

CITY OF BUFFALO CENTER, IOWA
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTAL INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2004

- Prepared By -

Larry Pump, CPA
117 North Jackson Street
Charles City, IA 50616-2036
Phone (641)257-4222

CITY OF BUFFALO CENTER, IOWA

TABLE OF CONTENTS

	<u>PAGE</u>
<u>OFFICIALS</u>	1
<u>INDEPENDENT AUDITOR'S REPORT</u>	2-3
<u>MANAGEMENT'S DISCUSSION AND ANALYSIS</u>	4-9
 <u>BASIC FINANCIAL STATEMENTS:</u>	
	<u>Exhibit</u>
Government-wide Financial Statement:	
Statement of Activities and Net Assets - Cash Basis	A 10-13
Governmental Fund Financial Statements:	
Statement of Cash Receipts, Disbursements and	
Changes in Cash Balances	B 14-17
Proprietary Fund Financial Statements:	
Statement of Cash Receipts, Disbursements and	
Changes in Cash Balances	C 18
Notes to Financial Statements	19-26
 <u>REQUIRED SUPPLEMENTARY INFORMATION:</u>	
Budgetary Comparison Schedule of Receipts, Disbursements and	
Changes in Balances - Budget and Actual (Cash Basis) - All Governmental	
Funds and Proprietary Funds	27-28
Notes to Required Supplementary Information	
- Budgetary Reporting	29
 <u>OTHER SUPPLEMENTARY INFORMATION:</u>	
	<u>Schedule</u>
Statement of Cash Receipts, Disbursements and Changes in	
Cash Balances - Nonmajor Governmental Funds	1 30-31
Schedule of Indebtedness	2 32-33
Note Maturities	3 34
 <u>INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON</u>	
<u>INTERNAL CONTROL OVER FINANCIAL REPORTING</u>	35-36
 <u>SCHEDULE OF FINDINGS</u>	37-39

OFFICIALS

<u>NAME</u>	<u>TITLE</u> (Before January 2004)	<u>TERM EXPIRES</u>
Reinert Levik	Mayor	January 2004
Charles Silber	Mayor Pro tem	January 2006
Troy Armstrong	Council Member	January 2006
Rick Hofbauer	Council Member	January 2004
Marsha Peterson	Council Member	January 2004
Marty Schaefer	Council Member	January 2004
Deb Jensvold	Clerk	January 2004
Jody Sachs	Treasurer	January 2004
Daron Fritz	Attorney	Indefinite
(After January 2004)		
Reinert Levik	Mayor	January 2006
Charles Silber	Mayor Pro tem	January 2006
Troy Armstrong	Council Member	January 2006
Tim Heitland	Council Member	January 2008
Larry Gray	Council Member	Resigned
Marty Schaefer	Council Member	January 2008
Ross Ellsworth	Council Member (appointed)	January 2008
Deb Jensvold	Clerk	January 2005
Jody Sachs	Treasurer	January 2005
Daron Fritz	Attorney	Indefinite

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Members of the City Council:

I have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Buffalo Center, Iowa, as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Buffalo Center's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my 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 I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

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

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Buffalo Center 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 as described in Note 1.

As described in Note 11, 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, I have also issued my report dated September 20, 2004 on my consideration of the City of Buffalo Center's internal control over financial reporting and my 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 my audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 9 and 27 through 29 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. I applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. I did not audit the information and express no opinion on it.

My audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the City of Buffalo Center's basic financial statements. Other supplementary information included in Schedules 1 through 3 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in my audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

September 20, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Buffalo Center 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. I 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 \$111,000 from fiscal 2003 to fiscal 2004. Property tax decreased approximately \$10,000 and intergovernmental revenues decreased approximately \$82,000.

Disbursements increased 31%, or approximately \$256,000, in fiscal 2004 from fiscal 2003. Public safety, public works and debt service disbursements increased approximately \$75,000, \$11,000 and \$36,500, respectively, while capital projects disbursements decreased approximately \$353,500.

The City's total cash basis net assets increased 8%, or approximately \$55,000, from June 30, 2003 to June 30, 2004. Of this amount, the assets of the governmental activities increased approximately \$17,000 and the assets of the business type activities increased by approximately \$38,000.

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 nonmajor governmental funds.

Basis of Accounting

The city maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the 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, the sanitary sewer system and garbage collection. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Local Option Sales Tax, 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.

