

CITY OF MILO

**INDEPENDENT AUDITORS' REPORTS
BASIC FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

June 30, 2004

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CITY OF MILO

OFFICIALS

<u>NAME</u>	<u>TITLE</u> (Before January 2004)	<u>TERM EXPIRES</u>
Chester Crouse	Mayor	January 2004
Johnny Ulin	Mayor Protem	January 2004
Leslie Allen	Council Member	January 2006
Randy Uttley	Council Member	January 2006
Jeff Knight	Council Member	January 2006
Tom Bales	Council Member	January 2004
Sharon O'Steen	City Clerk	Indefinite
Sharon Knoer	Deputy City Clerk	Indefinite
Robert L. Stuyvesant	Attorney	Indefinite

<u>NAME</u>	<u>TITLE</u> (After January 2004)	<u>TERM EXPIRES</u>
Chester Crouse	Mayor	January 2008
Johnny Ulin	Mayor Protem	January 2008
Leslie Allen	Council Member	January 2006
Randy Uttley	Council Member	January 2006
Jeff Knight	Council Member	January 2006
Tom Bales	Council Member	January 2008
Sharon O'Steen	City Clerk	Indefinite
Sharon Knoer	Deputy City Clerk	Indefinite
Robert L. Stuyvesant	Attorney	Indefinite

INDEPENDENT AUDITORS' REPORT

To The Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Milo, Iowa, as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of City of Milo'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 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 we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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 generally accepted accounting principles of the United States of America. Also, as permitted by the Code of Iowa, the accounting records of the City of Milo have not been audited for all of the prior years. Accordingly, we were unable to satisfy ourselves as to the distribution by fund of the total balance as of 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 total fund balance as of July 1, 2003, as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Milo as of June 30, 2004, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

As described in Note 10, during the year ended June 30, 2004, the City adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments; Statement No 37, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments; Omnibus; and Statement No. 38, Certain Financial Statement Note Disclosures; and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences.

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

Management’s Discussion and Analysis and budgetary comparison information on pages 4 through 9 and 23 through 25 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the City of Milo’s basic financial statements. The supplemental information included in Schedules 1 and 2 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information, has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance as of July 1, 2003, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

December 10, 2004

CITY OF MILO

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Milo 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

The City's total cash basis net assets decreased 38%, or approximately \$179,000, from June 30, 2003 to June 30, 2004. Of this amount, the assets of the governmental activities decreased approximately \$72,000 and the assets of the business type activities decreased by approximately \$107,000.

USING THIS ANNUAL REPORT

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

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

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

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

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

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

Other Supplementary Information provides detailed information about the city's indebtedness and related debt maturities.

CITY OF MILO

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

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 have 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 generally accepted accounting principles of the United States of America. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

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

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

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

Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.

Business Type Activities include the waterworks, the sanitary sewer system and sanitation. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

1. Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue funds, such as Road Use, 3) the Debt Service Fund, and 4) the Capital Projects Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

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

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased from a year ago, decreasing from \$239,729 to \$167,753. The analysis that follows focuses on the changes in cash balances for governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities	
	Year ended June 30, 2004
Receipts and transfers	
Program receipts	
Charges for service	\$ 49,670
Operating grants, contributions and restricted interest	95,653
Capital grants, contributions and restricted interest	-
General receipts	
Property tax	98,155
Utility tax replacement excise tax	4,885
Grants and contributions not restricted to specific purposes	617
Unrestricted interest on investments	1,298
Other general receipts	6,694
Total receipts and transfers	256,972
Disbursements	
Public safety	154,456
Public works	81,414
Health and social services	905
Culture and recreation	47,251
General government	44,922
Total disbursements	328,948
Increase in cash basis net assets	(71,976)
Cash basis net assets beginning of year	239,729
Cash basis net assets end of year	\$ 167,753

CITY OF MILO

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

The business type activities cash balance decreased from a year ago from \$235,115 to \$128,323.

