

CITY OF OSCEOLA

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

SCHEDULE OF FINDINGS

June 30, 2005

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CITY OF OSCEOLA

OFFICIALS

ELECTED OFFICIALS

Fred Diehl	Mayor	December 2007
Glenn Schaff	Council Member & Mayor Pro Tem	December 2009
Peggy Mateer	Council Member	December 2009
Ed Davis	Council Member	December 2007
George Fotiadis	Council Member	December 2007
Dr. James Kimball	Council Member	December 2007

APPOINTED OFFICIALS

Ralph Lesko	City Administrator	Indefinite
Dan Cline	Treasurer/Clerk	Indefinite
Richard Murphy	Attorney	Indefinite
Judy Coe	Librarian	Indefinite

Officials - Osceola Municipal Waterworks

Sandy Kale	Chairperson/Trustee	December 2005
Paul Chesnut	Trustee	December 2005
Paul Winship	Trustee	December 2009
Robert Horton	Trustee	December 2010
Fred Wood	Trustee	December 2009

INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and
Members of the City Council:

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

We conducted our audit in accordance with generally accepted auditing standards of the United States of America 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 opinion.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Osceola as of June 30, 2005, 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.

In accordance with Government Auditing Standards, we have also issued our report dated January 20, 2006, on our consideration of the City of Osceola'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 of internal control over financial reporting and compliance and the results of that 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 5 through 12 and 35 through 37 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the City of Osceola's basic financial statements. Other auditors previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the year ended June 30, 2004 (none of which are presented herein) and expressed an unqualified opinion on those financial statements. Other supplementary information included in Schedules 1 through 5, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

May 23, 2006

CITY OF OSCEOLA

MANAGEMENT'S DISCUSSION AND ANALYSIS

City of Osceola, Iowa provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2005. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2005 FINANCIAL HIGHLIGHTS

Revenues of the City's governmental activities increased 75%, or approximately \$3,900,000 from fiscal 2004 to fiscal 2005. Property tax increased approximately \$362,000 and capital grants increased approximately \$250,000. The City also received a lump sum payment of \$3,200,000 from the new casino operator.

Disbursements increased 17%, or approximately \$857,000, in fiscal 2005 from fiscal 2004. Public works, culture and recreation, and capital projects disbursements increased approximately \$248,000, 87,000 and 870,000, respectively. Debt service disbursements decreased approximately \$330,000.

The City's total cash basis net assets increased 144%, or approximately \$3,512,000, from June 30, 2004 to June 30, 2005. Of this amount, the assets of the governmental activities and the business type activities increased by approximately \$3,204,000 and 867,000, respectively. The assets of the Water municipal utility component unit decreased approximately \$559,000.

USING THIS ANNUAL REPORT

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

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

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

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

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

CITY OF OSCEOLA

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

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 have effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

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

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

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

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

Business Type Activities include the waterworks, the sanitary sewer system, solid waste disposal and the storm water drainage system. These activities are financed primarily by user charges.

CITY OF OSCEOLA

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Fund Financial Statements

The City has two kinds of funds:

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

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

2. Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains one Enterprise Fund to provide separate information for the sewer fund.

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 sharply from a year ago, increasing from \$1,250,198 to \$4,453,844. The analysis that follows focuses on the changes in cash balances for governmental activities.

CITY OF OSCEOLA

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Changes in Cash Basis Net Assets of Governmental Activities		
	Year ended June 30,	
	2005	2004
Receipts and transfers		
Program receipts		
Charges for service	\$ 413,283	389,111
Operating grants, contributions and restricted interest	725,762	703,094
Capital grants, contributions and restricted interest	321,195	70,738
General receipts		
Property tax	2,152,624	1,790,815
Local option sales tax	375,346	327,288
Hotel/motel tax	204,211	212,189
Utility tax replacement excise tax	41,338	37,872
Bank franchise tax	16,123	6,343
Unrestricted interest on investments	38,831	6,540
Bond proceeds	-	500,000
Gaming receipts	1,003,097	1,076,994
Other general receipts	3,322,688	16,736
Transfers, net	<u>378,504</u>	<u>-</u>
Total receipts and transfers	<u>8,993,002</u>	<u>5,137,720</u>
Disbursements		
Public safety	776,541	796,646
Public works	1,317,761	1,070,219
Culture and recreation	671,715	585,097
Community and economic development	322,661	374,608
General government	753,168	698,799
Debt service	502,784	832,239
Capital projects	<u>1,444,726</u>	<u>574,604</u>
Total disbursements	<u>5,789,356</u>	<u>4,932,212</u>
Increase in cash basis net assets	3,203,646	205,508
Cash basis net assets beginning of year	<u>1,250,198</u>	<u>1,044,690</u>
Cash basis net assets end of year	<u>\$ 4,453,844</u>	<u>1,250,198</u>

The City's total receipts for governmental activities increased by 75%, or \$3,855,282. The total cost of all programs and services increased by \$857,144, or 17%, with no new programs added this year. The significant increase in receipts was primarily the result of the \$3,200,000 of proceeds received from the change in the casino operator.

