

CITY OF PILOT MOUND

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

JUNE 30, 2004

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CITY OF PILOT MOUND

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January 2004)		
Jay Williams	Mayor	Jan. 2004
Susan Crouch	Mayor Pro tem	Jan. 2004 Deceased Oct. 21, 2003
Penni Hall	Council Member	Jan. 2006
Peter Miller	Council Member	Jan. 2006
Emlin Platter	Council Member	Jan. 2004
Donna Heslop	Council Member	Jan. 2004
(After January 2004)		
Jay Williams	Mayor	Jan. 2008
Donna Heslop	Mayor Pro tem	Resigned Aug. 10, 2004
Merrilue Laughlin	Mayor Pro tem	Jan. 2008
Peter Miller	Council Member	Jan. 2006
Jeff Lass	Council Member	Resigned Aug. 10, 2004
Penni Hall	Council Member	Resigned Aug. 10, 2004
Deck Crouch	Council Member	Jan. 2008
Jackie Burkhart	Council Member	Jan. 2008
Sharon Acuff	Council Member	Jan. 2006
Marlys Curry	City Clerk/Treasurer	Indefinite
Lee Johnson	Attorney	Indefinite

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Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Pilot Mound, 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 Pilot Mound's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles. Also, as permitted by the Code of Iowa, the accounting records of the City have not been audited for all prior years. Accordingly, we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2003.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2003, as discussed in the preceding paragraph, the 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 Pilot Mound at 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 8, during the year ended June 30, 2004, the City adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences.

In accordance with Government Auditing Standards, we have also issued our reports dated February 10, 2005 on our consideration of the City of Pilot Mound's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. Those reports are an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 6 through 10 and 21 through 22 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Pilot Mound's basic financial statements. Other supplementary 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 at July 1, 2003, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Peterson & Houston, P.C.
Boone, Iowa

February 10, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Pilot Mound 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 cash basis net assets for the City's governmental funds increased slightly in spite of purchasing a new fire truck and utilizing Local Option Taxes to fund improvements for the sewer utility.
- The cash basis net assets for the City's business type activities also increased slightly.

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 government'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 statements by providing information about the most significant funds.

Notes to the Financial Statements provide additional information that is 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, health and social services, 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.
- The business-type activities of the City include the waterworks and the sanitary sewer system. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

- 1) Governmental funds account for most of the City's basic services. They focus on how money flows into and out of the funds and the balances at year-end that are available for spending. Governmental funds include: 1) the General Fund and 2) the Special Revenue Funds such as Road Use Tax and Local Option Sales Tax. The governmental fund financial statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

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

- 2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report the same functions presented as business-type activities. The City maintains two Enterprise Funds to provide separate information for the water and sewer funds, considered to be major funds of the City.

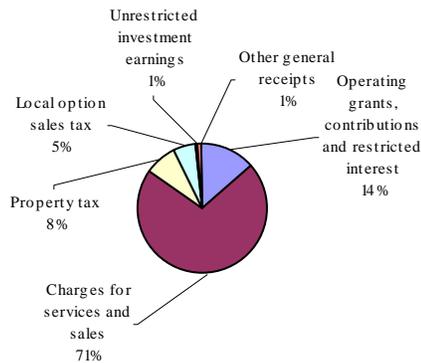
The required financial statements for proprietary funds include a statement of cash receipts, disbursements and changes in cash balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

