

CITY OF KEOSAUQUA, IOWA
INDEPENDENT AUDITOR'S REPORT
FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2004

CITY OF KEOSAUQUA, IOWA

TABLE OF CONTENTS
JUNE 30, 2004

	<u>PAGE</u>
OFFICIALS	1
INDEPENDENT AUDITOR'S REPORT	2-3
MANAGEMENT'S DISCUSSION AND ANALYSIS	4-8
BASIC FINANCIAL STATEMENTS:	
	<u>EXHIBIT</u>
GOVERNMENT-WIDE FINANCIAL STATEMENT: STATEMENT OF ACTIVITIES AND NET ASSETS – CASH BASIS	A 9-10
GOVERNMENTAL FUND FINANCIAL STATEMENTS: STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES	B 11
PROPRIETARY FUND FINANCIAL STATEMENTS: STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES	C 12
NOTES TO FINANCIAL STATEMENTS	13-19
REQUIRED SUPPLEMENTARY INFORMATION:	
BUDGETARY COMPARISON SCHEDULE OF RECEIPTS, DISBURSMENTS AND CHANGES IN BALANCES – BUDGET AND ACTUAL (CASH BASIS) - ALL GOVERNMENTAL FUNDS, PROPRIETARY FUNDS AND COMPONENT UNITS	20-21
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING	22
OTHER SUPPLEMENTARY INFORMATION:	<u>SCHEDULE</u>
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES – NONMAJOR GOVERNMENTAL FUNDS	1 23
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES – NONMAJOR PROPRIETARY FUNDS	2 24
SCHEDULE OF INDEBTEDNESS	3 25-26
BOND/NOTE MATURITIES	4 27-28
SCHEDULE OF RECEIPTS BY SOURCE AND DISBURSEMENTS BY FUNCTION - ALL GOVERNMENTAL FUNDS	5 29
INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING	30-31
SCHEDULE OF FINDINGS	32-33

CITY OF KEOSAUQUA, IOWA

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Kevin Hranicka	Mayor	2005
Mike Rippy	Council Member	2007
Jerry Syfert	Council Member	2007
Paul Ovrom	Council Member	2007
Barbara Morris	Council Member	2005
Jay Goldstein	Council Member	2005
Richard Lytle	Attorney	Appointed
Jacki Gunn	Clerk	Appointed

CITY OF KEOSAUQUA, IOWA

INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Members
of the City Council
City of Keosauqua, Iowa

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Keosauqua, Iowa, as of and for the year ended June 30, 2004. These financial statements are the responsibility of the City of Keosauqua, Iowa's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as discussed in the following paragraph, 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, as discussed in the preceding paragraph, the aforementioned financial statements 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 Keosauqua, Iowa as of June 30, 2004, and the respective changes in a cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

As described in Note 14, 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 September 3, 2004 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations and contracts. 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 our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 8 and 19 through 21 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 conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Keosauqua, Iowa's basic financial statements. Other supplementary information included in Schedules 1 through 5 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

ANDERSON, LARKIN & CO P.C

Ottumwa, Iowa
September 3, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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

2004 FINANCIAL HIGHLIGHTS

- Revenues of the City's governmental activities decreased 16%, or approximately \$89,343, from fiscal 2003 to fiscal 2004. Property tax decreased approximately \$29,999 and local option taxes decreased \$39,447.
- Disbursements decreased 25%, or approximately \$141,387, in fiscal 2004 from fiscal 2003. Public safety, public works and capital projects disbursements decreased approximately \$47,879 and \$109,636, respectively.
- The City's total cash basis net assets increased 12%, or approximately \$52,901 from June 30, 2003 to June 30, 2004.

USING THIS ANNUAL REPORT

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

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

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

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

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

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

Other Supplementary Information provides detailed information about the nonmajor governmental and proprietary 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 funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

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

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

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

- **Governmental Activities** include public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- **Business Type Activities** include the waterworks and the sanitary sewer 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, and 2) the Special Revenue Funds, such as Road Use Tax and Urban Renewal Tax Increment Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

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

2) **Proprietary funds** account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains two Enterprise Funds to provide separate information for the water and sewer funds, considered to be major funds of the City. The City also maintains six smaller ancillary funds that are related to the operations of the water and sewer funds.

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from a year ago, increasing from \$434,281 to \$487,182. The analysis that follows focuses on the changes in cash balances for governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities

	<u>Year ended June 30,</u>	
	<u>2004</u>	<u>2003</u>
Receipts and transfers		
Program receipts:		
Charges for service	\$ 196,613	\$ 212,725
Operating grants, contributions and restricted interest	3,593	-
General receipts:		
Property tax	130,089	160,088
Local option sales tax	59,585	99,032
Unrestricted investment earnings	7,787	17,606
Other general receipts	71,190	66,526
Transfers, net	<u>(2,223)</u>	<u>-</u>
Total receipts and transfers	<u>466,634</u>	<u>555,977</u>
Disbursements:		
Public safety	49,524	97,403
Public works	199,968	309,604
Culture and recreation	59,150	54,233
Community and economic development	40,709	31,527
General government	50,974	42,260
Debt service	<u>13,408</u>	<u>20,093</u>
Total disbursements	<u>413,733</u>	<u>555,120</u>
Change in cash basis net assets	52,901	857
Cash basis net assets beginning of year	<u>434,281</u>	<u>433,424</u>
Cash basis net assets end of year	<u>\$ 487,182</u>	<u>\$ 434,281</u>

The City's total receipts for governmental activities decreased by 16%, or \$89,343. The total cost of all programs and services decreased by approximately \$141,387, or 25%, with no new programs added this year. The decrease in receipts was primarily the result of decreases in property tax and local option tax receipts.