- 5 -

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 garbage 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

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 \$437,706 to \$456,093. The analysis that follows focuses on the changes in cash balances for governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities
(Expressed in Thousands)

	Year ended June 30,	
	2004	2003
Receipts and transfers:		
Program receipts:		
Charges for service	\$ 30	\$ 28
Operating grants, contributions and restricted interest	112	78
Capital grants, contributions and restricted interest	113	217
General receipts:		
Property tax	231	241
Local option sales tax	63	58
Grants and contributions not restricted to specific purposes	9	-
Unrestricted investment earnings	4	-
Note proceeds	-	80
Other general receipts	37	46
Total receipts and transfers	<u>\$ 599</u>	<u>\$ 748</u>
Disbursements:		
Public safety	\$ 142	\$ 67
Public works	113	102
Culture and recreation	86	127
Community and economic development	5	8
General government	79	60
Debt service	130	93
Capital projects	27	381
Total disbursements	<u>\$ 582</u>	<u>\$ 838</u>
Increase in cash basis net assets	\$ 17	\$ (90)
Cash basis net assets beginning of year	438	528
Prior period adjustment	<u>1</u>	<u>-</u>
Cash basis net assets end of year	<u>\$ 456</u>	<u>\$ 438</u>

- 6 -

The City's total receipts for governmental activities decreased by 20%, or \$149,000. The total cost of all programs and services decreased by approximately \$256,000, or 31%, with no new programs added this year. The significant decrease in receipts and disbursements was due to the decrease in capital projects in 2004.

The cost of all governmental activities this year was \$582,000 compared to \$838,000 last year. However, as shown in the Statement of Activities and Net Assets on pages 10-13, the amount taxpayers ultimately financed for these activities was only \$327,000 because some of the cost was paid by those directly benefited from the programs (\$30,000) or by other governments and organizations that subsidized certain programs with grants, contributions, and restricted interest (\$225,000). Overall, the City's governmental activities receipts, including governmental aid and fees for service, decreased in 2004 from approximately \$323,000 to approximately \$225,000. The City paid for the remaining "public benefit" portion of governmental activities with approximately \$231,000 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
(Expressed in Thousands)

	<u>Year ended June 30,</u>	
	<u>2004</u>	<u>2003</u>
Receipts:		
Program receipts:		
Charges for service:		
Garbage	\$ 53	\$ 53
Water	96	52
Sewer	64	84
General receipts:		
Unrestricted interest on investments	1	2
Other general receipts	-	6
Total receipts	<u>\$ 214</u>	<u>\$ 197</u>
Disbursements and transfers:		
Garbage	\$ 36	\$ 30
Water	84	57
Sewer	56	61
Total disbursements and transfers	<u>\$ 176</u>	<u>\$ 148</u>
Increase (decrease) in cash balance	\$ 38	\$ 49
Cash basis net assets beginning of year	<u>238</u>	<u>189</u>
Cash basis net assets end of year	<u>\$ 276</u>	<u>\$ 238</u>

Total business type activities receipts for the fiscal year were \$214,000 compared to \$197,000 last year. This significant increase was due primarily to the increase in water receipts. Total disbursements for the fiscal year increased by 20% to a total of \$176,000.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Buffalo Center completed the year, its governmental funds reported a combined fund balance of \$456,093, an increase of \$17,000 above last year's total of \$437,706. 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 \$51,085 from the prior year to \$187,061. The decrease was due to an increase in general government disbursements.

The Road Use Tax Fund cash balance increased by \$23,242 to \$101,388 during the fiscal year. This increase was attributable to excess Road use tax receipts over current year disbursements. The city intends to use this money to upgrade the condition of all City roads.

The Local Option Sales Tax cash balance increased by \$54,271 to \$105,051 during the fiscal year. This is due to there being no local option disbursements this year.

The Debt Service Fund cash balance decreased by \$16,496 to \$31,648 during the fiscal year. This decrease was due to a decrease in property tax. Bond principal and interest payments increased by \$36,562 in fiscal 2004.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

The garbage fund cash balance increased by \$16,619 to \$81,896. This is due to a decrease in operating expenses.

The Water Fund cash balance increased by \$12,298 to \$100,364, due primarily to an increase in the sale of water.

The Sewer Fund cash balance increased by \$9,218 to \$93,663, due primarily to a decrease in current year disbursements.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget once. The amendment was approved on May 11, 2004 and resulted in an increase in operating disbursements of \$53,000.

DEBT ADMINISTRATION

At June 30, 2004, the City had approximately \$379,040 in bonds and other long-term debt, compared to approximately \$485,480 last year, as shown below.

