CITY OF CHEROKEE

INDEPENDENT AUDITORS' REPORTS
PRIMARY GOVERNMENT FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 2005

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CITY OF CHEROKEE
OFFICIALS

(Before January 1, 2005)

NAME	TITLE	TERM EXPIRES
Dennis Henrich	Mayor	January 2005
Bill Troth	Council Member, Mayor Pro-Tem	January 2007
Ron Johnson	Council Member	January 2007
Dwight Varce	Council Member	January 2007
Doug Woods	Council Member	January 2005
Marty Zauhar	Council Member	January 2005
Debra Taylor	City Clerk/Treasurer	Indefinite
Ron Strickland	City Administrator	Indefinite
M.W. Miller, Jr.	Attorney	Indefinite

(After January 1, 2005)

NAME	TITLE	TERM EXPIRES
Dennis Henrich	Mayor	January 2009
Bill Troth	Council Member, Mayor Pro-Tem	January 2007
Ron Johnson	Council Member	January 2007
Dwight Varce	Council Member	January 2007
Doug Woods	Council Member	January 2009
Marty Zauhar	Council Member	January 2009
Debra Taylor	City Clerk/Treasurer	Indefinite
Ron Strickland	City Administrator	Indefinite
M.W. Miller, Jr.	Attorney	Indefinite

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INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and
Members of the City Council
City of Cherokee
Cherokee, IA 51012

We have audited the accompanying financial statements of the governmental activities, business type activities, each major fund, and the aggregate remaining fund information of the City of Cherokee, Iowa, as of and for the year ended June 30, 2005, which collectively comprise the basic financial statements of the City's primary government as listed in the table of contents. These financial statements are the responsibility of City of Cherokee's management. Our responsibility is to express opinions on these basic financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards 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.

The financial statements referred to above include only the primary government of the City of Cherokee, Iowa, which consists of all funds, organizations, institutions, agencies, departments, and offices that comprise the City's legal entity. The financial statements do not include financial data for the City's legally separate component units, which accounting principles generally accepted in the United States of America require to be reported with the financial data of the City's primary government. As a result, the primary government financial statements do not purport to, and do not, present fairly the cash basis financial position of the reporting entity of the City of Cherokee, Iowa as of June 30, 2005, and the changes in its cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

Member Private Companies Practice Section,
American Institute of Certified Public Accountants

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information for the primary government of the City of Cherokee, Iowa at June 30, 2005, and the respective changes in cash basis financial position thereof for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 11, 2005 on our consideration of the City of Cherokee's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 10 and 26 through 28 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 required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements of the primary government of the City of Cherokee. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the years ended June 30, 2003 and 2004 (none of which are presented herein) and expressed unqualified opinions on those financial statements. The financial statements for the year ended June 30, 2002 (none of which are presented herein) were audited in accordance with the standards referred to in the second paragraph of this report by other auditors who expressed an unqualified opinion on those financial statements. Other supplementary information included in Schedules 1 through 6 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Winther, Stone & Co LLP

August 11, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Cherokee 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, 2005. We encourage readers to consider this information in conjunction with the City's financial statements which follow.

The following information is supported within this document and the previous year audit.

2005 FINANCIAL HIGHLIGHTS

- Revenues of the City's governmental activities decreased by 74% or $9,534,000. This decrease was primarily due to the bonding in fiscal year 2003 - 2004 for the Main Street project and for refunding previous bonds issued.
- Disbursements of the City's governmental activities decreased greatly due to less debt service and capital projects.
- Despite the decrease in debt service and capital project disbursements, the cash basis net assets decreased by $1.3 million due largely to using cash held in trust to retire previous bonds issued.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements as well as other requirements 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 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.

Supplementary Information provides detailed information about the nonmajor funds and debt obligations.

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 water, sanitary sewer, and storm water systems, along with landfill, solid waste, and airport services. 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, Employee Benefits, and Local Option Sales Tax, (3) the Debt Service Fund, (4) the Capital Projects Fund, and (5) the Permanent 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 program.

   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 and for the Internal Service Fund. Enterprise Funds are used to report business type activities. The City maintains two Enterprise Funds to provide separate information for the water and sewer funds, considered to be major funds of the City plus four additional Enterprise Funds to provide separate information for the landfill, solid waste, storm water, and airport funds, considered to be nonmajor funds of the City. Internal Service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions.

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

   Reconciliations between the government-wide statement and the fund financial statements follow the fund financial statements.

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 decreased from a year ago, decreasing from $3,970,000 to $2,673,000. 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, 2005	Year ended June 30, 2004
Receipts:		
Program receipts:		
Charges for service	$ 153	$ 145
Operating grants, contributions, and restricted interest	462	531
Capital grants, contributions, and restricted interest	226	598
General receipts:		
Property tax	1,791	1,821
Local option sales tax	363	397
Hotel/motel tax	47	60
Grants and contributions not restricted to specific purposes	8	45
Unrestricted investment earnings	134	88
Bonds proceeds		8,185
Other general receipts	214	245
Extraordinary item - bequest received		817
Total receipts	3,398	12,932
Disbursements and transfers:		
Public safety	843	826
Public works	622	438
Culture and recreation	686	673
Community and economic development	7	99
General government	169	186
Debt service	2,161	4,034
Capital projects	170	2,984
Transfers - net	37	
Total disbursements and transfers	4,695	9,240
Increase (decrease) in cash basis net assets	(1,297)	3,692
Cash basis net assets - beginning of year	3,970	278
Cash basis net assets - end of year	$ 2,673	$ 3,970

The City's total receipts for governmental activities decreased by 74% or $9,534,000. The total cost of all programs and services decreased by approximately $4,545,000 or 49%. The decrease in cash basis net assets of $1.3 million was primarily the result of using cash held in trust to retire previous bonds issued.

The City decreased property tax rates for 2005 by an average of 0.98%. This decrease reduced the City's property tax receipts by approximately $30,000 in 2005. Based on decreases in the total assessed valuation, property tax receipts are budgeted to decrease by an additional $30,000 next year.