Changes in Cash Basis Net Assets of Business Type Activities	
	Year ended June 30, 2004
Receipts and transfers	
Program receipts	
Charges for service	
Water	\$ 161,818
Sewer	46,957
Sanitation	44,843
General receipts	
Unrestricted interest on investment	3,990
Other general receipts	50
Total receipts	257,658
Disbursements	
Water	274,613
Sewer	42,655
Sanitation	47,182
Total disbursements and transfers	364,450
Increase (decrease) in cash balance	(106,792)
Cash basis net assets beginning of year	235,115
Cash basis net assets end of year	\$ 128,323

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Milo completed the year, its governmental funds reported a combined fund balance of \$167,753, a decrease of almost \$72,000 below last year's total of \$239,729. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

The General Fund cash balance decreased \$71,214 from the prior year to \$107,875. Approximately \$96,000 was used to purchase an ambulance. A portion of the cost of a new backhoe (\$20,900) was also paid out of the General Fund.

The Road Use Tax Fund cash balance decreased by \$762 to \$59,878 during the fiscal year.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

The Water Fund cash balance decreased by \$109,395 to \$73,611, due primarily to paying off the Rural Water loan early (approximately \$109,000). A portion of the cost of a new backhoe (\$20,900) was also paid out of the Water Fund.

CITY OF MILO

MANAGEMENT’S DISCUSSION AND ANALYSIS - CONTINUED

The Sewer Fund cash balance increased by \$4,942 to \$52,326.

The Sanitation Fund cash balance decreased by \$2,339 to \$2,386.

BUDGETARY HIGHLIGHTS,

Over the course of the year, the City amended its budget one time. The amendment was approved on May 3, 2004 and resulted in an increase of \$230,000 in disbursements. The increase was to provide for paying off the Rural Water loan and purchase of a new ambulance and backhoe.

DEBT ADMINISTRATION

At June 30, 2004, the City had \$165,000 in capital loan note and other long-term debt, compared to \$312,631 last year, as show below.

	Outstanding Debt at Year-End	
	June 30,	
	2004	2003
Capital loan note	\$ 165,000	195,000
Other long-term debt	<u>-</u>	<u>117,631</u>
Total	<u>\$ 165,000</u>	<u>312,631</u>

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 \$165,000 is significantly below its constitutional debt limit of \$ 1.3 million.

More detailed information about the City’s long-term debt is presented in Note 3 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR’S BUDGETS AND RATES

City of Milo’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. The City’s total assessed valuations have increased slightly. However, funding from the State has decreased due to budget constraints.

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

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 Sharon Turner, City Clerk, 100 Main Street, Milo, Iowa.

BASIC FINANCIAL STATEMENTS

CITY OF MILO

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

	<u>Disbursements</u>	<u>Program</u> Charges for Service
Functions / Programs		
Governmental activities		
Public safety	\$ 154,456	45,920
Public works	81,414	1,703
Health and social services	905	-
Culture and recreation	47,251	272
General government	<u>44,922</u>	<u>1,775</u>
Total governmental activities	<u>328,948</u>	<u>49,670</u>
Business type activities		
Water	274,613	161,818
Sewer	42,655	46,957
Sanitation	<u>47,182</u>	<u>44,843</u>
Total business type activities	<u>364,450</u>	<u>253,618</u>
Total	<u>\$ 693,398</u>	<u>303,288</u>
General Receipts		
Property tax levied for		
General purposes		
Utility tax replacement excise tax		
Grants and contributions not restricted to specific purpose		
Unrestricted interest on investments		
Miscellaneous		
Total general receipts and transfers		

Receipts		Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
Operating Grants, Contributions, and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	Total
16,287	-	(92,249)	-	(92,249)
69,878	-	(9,833)	-	(9,833)
-	-	(905)	-	(905)
9,488	-	(37,491)	-	(37,491)
-	-	(43,147)	-	(43,147)
<u>95,653</u>	<u>-</u>	<u>(183,625)</u>	<u>-</u>	<u>(183,625)</u>
-	-	-	(112,795)	(112,795)
-	-	-	4,302	4,302
-	-	-	<u>(2,339)</u>	<u>(2,339)</u>
-	-	-	<u>(110,832)</u>	<u>(110,832)</u>
<u>95,653</u>	<u>-</u>	<u>(183,625)</u>	<u>(110,832)</u>	<u>(294,457)</u>
		98,155	-	98,155
		4,885	-	4,885
		617	-	617
		1,298	3,990	5,288
		<u>6,694</u>	<u>50</u>	<u>6,744</u>
		<u>111,649</u>	<u>4,040</u>	<u>115,689</u>

CITY OF MILO

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

Change in cash basis net assets
Cash basis net assets beginning of year, as restated

Cash basis net assets end of year

Cash Basis Net Assets

 Restricted
 Streets
 Unrestricted

Total cash basis net assets

See notes to financial statements.