Outstanding Debt at Year-End
(Expressed in Thousands)

	June 30,	
	2004	2003
General obligation bonds	\$ 379	\$ 485

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 \$379,040 is significantly below its constitutional debt limit of \$688,849.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City of Buffalo Center 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. In the fall of 2003 the Little Bison Daycare and the school remodel project were completed. The City feels these projects may attract more families to the community. The City also relocated the library and made it handicap accessible during the past fiscal year. The City purchased two properties for demolition during the year. These properties were cleaned up and then sold, helping to clean up the community and put the properties back on the tax roll.

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, Deb Jensvold, City Clerk, City of Buffalo Center.

CITY OF BUFFALO CENTER, IOWA
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2004

	<u>Disbursements</u>	<u>Program Receipts</u>		
		<u>Charges for Service</u>	<u>Contributions and Restricted Interest</u>	<u>Operating Grants, Capital Grants, Contributions and Restricted Interest</u>
FUNCTIONS/PROGRAMS:				
Governmental activities:				
Public Safety	\$ 141,637	\$ -	\$ 5,356	\$ 51,375
Public works	112,770	10,255	80,203	-
Culture and recreation	86,956	19,665	26,014	-
Community and economic development	4,411	-	-	-
General government	79,015	-	-	-
Debt service	129,635	-	-	34,671
Capital projects	27,394	-	-	27,194
	<hr/>	<hr/>	<hr/>	<hr/>
Total governmental Activities	\$ 581,818	\$ 29,920	\$ 111,573	\$ 113,240
Business type activities:				
Garbage	\$ 36,223	\$ 52,842	\$ -	\$ -
Water	84,024	95,834	-	-
Sewer	55,075	63,876	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Total business type activities	\$ 175,322	\$ 212,552	\$ -	\$ -
	<hr/>	<hr/>	<hr/>	<hr/>
Total	\$ 757,140	\$ 242,472	\$ 111,573	\$ 113,240

(continued)

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

<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
\$ (84,906)	\$ -	\$ (84,906)
(22,312)	-	(22,312)
(41,277)	-	(41,277)
(4,411)	-	(4,411)
(79,015)	-	(79,015)
(94,964)	-	(94,964)
<u>(200)</u>	<u>-</u>	<u>(200)</u>
\$ <u>(327,085)</u>	\$ <u>-</u>	\$ <u>(327,085)</u>
\$ -	\$ 16,619	\$ 16,619
-	11,810	11,810
<u>-</u>	<u>8,801</u>	<u>8,801</u>
\$ <u>-</u>	\$ <u>37,230</u>	\$ <u>37,230</u>
\$ <u>(327,085)</u>	\$ <u>37,230</u>	\$ <u>(289,855)</u>

	<u>Program Receipts</u>		
	<u>Charges</u>	<u>Contributions</u>	<u>Contributions</u>
	<u>for</u>	<u>and Restricted</u>	<u>and Restricted</u>
<u>Disbursements</u>	<u>Service</u>	<u>Interest</u>	<u>Interest</u>
General Receipts:			
Property tax levied for:			
General purposes			
Debt service			
Local option sales tax			
Grants and contributions not restricted to specific purpose			
Unrestricted interest on investments			
Miscellaneous			
 Total general receipts and transfers			
 Change in cash basis net assets			
 Cash basis net assets beginning of year, as restated			
Prior period adjustment			
 Cash basis net assets end of year			
Cash Basis Net Assets			
Restricted:			
Streets			
Debt service			
Other purposes			
Unrestricted			
 Total cash basis net assets			

See Notes to Financial Statements.

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

<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
\$ 152,267	\$ -	\$ 152,267
78,468	-	78,468
62,614	-	62,614
9,539	-	9,539
3,915	905	4,820
<u>37,206</u>	<u>-</u>	<u>37,206</u>
<u>\$ 344,009</u>	<u>\$ 905</u>	<u>\$ 344,914</u>
\$ 16,924	\$ 38,135	\$ 55,059
437,706	237,788	675,494
<u>1,463</u>	<u>-</u>	<u>1,463</u>
<u>\$ 456,093</u>	<u>\$ 275,923</u>	<u>\$ 732,016</u>
\$ 101,388	\$ -	\$ 101,388
31,648	-	31,648
135,996	-	135,996
<u>187,061</u>	<u>275,923</u>	<u>462,984</u>
<u>\$ 456,093</u>	<u>\$ 275,923</u>	<u>\$ 732,016</u>