The cost of all governmental activities this year was $4.7 million compared to $9.2 million last year. However, as shown in the Statement of Activities and Net Assets on pages 11 and 12, the amount taxpayers ultimately financed for these activities was $3.8 million because some of the cost was paid by those directly benefited from the programs ($153,000) or by other governments and organizations that subsidized certain programs with grants, contributions, and restricted interest ($688,000). Overall, the City's governmental activities receipts, including intergovernmental aid and fees for service, decreased in 2005 from approximately $1,274,000 to approximately $842,000, principally due to approximately $600,000 in grants for Main Street construction projects in 2004. The City paid for the remaining "public benefit" portion of governmental activities with approximately $2,521,000 in tax (some of which could only be used for certain programs), other receipts, such as bond proceeds, interest, general entitlements, and cash reserves.

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

	Year ended June 30, 2005	Year ended June 30, 2004
Receipts and transfers:		
Program receipts:		
Charges for service:		
Water	$ 702	$ 693
Sewer	1,093	782
Landfill	142	143
Solid waste	189	189
Storm water	81	21
Airport		76
Operating grants, contributions, and restricted interest	132	357
General receipts:		
Unrestricted interest on investments	9	
Bond proceeds		1,199
Other general receipts		72
Transfers - net	37	
Total receipts and transfers	2,385	3,532
Disbursements:		
Water	661	926
Sewer	1,174	1,872
Landfill	145	143
Solid waste	177	206
Storm water	2	
Airport	220	459
Total disbursements	2,379	3,606
Increase (decrease) in cash basis net assets	6	(74)
Cash basis net assets - beginning of year	772	846
Cash basis net assets - end of year	$ 778	$ 772

Total business type activities receipts for the fiscal year were $2.4 million compared to $3.5 million last year. This decrease was due primarily to bond proceeds in 2004 totaling $1,199,000. The cash balance increased by approximately $6,000 from the prior year. Total disbursements and transfers for the fiscal year decreased by approximately $1,227,000 or 34.0%.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Cherokee completed the year, its governmental funds reported a combined fund balance of $2,546,000, a decrease of more than $1,262,000 from last year's total of $3,808,000. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance increased $54,000 from the prior year to $131,000, largely as a result of transfers in.
- The Road Use Fund cash balance decreased by $23,000 to $112,000 during the fiscal year. This decrease was due to spending too much money in operations.
- The Employee Benefits Fund cash balance increased by $41,000 to $32,000 during the fiscal year. The increase was due to lower insurance rates because the City went to a partial self fund policy.
- The Debt Service Fund cash balance decreased by $1,048,000 to $516,000 during the fiscal year. This decrease was due to finalizing the Main Street project financing and the use of funds held in trust to retire prior debt issues.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance increased by $44,000 to $698,000, due primarily to a decrease in operating disbursements.
- The Sewer Fund cash balance decreased by $38,000 to $41,000, due primarily to debt service payments not being sufficiently offset by the raising of rates this year.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget one time. The amendment was approved on May 24, 2005 and resulted in revenue increases in FEMA fire grant, airport federal grant, library memorials, sewer charges, storm water utility charges, local option sales tax and interdepartmental transfer. It also resulted in increases in expenditures on protective clothing-FEMA grant, fundraising expenses-pool, and engineering. The City had sufficient cash balances to absorb these additional costs.

DEBT ADMINISTRATION

At June 30, 2005, the City had approximately $12,992,000 in bonds and other long-term debt compared to approximately $15,163,000 last year, as shown below.

Outstanding Debt at Year-End
(Expressed in Thousands)

	June 30, 2005	June 30, 2004
General obligation bonds	$ 7,175	$ 8,945
Revenue notes	5,817	6,218
Total	$ 12,992	$ 15,163

Debt decreased as a result of debt service payments and using cash held in trust to retire previous bond issues which were available for call in fiscal year 2005.

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 net outstanding general obligation debt of $7,175,000 is below its constitutional debt limit of approximately $8 million.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's elected and appointed officials and citizens considered many factors when setting the fiscal year 2006 budget, tax rates, and fees that will be charged for various City activities. One of those factors is the economy. The City's employment growth has been held in check. Unemployment in the City now stands at 3.2 percent, versus 3.8 percent a year ago. This compares with the State's unemployment rate of 4.2 percent and the national rate of 6.2 percent.

Inflation in the State continues to be somewhat lower than the national Consumer Price Index increase. The State's CPI increase was 3.6 percent for fiscal year 2005 compared with the national rate of 3.6 percent. Inflation in Cherokee has been held level for the most part.

These indicators were taken into account when adopting the budget for fiscal year 2006. Amounts available for appropriation in the operating budget are $10 million, with a slight increase over the final 2005 budget. Other city taxes are expected to lead this increase. The City will use these increases in receipts to finance programs we currently offer and to pay down the debt created by completed projects. Budgeted disbursements are expected to remain level. Increased wage and cost-of-living adjustments and increases in debt service represent the largest increases. The City has added no major new programs or initiatives to the 2006 budget. This factor will allow the City to have the opportunity to play "catch up" and adjust the budgets in the future in order to meet the City's debt obligations.

If these estimates are realized, the City's budgeted cash balance is expected to decrease by approximately $585,000 by the close of fiscal 2006.

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 Taylor, City Clerk, 416 West Main, Cherokee, Iowa 51012.

BASIC FINANCIAL STATEMENTS

CITY OF CHEROKEE
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2005

		Program Receipts		
	Disbursements	Charges for Service	Operating Grants and Contributions	Capital Grants and Contributions
FUNCTIONS/PROGRAMS:				
Governmental activities:				
Public safety	$ 842,842	$ 69,267	$ 5,600	
Public works	622,235	9,476	446,410	
Culture and recreation	686,449	74,367	4,553	
Community and economic development	6,944		6,268	
General government	169,647			
Debt service	2,161,195			$ 225,640
Capital projects	169,650			
Total governmental activities	4,658,962	153,110	462,831	225,640
Business-type activities:				
Water	661,033	701,940		
Sewer	1,173,970	1,092,976		
Landfill	145,750	142,124		
Solid waste	177,927	189,513		
Storm water	1,675	81,135		
Airport	219,614		132,413	
Total business-type activities	2,379,969	2,207,688	132,413	
TOTAL	$7,038,931	$2,360,798	$ 595,244	$ 225,640
General Receipts:				
Property taxes levied for:				
General purposes				
Tax increment financing				
Debt service				
Local option sales tax				
Hotel/motel tax				
Grants and contributions not restricted to specific purpose				
Unrestricted investment earnings				
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:				
Debt service				
Road use				
Employee benefits				
Other purposes				
Unrestricted				
Total cash basis net assets				