CITY OF OSCEOLA

MANAGEMENT’S DISCUSSION AND ANALYSIS (Continued)

The City increased property tax rates for 2005 by an average of 14.9 percent. This increase raised the City’s property tax receipts by approximately \$190,000 in 2005 to handle previously absorbed benefit costs.

The cost of all governmental activities this year was \$5,789,356 compared to \$4,932,212 last year. However, as shown in the Statement of Activities and Net Assets on pages 13-16, the amount taxpayers ultimately financed for these activities was only \$4,467,874 because some of the cost was paid by those directly benefited from the programs (\$413,283), or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest (\$1,046,957). The City paid for the remaining “public benefit” portion of governmental activities with approximately \$4,468,000 in tax (some of which could only be used for certain programs) and with other receipts, such as interest and general entitlements.

Changes in Cash Basis Net Assets of Business Type Activities

	<u>Year ended June 30,</u>	
	<u>2005</u>	<u>2004</u>
Receipts and transfers		
Program receipts		
Charges for service		
Sewer	\$ 924,964	913,334
Operating grants, contributions and restricted interest	-	1,175
Capital grants, contributions and restricted interest	-	-
General receipts		
Unrestricted interest on investment	1,937	-
Bond proceeds	994,149	-
Other general receipts	<u>10,266</u>	<u>2,167</u>
Total receipts	<u>1,931,316</u>	<u>916,676</u>
Disbursements		
Sewer	1,063,722	1,873,996
Transfers	<u>-</u>	<u>-</u>
Total disbursements and transfers	<u>1,063,722</u>	<u>1,873,996</u>
Increase in cash balance	867,594	(957,320)
Cash basis net assets beginning of year	<u>(50,354)</u>	<u>906,966</u>
Cash basis net assets end of year	<u>\$ 817,240</u>	<u>(50,354)</u>

CITY OF OSCEOLA

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Total business type activities receipts for the fiscal year were \$1,931,316 compared to \$916,676 last year. This increase was due primarily to the receipt of \$994,149 in water and sewer construction SRF proceeds. The cash balance increased by \$867,594 from the prior year because most of the proceeds received were previously spent for the approved water and sewer construction projects.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As City of Osceola, Iowa completed the year, its governmental funds reported a combined fund balance of \$4,453,844, an increase of more than \$3,203,000 above last year's total of \$1,250,198. 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 \$200,342 from the prior year to \$1,628,760.

The Casino Special Projects special revenue fund cash balance increased by \$3,178,087 from \$0 during the fiscal year. This increase was primarily due to the change in the casino operator during the year. The City intends to use this money for the mutual benefit of the citizens of Clarke County.

The Debt Service Fund cash balance was \$(1,272), an increase of \$543,531 from the previous year. The increase resulted primarily from transfers from other Funds for debt service payments made in the Debt Service Fund.

The Blacktop and Paving capital projects fund was established during fiscal year to account for projects around the City. At the end of the fiscal year, \$430,802 was transferred from the General Fund to cover the amount expended.

The 2005 Paving Project capital projects fund was also established during fiscal year to account for a paving project in the City. At the end of the fiscal year, the cash balance was \$(694,051).

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

The Sewer Fund cash balance increased primarily due to the receipt SRF proceeds. The cash balance increased by \$867,594 to \$817,240, from the prior year because most of the proceeds received were previously spent for the approved water and sewer construction projects.

CITY OF OSCEOLA

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget one time. The amendment was approved on June 7, 2005 and resulted in a net increase of \$3,758,027 in revenues. The increase was due primarily to proceeds from the casino operator change.

DEBT ADMINISTRATION

At June 30, 2005, the City had approximately \$6,764,721 in bonds and other long-term debt, compared to \$6,323,447 last year, as show below.

	Outstanding Debt at Year-End	
	June 30,	
	2005	2004
General obligation bonds	\$ 785,000	980,000
General obligation notes	2,054,022	2,157,347
Special Obligation Loan Agreement Anticipation note	97,200	97,200
Urban Renewal Tax Increment Financing Revenue bonds	31,193	51,320
Revenue bonds	3,767,001	2,990,852
Other Long-term Debt	30,305	46,728
Total	<u>\$ 6,764,721</u>	<u>6,323,447</u>

Debt increased as a result of receiving SRF proceeds to reimburse sewer project expenditures.

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$2,936,000 is significantly below its constitutional debt limit of \$10 million.

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

CITY OF OSCEOLA

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

City of Osceola, Iowa'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 total assessed valuations have increased slightly. However, funding from the State has decreased due to budget constraints.

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 Ralph Lesko, City Administrator, 115 North Fillmore Street, Osceola, Iowa.