Exhibit A
(Continued)

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
Governmental Activities	Business Type Activities	Total
(71,976)	(106,792)	(178,768)
239,729	235,115	474,844
167,753	128,323	296,076
59,878	-	59,878
107,875	128,323	236,198
167,753	128,323	296,076

CITY OF MILO

Exhibit B

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 Road Use Tax	Total
Receipts			
Property tax	\$ 98,155	-	98,155
Tax increment financing collections	-	-	-
Other city tax	6,592	-	6,592
Licenses and permits	1,775	-	1,775
Use of money and property	2,378	-	2,378
Intergovernmental	20,585	69,878	90,463
Charges for service	47,895	-	47,895
Miscellaneous	9,714	-	9,714
Total receipts	<u>187,094</u>	<u>69,878</u>	<u>256,972</u>
Disbursements			
Operating			
Public safety	154,456	-	154,456
Public works	10,774	70,640	81,414
Health and social services	905	-	905
Culture and recreation	47,251	-	47,251
Community and economic development	-	-	-
General government	44,922	-	44,922
Debt service	-	-	-
Capital projects	-	-	-
Total disbursements	<u>258,308</u>	<u>70,640</u>	<u>328,948</u>
Excess of receipts over disbursements	<u>(71,214)</u>	<u>(762)</u>	<u>(71,976)</u>
Net change in cash balances	(71,214)	(762)	(71,976)
Cash balances beginning of year	<u>179,089</u>	<u>60,640</u>	<u>239,729</u>
Cash balances end of year	<u>\$ 107,875</u>	<u>59,878</u>	<u>167,753</u>
Cash Basis Fund Balances			
Unreserved			
General fund	\$ 107,875	-	107,875
Special revenue funds	-	59,878	59,878
Total cash basis fund balances	<u>\$ 107,875</u>	<u>59,878</u>	<u>167,753</u>

See notes to financial statements.

CITY OF MILO

Schedule C

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

	Enterprise Funds			Total
	Water	Sewer	Sanitation	
Operating receipts				
Use of money and property	\$ 3,350	640	-	3,990
Charges for service	161,818	46,957	44,843	253,618
Miscellaneous	<u>50</u>	<u>-</u>	<u>-</u>	<u>50</u>
Total operating receipts	<u>165,218</u>	<u>47,597</u>	<u>44,843</u>	<u>257,658</u>
Operating disbursements				
Business type activities				
Water	274,613	-	-	274,613
Sewer	-	42,655	-	42,655
Sanitation	<u>-</u>	<u>-</u>	<u>47,182</u>	<u>47,182</u>
Total operating disbursements	<u>274,613</u>	<u>42,655</u>	<u>47,182</u>	<u>364,450</u>
Excess (deficiency) of receipts over (under) disbursements	<u>(109,395)</u>	<u>4,942</u>	<u>(2,339)</u>	<u>(106,792)</u>
Other financing sources (uses)				
Operating transfers out	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in cash balances	(109,395)	4,942	(2,339)	(106,792)
Cash balances beginning of year	<u>183,006</u>	<u>47,384</u>	<u>4,725</u>	<u>235,115</u>
Cash balances end of year	<u>\$ 73,611</u>	<u>52,326</u>	<u>2,386</u>	<u>128,323</u>
Cash Basis Fund Balances				
Reserved for debt service	\$ -	-	-	-
Unreserved	<u>73,611</u>	<u>52,326</u>	<u>2,386</u>	<u>128,323</u>
Total cash basis fund balances	<u>\$ 73,611</u>	<u>52,326</u>	<u>2,386</u>	<u>128,323</u>

See notes to financial statements.

CITY OF MILO

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The City of Milo is a political subdivision of the State of Iowa located in Warren County. It was first incorporated in 1880 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, culture and recreation, community and economic development and general government services. The City also provides water and sewer utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, City of Milo 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 of Milo has no component units which meet the Governmental Accounting Standards Board criteria.

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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2004

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

B. Basis of Presentation (Continued)

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 fund 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 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 Sanitation Fund accounts for the operation and maintenance of the City's solid waste collection system.

CITY OF MILO

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2004

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

C. Measurement Focus and Basis of Accounting

The City of Milo 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 generally accepted accounting principles of the United States of America.