See Notes to Financial Statements

Exhibit A

Net (Disbursement) Receipts and Changes in Cash Basis Net Assets		
Governmental Activities	Business-Type Activities	Total
$ (767,975)		$ (767,975)
(166,349)		(166,349)
(607,529)		(607,529)
(676)		(676)
(169,647)		(169,647)
(1,935,555)		(1,935,555)
(169,650)		(169,650)
(3,817,381)		(3,817,381)
	$ 40,907	40,907
	(80,994)	(80,994)
	(3,626)	(3,626)
	11,586	11,586
	79,460	79,460
	(87,201)	(87,201)
	(39,868)	(39,868)
(3,817,381)	(39,868)	(3,857,249)
1,315,162		1,315,162
221,297		221,297
254,791		254,791
362,900		362,900
47,483		47,483
8,240		8,240
133,901	8,897	142,798
213,722		213,722
(36,769)	36,769	
2,520,727	45,666	2,566,393
(1,296,654)	5,798	(1,290,856)
3,970,013	771,493	4,741,506
$2,673,359	$ 777,291	$3,450,650
$ 516,210	$ 272,934	$ 789,144
111,589		111,589
32,036		32,036
1,882,137		1,882,137
131,387	504,357	635,744
$2,673,359	$ 777,291	$3,450,650

See Notes to Financial Statements

CITY OF CHEROKEE
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND
CHANGES IN CASH BALANCES - GOVERNMENTAL FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2005

	General	Road Use	Employee Benefits
RECEIPTS:			
Property tax	$ 845,393		$ 443,462
Tax increment financing collections			
Other city tax			
Licenses and permits	25,519		
Use of money and property	96,906		
Intergovernmental	71,453	$ 446,410	
Charges for service	69,978		
Special assessments			
Miscellaneous	180,968	32,371	82,708
TOTAL RECEIPTS	1,290,217	478,781	526,170
DISBURSEMENTS:			
Governmental activities:			
Public safety	589,108		253,734
Public works		476,623	71,378
Culture and recreation	469,614		99,731
Community and economic development	255		
General government	223,761		60,520
Debt service			
Capital projects			
TOTAL DISBURSEMENTS	1,282,738	476,623	485,363
EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS	7,479	2,158	40,807
OTHER FINANCING SOURCES (USES):			
Operating transfers in	46,297		
Operating transfers out		(25,000)	
TOTAL OTHER FINANCING SOURCES (USES)	46,297	(25,000)	
NET CHANGE IN CASH BALANCES	53,776	(22,842)	40,807
CASH BALANCES - BEGINNING OF YEAR	77,611	134,431	(8,771)
CASH BALANCES - END OF YEAR	$ 131,387	$ 111,589	$ 32,036
CASH BASIS FUND BALANCES:			
Reserved:			
Debt service			
Unreserved:			
General fund	$ 131,387		
Special revenue funds		$ 111,589	$ 32,036
Capital projects fund			
Permanent fund			
TOTAL CASH BASIS FUND BALANCE	$ 131,387	$ 111,589	$ 32,036

See Notes to Financial Statements

Debt Service	Other Nonmajor Governmental Funds	Total Governmental Funds (Memorandum Only)
$ 254,791	$ 26,307	$1,569,953
	221,297	221,297
	410,383	410,383
		25,519
21,936	15,059	133,901
	10,821	528,684
		69,978
225,640		225,640
11,221	63,320	370,588
513,588	747,187	3,555,943
		842,842
	81,255	629,256
	117,104	686,449
	6,689	6,944
	1,050	285,331
2,161,195		2,161,195
	169,650	169,650
2,161,195	375,748	4,781,667
(1,647,607)	371,439	(1,225,724)
599,145	25,000	670,442
	(682,211)	(707,211)
599,145	(657,211)	(36,769)
(1,048,462)	(285,772)	(1,262,493)
1,564,672	2,040,359	3,808,302
$ 516,210	$1,754,587	$2,545,809
$ 516,210		$ 516,210
		131,387
	$ 672,404	816,029
	948,201	948,201
	133,982	133,982
$ 516,210	$1,754,587	$2,545,809

See Notes to Financial Statements

Exhibit C

CITY OF CHEROKEE
RECONCILIATION OF THE STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND CHANGES IN CASH BALANCES TO THE STATEMENT OF ACTIVITIES AND NET ASSETS GOVERNMENTAL FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2005

TOTAL GOVERNMENTAL FUNDS CASH BALANCES (Page 14)	$ 2,545,809
Amounts reported for governmental activities in the Statement of Activities and Net Assets are different because:	
The Internal Service Fund is used by management to charge the costs of certain building replacements or improvements to individual funds. The assets of the Internal Service Fund are included in governmental activities in the Statement of Net Assets.	127,550
CASH BASIS NET ASSETS OF GOVERNMENTAL ACTIVITIES (Page 12)	$ 2,673,359

NET CHANGE IN CASH BALANCES (Page 14)	$ (1,262,493)
Amounts reported for governmental activities in the Statement of Activities and Net Assets are different because:	
The Internal Service Fund is used by management to charge the costs of certain building replacements or improvements to individual funds. The change in net assets of the Internal Service Fund is reported with governmental activities.	(34,161)
CHANGE IN CASH BALANCE OF GOVERNMENTAL ACTIVITIES (Page 12)	$ (1,296,654)

See Notes to Financial Statements

Exhibit D

CITY OF CHEROKEE
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND CHANGES IN CASH BALANCES - PROPRIETARY FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2005