The City decreased property tax rates for 2004 by an average of 16%. This decreased the City's property tax receipts by approximately \$29,999 in 2004. Based on increases in the total assessed valuation, property tax receipts are budgeted to increase by an additional \$2,888 next year.

The cost of all governmental activities this year was \$413,733 compared to \$555,120 last year. However, as shown in the Statement of Activities and Net Assets on pages 9 and 10, the amount taxpayers ultimately financed for these activities was only \$213,527 because some of the cost was paid by those directly benefited from the programs \$196,613 or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest \$3,593. Overall, the City's governmental activities receipts, including intergovernmental aid and fees for service, decreased in 2004 from approximately \$212,725 to approximately \$200,206. The City paid for the remaining "public benefit" portion of governmental activities with approximately \$189,674 in tax (some of which could only be used for certain programs) and with other receipts, such as interest and general entitlements

Changes in Cash Basis Net Assets of Business type Activities

	<u>Year ended June 30,</u>	
	<u>2004</u>	<u>2003</u>
Receipts:		
Program receipts:		
Charges for service		
Water	\$ 206,851	\$ 223,736
Sewer	127,768	132,855
Capital grants, contributions and restricted interest	345,262	45,559
General receipts:		
Unrestricted interest on investments	3,619	7,386
Note proceeds	35,000	-
Other general receipts	18,929	-
Transfers, net	<u>52,223</u>	-
Total receipts	<u>789,652</u>	<u>409,536</u>
 Disbursements:		
Water	200,583	224,464
Sewer	<u>634,461</u>	<u>159,807</u>
Total disbursements	<u>835,044</u>	<u>384,271</u>
 Increase (decrease) in cash balance	(45,392)	25,265
 Cash basis net assets beginning of year	<u>451,597</u>	<u>426,332</u>
 Cash basis net assets end of year	<u>\$ 406,205</u>	<u>\$ 451,597</u>

Total business type activities receipts for the fiscal year were \$789,652 compared to \$409,536 last year. This significant increase was due primarily to the receipt of \$345,262 in grants related to the sewer project. The cash balance decreased by \$45,392 from the prior year because of expenditures related to the sewer project that had not been reimbursed as of year end. Total disbursements for the fiscal year increased by 117% to a total of \$835,044.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Keosauqua, Iowa completed the year, its governmental funds reported a combined fund balance of \$487,182, an increase of \$52,901 above last year's total of \$434,281. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance increased \$20,000 from the prior year to \$377,873. The majority of this increase was due to decreases in expenditures related to property tax relief and decrease in public works projects in the current year.
- The Road Use Tax Fund cash balance increased by \$25,785 to \$98,501 during the fiscal year. This increase was attributable to road use taxes received in excess of the amount spent on current year projects. The City intends to use this money to upgrade the condition of City roads.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance increased by \$40,169 to \$216,231, due primarily to a decrease in water fund expenditures compared to the prior year.
- The Sewer Fund cash balance decreased by \$33,334 to \$123,415, due primarily to expenditures related to the sewer project that had not been reimbursed at year end.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget two times. The first amendment was approved on February 10, 2004 and resulted in an increase in operating disbursements of approximately \$720,396. The second amendment was approved on May 11, 2004 to provide for additional disbursements in certain City departments. The City had sufficient cash balances to absorb these additional costs.

DEBT ADMINISTRATION

At June 30, 2004, the City had approximately \$803,640 in bonds and other long-term debt, compared to approximately \$801,887 last year.

Outstanding Debt at Year End

	<u>June 30,</u>	
	<u>2004</u>	<u>2003</u>
Sewer projects	\$ 401,361	\$ 381,125
Water projects	232,957	243,740
TIF projects	<u>169,322</u>	<u>177,022</u>
Total	<u>\$ 803,640</u>	<u>\$ 801,887</u>

Debt increased as a result of issuing revenue notes for a sewer construction project

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$169,322 is significantly below its constitutional debt limit of \$981,148.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City of Keosauqua's elected and appointed officials and citizens considered many factors when setting the fiscal year 2005 budget, tax rates, and fees that will be charged for various City activities. One of those factors is the economy. Unemployment in the City now stands at 6.2%, versus 5.7% a year ago. This compares with the State's unemployment rate of 4.7% and the national rate of 5.6%.

Inflation in the State continues to be somewhat lower than the national Consumer Price Index increase. The State's CPI increase was 2.5% for fiscal year 2004 compared with the national rate of 3.0%.