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

	General	Special Road Use Tax
RECEIPTS:		
Property tax	\$ 133,519	\$ -
Other city tax	-	-
Use of money and property	4,579	-
Licenses and permits	1,744	-
Intergovernmental	116,463	80,203
Charges for service	29,920	-
Special assessments	-	-
Miscellaneous	33,703	-
Total receipts	\$ 319,928	\$ 80,203
 DISBURSEMENTS:		
Operating:		
Public safety	\$ 136,745	\$ -
Public works	50,118	56,961
Culture and recreation program	85,078	-
Community and economic development	4,411	-
General government	78,482	-
Debt service	-	-
Capital projects	-	-
Total disbursements	\$ 354,834	\$ 56,961
Excess (deficiency) of receipts over (under) disbursements	\$ (34,906)	\$ 23,242
Other financing sources (uses):		
Operating transfers in	\$ 13,000	\$ -
Operating transfers out	(29,179)	-
Total other financing sources (uses)	\$ (16,179)	\$ -
Net change in cash balances	\$ (51,085)	\$ 23,242
Cash balances beginning of year	236,555	78,146
Residual equity transfer	128	-
Prior period adjustment	1,463	-
Cash balances end of year	\$ 187,061	\$ 101,388

(Continued)

<u>Revenues</u>			<u>Other Nonmajor Governmental Funds</u>	<u>Total</u>
<u>Local Option Sales Tax</u>	<u>Debt Service</u>			
\$ -	\$ 78,468	\$ 18,748	\$ 230,735	
62,614	-	-	62,614	
957	-	138	5,674	
-	-	-	1,744	
-	-	3,015	199,681	
-	-	-	29,920	
-	34,671	-	34,671	
-	-	-	33,703	
<u>\$ 63,571</u>	<u>\$ 113,139</u>	<u>\$ 21,901</u>	<u>\$ 598,742</u>	
\$ -	\$ -	\$ 4,892	\$ 141,637	
-	-	5,691	112,770	
-	-	1,878	86,956	
-	-	-	4,411	
-	-	533	79,015	
-	129,635	-	129,635	
-	-	27,394	27,394	
<u>\$ -</u>	<u>\$ 129,635</u>	<u>\$ 40,388</u>	<u>\$ 581,818</u>	
<u>\$ 63,571</u>	<u>\$ (16,496)</u>	<u>\$ (18,487)</u>	<u>\$ 16,924</u>	
\$ 5,000	\$ -	\$ 25,479	\$ 43,479	
(14,300)	-	-	(43,479)	
<u>\$ (9,300)</u>	<u>\$ -</u>	<u>\$ 25,479</u>	<u>\$ -</u>	
\$ 54,271	\$ (16,496)	\$ 6,992	\$ 16,924	
50,780	48,144	24,081	437,706	
-	-	(128)	-	
-	-	-	1,463	
<u>\$ 105,051</u>	<u>\$ 31,648</u>	<u>\$ 30,945</u>	<u>\$ 456,093</u>	

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

	<u>General</u>	<u>Special Road Use Tax</u>
Cash Basis Fund Balances:		
Reserved:		
Debt service	\$ -	\$ -
Unreserved:		
General fund	187,061	-
Special revenue funds	-	101,388
Capital project funds	-	-
	<hr/>	<hr/>
Total Cash Basis Fund Balances	<u>\$ 187,061</u>	<u>\$ 101,388</u>

See Notes to Financial Statements.

(continued)

<u>Revenues</u>			Other Nonmajor Governmental	
<u>Local Option</u>	<u>Debt Service</u>		<u>Funds</u>	<u>Total</u>
<u>Sales Tax</u>				
\$ -	\$ 31,648	\$ -	\$ -	\$ 31,648
-	-	-	-	187,061
105,051	-	5,754	212,193	
-	-	25,191	25,191	
<u>\$ 105,051</u>	<u>\$ 31,678</u>	<u>\$ 30,945</u>	<u>\$ 456,093</u>	

CITY OF BUFFALO CENTER, IOWA
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND
CHANGES IN CASH BALANCES
PROPRIETARY FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2004