	Enterprise Funds		Other Nonmajor Proprietary Funds	Total	Internal Service Fund Building Replacement
	Water	Sewer			
OPERATING RECEIPTS:					
Charges for service	$756,924	$1,191,307	$412,772	$2,361,003	
Use of money and property	3,033	5,864		8,897	
TOTAL OPERATING RECEIPTS	759,957	1,197,171	412,772	2,369,900	
OPERATING DISBURSEMENTS:					
Governmental activities:					
Public works					$ 34,161
Business-type activities	512,439	835,703	544,966	1,893,108	
TOTAL OPERATING DISBURSEMENTS	512,439	835,703	544,966	1,893,108	34,161
EXCESS (DEFICIENCY) OF OPERATING RECEIPTS OVER (UNDER) OPERATING DISBURSEMENTS	247,518	361,468	(132,194)	476,792	(34,161)
NONOPERATING RECEIPTS (DISBURSEMENTS):					
Intergovernmental			132,413	132,413	
Debt service	(203,578)	(436,598)		(640,176)	
TOTAL NONOPERATING RECEIPTS (DISBURSEMENTS)	(203,578)	(436,598)	132,413	(507,763)	
EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS	43,940	(75,130)	219	(30,971)	(34,161)
Operating transfers in		36,769		36,769	
NET CHANGE IN CASH BALANCES	43,940	(38,361)	219	5,798	(34,161)
CASH BALANCES - BEGINNING OF YEAR	653,784	79,555	38,154	771,493	161,711
CASH BALANCES - END OF YEAR	$697,724	$ 41,194	$ 38,373	$ 777,291	$127,550
CASH BASIS FUND BALANCES:					
Reserved for debt service	$272,934			$ 272,934	
Unreserved	424,790	$ 41,194	$ 38,373	504,357	$127,550
TOTAL CASH BASIS FUND BALANCES	$697,724	$ 41,194	$ 38,373	$ 777,291	$127,550

See Notes to Financial Statements

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Cherokee, Iowa is a political subdivision of the State of Iowa located in Cherokee County. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, culture and recreation, community and economic development, and general government services. The City also provides various utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City has included all funds, organizations, agencies, boards, commissions, and authorities. These financial statements are intended to present only the primary government of the City of Cherokee. Therefore, the financial statements do not include financial data for any legally separate component units, which accounting principles generally accepted in the United States of America require to be reported with the financial data of the City's primary government if the financial statements were intended to present the cash basis financial position of the reporting entity of the City of Cherokee.

Jointly Governed Organizations

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

B. Basis of Presentation

Government-Wide Financial Statements - The statement of activities and net assets report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for services.

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

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

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

The statement of activities and net assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those that are 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 and proprietary funds are separately aggregated and reported as other nonmajor governmental and proprietary 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 that are 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 Fund is used to account for road construction and maintenance.

The Employee Benefits Fund is used to account for the benefits provided employees which are financed by property taxes.

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

The City reports the following major proprietary funds:

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

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

The City also reports the following additional proprietary fund:

An Internal Service Fund is utilized to account for financing the replacement of damaged property not covered by insurance coverage.

C. Measurement Focus and Basis of Accounting

The City of Cherokee 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 nonoperating 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 nonoperating receipts and disbursements.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2005, disbursements exceeded the amounts budgeted in the public safety and capital projects functions.

2. CASH AND POOLED INVESTMENTS

The City's deposits in banks at June 30, 2005 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 ensure 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-ended management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2005, $227,819 was held in trust on behalf of the City from the $1,785,000 proceeds of general obligation bonds issued in 2004. The funds are maintained by the trustee in insured deposit accounts and U.S. Treasury notes.

Interest rate risk - The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the City.

Credit risk - The City did not have investments subject to risk categorization at June 30, 2005.

3. BONDS AND NOTES PAYABLE

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

Year Ending	General Obligation Bonds		Revenue Notes		Total	
June 30,	Principal	Interest	Principal	Interest	Principal	Interest
2006	$ 695,000	$ 275,600	$ 413,000	$ 212,737	$ 1,108,000	$ 488,337
2007	830,000	254,195	433,000	197,155	1,263,000	451,350
2008	860,000	227,562	446,000	180,449	1,306,000	408,011
2009	770,000	197,756	465,000	162,879	1,235,000	360,635
2010	775,000	169,328	485,000	144,251	1,260,000	313,579
2011 - 2015	3,150,000	394,231	1,604,000	516,817	4,754,000	911,048
2016 - 2020	95,000	5,415	1,901,000	221,253	1,996,000	226,668
2021			69,701	6,642	69,701	6,642
Total	$7,175,000	$1,524,087	$5,816,701	$1,642,183	$12,991,701	$3,166,270

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

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

a. The notes will only be redeemed from the future earnings of the enterprise activity and the note holders retain a lien on the future earnings of the funds.

b. Sufficient monthly transfers shall be made to separate water and sewer revenue note sinking accounts within the Enterprise Funds for the purpose of making the note principal and interest payments when due.

c. Additional monthly transfers to the water and sewer reserve accounts shall be made until specific minimum balances have been accumulated. The water reserve account, which exceeds its minimum balance requirement, is restricted for the purpose of paying principal at maturity or interest on the water revenue notes if sufficient money is not available in the Sinking Fund. Transfers received by the sewer reserve fund equal one-fourth of the amount transferred to the sewer revenue sinking account. The reserve fund balance shall be used solely for the purpose of paying principal at maturity or interest on the sewer revenue notes if sufficient money is not available in the Sinking Fund.

d. All funds remaining in the city water account after the payment of all maintenance and operating expenses and required transfers shall be placed in a water revenue improvement fund at a minimum rate of $5,000 per month until a minimum of $200,000 is accumulated. This account is restricted for the purpose of paying for any improvement, extension, or repair to the system or for note and interest payments which the other accounts might be unable to make.

At June 30, 2005 the balances of these special funds included in the respective utility fund balance are as follows:

	Water	Sewer
Bond and interest sinking	$ 21,187	$ (2,932)
Bond reserve	204,863	
Improvement	46,884	
TOTAL	$272,934	$ (2,932)

4. PENSION AND RETIREMENT BENEFITS

The City contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, PO 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 6.16% and 9.23%, respectively. For the year ended June 30, 2004, the contribution rates for police employees and the City were 5.93% and 8.90%, respectively, and for the year ended June 30, 2003, the contribution rates for police employees and the City were 6.04% and 9.07%, respectively. Contribution requirements are established by state statute. The City's contribution to IPERS for the years ended June 30, 2005, 2004, and 2003 were $79,550, $77,863, and $82,251, respectively, equal to the required contributions for each year.

5. COMPENSATED ABSENCES

City employees accumulate a limited amount of earned but unused vacation leave hours for subsequent use or for payment upon termination, retirement, or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation termination payments payable to employees at June 30, 2005, primarily relating to the General Fund, is $112,346.

The liability for compensated absences has been computed based on rates of pay as of June 30, 2005.

6. LANDFILL CONTRACT

The solid waste disposal contract, which continues indefinitely, requires total annual payments of $138,672 by the City. This amount is attributed to the City's 1990 census as it relates in total to the county.