BASIC FINANCIAL STATEMENTS

CITY OF OSCEOLA

Statement of Activities and Net Assets – Cash Basis
As of and for the year ended June 30, 2005

	<u>Disbursements</u>	<u>Program</u> Charges for Service
Functions / Programs		
Governmental activities		
Public safety	\$ 776,541	-
Public works	1,317,761	236,932
Culture and recreation	671,715	156,204
Community and economic development	322,661	-
General government	753,168	20,147
Debt service	502,784	-
Capital projects	<u>1,444,726</u>	<u>-</u>
Total governmental activities	<u>5,789,356</u>	<u>413,283</u>
Business type activities		
Sewer	<u>1,063,722</u>	<u>924,964</u>
Component Unit		
Water	<u>1,458,871</u>	<u>1,099,493</u>
Total	<u>\$ 8,311,949</u>	<u>2,437,740</u>
General Receipts		
Property tax levied for		
General purposes		
Tax increment financing		
Employee benefits		
Debt service		
Local option sales tax		
Hotel/motel tax		
Utility tax replacement excise tax		
Bank franchise tax		
Unrestricted interest on investments		
Bond proceeds		
Gaming receipts		
Miscellaneous		
Transfers		
Total general receipts and transfers		

Receipts		Net (Disbursements) Receipts and Changes in Cash Basis Net Assets			
Operating Grants, Contributions, and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	Total	Major Discretely Presented Component Unit
55,410	-	(721,131)	-	(721,131)	-
387,377	50,000	(643,452)	-	(643,452)	-
78,595	37,415	(399,501)	-	(399,501)	-
198,000	-	(124,661)	-	(124,661)	-
6,380	-	(726,641)	-	(726,641)	-
-	-	(502,784)	-	(502,784)	-
-	233,780	(1,210,946)	-	(1,210,946)	-
<u>725,762</u>	<u>321,195</u>	<u>(4,329,116)</u>	<u>-</u>	<u>(4,329,116)</u>	<u>-</u>
-	-	-	(138,758)	(138,758)	-
<u>157,914</u>	<u>3,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(198,464)</u>
<u>883,676</u>	<u>324,195</u>	<u>(4,329,116)</u>	<u>(138,758)</u>	<u>(4,467,874)</u>	<u>(198,464)</u>
		1,006,343	-	1,006,343	-
		513,847	-	513,847	-
		370,407	-	370,407	-
		262,027	-	262,027	-
		375,346	-	375,346	-
		204,211	-	204,211	-
		41,338	-	41,338	-
		16,123	-	16,123	-
		38,831	1,937	40,768	9,336
		-	994,149	994,149	-
		1,003,097	-	1,003,097	-
		3,322,688	10,266	3,332,954	8,480
		<u>378,504</u>	<u>-</u>	<u>378,504</u>	<u>(378,504)</u>
		<u>7,532,762</u>	<u>1,006,352</u>	<u>8,539,114</u>	<u>(360,688)</u>

CITY OF OSCEOLA

Statement of Activities and Net Assets – Cash Basis
As of and for the year ended June 30, 2005

Change in cash basis net assets

Cash basis net assets beginning of year

Cash basis net assets end of year

Cash Basis Net Assets

Restricted

Streets

Urban renewal purposes

Debt service

Reservoir construction

Other purposes

Unrestricted

Total cash basis net assets

Exhibit A
(Continued)

Changes in Cash Basis Net Assets			
Governmental Activities	Business Type Activities	Total	Major Discretely Presented Component Unit
3,203,646	867,594	4,071,240	(559,152)
<u>1,250,198</u>	<u>(50,354)</u>	<u>1,199,844</u>	<u>1,238,851</u>
<u><u>4,453,844</u></u>	<u><u>817,240</u></u>	<u><u>5,271,084</u></u>	<u><u>679,699</u></u>
13,039	-	13,039	-
176,219	-	176,219	-
(1,272)	251,753	250,481	112,093
3,178,087	-	3,178,087	-
224,559	-	224,559	-
<u>863,212</u>	<u>565,487</u>	<u>1,428,699</u>	<u>567,606</u>
<u><u>4,453,844</u></u>	<u><u>817,240</u></u>	<u><u>5,271,084</u></u>	<u><u>679,699</u></u>

CITY OF OSCEOLA

Statement of Cash Receipts, Disbursements
And Changes in Cash Balances
Governmental Funds
As of and for the year ended June 30, 2005

	<u>General</u>	<u>Special Revenue</u> Casino Special Projects	<u>Debt Service</u>
Receipts			
Property tax	\$ 1,006,343	-	262,027
Tax increment financing collections	-	-	-
Other city tax	229,952	-	6,034
Licenses and permits	19,346	-	-
Use of money and property	1,013,559	22,278	-
Intergovernmental	350,544	-	-
Charges for service	393,136	-	-
Miscellaneous	<u>173,846</u>	<u>3,200,000</u>	<u>-</u>
Total receipts	<u>3,186,726</u>	<u>3,222,278</u>	<u>268,061</u>
Disbursements			
Operating			
Public safety	653,424	-	-
Public works	682,972	-	-
Culture and recreation	615,233	-	-
Community and economic development	-	44,191	-
General government	288,288	-	-
Debt service	-	-	492,071
Capital projects	<u>-</u>	<u>-</u>	<u>-</u>
Total disbursements	<u>2,239,917</u>	<u>44,191</u>	<u>492,071</u>
Excess of receipts over disbursements	<u>946,809</u>	<u>3,178,087</u>	<u>(224,010)</u>
Other financing sources (uses)			
Bond proceeds	-	-	-
Operating transfers in (out)	<u>(746,467)</u>	<u>-</u>	<u>767,541</u>
Total other financing sources (uses)	<u>(746,467)</u>	<u>-</u>	<u>767,541</u>