	<u>Enterprise Funds</u>			
	<u>Garbage</u>	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Operating receipts:				
Charges for service	\$ 52,842	\$ 90,454	\$ 62,649	\$ 205,945
Miscellaneous	-	5,380	1,227	6,607
Total operating receipts	\$ 52,842	\$ 95,834	\$ 63,876	\$ 212,552
Operating disbursements:				
Business type activities	36,223	84,024	55,075	175,322
Excess of operating receipts over operating disbursements	\$ 16,619	\$ 11,810	\$ 8,801	\$ 37,230
Non-operating receipts (disbursements):				
Interest on investments	-	488	417	905
Net change in cash balances	\$ 16,619	\$ 12,298	\$ 9,218	\$ 38,135
Cash balances beginning of year	65,277	88,066	84,445	237,788
Cash balances end of year	<u>\$ 81,896</u>	<u>\$ 100,364</u>	<u>\$ 93,663</u>	<u>\$ 275,923</u>
Cash Basis Fund Balances				
Unreserved	<u>\$ 81,896</u>	<u>\$ 100,364</u>	<u>\$ 93,663</u>	<u>\$ 275,923</u>

See Notes to Financial Statements.

CITY OF BUFFALO CENTER, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

(1) Summary of Significant Accounting Policies

The City of Buffalo Center is a political subdivision of the State of Iowa located in Winnebago County. It was first incorporated in 1892 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 services. The City also provides water and sewer utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Buffalo Center has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City. The city has no component unit which meet the Governmental Accounting Standards Board Criteria.

Jointly Governed Organizations - The City participates in a jointly governed organization that provides goods or services to the citizenry of the City but does not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating government. City officials are members of the Winnebago County Assessor's Conference Board.

B. Basis of Presentation

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

CITY OF BUFFALO CENTER, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

(1) Summary of Significant Accounting Policies - continued

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

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

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

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue:

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

The Local Option Sales Tax Fund is used to account for local option sales tax receipts and disbursements.

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

CITY OF BUFFALO CENTER, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

(1) Summary of Significant Accounting Policies - continued

The City reports the following major proprietary funds:

The Garbage Fund accounts for the collection of the City's garbage.

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

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

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information

(2) Cash and Investments

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

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

**CITY OF BUFFALO CENTER, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

(3) Notes Payable

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

Year Ending June 30,	General Obligation Notes	
	Principal	Interest
2005	\$ 81,440	\$ 18,894
2006	56,440	13,621
2007	56,440	10,899
2008	56,440	8,177
2009	56,440	5,456
2010-2013	71,840	5,657
Total	<u>\$379,040</u>	<u>\$ 62,704</u>

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

Real Estate Contract

The city purchased a building on Main Street on contract. The following is a schedule, by years, of future payments required under the contract:

<u>Year ending June 30,</u>	<u>Amount</u>
2005	\$ 12,000
2006	12,000
	<u>\$ 24,000</u>

(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 statement and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the City is required to contribute 5.75% of annual covered payroll except for police employees, in which case the percentages are 5.93% and 8.90%, respectively. For the year ended June 30, 2003, the contribution rates for police employees and the City were 6.04% and 9.07%, respectively, and for the year ended June 30, 2002, the contribution rates for police employees and the City were 6.20% and 9.29%, respectively. Contribution requirements are established by State statute. The City's contribution to IPERS for the years ended June 30, 2004, 2003 and 2002 were \$8,668, \$9,077, and \$9,573, respectively which was equal to the required contributions for each year.

**CITY OF BUFFALO CENTER, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

(5) Compensated Absences

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

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$ 840
Sick leave	<u>11,803</u>
Total	<u>\$ 12,643</u>

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

(6) Interfund Transfers

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

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Special Revenue: Local Option Sales Tax	\$ 13,000
Special Revenue: Local option sales Tax	General	5,000
Capital Projects: Daycare	General	24,179
Street Project	Special Revenue: Local Option Sales Tax	<u>1,300</u>
Total		<u>\$ 43,479</u>

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

(7) Related Party Transactions

The City had business transactions between the City and City officials totaling \$10,231 during the year ended June 30, 2004.

CITY OF BUFFALO CENTER, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

(8) Subsequent Events

On August 2, 2004 the council approved the water tower inspection and painting project in the amount of \$16,400.

(9) 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 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 member's 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 \$25,564.

(9) **Risk Management** - continued

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

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

(10) **Litigation**

The City is subject to pending litigation. The probability of loss, if any, is undeterminable.

(11) **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.

(12) Prior Period Adjustment

A prior period adjustment has been made to the financial statements in order to record the volunteer fire department funds which are maintained by individuals outside the City Clerk's office.

