balance in the Sewer Sinking Account, Sewer Fund. Additionally, an error was made in the Electric fund in the amount of \$1,088, this amount has been subtracted from the beginning balance. In the General Fund, a sidewalk account was established in the prior fiscal year, but not reflected separately in the financial statements, an adjustment has been made to the Sidewalk Account, General Fund and the beginning balance of (\$474) has been established. Finally, a variance was noted in reconciling the previous years financial statements in the amount of \$889, this amount has been subtracted from the beginning balance for the General Fund for the City of Brooklyn.

(12) Accounting Change

Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments’ Statement No. 37, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences, were implemented for the year ended June 30, 2004. The statements create new basic financial statements for reporting the City’s financial activities. The financial statements now include a government-wide financial statement and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

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

REQUIRED SUPPLEMENTARY INFORMATION

City of Brooklyn

Budgetary Comparison Schedule of Receipts, Disbursements, and Changes in Balances-
Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Funds

Required Supplementary Information

	Governmental Funds Actual	Proprietary Funds Actual	Net
Receipts:			
Property Tax	\$ 282,115	\$ -	\$ 282,115
Tax increment financing collections	155,409	-	155,409
Other City Tax	4,924	-	4,924
Use of money and property	985	7,391	8,376
Licenses and permits	533	-	533
Intergovernmental	161,589	-	161,589
Charges for services	61,659	1,956,350	2,018,009
Miscellaneous	82,704	116,158	198,862
Total Receipts	<u>749,918</u>	<u>2,079,899</u>	<u>2,829,817</u>
Disbursements:			
Public Safety	178,061	-	178,061
Public Works	183,002	-	183,002
Health and social services	400	-	400
Culture and recreation	46,610	-	46,610
Community and economic development	-	-	-
General government	100,688	-	100,688
Debt service	47,131	-	47,131
Capital projects	346,868	-	346,868
Business Type	15,366	1,919,463	1,934,829
Total Disbursements	<u>918,126</u>	<u>1,919,463</u>	<u>2,837,589</u>
Excess (deficiency) of receipts over (under) disbursements	(168,208)	160,436	(7,772)
Other financing sources (uses):			
Bond Proceeds			
State Revolving Fund Loan	251,858	-	251,858
Operating transfers in (out)	(43,287)	43,287	-
Total other financing sources (uses)	208,571	43,287	251,858
Excess (deficiency) of receipts and other financing sources over (under) disbursements & other financing uses	<u>40,363</u>	<u>203,723</u>	<u>244,086</u>
Balance beginning of year	269,257	960,508	1,229,765
Prior period adjustment	(890)	(1,088)	(1,978)
Adjusted balance beginning of year	268,367	959,420	1,227,787
Balance end of year	<u>\$ 308,730</u>	<u>\$ 1,163,143</u>	<u>\$ 1,471,873</u>

City of Brooklyn

Budgetary Comparison Schedule of Receipts, Disbursements, and Changes in Balances-
Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Funds

Required Supplementary Information

Budgeted Amounts		Variance
Original	Final	Favorable (Unfavorable)
\$ 280,539	\$ 280,539	\$ (1,576)
146,715	158,000	2,591
1,040	1,015	(3,909)
18,275	14,312	5,936
2,005	1,625	1,092
310,951	441,758	280,169
2,264,025	2,269,509	251,500
125,920	92,548	(106,314)
<u>3,149,470</u>	<u>3,259,306</u>	<u>429,489</u>
217,378	201,393	23,332
259,447	237,517	54,515
400	400	-
65,502	58,085	11,475
305	245	245
109,383	105,103	4,415
100,853	100,853	53,722
212,000	312,998	(33,870)
2,052,289	2,057,052	122,223
<u>3,017,557</u>	<u>3,073,646</u>	<u>179,787</u>
131,913	185,660	
285,919	490,753	
-	-	
285,919	490,753	
417,832	676,413	
1,229,765	1,229,765	
(1,978)	-	
1,227,787	1,229,765	
<u>\$ 1,645,619</u>	<u>\$ 1,906,178</u>	

City of Brooklyn

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2004

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

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted included 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 \$56,089. The budget amendment is reflected in the final budgeted amount.

During the year ended June 30, 2004, disbursements exceeded the amounts budgeted in the capital project function.