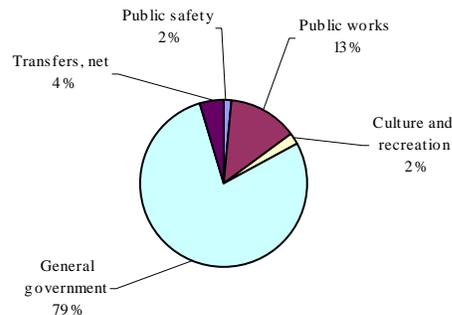
Net assets may serve over time as a useful indicator of financial position. The City’s cash balance for governmental activities increased from the beginning of the year, increasing from \$147,493 to \$148,342. The analysis that follows focuses on the changes in cash balances for governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities	
	Year ended June 30, 2004
Receipts and transfers:	
Program receipts:	
Charges for services and sales	\$ 31,815
Capital grants, contributions and restricted interest	163,984
General receipts:	
Property tax	18,764
Local option sales tax	12,690
Unrestricted investment earnings	1,354
Other general receipts	2,339
Total receipts and transfers	<u>230,946</u>
Disbursements:	
Public safety	3,456
Public works	30,182
Culture and recreation	5,552
General government	180,790
Transfers, net	10,117
Total disbursements	<u>230,097</u>
Increase (decrease) in cash balance	849
Cash balance beginning of year	<u>147,493</u>
Cash balance end of year	<u>\$ 148,342</u>

Receipts by Source



Disbursements by Function



The cash basis net assets for the City’s governmental funds increased from the beginning of the year from \$147,493 to \$148,342. The City was able to purchase a new fire truck through receiving a federal grant and through other local grants and contributions.

<u>Changes in Cash Basis Net Assets of Business-Type Activities</u>	
	Year ended June 30, 2004
Receipts and transfers:	
Program receipts:	
Charges for services and sales:	
Water	\$ 17,208
Sewer	16,130
General receipts	
Unrestricted investment earnings	140
Transfers	10,117
Total receipts	<u>43,595</u>
Disbursements:	
Water	18,637
Sewer	24,693
Total disbursements and transfers	<u>43,330</u>
 Increase in cash balance	 265
 Cash balance beginning of year	 <u>32,168</u>
 Cash balance end of year	 <u>\$ 32,433</u>

The City's cash balance for the business type activities increased from the beginning of the year from \$32,168 to \$32,433, due in part to a transfer from the Local Option Sales Tax Fund to pay for improvements to the sewer lift station.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City completed the year, its governmental funds reported a combined fund balance of \$148,342.

- The General Fund is the chief operating fund of the City. At the end of the current fiscal year, the cash balance of the General Fund was \$95,343, an increase of \$2,527 from the prior year.
- The Road Use Tax Fund cash balance increased by \$3,012 to \$11,681 during the fiscal year.
- The Local Option Tax Fund was established in 1990 to collect a 1% local option sales and service tax. The City collected \$17,824 during this fiscal year, and made transfers to the General Fund of \$5,175 and to the Sewer Fund of \$10,117 to pay for capital improvements during the year.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance decreased by \$1,373 from the prior year, which was better than the \$3,500 decrease expected from the budget.
- The Sewer Fund cash balance increased by \$1,637, which was better than the \$11,020 decrease expected from the budget. The increase is primarily due to a transfer of \$10,117 from the Local Option Sales Tax Fund to pay for improvements to the pumping station.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City did not amend its budget. The budget was adopted by the March deadline in accordance with the Code of Iowa.

DEBT ADMINISTRATION

At June 30, 2004, the City had \$30,000 in long-term debt outstanding. This represents a decrease from last year. More detailed information about the City’s long-term liabilities is available in Note 3 to the financial statements.

<u>Outstanding Debt at Year-End</u>	
	<u>Year ended June 30, 2004</u>
Sewer capital loan note	<u>\$ 30,000</u>

ECONOMIC FACTORS AND NEXT YEAR’S BUDGETS AND RATES

The City’s elected and appointed officials and citizens considered many factors when setting the 2005 fiscal year budget. 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 the State’s budget constraints.

CONTACTING THE CITY’S FINANCIAL MANAGEMENT

This financial report is designed to provide the City of Pilot Mound’s 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 the Clerk’s Office; City of Pilot Mound, Iowa; P.O. Box 128; Pilot Mound, IA 50223.