Required Supplementary Information

CITY OF BUFFALO CENTER, IOWA
 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

	<u>Governmental Funds Actual</u>	<u>Proprietary Funds Actual</u>	<u>Less Funds Not Required To Be Budgeted</u>
RECEIPTS:			
Property tax	\$ 230,735	\$ -	\$ -
Other city tax	62,614	-	-
Use of money and property	5,674	905	-
Licenses and permits	1,744	-	-
Intergovernmental	199,681	-	-
Charges for service	29,920	205,945	-
Special assessments	34,671	-	-
Miscellaneous	33,703	6,607	-
Total receipts	<u>\$ 598,742</u>	<u>\$ 213,457</u>	<u>\$ -</u>
DISBURSEMENTS:			
Public safety	\$ 141,637	\$ -	\$ -
Public works	112,770	-	-
Culture and recreation	86,956	-	-
Community and economic development	4,411	-	-
General government	79,015	-	-
Debt Service	129,635	-	-
Capital projects	27,394	-	-
Business type activities	-	175,322	-
Total disbursements	<u>\$ 581,818</u>	<u>\$ 175,322</u>	<u>\$ -</u>
Excess (deficiency) of receipts over (under) disbursements	\$ 16,924	\$ 38,135	\$ -
Balance beginning of year	437,706	237,788	-
Prior period adjustment	<u>1,463</u>	<u>-</u>	<u>-</u>
Balance end of year	<u>\$ 456,093</u>	<u>\$ 275,923</u>	<u>\$ -</u>

See Accompanying Independent Auditor's Report.

<u>Net</u>	<u>Budgeted Amounts</u>		<u>Final to Net Variance</u>
	<u>Original</u>	<u>Final</u>	
\$ 230,735	\$ 218,788	\$ 218,788	\$ 11,947
62,614	66,276	66,276	(3,662)
6,579	10,000	10,000	(3,421)
1,744	1,225	1,225	519
199,681	127,660	127,660	72,021
235,865	219,550	219,550	16,315
34,671	-	-	34,671
40,310	25,000	25,000	15,310
<u>\$ 812,199</u>	<u>\$ 668,499</u>	<u>\$ 668,499</u>	<u>\$ 143,700</u>
\$ 141,637	\$ 68,458	\$ 68,458	\$ (73,179)
112,770	127,700	127,700	14,930
86,956	91,900	102,900	15,944
4,411	13,000	13,000	8,589
79,015	79,300	86,300	7,285
129,635	94,857	129,857	222
27,394	-	-	(27,394)
175,322	192,400	192,400	17,078
<u>\$ 757,140</u>	<u>\$ 667,615</u>	<u>\$ 720,615</u>	<u>\$ (36,525)</u>
\$ 55,059	\$ 884	\$ (52,116)	\$ 107,175
675,494	614,636	614,636	60,858
<u>1,463</u>	<u>-</u>	<u>-</u>	<u>1,463</u>
<u>\$ 732,016</u>	<u>\$ 615,520</u>	<u>\$ 562,520</u>	<u>\$ 169,496</u>

CITY OF BUFFALO CENTER, 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 nonprogram. 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, a budget amendment increased budgeted disbursements by \$53,000. 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 and capital projects functions.

Other Supplementary Information

CITY OF BUFFALO CENTER, IOWA
 STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 YEAR ENDED JUNE 30, 2004

	Special Revenue	Street Projects
	Employee Benefit	
RECEIPTS:		
Property tax	\$ 18,748	\$ -
Use of money and property	-	5
Intergovernmental	-	3,015
Total receipts	\$ 18,748	\$ 3,020
DISBURSEMENTS:		
Operating:		
Public safety	\$ 4,892	\$ -
Public works	5,691	-
Culture and recreation	1,878	-
General government	533	-
Capital projects	-	3,210
Total disbursements	\$ 12,994	\$ 3,210
Excess (deficiency) of receipts over (under) disbursements	\$ 5,754	\$ (190)
Other financing sources (uses):		
Operating transfers in	-	1,300
Net change in cash balances	\$ -	\$ 1,110
Cash balances beginning of year	-	937
Residual equity transfer	-	-
Cash balances end of year	\$ 5,754	\$ 2,047
Cash Basis Fund Balances:		
Special revenue funds	\$ 5,754	\$ -
Capital project funds	-	2,047
Total cash basis fund balances	\$ 5,754	\$ 2,047

See Accompanying Independent Auditor's Report.