7. INTERFUND TRANSFERS

The detail of interfund transfers for the year ended June 30, 2005 is as follows:

Transfer to	Transfer from	Amount
General	Special Revenue: Emergency	$ 26,297
	Special Revenue: Hotel/Motel Tax	20,000
		46,297
Debt Service	Special Revenue: Local Option Sales Tax	500,000
	Special Revenue: Urban Renewal TIF	99,145
		599,145
Capital Projects	Special Revenue: Road Use	25,000
Sewer	Special Revenue: Urban Renewal TIF	36,769
Total		$707,211

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

8. RELATED PARTY TRANSACTIONS

The City had business transactions between the City and City officials and employees, totaling $7,855 during the year ended June 30, 2005.

9. LOCAL GOVERNMENT RISK POOL

The City of Cherokee is a member of 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 509 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 members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The City of Cherokee'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 of Cherokee's annual contributions to the Pool for the year ended June 30, 2005 were $85,526.

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 $100,000 each occurrence, each location, with excess coverage 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, 2005, settled claims have not exceeded the risk pool or reinsurance company coverage since the pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all claims and claims expenses become 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% 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 of Cherokee also carries commercial insurance purchased from other insurers for coverage associated with commercial property, workers' compensation, lift station in flood area, and hangerkeeper's liability. 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. LOANS RECEIVABLE

At June 30, 2005, the City had the following outstanding balances on loans made from the Revolving Loan Fund as an effort to promote economic development and promote and retain jobs within the City:

Filter Recycling - $30,000 loan on October 1, 1997, payable in 72 monthly payments of $318, including interest at 5%.	$ 8,508
Cherokee Family Daycare - $25,000 loan on April 23, 2002, payable in 72 monthly payments of $400, including interest at 5%.	12,847
American Natural Soy - $21,956 loan on December 9, 2003, payable in 10 annual payments of $2,442.64, including interest at 2%.	19,920
TOTAL	$ 41,275

At June 30, 2005, the City also had the following outstanding balance on a loan made from the G. Bacon Bequest subfund of the Capital Projects Fund:

Cherokee Community Foundation - $100,000 loan disbursed on September 26, 2003, payable at time of sale of the W.I.T. home being constructed with the funds advanced, including interest at 3%.	$100,000

11. DEFICIT FUND BALANCES

The following funds had a deficit balance at June 30, 2005:

Fund	Deficit Balance June 30, 2005	Cause of Deficit	Plans to Eliminate Deficit
Proprietary:			
Landfill		Increase in expenditures	Reduce spending
Airport		Project costs	Transfers from other funds

12. LITIGATION

The City is party to routine legal proceedings and litigation arising in the normal course of business. In the opinion of management, the outcome of such actions will have no material impact on the City's financial condition.

13. COMMITMENT

At June 30, 2005, the City had a construction contract for sewer improvements totaling approximately $240,000, of which approximately $235,000 remained outstanding. The balance on the contract will be paid as the project progresses from sewer utility revenues.

14. JOINTLY-GOVERNED ORGANIZATION

The City participates in the Cherokee Aviation Authority, a jointly-governed organization formed pursuant to the provisions of Chapter 28E of the Code of Iowa. Two members of the Cherokee Aviation Authority board are appointed by the City Council, two members are appointed by Cherokee County, and one member selected by the Cherokee Aviation Authority. The primary sources of funding for the Cherokee Aviation Authority are a tax levy by the City and Cherokee County, hangar rent, and the sale of fuel.

The City has no equity interest nor does the City materially contribute to the continued existence of the Cherokee Aviation Authority. The Cherokee Aviation Authority will be responsible for maintaining the financial records for the 28E entity.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF CHEROKEE
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, 2005

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds not Required to be Budgeted
RECEIPTS:			
Property tax	$1,569,953		
Tax increment financing collections	221,297		
Other city tax	410,383		
Licenses and permits	25,519		
Use of money and property	133,901	$ 8,897	$ 21,936
Intergovernmental	528,684	132,413	
Charges for service	69,978	2,361,003	153,315
Special assessments	225,640		
Miscellaneous	370,588		156,866
TOTAL RECEIPTS	3,555,943	2,502,313	332,117
DISBURSEMENTS:			
Public safety	842,842		
Public works	629,256	34,161	75,343
Culture and recreation	686,449		
Community and economic development	6,944		
General government	285,331		115,684
Debt service	2,161,195		1,447,058
Capital projects	169,650		
Business-type		2,533,284	153,315
TOTAL DISBURSEMENTS	4,781,667	2,567,445	1,791,400
EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS	(1,225,724)	(65,132)	(1,459,283)
OTHER FINANCING SOURCES - NET	(36,769)	36,769	
EXCESS (DEFICIENCY) OF RECEIPTS AND OTHER FINANCING SOURCES OVER (UNDER) DISBURSEMENTS AND OTHER FINANCING USES	(1,262,493)	(28,363)	(1,459,283)
BALANCES - BEGINNING OF YEAR	3,808,302	933,204	161,711
BALANCES - END OF YEAR	$2,545,809	$ 904,841	$(1,297,572)

See Accompanying Independent Auditors' Report

Net	Budgeted Amounts Original	Budgeted Amounts Final	Final to Net Variance
$1,569,953	$1,491,415	$1,491,415	$ 78,538
221,297	234,265	234,265	(12,968)
410,383	434,432	434,432	(24,049)
25,519	16,675	16,675	8,844
120,862	59,000	59,000	61,862
661,097	947,605	1,370,289	(709,192)
2,277,666	2,257,512	2,380,512	(102,846)
225,640	35,000	35,000	190,640
213,722	126,717	162,392	51,330
5,726,139	5,602,621	6,183,980	(457,841)
842,842	779,191	826,853	(15,989)
588,074	593,403	593,403	5,329
686,449	626,197	705,335	18,886
6,944	29,100	29,100	22,156
169,647	265,027	282,964	113,317
714,137	884,982	884,982	170,845
169,650	101,000	101,000	(68,650)
2,379,969	2,328,933	2,856,628	476,659
5,557,712	5,607,833	6,280,265	722,553
168,427	(5,212)	(96,285)	264,712
168,427	(5,212)	(96,285)	264,712
4,579,795	2,669,705	3,093,779	1,486,016
$4,748,222	$2,664,493	$2,997,494	$1,750,728

See Accompanying Independent Auditors' Report

CITY OF CHEROKEE
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2005

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

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. 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 and non-program. Function disbursements required to be budgeted include disbursements for the general fund, special revenue funds, debt service fund, capital projects funds and proprietary funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by $672,432. This budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2005, disbursements exceeded the amounts budgeted in the following functions: public safety, and capital projects.