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

D. Budgets and Budgetary Accounting

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

2. **CASH AND 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.

CITY OF MILO

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2004

3. **BONDS AND NOTES PAYABLE**

Annual debt service requirements to maturity for general obligation bonds and other debt are as follows:

YEAR ENDING JUNE 30,	GENERAL OBLIGATION CAPITAL LOAN NOTES	
	PRINCIPAL	INTEREST
2005	\$ 30,000	9,517
2006	30,000	7,838
2007	35,000	6,142
2008	35,000	4,130
2009	35,000	2,083
Total	\$ 165,000	29,710

The code of Iowa requires the principal and interest on general obligation bonds be paid from the Debt Service Fund. However, during the year, \$20,000 of bond principal and \$6,528 of bond interest was paid from the Water Enterprise Fund and \$10,000 of bond principal and \$4,639 of bond interest was paid from the Sewer Enterprise Fund.

Other debt was issued in December 1995 in connection with entering into a water purchase contract with Warren Water District. The contract extends for a period of forty years and provides the City will purchase water at a rate of \$2.10 per 1,000 gallons, pay a \$230,125 deferred connection fee at a rate of \$1,209 per month, including interest at 5.625 percent and make 120 monthly payments of \$121 to a reserve account. Warren Water District agreed to provide up to five million gallons of potable water per month and minimum fire protection water flow as specified in the contract. Beginning in November 1998 the City began paying \$1,500 additional principal each month. In November 2003 the remaining deferred connection fee was paid in full.

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 year ended June 30, 2004 was \$3,987 equal to the required contributions for the year.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2004

5. **COMPENSATED ABSENCES**

City employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation payable to employees at June 30, 2004, was \$1,403. This liability has been computed based on rates of pay as of June 30, 2004.

6. **BUDGET OVER EXPENDITURE**

Per the Code of Iowa, disbursements may not legally exceed budgeted appropriations at the program level. During the year ended June 30, 2004, disbursements in the public safety, public works and culture and recreation functions exceeded the amounts budgeted.

7. **RELATED PARTY TRANSACTIONS**

The City had business transactions between the City and City officials, totaling \$8,528 during the year ended June 30, 2004.

8. **RISK MANAGEMENT**

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

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and insurance 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' basic 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.

CITY OF MILO

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2004

9. **RISK MANAGEMENT (Continued)**

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 \$8,528.

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

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event that a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. As of June 30, 2004, settled claims have not exceeded the risk pool or reinsurance company 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 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 is a member of the Iowa Municipalities Workers' Compensation Association (the "Association"). The Association is governed by a board of directors elected by representatives of the governing bodies of each participating governmental jurisdiction. The City has executed a Worker's Compensation Coverage Agreement with the Association which extends through June 30, 2004 and has authorized the Association to issue general obligation bonds to provide funds with which to pay claims. During the year ended June 30, 2004, the city paid workers' compensation insurance premiums of \$2,805 to the Association.

CITY OF MILO

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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.

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

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF MILO

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

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds not Required to to be Budgeted
Receipts			
Property tax	\$ 98,155	-	-
Other city tax	6,592	-	-
Licenses and permits	1,775	-	-
Use of money and property	2,378	3,990	-
Intergovernmental	90,463	-	-
Charges for service	47,895	253,618	-
Miscellaneous	9,714	50	-
Total receipts	<u>256,972</u>	<u>257,658</u>	<u>-</u>
Disbursements			
Public safety	154,456	-	-
Public works	81,414	-	-
Health and social services	905	-	-
Culture and recreation	47,251	-	-
General government	44,922	-	-
Business type activities	-	364,450	-
Total disbursements	<u>328,948</u>	<u>364,450</u>	<u>-</u>
Excess of receipts over disbursements	(71,976)	(106,792)	-
Other financing sources, net	<u>-</u>	<u>-</u>	<u>-</u>
Excess of receipts and other financing sources over disbursements and other financing uses	(71,976)	(106,792)	-
Balances beginning of year	<u>239,729</u>	<u>235,115</u>	<u>-</u>
Balances end of year	<u>\$ 167,753</u>	<u>128,323</u>	<u>-</u>