Basic Financial Statements

CITY OF PILOT MOUND
Statement of Activities and Net Assets - Cash Basis
As of and for the year ended June 30, 2004

	Disbursements	Program Receipts		
		Charges for Service and Sales	Operating Grants, Contributions, and Restricted Interest	Capital Grants, Contributions, and Restricted Interest
Functions / Programs:				
Governmental activities:				
Public safety	\$ 3,456	\$ -	\$ -	\$ -
Public works	30,182	29,619	-	-
Culture and recreation	5,552	2,196	-	-
General government	180,790	-	-	163,984
Total governmental activities	219,980	31,815	-	163,984
Business-type activities:				
Water	18,637	17,208	-	-
Sewer	24,693	16,130	-	-
Total business-type activities	43,330	33,338	-	-
Total	\$ 263,310	\$ 65,153	\$ -	\$ 163,984

General receipts:

Property tax levied for:
General purposes
Local option sales tax
Unrestricted interest on investments
Miscellaneous
Transfers
Total general receipts and transfers
Change in cash basis net assets
Cash basis net assets beginning of year
Cash basis net assets end of year

Cash Basis Net Assets

Restricted
Streets
Debt service
Other purposes
Unrestricted
Total cash basis net assets

See notes to financial statements.

Exhibit A

Net (Disbursements) Receipts		
Governmental Activities	Business-Type Activities	Total
\$ (3,456)	\$ -	\$ (3,456)
(563)	-	(563)
(3,356)	-	(3,356)
(16,806)	-	(16,806)
(24,181)	-	(24,181)
-	(1,429)	(1,429)
-	(8,563)	(8,563)
-	(9,992)	(9,992)
(24,181)	(9,992)	(34,173)
18,764	-	18,764
12,690	-	12,690
1,354	140	1,494
2,339	-	2,339
(10,117)	10,117	-
25,030	10,257	35,287
849	265	1,114
147,493	32,168	179,661
\$ 148,342	\$ 32,433	\$ 180,775
\$ 11,681	\$ -	\$ 11,681
-	17,514	17,514
35,892	-	35,892
100,769	14,919	115,688
\$ 148,342	\$ 32,433	\$ 180,775

CITY OF PILOT MOUND
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		Other	Total
		Road Use Tax	Local Option Sales Tax	Nonmajor Governmental Fund	
Receipts:					
Property tax	\$ 18,764	\$ -	\$ -	\$ -	\$ 18,764
Other city tax	-	-	12,690	-	12,690
Use of money and property	1,191	-	137	2,222	3,550
Intergovernmental	155,984	17,824	-	-	173,808
Charges for services	11,795	-	-	-	11,795
Miscellaneous	10,339	-	-	-	10,339
Total receipts	198,073	17,824	12,827	2,222	230,946
Disbursements:					
Operating:					
Public safety	3,456	-	-	-	3,456
Public works	15,370	14,812	-	-	30,182
Culture and recreation	1,105	-	-	4,447	5,552
General government	180,790	-	-	-	180,790
Total disbursements	200,721	14,812	-	4,447	219,980
Excess (deficiency) of receipts over (under) disbursements	(2,648)	3,012	12,827	(2,225)	10,966
Other financing sources (uses):					
Operating transfers in	5,175	-	-	-	5,175
Operating transfers out	-	-	(15,292)	-	(15,292)
Total other financing sources (uses)	5,175	-	(15,292)	-	(10,117)
Net change in cash balances	2,527	3,012	(2,465)	(2,225)	849
Cash balances beginning of year	92,816	8,669	38,357	7,651	147,493
Cash balances end of year	\$ 95,343	\$ 11,681	\$ 35,892	\$ 5,426	\$ 148,342
Cash Basis Fund Balances					
Unreserved:					
General fund	\$ 95,343	\$ -	\$ -	\$ 5,426	\$ 100,769
Special revenue funds	-	11,681	35,892	-	47,573
Total cash basis fund balances	\$ 95,343	\$ 11,681	\$ 35,892	\$ 5,426	\$ 148,342

See notes to financial statements.