<u>Capital Project</u>		Other	
<u>Blacktop and Paving</u>	<u>2005 Paving Project</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
-	-	370,407	1,638,777
-	-	513,847	513,847
-	-	384,909	620,895
-	-	-	19,346
-	-	6,091	1,041,928
-	-	653,296	1,003,840
-	-	-	393,136
-	-	<u>8,883</u>	<u>3,382,729</u>
-	-	<u>1,937,433</u>	<u>8,614,498</u>
-	-	123,117	776,541
-	-	634,789	1,317,761
-	-	56,482	671,715
-	-	278,470	322,661
-	-	464,880	753,168
-	-	10,713	502,784
<u>430,802</u>	<u>694,051</u>	<u>319,873</u>	<u>1,444,726</u>
<u>430,802</u>	<u>694,051</u>	<u>1,888,324</u>	<u>5,789,356</u>
<u>(430,802)</u>	<u>(694,051)</u>	<u>49,109</u>	<u>2,825,142</u>
-	-	-	-
<u>430,802</u>	-	<u>(59,159)</u>	<u>392,717</u>
<u>430,802</u>	-	<u>(59,159)</u>	<u>392,717</u>

CITY OF OSCEOLA

Statement of Cash Receipts, Disbursements
 And Changes in Cash Balances
 Governmental Funds
 As of and for the year ended June 30, 2005

	<u>General</u>	<u>Special Revenue</u> Casino Special Projects	<u>Debt Service</u>
Net change in cash balances	200,342	3,178,087	543,531
Cash balances beginning of year	<u>1,628,760</u>	<u>-</u>	<u>(544,803)</u>
Cash balances end of year	<u>\$ 1,829,102</u>	<u>3,178,087</u>	<u>(1,272)</u>
 Cash Basis Fund Balances			
Reserved			
Debt service	\$ -	-	(1,272)
Unreserved			
General fund	1,829,102	-	-
Special revenue funds	-	3,178,087	-
Capital project funds	-	-	-
Permanent fund	<u>-</u>	<u>-</u>	<u>-</u>
 Total cash basis fund balances	 <u>\$ 1,829,102</u>	 <u>3,178,087</u>	 <u>(1,272)</u>

See notes to financial statements.

<u>Capital Project</u>		Other	
<u>Blacktop</u>	<u>2005</u>	<u>Nonmajor</u>	
<u>and</u>	<u>Paving</u>	<u>Governmental</u>	<u>Total</u>
<u>Paving</u>	<u>Project</u>	<u>Funds</u>	
-	(694,051)	(10,050)	3,217,859
<u>-</u>	<u>-</u>	<u>(21,102)</u>	<u>1,062,855</u>
<u>-</u>	<u>(694,051)</u>	<u>(31,152)</u>	<u>4,280,714</u>
-	-	-	(1,272)
-	-	-	1,829,102
-	-	220,147	3,398,234
-	(694,051)	(328,959)	(1,023,010)
<u>-</u>	<u>-</u>	<u>77,660</u>	<u>77,660</u>
<u>-</u>	<u>(694,051)</u>	<u>(31,152)</u>	<u>4,280,714</u>

CITY OF OSCEOLA

Exhibit C

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances -
Proprietary Funds
As of and for the year ended June 30, 2005

	<u>Enterprise</u>
	<u>Sewer</u>
Operating receipts	
Use of money and property	\$ 1,937
Charges for service	908,502
Special assessments	16,462
Miscellaneous	<u>10,266</u>
Total operating receipts	<u>937,167</u>
 Operating disbursements	
Business type activities	<u>706,514</u>
 Excess (deficiency) of operating receipts over (under) operating disbursements	 <u>230,653</u>
 Non-operating receipts (disbursements)	
Debt service	<u>357,208</u>
 Excess (deficiency) of receipts over (under) disbursements	 (126,555)
 Other financing sources (uses)	
Bond proceeds	994,149
Operating transfers out	<u>-</u>
Total other financing sources (uses)	<u>994,149</u>
 Net change in cash balances	 867,594
Cash balances beginning of year	<u>(50,354)</u>
 Cash balances end of year	 <u>\$ 817,240</u>
 Cash Basis Fund Balances	
Reserved for debt service	\$ 251,753
Unreserved	<u>565,487</u>
Total cash basis fund balances	<u>\$ 817,240</u>

See notes to financial statements.

CITY OF OSCEOLA

Notes to Financial Statements June 30, 2005

1. Summary of Significant Accounting Policies

The City of Osceola is a political subdivision of the State of Iowa located in Clarke County. It was first incorporated in 1866 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, culture and recreation, community and economic development and general administrative services. The City also provides water and sewer utilities for its citizens.

A. Reporting Entity

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

These financial statements present the City of Osceola (the primary government) and its component unit. The component unit discussed below is included in the City's reporting entity because of the significance of its operational or financial relationship with the City.