Net	Budgeted Amounts		Final to Net Variance
	Original	Final	
98,155	99,900	99,900	(1,745)
6,592	4,958	4,958	1,634
1,775	500	500	1,275
6,368	2,650	2,650	3,718
90,463	96,752	96,752	(6,289)
301,513	279,256	279,256	22,257
9,764	1,875	1,875	7,889
<u>514,630</u>	<u>485,891</u>	<u>485,891</u>	<u>28,739</u>
154,456	61,350	146,350	(8,106)
81,414	44,409	79,409	(2,005)
905	905	905	-
47,251	42,668	42,668	(4,583)
44,922	47,449	47,449	2,527
<u>364,450</u>	<u>267,611</u>	<u>377,611</u>	<u>13,161</u>
<u>693,398</u>	<u>464,392</u>	<u>694,392</u>	<u>994</u>
(178,768)	21,499	(208,501)	29,733
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
(178,768)	21,499	(208,501)	29,733
<u>474,844</u>	<u>414,337</u>	<u>414,337</u>	<u>60,507</u>
<u><u>296,076</u></u>	<u><u>435,836</u></u>	<u><u>205,836</u></u>	<u><u>90,240</u></u>

CITY OF MILO

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, one budget amendment increased budgeted disbursements by \$230,000. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2004, disbursements exceeded the amounts budgeted in the public safety, public works and culture and recreation functions.

OTHER SUPPLEMENTARY INFORMATION

CITY OF MILO

Schedule of Indebtedness
 Year ended June 30, 2004

OBLIGATION	DATE OF ISSUE	INTEREST RATES	AMOUNT ORIGINALLY ISSUED
General Obligation Capital			
Loan Note			
1996 Water and Sewer Projects	July 1, 1996	5.10-5.95%	\$ 330,000
Other debt:			
Water connection fee	Dec 15, 1995	5.625%	230,125

Schedule 1

<u>BALANCE BEGINNING OF YEAR</u>	<u>ISSUED DURING YEAR</u>	<u>REDEEMED DURING YEAR</u>	<u>BALANCE END YEAR</u>	<u>INTEREST PAID</u>	<u>COUPONS DUE AND UNPAID</u>
\$ 195,000	-	30,000	165,000	11,167	-
<u>117,631</u>	<u>-</u>	<u>117,631</u>	<u>-</u>	<u>2,628</u>	<u>-</u>
<u><u>\$ 312,631</u></u>	<u><u>-</u></u>	<u><u>147,631</u></u>	<u><u>165,000</u></u>	<u><u>13,795</u></u>	<u><u>-</u></u>

CITY OF MILO

Schedule 2

Bond and Note Maturities
June 30, 2004

General Obligation Capital Loan Notes

Year Ending June 30,	Interest Rates	Water and Sewer Projects	
		Issued July 1, 1996	
		Amount	
2005	5.60	\$	30,000
2006	5.65		30,000
2007	5.75		35,000
2009	5.85		35,000
2009	5.95		35,000
		\$	<u>165,000</u>

See accompanying independent auditor's report.

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

To the Honorable Mayor and
Members of the City Council:

We have audited the financial statements of the City of Milo, Iowa as of and for the year ended June 30, 2004, and have issued our report thereon dated December 10, 2004. Our report on the financial statements, which were prepared in conformity with an other comprehensive basis of accounting, expressed a qualified opinion since we were unable to satisfy ourselves as to the distribution by fund of the total fund 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 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.

Compliance

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

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior statutory comments have been resolved except for items (A), (G), (H) and (I).

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Milo'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 of Milo'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 (A) is a material weakness. Prior reportable conditions have been resolved except for items (A) and (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 Milo and other parties to whom the City of Milo may report. This report is not intended to be and should not be used by anyone other than these specified parties.

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

December 10, 2004

CITY OF MILO

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 an other comprehensive basis of accounting.
- (B) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, including material weaknesses.
- (C) The audit did not disclose any noncompliance which is material to the financial statements.
- (D) There were no major federal programs.
- (E) The audit did not disclose any audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (F) The City of Milo did not qualify as a low-risk auditee.

Part II: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

IV-A-04 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the bank deposits and the posting of the cash receipts to the general ledger and to the utility billing system are all done by the same person.

Recommendation - We realize that with a limited staff, segregation of duties is difficult. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances. In addition, the Mayor and Council should periodically review cash receipts information to detect errors or irregularities.

Response - We will consider this.

Conclusion - Response acknowledged.