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

Exhibit C

	Enterprise Funds		
	Water	Sewer	Total
Operating receipts:			
Use of money and property	\$ 57	\$ 83	\$ 140
Charges for services	17,208	16,130	33,338
Total operating receipts	17,265	16,213	33,478
Operating disbursements:			
Business-type activities	18,637	16,713	35,350
Total operating disbursements	18,637	16,713	35,350
Excess of operating receipts over operating disbursements	(1,372)	(500)	(1,872)
Non-operating receipts (disbursements):			
Debt service	-	(7,980)	(7,980)
Excess of receipts over disbursements	(1,372)	(8,480)	(9,852)
Operating transfers in	-	10,117	10,117
Net change in cash balances	(1,372)	1,637	265
Cash balances beginning of year	14,410	17,758	32,168
Cash balances end of year	\$ 13,038	\$ 19,395	\$ 32,433
Cash Basis Fund Balances			
Reserved:			
Debt service	\$ -	\$ 17,514	\$ 17,514
Unreserved	13,038	1,881	14,919
Total cash basis fund balances	\$ 13,038	\$ 19,395	\$ 32,433

See notes to financial statements.

CITY OF PILOT MOUND
Notes to Financial Statements
June 30, 2004

Note 1 – Summary of Significant Accounting Policies

The City of Pilot Mound is a political subdivision of the State of Iowa located in Boone County. It was first incorporated in 1897 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, and general government services. The City also provides water and sewer utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Pilot Mound 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.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Boone County Assessor's Conference Board, Boone County Solid Waste Management Commission, and Boone County E911 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.

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.

CITY OF PILOT MOUND
Notes to Financial Statements
June 30, 2004

Note 1 – Summary of Significant Accounting Policies (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, proprietary funds, and fiduciary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. The remaining governmental fund is reported as a nonmajor governmental fund.

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 the proceeds and expenditures from the 1% local option sales and service tax.

The City reports the following major proprietary funds:

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

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

C. Measurement Focus and Basis of Accounting

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

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

CITY OF PILOT MOUND
Notes to Financial Statements
June 30, 2004

Note 1 – Summary of Significant Accounting Policies (continued)

D. Budgets and Budgetary Accounting

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

Note 2 – Cash and Pooled Investments

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

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

Note 3 – Bonds and Notes Payable

Annual debt service requirements to maturity for the sewer capital loan note are as follows:

<u>Year Ending</u> <u>June 30,</u>	<u>Interest</u> <u>Rate</u>	<u>Principal</u>	<u>Interest</u>
2005	6.0%	\$ 6,000	\$ 1,620
2006	6.0%	6,000	1,260
2007	6.0%	6,000	900
2008	6.0%	6,000	540
2009	6.0%	<u>6,000</u>	<u>180</u>
Total		<u>\$ 30,000</u>	<u>\$ 4,500</u>

Note 4 – Pension and Retirement Benefits

Iowa Public Employees Retirement System

The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P. O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of annual covered payroll, except for police employees, in which case the percentages are 5.93% and 8.90%, respectively. Contribution requirements are established by state statute. The City’s contribution to IPERS for the year ended June 30, 2004 was \$816, equal to the required contributions for the year.

CITY OF PILOT MOUND
Notes to Financial Statements
June 30, 2004

Note 5 – Related Party Transactions

The City had business transactions between the City and City officials, totaling \$2,972 during the year ended June 30, 2004.

Note 6 – Interfund Transfers

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

<u>Transfer from</u>	<u>Transfer to</u>	<u>Amount</u>
Special Revenue:	General:	
Local Option Sales Tax	General	\$ 5,175
	Proprietary:	
	Sewer	<u>10,117</u>
Total		\$ <u>15,292</u>

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

Note 7 – Risk Management

The City is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Note 8 – Accounting Change and Restatements

Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management’s Discussions 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.