Discretely Presented Component Unit

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

CITY OF OSCEOLA

Notes to Financial Statements - Continued
June 30, 2005

1. Summary of Significant Accounting Policies (Continued)

A. Reporting Entity (Continued)

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 and commissions: Emergency Management Commission, Clarke County Development Corporation, the Main Street Board and the Southwest Iowa Coalition Board.

City officials are also members of the Clarke County Sanitary Landfill Commission (see Note 9) and the Clarke County Reservoir Commission (see Note 15).

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.

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.

CITY OF OSCEOLA

Notes to Financial Statements - Continued
June 30, 2005

1. Summary of Significant Accounting Policies (Continued)

B. Basis of Presentation (Continued)

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

The City reports the following major governmental funds:

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

The Casino Special Projects Special Revenue Fund is used to account for contributions and development activities for a new reservoir and regional recreational facility.

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

Capital Projects:

The Blacktop and Paving Fund was established to account for the costs major resurfacing projects.

The 2005 Paving Project Fund was established to account for the costs of major paving projects.

The City reports the following major proprietary fund:

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

CITY OF OSCEOLA

Notes to Financial Statements - Continued June 30, 2005

1. Summary of Significant Accounting Policies (Continued)

C. Measurement Focus and Basis of Accounting

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

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

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2005, disbursements exceeded the amounts budgeted in the public works, community and economic development, debt service 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 insure there will be no loss of public funds.

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

CITY OF OSCEOLA

Notes to Financial Statements - Continued
June 30, 2005

2. Cash and Pooled Investments (Continued)

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 had no investments at June 30, 2005.

3. Bonds Payable

Annual debt service requirements to maturity for general obligation bonds, urban renewal tax increment financing revenue bonds, general obligation notes, revenue bonds and other long-term debt are as follows:

Year Ending June 30,	General Obligation		General Obligation		Special Oligation Loan Agreement Anticipation Project Note	
	Bonds		Notes		Project Note	
	Principal	Interest	Principal	Interest	Principal	Interest
2006	\$ 205,000	36,215	\$ 109,672	90,585	97,200	2,916
2007	215,000	26,777	166,043	102,586	-	-
2008	225,000	16,808	155,219	94,962	-	-
2009	140,000	6,300	161,066	87,769	-	-
2010	-	-	129,484	80,138	-	-
2011	-	-	133,916	73,781	-	-
2012	-	-	138,612	67,022	-	-
2013	-	-	148,587	59,847	-	-
2014	-	-	153,858	52,117	-	-
2015	-	-	164,442	44,012	-	-
2016	-	-	105,359	35,300	-	-
2017	-	-	111,628	29,031	-	-
2018	-	-	118,270	22,389	-	-
2019	-	-	125,307	15,352	-	-
2020	-	-	132,559	7,897	-	-
2021	-	-	-	-	-	-
2022	-	-	-	-	-	-
2023	-	-	-	-	-	-
Total	<u>\$ 785,000</u>	<u>86,100</u>	<u>\$2,054,022</u>	<u>862,788</u>	<u>97,200</u>	<u>2,916</u>

CITY OF OSCEOLA

Notes to Financial Statements - Continued
June 30, 2005

3. Bonds Payable (Continued)

Year Ending June 30,	Tax Increment Financing (TIF)		Revenue Bonds		Other Long-term Debt	
	Bonds					
	Principal	Interest	Principal	Interest	Principal	Interest
2006	14,929	2,410	226,000	130,880	9,804	909
2007	16,264	1,075	235,000	122,442	10,099	614
2008	-	-	244,000	113,666	10,402	311
2009	-	-	253,000	104,538	-	-
2010	-	-	263,000	95,057	-	-
2011	-	-	272,000	85,194	-	-
2012	-	-	282,000	74,979	-	-
2013	-	-	293,000	64,382	-	-
2014	-	-	304,000	53,359	-	-
2015	-	-	138,000	41,910	-	-
2016	-	-	142,000	37,770	-	-
2017	-	-	146,000	33,510	-	-
2018	-	-	150,000	29,130	-	-
2019	-	-	155,000	24,630	-	-
2020	-	-	159,000	19,980	-	-
2021	-	-	164,000	15,210	-	-
2022	-	-	169,000	10,290	-	-
2023	-	-	172,000	5,220	-	-
Total	<u>31,193</u>	<u>3,485</u>	<u>3,767,000</u>	<u>1,062,147</u>	<u>30,305</u>	<u>1,834</u>

Component Unit – Annual debt service requirements to maturity for the water revenue bonds are as follows:

CITY OF OSCEOLA

Notes to Financial Statements - Continued
June 30, 2005

3. Bonds Payable (Continued)

Year Ending June 30,	Primary Government		Component Unit	
	Total		Revenue Bonds	
	Principal	Interest	Principal	Interest
2006	662,605	263,915	196,000	116,560
2007	642,406	253,494	205,000	109,980
2008	634,621	225,747	170,000	102,990
2009	554,066	198,607	175,000	97,890
2010	392,484	175,195	181,000	92,640
2011	405,916	158,975	186,000	87,210
2012	420,612	142,001	192,000	81,630
2013	441,587	124,229	197,000	75,870
2014	457,858	105,476	203,000	69,960
2015	302,442	85,922	210,000	63,870
2016	247,359	73,070	216,000	57,570
2017	257,628	62,541	222,000	51,090
2018	268,270	51,519	229,000	44,430
2019	280,307	39,982	236,000	37,560
2020	291,559	27,877	217,914	30,480
2021	164,000	15,210	-	-
2022	169,000	10,290	-	-
2023	172,000	5,220	-	-
Total	<u>6,764,720</u>	<u>2,019,270</u>	<u>3,035,914</u>	<u>1,119,730</u>