<u>Capital Projects</u>		
<u>Building Projects</u>	<u>Day Care</u>	<u>Total</u>
\$ -	\$ -	\$ 18,748
133	-	138
-	-	3,015
<u>\$ 133</u>	<u>\$ -</u>	<u>\$ 21,901</u>
\$ -	\$ -	\$ 4,892
-	-	5,691
-	-	1,878
-	-	533
-	24,184	27,394
<u>\$ -</u>	<u>\$ 24,184</u>	<u>\$ 40,388</u>
\$ 133	\$ (24,184)	\$ (18,487)
-	24,179	25,479
\$ 133	\$ (5)	\$ 6,992
23,011	133	24,081
-	(128)	(128)
<u>\$ 23,144</u>	<u>\$ -</u>	<u>\$ 30,945</u>
\$ -	\$ -	\$ 5,754
23,144	-	25,191
<u>\$ 23,144</u>	<u>\$ -</u>	<u>\$ 30,945</u>

CITY OF BUFFALO CENTER, 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>
General Obligation Notes:			
1999 Fire Station	12/19/01	4.00%	\$132,800
2003 Street Improvement	06/18/03	4.75	80,000
Fire Station	07/21/99	5.15	51,600
1999 Street and Vehicle	09/01/99	5.15	300,000
1995 Sewer Improvement	12/01/95	5.00	210,000
Total			

See Accompanying Independent Auditor's Report.

<u>Balance Beginning of Year</u>	<u>Issued During Year</u>	<u>Redeemed During Year</u>	<u>Balance End of Year</u>	<u>Interest Paid</u>	<u>Interest Due and Unpaid</u>
\$119,520	\$ -	\$ 13,280	\$106,240	\$ 4,781	\$ -
80,000	-	8,000	72,000	3,800	-
30,960	-	5,160	25,800	1,594	-
180,000	-	30,000	150,000	9,270	-
<u>75,000</u>	<u>-</u>	<u>50,000</u>	<u>25,000</u>	<u>3,750</u>	<u>-</u>
<u>\$485,480</u>	<u>\$ -</u>	<u>\$106,440</u>	<u>\$379,040</u>	<u>\$ 23,195</u>	<u>\$ -</u>

CITY OF BUFFALO CENTER, IOWA
 NOTE MATURITIES
 JUNE 30, 2004

G E N E R A L O B L I G A T I O N N O T E S						
Year Ending June 30,	1999 Fire Station Issued December 19, 2001		1995 Sewer Improvement Issued December 1, 1995		Fire Station Issued July 21, 1999	
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount
2005	4.0%	\$ 13,280	5.0%	\$25,000	5.15%	\$ 5,160
2006	4.0	13,280		-	5.15	5,160
2007	4.0	13,280		-	5.15	5,160
2008	4.0	13,280		-	5.15	5,160
2009	4.0	13,280		-	5.15	5,160
2010	4.0	13,280		-		-
2011	4.0	13,280		-		-
2012	4.0	13,280		-		-
2013		-		-		-
Total		<u>\$106,240</u>		<u>\$25,000</u>		<u>\$25,800</u>

G E N E R A L O B L I G A T I O N N O T E S					
Year June 30,	1999 Street and Vehicle Issued September 1, 1999		2003 Street Improvement Issued June 18, 2003		Total
	Rates	Amount	Rates	Amount	
2005	5.15%	\$ 30,000	4.75%	\$ 8,000	\$ 81,440
2006	5.15	30,000	4.75	8,000	56,440
2007	5.15	30,000	4.75	8,000	56,440
2008	5.15	30,000	4.75	8,000	56,440
2009	5.15	30,000	4.75	8,000	56,440
2010		-	4.75	8,000	21,280
2011		-	4.75	8,000	21,280
2012		-	4.75	8,000	21,280
2013		-	4.75	8,000	8,000
Total		<u>\$150,000</u>		<u>\$ 72,000</u>	<u>\$379,040</u>

See Accompanying Independent Auditor's Report.

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

To the Honorable Mayor and
Members of the City Council:

I have audited the financial statements of the City of Buffalo Center, Iowa, as of and for the year ended June 30, 2004, and have issued my report thereon dated September 20, 2004. My report expressed an unqualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. I conducted my audit in accordance with 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.

Compliance

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

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

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the City of Buffalo Center's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting.

However, I noted certain matters involving the internal control over financial reporting and its operation that I consider to be reportable conditions. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in my judgment, could adversely affect the City of Buffalo Center's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part II of the accompanying Schedule of Findings.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, I believe items II-A-04 and II-B-04 are material weaknesses.

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 Buffalo Center and other parties to whom the City of Buffalo Center may report. This report is not intended to be and should not be used by anyone other than these specified parties.