Implementation of these standards had no effect on the beginning balances.

Required Supplementary Information

CITY OF PILOT MOUND
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	Total Actual	Budgeted Amounts	Budget to Actual Variance
Receipts:					
Property tax	\$ 18,764	\$ -	\$ 18,764	\$ 17,846	\$ 918
Other city tax	12,690	-	12,690	10,808	1,882
Licenses and permits	-	-	-	540	(540)
Use of money and property	3,550	140	3,690	-	3,690
Intergovernmental	173,808	-	173,808	167,500	6,308
Charges for services	11,795	33,338	45,133	60,470	(15,337)
Miscellaneous	10,339	-	10,339	-	10,339
Total receipts	230,946	33,478	264,424	257,164	7,260
Disbursements:					
Public safety	3,456	-	3,456	3,940	484
Public works	30,182	-	30,182	19,200	(10,982)
Culture and recreation	5,552	-	5,552	5,220	(332)
General government	180,790	-	180,790	178,025	(2,765)
Business-type activities	-	43,330	43,330	46,800	3,470
Total disbursements	219,980	43,330	263,310	253,185	(10,125)
Excess (deficiency) of receipts over disbursements	10,966	(9,852)	1,114	3,979	(2,865)
Other financing sources, net	(10,117)	10,117	-	-	-
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	849	265	1,114	3,979	(2,865)
Balances beginning of year	147,493	32,168	179,661	190,622	(10,961)
Balances end of year	\$ 148,342	\$ 32,433	\$ 180,775	\$ 194,601	\$ (13,826)

See accompanying independent auditors' report.

CITY OF PILOT MOUND

Required Supplementary Information

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. 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. 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 Fund, 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 ended June 30, 2004, disbursements exceeded the amounts budgeted in the public works, culture and recreation, and general government functions.

Other Supplementary Information

CITY OF PILOT MOUND
Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Nonmajor Governmental Fund
As of and for the year ended June 30, 2004

Schedule 1

	General
	Communtiy Building
Receipts:	
Property tax	\$ -
Use of money and property	2,222
Total receipts	2,222
Disbursements:	
Governmental activities:	
Culture and recreation	4,447
General government	-
Total disbursements	4,447
Net change in cash balances	(2,225)
Cash balances beginning of year	7,651
Cash balances end of year	\$ 5,426
Cash Basis Fund Balances	
Unreserved:	
General funds	\$ 5,426

See accompanying independent auditors' report.

CITY OF PILOT MOUND
Schedule of Indebtedness
Year ended June 30, 2004

Schedule 2

Obligation	Date of Issue	Interest Rate	Amount Originally Issued	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
Sewer Capital Loan Note	Oct. 1993	6.0%	\$ 85,000	\$ 36,000	\$ -	\$ 6,000	\$ 30,000	\$ 1,980

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Independent Auditor's 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 Pilot Mound, Iowa, as of and for the year ended June 30, 2004, and have issued our report thereon dated February 10, 2005. 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 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 Pilot Mound's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 audit statutory comments have been resolved except for items (5) and (9).

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Pilot Mound'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 Pilot Mound'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 the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item (A) is a material weakness. Prior audit reportable conditions have been resolved except for item (A).

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 Pilot Mound and other parties to whom the City of Pilot Mound 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 Pilot Mound 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.



Peterson & Houston, P.C.
Boone, Iowa

February 10, 2005

CITY OF PILOT MOUND
Schedule of Findings
Year ended June 30, 2004

Findings Related to the Financial Statements

INSTANCES OF NON-COMPLIANCE:

No matters were required to be reported.