The resolutions providing for the issuance of the water and sewer revenue bonds include the following provisions:

- (a) The bonds will only be redeemed from the future earnings of the enterprise activity and the bond holders hold a lien on the future earnings of the funds.
- (b) Sufficient monthly transfers shall be made to separate water sinking accounts for the purpose of making the bond principal and interest payments when due.
- (c) Additional monthly transfers shall be made to a water revenue bond reserve account, after first making the required payments to the sewer sinking account, until a specific minimum balance has been accumulated. The reserve account shall be used solely for the purpose of paying the principal and interest on the water revenue bonds outstanding, whenever the funds in the sinking account are insufficient to pay such principal and interest when due.

CITY OF OSCEOLA

Notes to Financial Statements - Continued June 30, 2005

3. Bonds Payable (Continued)

The resolution providing for the issuance of sewer revenue bonds do not require a separate sewer sinking or reserve fund, but the City elected to continue them.

The City was awarded a Revitalize Iowa's Sound Economy (R.I.S.E.) Grant/Loan on November 1, 1996 in the amount of \$309,000. The money was used for paving and traffic signals at a new intersection. The loan was approximately 24% of the total or \$75,205. It is payable in annual installments of \$10,713, including interest at 3% per annum, from January 2001 through 2008.

In May 2002 the Osceola Municipal Waterworks entered into a loan and disbursement agreement to borrow \$4,066,000 under the Iowa Drinking Water Facilities Financing Program. At June 30, 2005, \$2,960,914 is the outstanding balance under the agreement. Amounts borrowed are converted to a water revenue bond when the loan is closed and are payable solely from the future net revenues of the Waterworks.

In October 2003 the City entered into a loan and disbursement agreement to borrow \$2,670,000 under the Clean Water State Revolving Fund for wastewater treatment improvements. Amounts are advanced on the loan as construction costs incurred are submitted for reimbursement. As of June 30, 2005, \$1,574,852 is the outstanding balance under the loan agreement. Amounts borrowed are converted to a sewer revenue bond when the loan is closed and are payable solely from the future net revenues of the sewer utility.

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

In August 2005 the City issued general obligation corporate purpose and refunding bonds in the amount of \$5,800,000. The proceeds of the bonds will be used for constructing street, water, sanitary sewer and storm water improvements, and refunding 2001 general obligation notes.

4. Forgivable Loan

The City has entered into a five year \$100,000 forgivable loan with the State of Iowa, department of Economic Development and Interstate Nuclear Services. The loan bears interest at 9% per annum. Repayment of the loan is not required if conditions of the agreement are complied with.

CITY OF OSCEOLA

Notes to Financial Statements - Continued
June 30, 2005

4. Forgivable Loan (Continued)

The City's liability for the repayment of this note to the State of Iowa, Department of Economic Development is limited to those amounts the City collects through its good faith enforcement of the security interest which secures its loan to Interstate Nuclear Services.

5. Pension and Retirement Benefits

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

Plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of annual covered payroll except for police and fire 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 8.907%, 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 \$83,307, \$83,439, and \$80,838 respectively, equal to the required contributions for each year.

6. Compensated Absences

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

Vacation	\$	54,501
Compensatory and personal time		18,907
Sick leave		<u>266,365</u>
	\$	<u><u>339,773</u></u>

CITY OF OSCEOLA

Notes to Financial Statements - Continued
June 30, 2005

7. Risk Management

The City of Osceola 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 from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

8. Interfund Transfers

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

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Component Unit: Water	<u>287,754</u>
Special Revenue:		
Employee Benefits	General	<u>16,086</u>
Urban Renewal Tax Increment	Special Revenue: Urban Renewal Consolidated TIF	<u>7,003</u>
Hormel District	Special Revenue: Urban Renewal Consolidated TIF	<u>81,353</u>
North Elem TIF Project	Special Revenue: Urban Renewal Consolidated TIF	<u>108,126</u>
Urban Renewal Consolidated TIF	Special Revenue: Downtown TIF Project	<u>97,349</u>
Debt Service	General	216,008
	Special Revenue:	
	Urban Renewal Tax Increment	34,676
	Hormel District	373,187
	Downtown TIF Project	34,328
	Midwest Home Construction	18,592
	Component Unit: Water	<u>90,750</u>
		<u>767,541</u>
Capital Projects:		
Clarke County Reservoir	General	<u>36,610</u>
Blacktop and Paving	General	<u>430,802</u>
Clay Street Paving	General	<u>195,591</u>
Downtown Traffic Signals	General	<u>81,774</u>
Housing and Land Acquisition	General	<u>57,350</u>
		<u>\$ 2,167,339</u>

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

CITY OF OSCEOLA

Notes to Financial Statements - Continued June 30, 2005

9. Budget Overexpenditure

Per the Code of Iowa, disbursements may not legally exceed budgeted appropriations at the functional level. During the year ended June 30, 2005, disbursements in the public works, community and economic development, debt service and capital projects functions exceeded the amount budgeted.