These indicators were taken into account when adopting the budget for fiscal year 2005. Amounts available for appropriation in the operating budget are \$1,839,035, a decrease of 21% over the final 2004 budget. The majority of this decrease is due to a decrease in intergovernmental revenues related to the completed sewer project. Budgeted disbursements are expected to decrease by approximately \$652,874. Again, the majority of the decrease relates to the aforementioned sewer project. The City has added no major new programs or initiatives to the 2005 budget.

If these estimates are realized, the City's budgeted cash balance is expected to decrease by approximately \$132,771 by the close of 2005.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Jacki Gunn, City Clerk, 804 1st Street, Keosauqua, Iowa.

BASIC FINANCIAL STATEMENTS

CITY OF KEOSAUQUA, IOWA

STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS

AS OF AND FOR THE YEAR ENDED JUNE 30, 2004

Functions/Programs	Disbursements	Charges for Service	Program Receipts	
			Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Governmental activities:				
Public safety	\$ 49,524	\$ -	\$ -	\$ -
Public works	199,968	154,500	-	-
Culture and recreation	59,150	3,336	3,593	-
Community and economic development	40,709	-	-	-
General government	50,974	14,055	-	-
Debt service	13,408	24,722	-	-
Total governmental activities	<u>413,733</u>	<u>196,613</u>	<u>3,593</u>	<u>-</u>
Business type activities:				
Water	200,583	206,851	-	-
Sewer	634,461	127,768	-	345,262
Total business type activities	<u>835,044</u>	<u>334,619</u>	<u>-</u>	<u>345,262</u>
Component units:				
Electric utility	968,901	969,447	-	-
Total	<u>\$ 2,217,678</u>	<u>\$ 1,500,679</u>	<u>\$ 3,593</u>	<u>\$ 345,262</u>
General Receipts:				
Property tax levied for:				
General purposes				
Local option sales tax				
Note proceeds				
Unrestricted interest on investments				
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				
Cash Basis Net Assets				
Restricted:				
Streets				
Urban renewal purposes				
Other purposes				
Unrestricted				
Total cash basis net assets				

See Notes to Financial Statements

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

Governmental Activities	Business Type Activities	Component Unit	Total
\$ (49,524)	\$ -	\$ -	\$ (49,524)
(45,468)	-	-	(45,468)
(52,221)	-	-	(52,221)
(40,709)	-	-	(40,709)
(36,919)	-	-	(36,919)
<u>11,314</u>	<u>-</u>	<u>-</u>	<u>11,314</u>
<u>(213,527)</u>	<u>-</u>	<u>-</u>	<u>(213,527)</u>
-	6,268	-	6,268
<u>-</u>	<u>(161,431)</u>	<u>-</u>	<u>(161,431)</u>
<u>-</u>	<u>(155,163)</u>	<u>-</u>	<u>(155,163)</u>
-	-	546	546
<u>(213,527)</u>	<u>(155,163)</u>	<u>546</u>	<u>(368,144)</u>
130,089	-	-	130,089
59,585	-	-	59,585
-	35,000	-	35,000
7,787	3,619	13,911	25,317
71,190	18,929	-	90,119
<u>(2,223)</u>	<u>52,223</u>	<u>(50,000)</u>	<u>-</u>
<u>266,428</u>	<u>109,771</u>	<u>(36,089)</u>	<u>340,110</u>
52,901	(45,392)	(35,543)	(28,034)
<u>434,281</u>	<u>451,597</u>	<u>1,346,319</u>	<u>2,232,197</u>
\$ <u>487,182</u>	\$ <u>406,205</u>	\$ <u>1,310,776</u>	\$ <u>2,204,163</u>
98,501	-	-	98,501
10,808	-	-	10,808
-	66,559	-	66,559
<u>377,873</u>	<u>339,646</u>	<u>1,310,776</u>	<u>2,028,295</u>
\$ <u>487,182</u>	\$ <u>406,205</u>	\$ <u>1,310,776</u>	\$ <u>2,204,163</u>