REPORTABLE CONDITIONS:

- (A) Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. One person has control over each of the following areas for the City:
- 1) Receipts – collecting, depositing, journalizing, posting and daily reconciling. Also, a listing of receipts is not prepared by the mail opener.
 - 2) Disbursements – placing orders with vendors, receiving goods, check writing and posting.
 - 3) Payroll – check writing, distribution, posting and personnel duties.
 - 4) Long-term debt – recording and reconciling.
 - 5) Bank reconciling – monthly reconciliations of the bank accounts. Also, bank reconciliations are not reviewed and approved by an independent person.

Recommendation – We 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 – Due to the restraints of having only one administrative employee, it is difficult to segregate duties. However, we will continue to review of control procedures to determine the most effective utilization of personnel to maximize these controls.

Conclusion – Response accepted.

Other Findings Related to Statutory Reporting:

- (1) 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.

CITY OF PILOT MOUND
Schedule of Findings
Year Ended June 30, 2004

- (2) Certified Budget – Disbursements during the year ended June 30, 2004 exceeded the amounts budgeted in the public works, culture and recreation, and general government functions. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

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

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

Conclusion – Response accepted.

- (3) Questionable Expenditures – 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.

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

- (5) 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>
Judy Bennet, City Employee	Park Mowing	\$ 874
Deck’s 76, owned by spouse of Susan Crouch, Council Member	Fuel & Parts	\$ 209
Jay Williams, Mayor	Mowing, Repairs & Supplies	\$1,849
Brian Williams, son of Mayor	Clean up of City lots	\$ 40

In accordance with Chapter 362.5(11) of the Code of Iowa, the transactions listed above do not appear to represent conflicts of interest since total transactions with each individual were less than \$2,500 during the fiscal year.

In accordance with Chapter 71.1 of the Code of Iowa, the transactions listed above do not appear to represent nepotism since no one was appointed and paid as a deputy, clerk or helper for any office position elected or appointed.

Recommendation – While the amount paid to Judy Bennet does not represent a conflict of interest, the City should review its payments to her to determine if she should be paid as an employee for all compensation earned.

Response – Payments to employees will be evaluated to ensure that the payments are truly payments as independent contractors or whether they should be classified as employee wages.

Conclusion – Response accepted.

CITY OF PILOT MOUND
Schedule of Findings
Year Ended June 30, 2004

- (6) 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.
- (7) Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.
- (8) 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.
- (9) Annual Financial Report – Amounts shown in the Annual Financial Report submitted to the State of Iowa did not reconcile to the City records.

Recommendation – Before submission, the report should be subjected to review by an individual independent of the report preparation.

Response – The report will be reviewed before any submissions in the future.

Conclusion – Response accepted.

- (10) Employee Benefits – The City does not record its tax levy for employee benefits in a special revenue fund when collected. Also, the amounts budgeted for the levy include employees who are not paid from the General Fund or Road Use Tax Fund, which is contrary to rules adopted by the City Finance Committee.

Recommendation – The City should review this matter and take appropriate corrective action. Also, the City should record the employee benefits tax levy in a separate special revenue fund and ensure property tax is levied and expended for employee benefits only for employees paid from the General Fund or Road Use Tax Fund.

Response – The City will review this matter to ensure compliance.

Conclusion – Response accepted.

- (11) Request for Audit – All items listed in the request for audit filed with the Office of the Auditor of State were investigated and those items subject to audit were resolved with no discrepancies noted.

NEWS RELEASE

FOR RELEASE March 28, 2005

Peterson & Houston, P.C. today released an audit report on the City of Pilot Mound, Iowa.

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

The City's receipts totaled \$264,424 for the year ended June 30, 2004. The receipts included \$18,764 in property tax, \$65,153 from charges for service, \$163,984 from capital grants, contributions and restricted interest, \$12,690 from local option sales tax, \$1,494 from unrestricted investment earnings, and \$2,339 from other general receipts.

Disbursements for the year totaled \$263,310, and included \$180,790 for general government, \$30,182 for public works, and \$5,552 for culture and recreation. Also, disbursements for business type activities totaled \$43,330.

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