10. Clarke County Sanitary Landfill Commission

The City, in conjunction with three other municipalities, has created the Clarke County Sanitary Landfill Commission. The Commission was established for the primary purpose of providing for the collection and disposal of solid waste produced or generated by each participant. The Commission is governed by a board composed of an appointed representative of the governing body of each participating governmental jurisdiction.

The Commission may not be accumulating sufficient financial resources and the municipalities may be obligated for a proportionate share of the debt, closure and post closure costs, therefore, the City has an ongoing financial obligation.

11. Lease

The City and the Municipal Waterworks have entered into a renewable five year lease agreement with Southern Iowa Gaming Co. for the lease of certain real estate surrounding West Lake and the use of the lake in the operation of an excursion gambling boat. In September of 2004 the City and the Municipal Waterworks agreed to assign the lease agreement to Herbst Gaming Inc., as new operator of the casino.

In consideration for the assignment mentioned above Herbst Gaming Inc. paid an initial payment of \$3,200,000 and has agreed to pay 1% of the annual adjusted gross receipts of from the casino, commencing as of the eighth anniversary of the initial payment, to an escrow fund. The intended use of the escrow fund is primarily the establishment of a municipal and recreational reservoir in Clarke County, Iowa.

The Gaming Co. must pay to the Municipal Waterworks \$150,000 per year in equal monthly installments, which will increase each year by 1% until termination of the lease. In addition, 1.25% of the adjusted gross gambling receipts will be remitted to the City on a monthly basis. The amounts received under this agreement during the year ended June 30, 2005 were \$1,003,097 for the 1.25% of adjusted gross gambling receipts and \$157,914 for the real estate rent.

The City also leases hangers at the airport for a fee ranging from \$45 - \$100 per month per leased hangar. During the year ended June 30, 2005, the City received \$10,180 in hangar rent.

CITY OF OSCEOLA

Notes to Financial Statements - Continued
June 30, 2005

12. Workers' Compensation

The City is a member of the Iowa Municipalities Workers' Compensation Association (IMWCA) which provides workers' compensation coverage to its members. The Association is governed by a board of directors elected by representatives of the governing bodies of each participating governmental jurisdiction. The City has executed a Worker's Compensation coverage Agreement with the Association which extends through June 30, 2005 and has authorized the Association to issue general obligation bonds to provide funds with which to pay claims. During the year ended June 30, 2005, the City paid workers' compensation insurance premiums of \$59,860 to the Association.

13. Clarke County Reservoir Commission

The City and the Osceola Waterworks Board, along with four other entities, have created the Clarke County Reservoir Commission. The Commission was established for the primary purpose of designing, locating, and planning for a new reservoir and regional recreational facility in Clarke County. The governing body of the Commission shall consist of a representative of the governing body of each participating sponsor, or designated substitute, which substitute shall be approved by the body represented, and one person jointly selected by the representatives of the governing bodies.

14. Deficit Fund Balances

The City had deficit balances in the following funds at June 30, 2005:

Debt Service:	
General Obligation Bonds/Notes	\$ 1,272
Capital Projects Funds:	
2004 Housing Rehabilitation	23,351
2005 Paving Project	694,051
2001 Paving Project	10,135
Recreation Complex	220,593

The deficits will be eliminated upon receipt of funds or transfers in the next fiscal year.

15. Construction and Other Commitments

The City has entered into engineering and construction contracts totaling \$3,622,982 for street improvements. At June 30, 2005, \$436,631 of the contracts were completed. The remaining amount of the contracts will be paid as work on the projects progress.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF OSCEOLA

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 <u>Actual</u>	Proprietary Funds <u>Actual</u>
Receipts		
Property tax	\$ 1,638,777	-
Tax increment financing collections	513,847	-
Other city tax	620,895	-
Licenses and permits	19,346	-
Use of money and property	1,041,928	1,937
Intergovernmental	1,003,840	-
Charges for service	393,136	908,502
Special assessments	-	16,462
Miscellaneous	<u>3,382,729</u>	<u>10,266</u>
Total receipts	<u>8,614,498</u>	<u>937,167</u>
Disbursements		
Public safety	776,541	-
Public works	1,317,761	-
Culture and recreation	671,715	-
Community and economic development	322,661	-
General government	753,168	-
Debt service	502,784	-
Capital projects	1,444,726	-
Business type activities	<u>-</u>	<u>1,063,722</u>
Total disbursements	<u>5,789,356</u>	<u>1,063,722</u>
Excess of receipts over disbursements	2,825,142	(126,555)
Other financing sources, net	<u>378,504</u>	<u>994,149</u>
Excess of receipts and other financing sources over disbursements and other financing uses	3,203,646	867,594
Balances beginning of year	<u>1,250,198</u>	<u>(50,354)</u>
Balances end of year	<u>\$ 4,453,844</u>	<u>817,240</u>