OTHER SUPPLEMENTARY INFORMATION

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		Adams St Sewer Project
	Maintainer Fund	Employee Benefits	
Receipts:			
Property Tax	\$ -	\$ 47,056	\$ -
Use of money and property	-	113	-
Miscellaneous	-	7,600	-
Total Receipts	<u>-</u>	<u>54,769</u>	<u>-</u>
Disbursements:			
Operating:			
Public Safety	-	23,509	
Public Works	-	12,505	
Culture and recreation	-	245	
General government	-	9,264	
Water		6,829	
Sewer		8,537	
Capital projects	-	-	249,934
Total Disbursements	<u>-</u>	<u>60,889</u>	<u>249,934</u>
Excess (deficiency) of receipts over (under) disbursements	<u>-</u>	<u>(6,120)</u>	<u>(249,934)</u>
Other financing sources (uses):			
Bond proceeds:			
SRF Loan	-		-
Operating transfers in (out)	5,004	18,714	252,484
Total other financing sources (uses)	5,004	18,714	252,484
Excess (deficiency) of receipts and other financing sources over (under) disbursements & other financing uses	<u>5,004</u>	<u>12,594</u>	<u>2,550</u>
Balance beginning of year	-	25,079	(2,550)
Balance end of year	<u>\$ 5,004</u>	<u>\$ 37,673</u>	<u>\$ -</u>
Cash Basis Fund Balances			
Unreserved:			
Special Revenue Funds	5,004	37,673	-
Capital Project Fund	-	-	-
Total cash basis fund balances	<u>5,004</u>	<u>37,673</u>	<u>-</u>

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

Capital Projects			
Industrial Park Project	Sewer Lagoon Project	Street Improvement	Total
			\$ 47,056
			113
	1,641		9,241
-	1,641	-	56,410
			23,509
			12,505
			245
			9,264
			6,829
			8,537
	1,798		251,732
-	1,798	-	312,621
			(256,211)
			251,858
-	251,858		251,858
-	(242,500)	7,234	40,936
-	9,358	7,234	292,794
-	9,201	7,234	36,583
-	(9,201)	-	13,328
\$ -	\$ -	\$ 7,234	\$ 49,911
			42,677
		7,234	7,234
		7,234	49,911

Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Fiduciary Funds

As of and for the year ended June 30, 2004

	Fiduciary Funds	
	Gates Fund	Library Memorial
Receipts:		
Use of money and property:	\$ -	2
Total receipts	<u>-</u>	<u>2</u>
Disbursements:		
Culture and Recreation	7,822	3,302
Total disbursements	<u>7,822</u>	<u>3,302</u>
Deficiency of receipts under disbursements	(7,822)	(3,300)
Balance, beginning of year	<u>7,822</u>	<u>3,300</u>
Balance, end of year	<u>\$ -</u>	<u>-</u>
Cash Basis Fund Balances Unreserved	<u>-</u>	<u>-</u>

See accompanying independent auditor's report.

Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Fiduciary Funds

As of and for the year ended June 30, 2004

<u>Total</u>
<u>2</u>
2
<u>11,124</u>
11,124
(11,122)
<u>11,122</u>
<u>-</u>
<u>-</u>

See accompanying independent auditor's report.

**Schedule of Indebtness
For the year ended June 30, 2004**

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General Obligation Bonds			
Corporate purpose - Sanitary Sewer Improvements	March 30, 2001	4.30%	\$ 900,000
Total			
General Obligation Capital Loan Notes			
Corporate purpose - Urban Renewal	March 20, 1998	0.00%	327,500
Corporate purpose - Urban Renewal	July 1, 2001	4.00%	50,000
Total			
Revenue Bonds and Notes			
Sewer Revenue Bonds	March 30, 2001	4.30%	425,000
Electric Revenue Notes	June 1, 2002	3.65-5.60%	575,000
Water Revenue Notes	March 1, 2002	5.50%	617,992
Total			
Lease Purchase Agreement			
Electric Project	March 1, 2002	2.7-5.30%	737,220
Short Term Agreement	February 5, 2003		150,584 #
Total			

Schedule of Indebtness
For the year ended June 30, 2004

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
841,000	-	32,000	809,000	31,932	2,899
<u>841,000</u>	<u>-</u>	<u>32,000</u>	<u>809,000</u>	<u>31,932</u>	<u>2,899</u>
163,750	-	40,938	122,812	-	-
25,000	-	25,000	-	1,000	-
<u>188,750</u>	<u>-</u>	<u>65,938</u>	<u>122,812</u>	<u>1,000</u>	<u>-</u>
397,000	-	15,000	382,000	17,248	1,369
545,000	-	30,000	515,000	27,107	1,566
591,970	-	6,699	585,271	32,480	2,682
<u>1,533,970</u>	<u>-</u>	<u>51,699</u>	<u>1,482,271</u>	<u>76,835</u>	<u>5,618</u>
700,000	-	38,000	662,000	32,397	6,125
150,584	-	-	150,584	5,591	-
<u>850,584</u>	<u>-</u>	<u>38,000</u>	<u>812,584</u>	<u>37,988</u>	<u>6,125</u>