CITY OF KEOSAUQUA, IOWA

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

	<u>Special Revenue</u>			
	<u>General</u>	<u>Road Use Tax</u>	<u>Non-Major</u>	<u>Total</u>
RECEIPTS:				
Property tax	\$ 130,089	\$ -	\$ -	\$ 130,089
Tax increment financing collections	-	-	24,722	24,722
Other City tax	59,585	-	-	59,585
Licenses and permits	996	-	-	996
Use of money and property	9,134	-	-	9,134
Intergovernmental	12,742	88,785	-	101,527
Charges for service	69,051	-	-	69,051
Miscellaneous	73,753	-	-	73,753
Total receipts	<u>355,350</u>	<u>88,785</u>	<u>24,722</u>	<u>468,857</u>
DISBURSEMENTS:				
Operating:				
Public safety	49,524	-	-	49,524
Public works	136,968	63,000	-	199,968
Culture and recreation	59,150	-	-	59,150
Community and economic development	40,709	-	-	40,709
General government	50,974	-	-	50,974
Debt service	-	-	13,408	13,408
Total disbursements	<u>337,325</u>	<u>63,000</u>	<u>13,408</u>	<u>413,733</u>
Excess of receipts over disbursements	<u>18,025</u>	<u>25,785</u>	<u>11,314</u>	<u>55,124</u>
OTHER FINANCING SOURCES (USES):				
Operating transfers in	1,975	-	-	1,975
Operating transfers out	-	-	(4,198)	(4,198)
Total other financing sources (uses)	<u>1,975</u>	<u>-</u>	<u>(4,198)</u>	<u>(2,223)</u>
Net change in cash balances	20,000	25,785	7,116	52,901
CASH BALANCES - Beginning of year	<u>357,873</u>	<u>72,716</u>	<u>3,692</u>	<u>434,281</u>
CASH BALANCES - End of year	\$ <u>377,873</u>	\$ <u>98,501</u>	\$ <u>10,808</u>	\$ <u>487,182</u>
CASH BASIS FUND BALANCES				
Unreserved				
General fund	\$ 377,873	\$ -	\$ -	\$ 377,873
Special revenue	-	98,501	10,808	109,309
Total cash basis fund balances	\$ <u>377,873</u>	\$ <u>98,501</u>	\$ <u>10,808</u>	\$ <u>487,182</u>

See Notes to Financial Statements

CITY OF KEOSAUQUA, IOWA

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	Non-Major	Total
<u>Operating receipts:</u>				
Charges for service	\$ 206,851	\$ 127,768	\$ -	\$ 334,619
Miscellaneous	<u>10,056</u>	<u>8,108</u>	<u>765</u>	<u>18,929</u>
Total operating receipts	216,907	135,876	765	353,548
<u>Operating disbursements:</u>				
Business-type activities	<u>177,897</u>	<u>602,678</u>	<u>-</u>	<u>780,575</u>
Excess (deficiency) of operating receipts over (under) operating disbursements	<u>39,010</u>	<u>(466,802)</u>	<u>765</u>	<u>(427,027)</u>
<u>Non-operating receipts (disbursements):</u>				
Intergovernmental	-	345,262	-	345,262
Interest on investments	1,768	1,851	-	3,619
Proceeds from long-term debt	-	35,000	-	35,000
Debt service	<u>(22,686)</u>	<u>(31,783)</u>	<u>-</u>	<u>(54,469)</u>
Total non-operating receipts (disbursements)	<u>(20,918)</u>	<u>350,330</u>	<u>-</u>	<u>329,412</u>
Excess (deficiency) of receipts over (under) disbursements	<u>18,092</u>	<u>(116,472)</u>	<u>765</u>	<u>(97,615)</u>
<u>Other financing sources (uses):</u>				
Operating transfers in	22,686	83,991	1,462	108,139
Operating transfers out	<u>(609)</u>	<u>(853)</u>	<u>(54,454)</u>	<u>(55,916)</u>
Total other financing sources (uses)	<u>22,077</u>	<u>83,138</u>	<u>(52,992)</u>	<u>52,223</u>
Net change in cash balances	40,169	(33,334)	(52,227)	(45,392)
<u>CASH BALANCES</u> - Beginning of year	<u>176,062</u>	<u>156,749</u>	<u>118,786</u>	<u>451,597</u>
<u>CASH BALANCES</u> - End of year	\$ <u>216,231</u>	\$ <u>123,415</u>	\$ <u>66,559</u>	\$ <u>406,205</u>
<u>CASH BASIS FUND BALANCES</u>				
Reserved for:				
Debt service	\$ -	\$ -	\$ 62,318	\$ 62,318
Customer deposits	-	-	4,241	4,241
Unreserved	<u>216,231</u>	<u>123,415</u>	<u>-</u>	<u>339,646</u>
Total cash basis fund balances	\$ <u>216,231</u>	\$ <u>123,415</u>	\$ <u>66,559</u>	\$ <u>406,205</u>

See Notes to Financial Statements

CITY OF KEOSAUQUA, IOWA

NOTES TO FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Keosauqua, Iowa is a political subdivision of the State of Iowa located in Van Buren County. It was first incorporated in 1883 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, health and social services, culture and recreation, community and economic development and general government services. The City also provides water and sewer utilities for its citizens.

A. Reporting Entity

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

These financial statements present the City of Keosauqua (the primary government) and its component unit. The component unit discussed below is included in the City's reporting entity because of the significance of its operational or financial relationship with the City. Certain disclosures about the discretely presented component unit are not included because the component unit has been audited separately and a report has been issued under separate cover. The audited financial statements are available at the City Clerk's office.

Discretely Presented Component Unit

The Keosauqua Municipal Light and Power is presented in a separate column to emphasize that it is legally separate from the City, but is financially accountable to the City, or whose relationship with the City is such that exclusion would cause the City's financial statements to be misleading or incomplete. The Utility is governed by a three-member board appointed by the City Council and the Utility's operating budget is subject to the approval of the City Council.

Jointly Governed Organizations

The City also participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the Van Buren County solid waste commission.