OTHER SUPPLEMENTARY INFORMATION

CITY OF CHEROKEE
SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS, AND
CHANGES IN CASH BALANCES
NONMAJOR GOVERNMENTAL FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2005

	Special Revenue		
	Capital Projects	Emergency	Local Option Sales Tax
RECEIPTS:			
Property tax		$ 26,307	
Tax increment financing collections			
Other city tax			$362,900
Use of money and property	$ 12,676		1,061
Intergovernmental			
Miscellaneous	5,379		
TOTAL RECEIPTS	18,055	26,307	363,961
DISBURSEMENTS:			
Governmental activities:			
Public works	81,255		
Culture and recreation	51,813		
Community and economic development	421		
General government	1,050		
Capital projects	150,899		
TOTAL DISBURSEMENTS	285,438		
EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS	(267,383)	26,307	363,961
OTHER FINANCING SOURCES (USES):			
Operating transfers in	25,000		
Operating transfers out		(26,297)	(500,000)
TOTAL OTHER FINANCING SOURCES (USES)	25,000	(26,297)	(500,000)
NET CHANGE IN CASH BALANCES	(242,383)	10	(136,039)
CASH BALANCES - BEGINNING OF YEAR	1,190,584		438,917
CASH BALANCES - END OF YEAR	$ 948,201	$ 10	$302,878
CASH BASIS FUND BALANCES:			
Unreserved:			
Special revenue funds		$ 10	$302,878
Capital projects	$ 948,201		
Permanent fund			
TOTAL CASH BASIS FUND BALANCES	$ 948,201	$ 10	$302,878

See Accompanying Independent Auditors' Report

Hotel/ Motel	Urban Renewal TIF	Revolving Loan	Library Memorial	Parks & Recreation Capital Improvements
$ 47,483	$221,297			
		$ 6,268	$ 4,553	
		10,870	26,017	$ 18,787
47,483	221,297	17,138	30,570	18,787
29,747			32,375	3,151
		6,268		
	18,751			
29,747	18,751	6,268	32,375	3,151
17,736	202,546	10,870	(1,805)	15,636
(20,000)	(135,914)			
(20,000)	(135,914)			
(2,264)	66,632	10,870	(1,805)	15,636
8,678	185,048	36,825	8,270	41,626
$ 6,414	$251,680	$ 47,695	$ 6,465	$ 57,262
$ 6,414	$251,680	$ 47,695	$ 6,465	$ 57,262
$ 6,414	$251,680	$ 47,695	$ 6,465	$ 57,262

See Accompanying Independent Auditors' Report

Schedule 1

CITY OF CHEROKEE
SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS, AND
CHANGES IN CASH BALANCES
NONMAJOR GOVERNMENTAL FUNDS - Continued
AS OF AND FOR THE YEAR ENDED JUNE 30, 2005

	Permanent Oak Hill Perpetual Care	Total Nonmajor Governmental Funds
RECEIPTS:		
Property tax		$ 26,307
Tax increment financing collections		221,297
Other city tax		410,383
Use of money and property	$ 1,322	15,059
Intergovernmental		10,821
Miscellaneous	2,267	63,320
TOTAL RECEIPTS	3,589	747,187
DISBURSEMENTS:		
Governmental activities:		
Public works		81,255
Culture and recreation	18	117,104
Community and economic development		6,689
General government		1,050
Capital projects		169,650
TOTAL DISBURSEMENTS	18	375,748
EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS	3,571	371,439
OTHER FINANCING SOURCES (USES):		
Operating transfers in		25,000
Operating transfers out		(682,211)
TOTAL OTHER FINANCING SOURCES (USES)		(657,211)
NET CHANGE IN CASH BALANCES	3,571	(285,772)
CASH BALANCES - BEGINNING OF YEAR	130,411	2,040,359
CASH BALANCES - END OF YEAR	$133,982	$1,754,587
CASH BASIS FUND BALANCES:		
Unreserved:		
Special revenue funds		$ 672,404
Capital projects		948,201
Permanent fund	$133,982	133,982
TOTAL CASH BASIS FUND BALANCES	$133,982	$1,754,587

See Accompanying Independent Auditors' Report

Schedule 2

CITY OF CHEROKEE
SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS, AND
CHANGES IN CASH BALANCES
NONMAJOR PROPRIETARY FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2005

	Business-Type Activities - Enterprise Funds				
	Landfill	Solid Waste	Storm Water	Airport	Total
OPERATING RECEIPTS:					
Charges for service	$142,124	$189,513	$ 81,135		$ 412,772
TOTAL OPERATING RECEIPTS	142,124	189,513	81,135		412,722
OPERATING DISBURSEMENTS:					
Business type activities	145,750	177,927	1,675	$219,614	544,966
TOTAL OPERATING DISBURSEMENTS	145,750	177,927	1,675	219,614	544,966
EXCESS (DEFICIENCY) OF OPERATING RECEIPTS OVER (UNDER) OPERATING DISBURSEMENTS	(3,626)	11,586	79,460	(219,614)	(132,194)
NONOPERATING RECEIPTS:					
Intergovernmental				132,413	132,413
EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS	(3,626)	11,586	79,460	(87,201)	219
CASH BALANCES - BEGINNING OF YEAR	3,183	(3,593)	20,917	17,647	38,154
CASH BALANCES - END OF YEAR	$ (443)	$ 7,993	$100,377	$ (69,554)	$ 38,373
CASH BASIS FUND BALANCES:					
Unreserved	$ (443)	$ 7,993	$100,377	$ (69,554)	$ 38,373
TOTAL CASH BASIS FUND BALANCES	$ (443)	$ 7,993	$100,377	$ (69,554)	$ 38,373

See Accompanying Independent Auditors' Report

Schedule 3

CITY OF CHEROKEE
SCHEDULE OF CHANGES IN FIDUCIARY CASH BALANCE
AGENCY FUND
YEAR ENDED JUNE 30, 2005

	Cherokee Aviation Authority
CASH BALANCE - BEGINNING OF YEAR	$
RECEIPTS:	
Property tax	14,341
Miscellaneous	2,745
TOTAL RECEIPTS	17,086
DISBURSEMENTS:	
To other governments	17,086
CASH BALANCE - END OF YEAR	$