CITY OF MILO

SCHEDULE OF FINDINGS (CONTINUED)
Year ended June 30, 2004

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

REPORTABLE CONDITIONS - CONTINUED:

IV-B-04 Records of Accounts - The Library Board and Milo Fire and Rescue maintain the accounting records pertaining to the operations of the library and the fire and ambulance departments. These transactions and the resulting balances are not recorded in the Clerk's records. Chapter 384.20 of the Code of Iowa states in part that "a city shall keep accounts which show an accurate and detailed statement of all public funds collected, received, or expended for any city purpose."

Recommendation - For better accountability, financial and budgetary control, the financial activity and balances of all City accounts should be recorded in the Clerk's records.

Response - We will consider including these activities in the City Clerk's records in the future.

Conclusion - Response acknowledged.

Part III: Findings and Questioned Costs for Federal Awards:

Not applicable

Part IV: Other Findings Related to Required Statutory Reporting:

IV-A-04 Official Depositories - A resolution naming official depositories should have been adopted by the City Council in accordance with Chapter 12C.2 of the Code of Iowa.

Recommendation - The City Council should adopt a resolution naming official depositories in accordance with Chapter 12C.2 of the Code of Iowa.

Response - A resolution naming official depositories will be adopted in the future.

Conclusion - Response accepted.

CITY OF MILO

SCHEDULE OF FINDINGS (CONTINUED)
Year ended June 30, 2004

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

IV-B-04 Certified Budget - Disbursements during the year ended June 30, 2004, exceeded the amounts budgeted in the Public Safety, Public Works and Culture and Recreation functions. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

Recommendation - The budget should have been amended in 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.

IV-C-04 Questionable Disbursements – We noted a payment for fire equipment that was for unspecified items not yet delivered. More than six months after the end of the fiscal year no specific equipment was ordered or delivered.

Recommendation – City officials should not authorize disbursements of funds without appropriate documentation that the City actually received the good or services being paid for.

Response – Appropriate documentation will be maintained for future disbursements.

Conclusion - Response accepted.

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

IV-E-04 Business Transactions - Business transactions between the City and City officials or employees are detailed as follows.

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Chester Crouse, Mayor, Owner All Plan Insurance	Insurance	\$8,528
Tom Bales, Council Member, Owner Tomin Towing & Recovery	Repairs & Supplies	\$1,253

SCHEDULE OF FINDINGS (CONTINUED)
Year ended June 30, 2004

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

IV-E-04 Business Transactions (Continued)

In accordance with Chapter 362.5 of the Code of Iowa, the transaction with the Mayor does not appear to represent a conflict of interest since it was entered into through competitive bidding. The transactions with the council member do not appear to represent a conflict of interest since total transactions were less than \$1,500 during the fiscal year.

IV-F-04 Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that coverage is adequate for current operations.

IV-G-04 Council Minutes - No transactions other than the disbursements of the Library Board and Milo Fire and Rescue were found that we believe should have been approved in the Council minutes but were not.

The minutes of Council proceedings were not published in accordance with Chapter 372.13(6) of the Code of Iowa. Also, the City did not publish annual gross salaries in accordance with an Attorney General's opinion dated April 12, 1978.

Recommendation - The City should comply with Chapter 372.13(6) of the Code of Iowa and publish minutes and annual individual salaries as required.

Response - We will publish minutes and salaries as required.

Conclusion - Response accepted.

IV-H-04 Deposits and Investments – The City's investment policy was not provided in accordance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa.

Recommendation – The City should provide an investment policy in accordance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa.

Response - We will provide an investment policy in the future as recommended.

SCHEDULE OF FINDINGS (CONTINUED)
Year ended June 30, 2004

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

Conclusion - Response accepted.

- IV-I-04 Payment of General Obligation Notes – Certain general obligation capital loan notes were paid from the Enterprise Funds, Water and Sewer Rental. Chapter 384.4 of the Code of Iowa states in part that “Moneys pledged or available to service general obligation bonds, and received from sources other than property tax, must be deposited in the Debt Service Fund.”

Recommendation – The City should transfer from the Enterprise Funds, Water and Sewer Rental to the Debt Service Fund, General Obligation Capital Loans Notes Account for future funding contributions. Payments of the notes should then be disbursed from the Debt Service Fund.

Response - We will transfer in the future as recommended.

Conclusion - Response accepted.