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:

CITY OF KEOSAUQUA, IOWA

NOTES TO FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 funds are aggregated and reported as nonmajor 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 this 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 City reports the following major proprietary funds:

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

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

C Measurement Focus and Basis of Accounting

The City 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.

CITY OF KEOSAUQUA, IOWA

NOTES TO FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 community and economic development function.

NOTE 2: CASH AND POOLED INVESTMENTS

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

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

The City's investments are categorized to give an indication of the level of risk assumed by the City at year end. The City's investments are all Category 1 which means that the investments are insured or registered or the securities are held by the City or its agent in the City's name

The City's investments at June 30, 2004 are as follows:

<u>Type</u>	<u>Carrying Amount</u>	<u>Fair value</u>
Time deposits	<u>\$109,100</u>	<u>\$109,100</u>

CITY OF KEOSAUQUA, IOWA

NOTES TO FINANCIAL STATEMENTS

NOTE 3: BONDS AND NOTES PAYABLE

Annual debt service requirements to maturity for revenue and tax increment financing bonds/notes are as follows:

Year Ending	Tax Increment Financing Revenue Bonds		Revenue Bonds/Notes		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
June 30,						
2005	\$ 8,200	\$10,461	\$ 25,577	\$ 31,424	\$ 33,777	\$ 41,885
2006	8,900	9,935	26,844	30,157	35,744	40,092
2007	9,500	9,370	28,172	28,829	37,672	38,199
2008	10,200	8,779	29,568	27,432	39,768	36,211
2009	11,000	8,117	31,033	25,968	42,033	34,085
2010	11,800	7,418	32,571	24,430	44,371	31,848
2011	12,600	6,667	34,184	22,816	46,784	29,483
2012	13,400	5,875	35,879	21,122	49,279	26,997
2013	14,500	5,015	37,657	19,344	52,157	24,359
2014	15,500	4,093	39,522	17,479	55,022	21,572
2015	16,700	3,106	41,481	15,520	58,181	18,626
2016	17,900	2,045	43,538	13,463	61,438	15,508
2017	19,122	905	45,695	11,306	64,817	12,211
2018	-	-	47,961	9,040	47,961	9,040
2019	-	-	45,464	6,661	45,464	6,661
2020	-	-	29,921	4,394	29,921	4,394
2021	-	-	31,396	2,918	31,396	2,918
2022	-	-	25,526	1,372	25,526	1,372
2023	-	-	2,329	93	2,329	93
Total	<u>\$169,322</u>	<u>\$81,786</u>	<u>\$634,318</u>	<u>\$313,768</u>	<u>\$803,640</u>	<u>\$395,554</u>

The urban renewal tax increment financing revenue bonds were issued for the purpose of defraying a portion of the costs of carrying out an urban renewal project of the City. The bonds are payable solely from the income and proceeds of the Special Revenue, Urban Renewal Tax Increment Fund and the taxes to be paid into the fund in accordance with Chapter 403.19 of the Code of Iowa. The proceeds of the urban renewal tax increment financing revenue bonds shall be expended only for purposes which are consistent with the plans of the City's urban renewal area. The bonds are not a general obligation of the City. However, the debt is subject to the constitutional debt limitation of the City.

The resolutions providing for the issuance of the revenue bonds (notes) include the following provisions:

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

In addition to the outside financing obtained for the TIF project, additional monies for the project were advanced to the TIF fund by the sewer and general fund. The repayment of these advanced amounts is included as operating transfers in the schedule of cash transactions. Original amounts advanced, current year repayments, year end balance due and interest paid to the sewer and general funds are as follows:

	<u>Sewer</u>	<u>General</u>	<u>Total</u>
Original advance	<u>\$29,266</u>	<u>\$26,000</u>	<u>\$55,266</u>
Current year repayments	<u>\$ 1,574</u>	<u>\$ 1,405</u>	<u>\$ 2,979</u>
Balance due June 30, 2004	<u>\$20,053</u>	<u>\$17,603</u>	<u>\$37,656</u>
Current year interest paid	<u>\$ 649</u>	<u>\$ 570</u>	<u>\$ 1,219</u>

CITY OF KEOSAUQUA, IOWA

NOTES TO FINANCIAL STATEMENTS

NOTE 3: BONDS AND NOTES PAYABLE (Continued)

The interest rate on the sewer fund loan is currently 3% (originally 7%) and the interest rate on the general fund loan is 3% (originally 10%)

The above maturities include water and sewer revenue bonds which require principal payments on July 1 of each year. It is the City's policy to pay these prior to June 30 of each year. (i.e. The July 1, 2004 payment was paid prior to June 30, 2004.) The maturity schedule shows maturities that will occur if the City continues with this policy

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 salary and the City is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by state statute. The City's contribution to IPERS for the years ended June 30, 2004, 2003 and 2002 were \$8,086, \$8,336 and \$8,313, respectively equal to the required contributions for each year.

NOTE 5: 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, automobile liability, automobile physical damage, public official's 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.

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 any 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 \$12,291.