CITY OF CHEROKEE
SCHEDULE OF INDEBTEDNESS
YEAR ENDED JUNE 30, 2005

	Date of Issue	Interest Rates	Amount of Original Issue	Balance Beginning of Year
General obligation bonds:				
Essential corporate purpose (miscellaneous projects)	2-1-98	3.75 - 4.70%	$1,900,000	$1,475,000
Essential corporate purpose (miscellaneous projects)	3-1-00	4.90 - 5.35%	750,000	415,000
Sioux Valley Memorial Hospital Wellness Center	11-01-00	5.40 - 6.25%	1,000,000	855,000
Essential corporate purpose (miscellaneous projects)	7-1-02	2.50 - 4.70%	1,430,000	1,215,000
1993 refunding 2004 A	4-15-04	1.25 - 3.35%	1,785,000	1,785,000
Essential corporate purpose 2004 B	6-15-04	2.40 - 4.50%	3,200,000	3,200,000
TOTAL				$8,945,000
Revenue Notes:				
Sewer	9-30-99	4.23%	$2,170,000	$1,948,000
Water	4-01-02	3.25 - 5.00%	1,330,000	1,040,000
Sewer	6-19-02	3.00%	* 4,293,000	3,229,701
TOTAL				$6,217,701

* Authorized $4,293,000, issued $3,389,701, $325,000 redeemed.

Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
	$1,475,000		$ 65,765	
	95,000	$ 320,000	21,908	
	50,000	805,000	48,845	
	50,000	1,165,000	53,165	
	100,000	1,685,000	49,963	
		3,200,000	113,695	
	$1,770,000	$7,175,000	$353,341	$
	$ 81,000	$1,867,000	$ 82,400	
	155,000	885,000	48,178	
	165,000	3,064,701	96,891	
	$ 401,000	$5,816,701	$227,469	$

CITY OF CHEROKEE
BOND AND NOTE MATURITIES
JUNE 30, 2005

General Obligation Bonds

Miscellaneous Projects

Year Ending June 30,	Issued 3-1-2000 Interest Rates	Issued 3-1-2000 Amount	Issued 11-01-2000 Interest Rates	Issued 11-01-2000 Amount	Issued 7-1-2002 Interest Rates	Issued 7-1-2002 Amount
2006	5.25%	$ 100,000	6.00%	$ 55,000	3.75%	$ 90,000
2007	5.30%*	105,000	6.00%	60,000	4.00%	90,000
2008	5.35%*	115,000	5.90%	60,000	4.20%	85,000
2009			5.90%	65,000	4.35%	210,000
2010			5.90%	70,000	4.50%	220,000
2011			5.40%	70,000	4.60%	230,000
2012			5.45%	75,000	4.70%	240,000
2013			5.50%	80,000		
2014			5.55%	85,000		
2015			5.60%	90,000		
2016			5.70%	95,000		
TOTAL		$ 320,000		$ 805,000		$1,165,000

Revenue Notes

Year Ending June 30,	Sewer Issued 9-30-99 Interest Rates	Sewer Issued 9-30-99 Amount	Water Issued 4-2-02 Interest Rates	Water Issued 4-2-02 Amount	Sewer Issued 6-19-02 Interest Rates	Sewer Issued 6-19-02 Amount
2006	4.23%	$ 84,000	4.35%	$ 160,000	3.00%	$ 169,000
2007	4.23%	88,000	4.55%	170,000	3.00%	175,000
2008	4.23%	91,000	4.75%	175,000	3.00%	180,000
2009	4.23%	95,000	4.90%	185,000	3.00%	185,000
2010	4.23%	99,000	5.00%	195,000	3.00%	191,000
2011	4.23%	103,000			3.00%	196,000
2012	4.23%	107,000			3.00%	202,000
2013	4.23%	112,000			3.00%	208,000
2014	4.23%	118,000			3.00%	215,000
2015	4.23%	122,000			3.00%	221,000
2016	4.23%	127,000			3.00%	228,000
2017	4.23%	132,000			3.00%	235,000
2018	4.23%	138,000			3.00%	242,000
2019	4.23%	144,000			3.00%	249,000
2020	4.23%	150,000			3.00%	168,701
2021	4.23%	157,000			3.00%	
2022					3.00%	
2023					3.00%	
TOTAL		$1,867,000		$ 885,000		$3,064,701

* Expected to be refunded from 4-15-2004 bond proceeds in escrow at June 30, 2005.

Miscellaneous Projects				
Issued 4-15-2004		Issued 6-15-2004		
Interest Rates	Amount	Interest Rates	Amount	Total
1.60%	$ 165,000	2.40%	$ 285,000	$ 695,000
1.95%	280,000	2.85%	295,000	830,000
2.30%	295,000	3.20%	305,000	860,000
2.55%	180,000	3.45%	315,000	770,000
2.75%	185,000	3.65%	300,000	775,000
3.00%	185,000	3.85%	310,000	795,000
3.20%	195,000	4.05%	325,000	835,000
3.35%	200,000	4.20%	340,000	620,000
		4.35%	355,000	440,000
		4.50%	370,000	460,000
				95,000
	$1,685,000		$3,200,000	$7,175,000

Total
$ 413,000
433,000
446,000
465,000
485,000
299,000
309,000
320,000
333,000
343,000
355,000
367,000
380,000
393,000
318,701
157,000
$5,816,701

Schedule 6

CITY OF CHEROKEE
SCHEDULE OF RECEIPTS BY SOURCE AND DISBURSEMENTS BY FUNCTION
ALL GOVERNMENTAL FUNDS
FOR THE LAST FOUR YEARS