City of Brooklyn

Bond and Note Maturities

June 30, 2004

General Obligation Bonds

Year Ending June 30, 2004	General Obligation Capital Loan Note Issued March 20, 1998		General Obligation Bonds Issued March 30, 2001	
	Interest Rate	Amount	Interest Rate	Amount
2005	0.00%	40,937	4.30%	33,000
2006	0.00%	40,937	4.30%	35,000
2007	0.00%	40,938	4.30%	36,000
2008		-	4.30%	38,000
2009		-	4.30%	39,000
2010		-	4.30%	41,000
2011		-	4.30%	43,000
2012		-	4.30%	45,000
2013		-	4.30%	47,000
2014		-	4.30%	49,000
2015		-	4.30%	51,000
2016		-	4.30%	53,000
2017		-	4.30%	55,000
2018		-	4.30%	57,000
2019		-	4.30%	60,000
2020		-	4.30%	62,000
2021		-	4.30%	65,000
Total		<u>\$ 122,812</u>		<u>\$ 809,000</u>

Revenue Bonds and Notes

Year Ending June 30, 2004	2001 Sewer Revenue Bonds Issued March 30, 2001		Water Revenue Notes Issued March 1, 2002	
	Interest Rate	Amount	Interest Rate	Amount
2005	4.30%	16,000	5.50%	7,167
2006	4.30%	16,000	5.50%	7,572
2007	4.30%	17,000	5.50%	7,999
2008	4.30%	18,000	5.50%	8,365
2009	4.30%	19,000	5.50%	8,922
2010	4.30%	19,000	5.50%	9,425
2011	4.30%	20,000	5.50%	9,957
2012	4.30%	21,000	5.50%	10,439
2013	4.30%	22,000	5.50%	11,107
2014	4.30%	23,000	5.50%	11,734
2015	4.30%	24,000	5.50%	12,396
2016	4.30%	25,000	5.50%	13,023
2017	4.30%	26,000	5.50%	13,829
2018	4.30%	27,000	5.50%	14,609
2019	4.30%	28,000	5.50%	15,433
2020	4.30%	30,000	5.50%	16,241
2021	4.30%	31,000	5.50%	17,220
2021-2035		-	5.50%	389,834
Total		<u>\$ 382,000</u>		<u>\$ 585,271</u>

See accompanying independent auditor's report.

Juli Ochs, CPA
1344 240th St.
Victor, Iowa 52347
319-647-2295 (Home)

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

To the Honorable Mayor and
Members of the City Council:

I have audited the financial statements of the City of Brooklyn, Iowa, as of and for the year ended June 30, 2004, and have issued my report thereon dated September 21, 2004. My report expressed an unqualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. I conducted my audit in accordance with United States 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. During the year ended June 30, 2004 the City of Brooklyn 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.

Compliance

As part of obtaining reasonable assurance about whether the City of Brooklyn's financial statements are free of material misstatement, I 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 statements amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of non-compliance that are required to be reported under Governmental Auditing Standards. Additionally, I noted certain immaterial instances of non-compliance that are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the Entity's operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during my audit of the general purpose financial statements of the City of Brooklyn. Since my 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 item 1,10 and 12.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the City of Brooklyn's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the

financial statements and not to provide assurance on the internal control over financial reporting. However, I noted certain matters involving the internal control over financial reporting and its operation that I consider to be reportable conditions. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in my judgment, could adversely affect the City of Brooklyn's ability to record, process, summarize and report financial data consistent with the assertions of city officials in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. My consideration of the internal control over financial reporting would not necessarily disclose all matters in 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, I believe item 1 and 2 are material weaknesses. Prior year reportable conditions have been resolved except for item 1, 10 and 12. 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 Brooklyn and other parties to whom the City of Brooklyn may report. This report is not intended to be and should not be used by anyone other than these specified parties.

I would like to acknowledge the many courtesies and assistance extended to me by the personnel of the City of Brooklyn during the course of my audit. Should you have any questions concerning any of the above matters, I would be pleased to discuss them with you at your convenience.

Juli Ochs, CPA, Principal

September 21, 2004

CITY OF BROOKLYN

Schedule of Findings

Year ended June 30, 2004

The following comments about the City of Brooklyn operations for the year ended June 30, 2004, are based exclusively on knowledge obtained from procedures performed during our audit of financial statements of the City.