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

CITY OF KEOSAUQUA, IOWA

NOTES TO FINANCIAL STATEMENTS

NOTE 5: RISK MANAGEMENT (Continued)

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.

The City also carries commercial insurance purchased from other insurers for coverage associated with workman's compensation insurance. The City assumes liability for any deductibles, and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE 6: COMPENSATED ABSENCES

City employees accumulate a limited amount of earned, but unused vacation and sick leave hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation and sick leave termination payments payable to employees at June 30, 2004 is \$7,416. This liability has been computed based on rates of pay in effect at June 30, 2004.

NOTE 7: RELATED PARTY TRANSACTIONS

The City had business transactions between the City and the City's component unit, totaling \$18,188 during the year ended June 30, 2004. The City had transactions between the City and Keosauqua Municipal Light and Power as follows:

Paid to the City by the Utility for water and sewer fees	\$ <u>313</u>
Paid to the City by the Utility for bookkeeping services	\$ <u>11,968</u>
Paid to the Utility by the City for electrical service	\$ <u>5,907</u>

NOTE 8: INTERFUND TRANSFERS

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

General	Tax incremental financing	\$ <u>1,975</u>
Water	Water debt service	<u>22,686</u>
Water reserve	Water	<u>609</u>
Sewer	Electric utility	50,000
	Sewer debt service	31,768
	Tax incremental financing	<u>2,223</u>
		<u>83,991</u>
Sewer reserve	Sewer	<u>853</u>
		\$ <u>110,114</u>

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

CITY OF KEOSAUQUA, IOWA

NOTES TO FINANCIAL STATEMENTS

NOTE 9: CONSTRUCTION COMMITMENTS

The City has entered into contracts totaling \$619,326 for sewer projects. As of June 30, 2004, cost of \$601,285 had been incurred against the contracts. The balance of \$18,041 remaining at June 30, 2004 will be paid as work on the projects progresses.

NOTE 10: 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.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF KEOSAUQUA, IOWA

BUDGETARY COMPARISON SCHEDULE
OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN BALANCES
BUDGET AND ACTUAL (CASH BASIS) - ALL GOVERNMENTAL FUNDS,
PROPRIETARY FUNDS AND COMPONENT UNITS
YEAR ENDED JUNE 30, 2004

	Governmental Funds <u>Actual</u>	Proprietary Funds <u>Actual</u>	Component Unit <u>Actual</u>	<u>Total</u>
<u>RECEIPTS:</u>				
Property tax	\$ 130,089	\$ -	\$ -	\$ 130,089
Tax increment financing collections	24,722	-	-	24,722
Other City tax	59,585	-	-	59,585
Licenses and permits	996	-	-	996
Use of money and property	9,134	3,619	13,911	26,664
Intergovernmental	101,527	345,262	-	446,789
Charges for service	69,051	334,619	937,611	1,341,281
Miscellaneous	73,753	18,929	31,836	124,518
Total receipts	<u>468,857</u>	<u>702,429</u>	<u>983,358</u>	<u>2,154,644</u>
<u>DISBURSEMENTS:</u>				
Public safety	49,524	-	-	49,524
Public works	199,968	-	-	199,968
Culture and recreation	59,150	-	-	59,150
Community and economic development	40,709	-	-	40,709
General government	50,974	-	-	50,974
Debt service	13,408	-	-	13,408
Business-type activities	-	835,044	968,901	1,803,945
Total disbursements	<u>413,733</u>	<u>835,044</u>	<u>968,901</u>	<u>2,217,678</u>
Excess (deficiency) of receipts over (under) disbursements	55,124	(132,615)	14,457	(63,034)
Other financing sources (uses), net	<u>(2,223)</u>	<u>87,223</u>	<u>(50,000)</u>	<u>35,000</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	52,901	(45,392)	(35,543)	(28,034)
<u>BALANCES</u> - Beginning of year	<u>434,281</u>	<u>451,597</u>	<u>1,346,319</u>	<u>2,232,197</u>
<u>BALANCES</u> - End of year	\$ <u>487,182</u>	\$ <u>406,205</u>	\$ <u>1,310,776</u>	\$ <u>2,204,163</u>

See Accompanying Independent Auditor's Report

<u>Budgeted Amounts</u>		<u>Final</u>	<u>Final</u> <u>to Net</u> <u>Variance</u>
<u>Original</u>			
\$ 127,838	\$ 127,838	\$ 2,251	
24,400	24,400	322	
26,550	62,016	(2,431)	
2,965	2,965	(1,969)	
44,100	39,100	(12,436)	
134,093	580,093	(133,304)	
1,399,550	1,441,550	(100,269)	
<u>56,750</u>	<u>58,750</u>	<u>65,768</u>	
<u>1,816,246</u>	<u>2,336,712</u>	<u>(182,068)</u>	
36,970	50,874	1,350	
288,760	298,760	98,792	
58,900	72,536	13,386	
31,500	34,500	(6,209)	
56,550	53,406	2,432	
24,400	24,400	10,992	
<u>1,347,204</u>	<u>2,090,204</u>	<u>286,259</u>	
<u>1,844,284</u>	<u>2,624,680</u>	<u>407,002</u>	
(28,038)	(287,968)	224,934	
<u>6,557</u>	<u>41,557</u>	<u>(6,557)</u>	
(21,481)	(246,411)	218,377	
<u>1,996,456</u>	<u>1,996,456</u>	<u>(235,741)</u>	
\$ <u>1,974,975</u>	\$ <u>1,750,045</u>	\$ <u>454,118</u>	

CITY OF KEOSAUQUA, IOWA

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING

JUNE 30, 2004

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

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, budget amendments increased budgeted disbursements by \$780,396. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2004, disbursements exceeded the amounts budgeted in the community and economic development function.