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

September 20, 2004

CITY OF BUFFALO CENTER, IOWA
Schedule of Findings
Year Ended June 30, 2004

Part I: Summary of the Independent Auditor's Results:

- (a) An unqualified 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.
- (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.

Part II: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

II-A-04 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. I noted that one person has control over most of the accounting and banking functions.

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

Response - We will review procedures and make changes to improve internal control where possible.

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

II-B-04 Centralized Bookkeeping - The bookkeeping and custody of records for the Volunteer Fire Department funds are maintained by individuals outside the City Clerk's office. 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.

CITY OF BUFFALO CENTER, IOWA
Schedule of Findings
Year Ended June 30, 2004

Part II: Findings Related to the Financial Statements: - continued

Response - We will look into this.

Conclusion - Response accepted.

II-C-04 Authorized Check Signer - It was noted that an individual who is listed on the volunteer Fire Department signature card is not a City employee or a council member.

Recommendation - All bank authorized signature cards should be reviewed and updated. Only current City employees or council members should be authorized signers.

Response - We will review all signature cards and update them per guidelines recommended.

Conclusion - Response accepted.

II-D-04 Volunteer Fire Department - I noted that a check is written for cash in order to compensate Fire Department volunteers.

Recommendation - Separate checks should be written to each volunteer in order to increase accountability. Also, volunteers receiving \$600 or more should be issued 1099's at the end of the calendar year.

Response - We will look into this.

Conclusion - Response accepted.

Part III: Findings and Questioned Costs for Federal Awards:

Not applicable

Part IV: Other Findings Related to Statutory Reporting:

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

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

Recommendation - The budget should have been amended in sufficient amounts in accordance with Chapter 384.14 of the Code of Iowa before disbursements were allowed to exceed the budget.

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

CITY OF BUFFALO CENTER, IOWA
Schedule of Findings
Year Ended June 30, 2004

Part IV: Other Findings Related to Statutory Reporting: - Continued

Conclusion - Response accepted.

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

IV-D-04 Travel Expense - No disbursements 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>
Marsha Peterson, Council member, owner of Peterson Hardware	Supplies	\$1,927
Charles Silber, Council member, owner of The Spot Car Wash	Computer services Car wash tokens	1,056 40
Lyle Hippen, spouse of employee, owner of Devries Lumber	Supplies	2,109
Reinert Levik, Mayor	General Labor	5,099

In accordance with chapter 362.5(11) of the Code of Iowa, the transactions with Marsha Peterson, Charles Silber and Lyle Hippen do not appear to represent a conflict of interest since total transactions were less than \$2,500 during the fiscal year.

In accordance with chapter 362.5 (11) of the code of Iowa, the transactions with Reinert Levik may represent a conflict of interest since total transactions were over \$2,500 during the fiscal year.

Recommendation - The City should consult legal counsel to determine the disposition of this matter.

Response - We will do this.

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 insure that the coverage is adequate for current operations.

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

IV-H-04 Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.

Buffalo Center Tribune
Buffalo Center, IA 50424

N E W S R E L E A S E

FOR RELEASE December 9, 2004

Larry Pump, CPA, Charles City, Iowa, today released an audit report on the City of Buffalo Center for the year ended June 30, 2004.

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

Larry Pump, CPA reported that the City's receipts totaled \$812,199 for the year ended June 30, 2004. The receipts included \$230,735 in property taxes, \$242,472 from charges for service, \$111,573 from operating grants, contributions and restricted interest, \$62,614 from local option sales tax, \$4,820 from unrestricted investment earnings and \$46,745 from other general receipts.

Disbursements for the year totaled \$757,140. The disbursements included \$141,637 for public safety, \$112,770 for public works, \$129,635 for debt service and \$175,322 for business type activities.

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

#

December 9, 2004

Office of Auditor of State
State of Iowa
State Capitol Building
Des Moines, IA 50319

RE: Audit of the City of Buffalo Center for the fiscal year ended June 30, 2004.

Gentlemen:

I have enclosed a copy of the news release, a copy of my bill to the City and two copies of the Audit Report. I will appreciate your comments and suggestions.

Sincerely yours,

Larry Pump, CPA

jlp
enclosures

December 1, 2004

Deb Jensvold, City Clerk
City of Buffalo Center
314 First Avenue NW
P. O. Box 430
Buffalo Center, IA 50424

Dear Deb:

Enclosed are eight copies of the audit report. I will bring four additional copies with me to the council meeting on Wednesday, December 8th.

If you have any questions, please call me at your convenience.

Sincerely yours,

Larry Pump, CPA

jlp
enclosures

This page intentionally left blank.