REPORTABLE CONDITIONS

- (1) Segregation of Duties – One important element in designing an internal control structure that safeguards assets and reasonably ensures the reliability of the accounting records is the concept of segregation of duties. When duties are properly segregated, the activities of one employee act as a check of those of another.

During our review of the city's control procedures, we noted that one person has control over one or more of the following areas:

Accounting system – general journal/general ledger/journal entry function and custody of assets

Receipts – collecting, depositing, journalizing, posting, and reconciling.

Additionally, it was notice that no comparison of the bank reconciliation is performed with the clerks balance, nor it the reconciliation being reviewed.

Recommendation – I 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. An independent review and reconciliation of the clerk and the Treasurer's balance should be performed

Response – We do the best possible with our small number of employees in the segregation of duties. Our control procedures have been reviewed and we will attempt to do this on a regular basis. The Clerk and Treasurer are now reviewing and reconciling at the end of each month.

Conclusion – I believe that this review will be very beneficial for the City of Brooklyn, response accepted.

- (2) Credit Cards – The Library has applied for a credit card for occasional use by the Library. The Library has not adopted a formal policy to regulate the use of the credit card and to establish procedures for the proper accounting of credit card charges.

Recommendation – The Library should adopt a formal written policy regulating credit card usage. The policy, at a minimum, should address who controls the credit cards, who is authorized to use credit cards and for what purpose, as well as the types of supporting documentation required to substantiate charges.

Response – The Library Board will adopt a written policy for credit card usage for this fiscal year.

Conclusion – Response accepted

OTHER FINDINGS RELATED TO STATUTORY REPORTING

- (3) Certified Budget – Disbursements during the year ended June 30, 2004 exceeded the amounts budgeted in the Capital Project function. 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 was amended, but not in an amount to sufficiently cover expenditures. In the future this will be addressed prior to the expenditures.

Conclusion – Response accepted.

- (4) 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.

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

- (6) 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.

- (7) Questionable Disbursements –I noted no disbursements that did not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

- (8) Travel Expense –No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

- (9) Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa.

- (10) Electric Revenue Note – The Electric Revenue Note stipulates that a Sinking Fund be established to collect the "Net Revenues of the Electric System...and applied to the payment of interest...and principal on the Notes." Additionally, the Note stipulates the formation of a Principal and Interest Reserve Account the sum to equal \$57,500 and an Improvement and Extension Fund with a balance of \$50,000. These funds have not been established within the City's funds, however it was noted that these funds are being accounted for separately within the Electric Fund by the Utilities.

Recommendation – A Sinking Fund, Principal and Interest Reserve Account and Improvement and Extension Fund should be established to comply with the requirements of the Electric Revenue Note.

Response – The following funds have been established to comply with provisions of the Electric Revenue Note:

#627: Improvement and Extension fund in the amount of \$50,000

#628: Principal and Interest Reserve Account in the amount of \$57,500

#629: Sinking Fund which is funded monthly with a sum equal to 1/12 the yearly total of principal and interest.

Conclusion – Response accepted.

- (11) Payment of Sewer Revenue Bond – The Sewer Revenue Bond is being paid out of the Debt Service Fund. Revenue Bonds are to be paid from the Revenues of the Enterprise Fund and do not constitute Constitutional Debt of the City and therefore should not be accounted for in the Debt Service Fund.

Recommendation – The Sewer Revenue Bond should be paid out of the Enterprise Fund, Sewer Account.

Response – This is now being done properly.

Conclusion – Response accepted.

- (12) Sewer Revenue Note – The Sewer Revenue Note stipulates that a Sewer Utility Operation and Maintenance Fund be established. This fund has not been established.

Recommendation – An Operation and Maintenance Fund should be established to comply with the requirements of the Sewer Revenue Note.

Response – We realize this has not been done. We do have a Sewer Sludge fund set up for the cleaning of the lagoons when that becomes necessary.

Conclusion – The City should consider renaming the Sewer Sludge Account to be in compliance with the Note requirements, response accepted.

- (13) Business Transactions – In accordance with Chapter 362.5(10) of the Code of Iowa, no transactions between the City and the City officials and City employees were noted that represented conflicts of interest.

- (14) Payment of General Obligation Bond – The General Obligation Bond related to sewer was paid out of the Sewer Sinking Fund. General Obligation Bonds are to be paid from the Debt Service Fund and constitute Constitutional Debt of the City. It was noted that a transfer was made out of Debt Service Fund into the Sinking Fund to fund the payment.

Recommendation – The General Obligation Bond should be paid out of the Debt Service Fund.

Response – This was a coding error made by the Clerk and should not happen in the future.

Conclusion – Response accepted.