OTHER SUPPLEMENTARY INFORMATION

CITY OF KEOSAUQUA, IOWA

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

	<u>TIF</u>
<u>RECEIPTS:</u>	
Tax increment financing collections	\$ 24,722
<u>DISBURSEMENTS:</u>	
Debt service	13,408
<u>OPERATING TRANSFERS:</u>	
Operating transfers out	<u>(4,198)</u>
Net change in cash balances	7,116
<u>CASH BALANCES</u> - Beginning of year	<u>3,692</u>
<u>CASH BALANCES</u> - End of year	\$ <u>10,808</u>

CITY OF KEOSAUQUA, IOWA

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

AS OF AND FOR THE YEAR ENDED JUNE 30, 2004

	Nonmajor Proprietary						Total
	Water Deposit	Water Debt Service	Water Reserve	Sewer Debt Service	Sewer Deposit	Sewer Reserve	
<u>OPERATING RECEIPTS:</u>							
Miscellaneous	\$ 238	\$ -	\$ -	\$ -	\$ 527	\$ -	\$ 765
Total receipts	<u>238</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>527</u>	<u>-</u>	<u>765</u>
<u>OPERATING DISBURSEMENTS:</u>							
None							
<u>OTHER FINANCING SOURCES (USES):</u>							
Operating transfer in	-	-	609	-	-	853	1,462
Operating transfer out	-	(22,686)	-	(31,768)	-	-	(54,454)
Total other financing sources (uses)	<u>-</u>	<u>(22,686)</u>	<u>609</u>	<u>(31,768)</u>	<u>-</u>	<u>853</u>	<u>(52,992)</u>
Net change in cash balances	238	(22,686)	609	(31,768)	527	853	(52,227)
<u>CASH BALANCES</u> - Beginning of year	<u>1,114</u>	<u>22,686</u>	<u>25,384</u>	<u>31,768</u>	<u>2,362</u>	<u>35,472</u>	<u>118,786</u>
<u>CASH BALANCES</u> - End of year	\$ <u>1,352</u>	\$ <u>-</u>	\$ <u>25,993</u>	\$ <u>-</u>	\$ <u>2,889</u>	\$ <u>36,325</u>	\$ <u>66,559</u>

See Accompanying Independent Auditor's Report

CITY OF KEOSAUQUA, IOWA

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>	<u>Balance June 30, 2003</u>	<u>Issued During Year</u>
<u>REVENUE BONDS/NOTES:</u>					
Sewer project	April 25, 1983	5 00 %	\$ 535,800	\$ 381,125	\$ -
Water project	August 14, 1979	5 00 %	386,000	243,740	-
Tax increment financing	December 22, 1997	3 26 %	208,652	177,022	-
Sewer project	September 30, 2003	4 00 %	35,000	<u>-</u>	<u>35,000</u>
Total				\$ <u>801,887</u>	\$ <u>35,000</u>

See Accompanying Independent Auditor's Report

SCHEDULE 3

<u>Redeemed</u> <u>During</u> <u>Year</u>	<u>Balance</u> <u>June 30,</u> <u>2004</u>	<u>Interest</u> <u>Paid</u>	<u>Interest</u> <u>Due and</u> <u>Unpaid</u>
\$ 13,154	\$ 367,971	\$ 18,614	\$ -
10,783	232,957	11,903	-
7,700	169,322	2,831	-
<u>1,610</u>	<u>33,390</u>	<u>937</u>	<u>-</u>
\$ <u>33,247</u>	\$ <u>803,640</u>	\$ <u>34,285</u>	\$ <u>-</u>