	2005	2004	2003	2002
RECEIPTS:				
Property and other city tax	$1,980,336	$2,073,806	$1,976,920	$1,759,691
Tax increment financing collections	221,297	203,467	225,979	217,464
Licenses and permits	25,519	27,128	24,229	15,873
Use of money and property	133,901	88,240	88,156	92,330
Intergovernmental	528,684	1,184,756	695,258	568,809
Charges for service	69,978	82,648	75,819	42,366
Special assessments	225,640	24,633	46,920	7,840
Miscellaneous	370,588	1,204,605	427,510	386,990
TOTAL REVENUES	$3,555,943	$4,889,283	$3,560,791	$3,091,363
DISBURSEMENTS:				
Public safety	$ 842,842	$ 825,650	$ 851,784	*
Public works	629,256	475,612	1,332,189	*
Culture and recreation	686,449	672,576	887,527	*
Community and economic development	6,944	99,075	115,244	*
General government	285,331	288,555	304,447	*
Debt service	2,161,195	4,033,976	2,273,282	*
Capital projects	169,650	2,984,197		
TOTAL EXPENDITURES	$4,781,667	$9,379,641	$5,764,473	$4,330,890

* Information not available

See Accompanying Independent Auditors' Report

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

The Honorable Mayor and
Members of the City Council
City of Cherokee
Cherokee, IA 51012

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 primary government of the City of Cherokee, Iowa as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated August 11, 2005. Our report expressed an unqualified opinion on the financial statements which were prepared in conformity with another comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered City of Cherokee's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion 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 Cherokee'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 I 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 caused by errors or fraud 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

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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 items I-A-05 is a material weakness.

Compliance and Other Matters

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

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2005 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.

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 Cherokee, and other parties to whom the City of Cherokee 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 Cherokee 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.

Winther, Stens & Co LLP

August 11, 2005

Part I: Findings Related to the Financial Statements

Instances of Non-Compliance:

No matters were noted.

Reportable Condition:

I-A-05 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. We noted that one individual has custody of receipts, prepares bank deposits, picks up bank statements, and performs posting of cash receipts to the cash receipts journal.

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 - We will consider our control procedures.

Conclusion - Response accepted.

Part II: Other Findings Related to Statutory Reporting

II-A-05 Official Depositories - A resolution naming official depositories has been approved by the City. The maximum deposit amounts stated in the resolution was exceeded for one financial institution during the year ended June 30, 2005.

Recommendation - We recommend amounts deposited in financial institutions be regularly reviewed for compliance with the depository resolution.

Response - The maximum deposit amount was temporarily exceeded due to the receipt of tax revenues. We will regularly review financial institution account balances for compliance with the depository resolution.

Conclusion - Response accepted.

II-B-05 Certified Budget - Disbursements during the year ended June 30, 2005 exceeded the amounts budgeted in the following functions: public safety and capital projects. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

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

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

Conclusion - Response accepted.

II-C-05 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.

II-D-05 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

Part II: Other Findings Related to Statutory Reporting - Continued

II-E-05 Business Transactions - Business transactions between the City and City officials or employees are detailed as follows:

Name, Title, and Business Connection	Transaction Description	Amount
Duane Mummert, Park Superintendent	Tooling expense	$ 1,000
Bill Troth, City Council Member	Repairs	$ 6,855

In accordance with Chapter 362.5(10) of the Code of Iowa, the transaction with the Park Superintendent does not appear to represent conflicts of interest since the total transaction was less than $1,500 during the fiscal year.

Recommendation - The transactions exceeding $1,500 may represent a conflict of interest. The City should consult legal counsel to determine the disposition of each of these matters.

Response - The City Attorney will be asked to comment on these transactions.

Conclusion - Response accepted.

II-F-05 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.

II-G-05 Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not.

II-H-05 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. However, the City Council has not reviewed the investment policy in the past two years as required by the policy.

Part II: Other Findings Related to Statutory Reporting - Continued

II-I-05 Revenue Notes - The City has not complied with various water and sewer revenue note resolutions. While the City has established the respective water and sewer bond and interest sinking funds required by bond resolutions, balances maintained in these funds as of June 30, 2005 were deficient by approximately $12,000 and $36,000, respectively, due to insufficient transfers to the funds. Similarly, the balance maintained in the sewer reserve fund was deficient at June 30, 2005 by approximately $70,000 due to the failure to make the required transfers for the final eight months of the fiscal year. In addition, the City has not maintained user rates for the water and sewer utilities at a level sufficient to produce net revenues to the extent required by the respective bond resolutions.

Recommendation - The City should make transfers to the water and sewer bond and interest sinking funds and the sewer reserve fund necessary to bring the balances into compliance with bond resolution requirements. The City should also determine whether existing water and sewer user rates will be sufficient to produce the required net revenues or whether user rates should be increased.

Response - We will make the necessary transfers to the respective bond and interest sinking funds and the sewer reserve fund to bring them into compliance. We will also examine existing water and sewer user rates to determine the level required to comply with bond resolution net revenue requirements.

Conclusion - Response accepted.

II-J-05 Interest on Bond Reserve Fund Balances - We noted interest on cash balances held in the special water and sewer bond reserve funds contained in the Water and Sewer Enterprise Funds is not being credited to the special bond reserve funds. In addition, interest on certain cash balances held in the Debt Service Fund is not being credited to the fund. Therefore, the interest on these cash balances is not being used to make payments on indebtedness as required by Chapter 12C.9 of the Code of Iowa.

Recommendation - Interest from cash balances held in the special bond reserve funds and the Debt Service Fund should be credited to the respective fund.

Response - We will credit interest on bond reserve and debt service cash balances to the respective bond reserve and debt service funds.

Conclusion - Response accepted.

Part II: Other Findings Related to Statutory Reporting - Continued

II-K-05 Financial Condition - The following funds had a deficit balance at June 30, 2005:

Proprietary - Landfill
- Airport

Recommendation - The City should investigate alternatives to eliminate these deficits in order to return these accounts to a sound financial position.

Response -

Proprietary	- Landfill	Reduce spending
	- Airport	Transfers from other funds

Conclusion - Response accepted.

II-L-05 Jointly-Governed Organization Audit Requirement - The City participates in the Cherokee Aviation Authority, a jointly-governed organization formed pursuant to the provisions of Chapter 28E of the Code of Iowa. Chapter 11.6 of the Code of Iowa requires 28E organizations with gross receipts in excess of $100,000 to have an annual audit of their financial statements. Currently no arrangements for an audit have been made by Cherokee Aviation Authority, which had receipts in excess of $100,000 for the fiscal year ended June 30, 2005.

Recommendation - The City Council should ask the Cherokee Aviation Authority to comply with the audit requirements of Chapter 11.6 of the Code of Iowa.

Response - We will ask the Cherokee Aviation Authority to comply with the audit requirements.

Conclusion - Response accepted.