CITY OF KEOSAUQUA, IOWA

BOND/NOTE MATURITIES
JUNE 30, 2004

Year Ending June 30	Revenue Bonds/Notes								
	Sewer Project Issued April 25, 1983			Water Project Issued August 14, 1979			Tax Increment Financing Issued December 22, 1997		
	Interest Rate		Amount	Interest Rate		Amount	Interest Rate		Amount
2005	5 00	%	\$ 13,344	5 00	%	\$ 11,022	3 26	%	\$ 8,200
2006	5 00		14,011	5 00		11,573	3 26		8,900
2007	5 00		14,711	5 00		12,151	3 26		9,500
2008	5 00		15,447	5 00		12,759	3 26		10,200
2009	5 00		16,219	5 00		13,397	3 26		11,000
2010	5 00		17,030	5 00		14,067	3 26		11,800
2011	5 00		17,882	5 00		14,770	3 26		12,600
2012	5 00		18,776	5 00		15,509	3 26		13,400
2013	5 00		19,715	5 00		16,284	3 26		14,500
2014	5 00		20,700	5 00		17,098	3 26		15,500
2015	5 00		21,735	5 00		17,953	3 26		16,700
2016	5 00		22,822	5 00		18,851	3 26		17,900
2017	5 00		23,963	5 00		19,793	3 26		19,122
2018	5 00		25,161	5 00		20,783			-
2019	5 00		26,420	5 00		16,947			-
2020	5 00		27,740			-			-
2021	5 00		29,128			-			-
2022	5 00		23,167			-			-
2023	5 00		-			-			-
Total			\$ <u>367,971</u>			\$ <u>232,957</u>			\$ <u>169,322</u>

See Accompanying Independent Auditor's Report

SCHEDULE 4

Sewer Project
Issued September 30, 2003

<u>Interest</u>				
<u>Rate</u>		<u>Amount</u>		<u>Total</u>
4 00	%	\$ 1,211	\$	33,777
4.00		1,260		35,744
4.00		1,310		37,672
4 00		1,362		39,768
4.00		1,417		42,033
4 00		1,474		44,371
4 00		1,532		46,784
4 00		1,594		49,279
4.00		1,658		52,157
4 00		1,724		55,022
4 00		1,793		58,181
4 00		1,865		61,438
4 00		1,939		64,817
4.00		2,017		47,961
4 00		2,097		45,464
4.00		2,181		29,921
4.00		2,268		31,396
4 00		2,359		25,526
4 00		<u>2,329</u>		<u>2,329</u>
		\$ <u>33,390</u>	\$	<u>803,640</u>

CITY OF KEOSAUQUA, IOWA

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

FOR THE PAST YEAR

Governmental

2004

RECEIPTS:

Property tax	\$	130,089
Tax increment financing collections		24,722
Other City tax		59,585
Licenses and permits		996
Use of money and property		9,134
Intergovernmental		101,527
Charges for service		69,051
Miscellaneous		<u>73,753</u>
Total	\$	<u>468,857</u>

DISBURSEMENTS:

Operating:		
Public safety	\$	49,524
Public works		199,968
Culture and recreation		59,150
Community and economic development		40,709
General government		50,974
Debt service		<u>13,408</u>
Total	\$	<u>413,733</u>

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

To the Officials of the City of Keosauqua:

We have audited the financial statements of the City of Keosauqua, Iowa, as of and for the year ended June 30, 2004, and have issued our report thereon dated September 3, 2004. Our report on the financial statements, which was prepared in conformity with an other comprehensive basis of accounting, expressed a qualified opinion since we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2003.

Except as noted in the Independent Auditor's Report, we conducted our audit in accordance with generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

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

Comments involving statutory and other legal matters about the City of Keosauqua, Iowa'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 statutory comments have all been resolved.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Keosauqua, Iowa's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be 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 the accompanying Schedule of Findings.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily

disclose all matters in 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 04-II-A is a material weakness. Prior reportable conditions have been resolved except for items 04-II-A and 04-II-B

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 Keosauqua, Iowa and other parties to whom the City may report. This report is not intended to be and should not be used by anyone other than those specified parties

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Keosauqua, Iowa 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.

ANDERSON, LARKIN & CO. P.C.

Ottumwa, Iowa
September 3, 2004

CITY OF KEOSAUQUA, IOWA

SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2004

Part I: Summary of the Independent Auditor's Results

- a. A qualified opinion was issued on the financial statements which 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, because we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2003.
- b. Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, including a material weakness.
- c. The audit did not disclose any noncompliance which is material to the financial statements

Part II: Reportable Conditions

04-II-A 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 that 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 - City officials will consider this.

Conclusion - Response accepted.

04-II-B Vehicle Use Policy - The City does not currently have a written vehicle use policy that prohibits personal use of City vehicles.

Recommendation - The City should adopt a written vehicle use policy.

Response - This is on the agenda to be approved by the council in 2005.

Conclusion - Response accepted.

Part III: Other Findings Related to Required Statutory Reporting

04-III-A 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.

04-III-B Certified Budget - Disbursements during the year ended June 30, 2004 exceeded the amounts budgeted in the community and economic development 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.

CITY OF KEOSAUQUA, IOWA

SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2004

Part III: Other Findings Related to Required Statutory Reporting (Continued)

04-III-B Certified Budget (Continued)

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

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

Conclusion – Response accepted.

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

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

04-III-E Business Transactions - Business transactions between the City and City officials are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Keosauqua Municipal Light and Power, Component Unit of City of Keosauqua, Iowa	Electrical service	\$5,907

In accordance with Chapter 362.5(12) of the Code of Iowa, the transactions with the component unit does not appear to represent a conflict of interest since it was entered into to provide essential City utility services

04-III-F 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.

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

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

04-III-I Deposits and Investments - No instances of noncompliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City's investment policy were noted.