Major Component Unit Included in the Budget	Net	Budgeted Amounts		Final to Net Variance
		Original	Final	
-	1,638,777	1,677,462	1,677,462	(38,685)
-	513,847	274,900	266,500	247,347
-	620,895	652,760	230,000	390,895
-	19,346	11,025	10,928	8,418
167,250	1,211,115	20,600	17,600	1,193,515
3,000	1,006,840	385,500	992,268	14,572
1,099,493	2,401,131	2,673,900	3,603,406	(1,202,275)
-	16,462	-	-	16,462
<u>8,480</u>	<u>3,401,475</u>	<u>1,138,630</u>	<u>4,519,640</u>	<u>(1,118,165)</u>
<u>1,278,223</u>	<u>10,829,888</u>	<u>6,834,777</u>	<u>11,317,804</u>	<u>(487,916)</u>
-	776,541	817,548	807,168	30,627
-	1,317,761	878,861	1,128,291	(189,470)
-	671,715	680,285	710,026	38,311
-	322,661	100	41,733	(280,928)
-	753,168	793,036	821,231	68,063
-	502,784	274,754	274,754	(228,030)
-	1,444,726	604,900	705,005	(739,721)
<u>1,458,871</u>	<u>2,522,593</u>	<u>2,491,726</u>	<u>2,674,571</u>	<u>151,978</u>
<u>1,458,871</u>	<u>8,311,949</u>	<u>6,541,210</u>	<u>7,162,779</u>	<u>(1,149,170)</u>
(180,648)	2,517,939	293,567	4,155,025	(1,637,086)
<u>(378,504)</u>	<u>994,149</u>	<u>-</u>	<u>-</u>	<u>994,149</u>
(559,152)	3,512,088	293,567	4,155,025	(642,937)
<u>1,238,851</u>	<u>2,438,695</u>	<u>3,403,620</u>	<u>2,189,169</u>	<u>249,526</u>
<u><u>679,699</u></u>	<u><u>5,950,783</u></u>	<u><u>3,697,187</u></u>	<u><u>6,344,194</u></u>	<u><u>(393,411)</u></u>

CITY OF OSCEOLA

Notes to Required Supplementary Information – Budgetary Reporting 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 and Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$621,569. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2005, disbursements exceeded the amount budgeted in the public works, community and economic development, debt service and capital projects functions.

OTHER SUPPLEMENTARY INFORMATION

CITY OF OSCEOLA

Statement of Cash Receipts, Disbursements and Changes in Cash Balances
 Nonmajor Governmental Funds
 As of and for the year ended June 30, 2005

	Local Option <u>Sales Tax</u>	Road Use <u>Tax</u>	Employee <u>Benefits</u>	Special Urban Renewal Consolidated <u>TIF</u>
Receipts				
Property tax	\$ -	-	370,407	-
Tax increment financing collections	-	-	-	237,990
Other city tax	375,346	-	9,563	-
Use of money and property	-	-	-	-
Intergovernmental	-	387,377	-	-
Miscellaneous	<u>-</u>	<u>400</u>	<u>-</u>	<u>-</u>
Total receipts	<u>375,346</u>	<u>387,777</u>	<u>379,970</u>	<u>237,990</u>
Disbursements				
Operating				
Public safety	-	-	123,117	-
Public works	-	384,168	-	-
Culture and recreation	-	-	56,482	-
Community and economic development	-	-	-	-
General government	344,457	-	120,423	-
Debt service	-	-	-	-
Capital projects	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total disbursements	<u>344,457</u>	<u>384,168</u>	<u>300,022</u>	<u>-</u>
Excess (deficiency) of receipts over (under) disbursements	<u>30,889</u>	<u>3,609</u>	<u>79,948</u>	<u>237,990</u>
Other financing uses				
Operating transfers in (out)	<u>-</u>	<u>-</u>	<u>16,086</u>	<u>(99,133)</u>
Net change in cash balances	30,889	3,609	96,034	138,857
Cash balances beginning of year	<u>-</u>	<u>9,430</u>	<u>(96,034)</u>	<u>-</u>
Cash balances end of year	<u>\$ 30,889</u>	<u>13,039</u>	<u>-</u>	<u>138,857</u>
Cash Basis Fund Balances				
Unreserved				
Special revenue funds	\$ 30,889	13,039	-	138,857
Capital project fund	-	-	-	-
Permanent fund	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total cash basis fund balances	<u>\$ 30,889</u>	<u>13,039</u>	<u>-</u>	<u>138,857</u>

See accompanying independent auditors' report.

Revenue			Capital			
Residential TIF	Other TIF	Hormel CEBA Grant	2004 Housing Rehabilitation	2001 Paving Project	Burlington Northern Building	Recreation Complex
-	-	-	-	-	-	-
130,172	145,685	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	6,091
-	-	198,000	67,919	-	-	-
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,483</u>
<u>130,172</u>	<u>145,685</u>	<u>198,000</u>	<u>67,919</u>	<u>-</u>	<u>-</u>	<u>14,574</u>
-	-	-	-	-	-	-
130,172	120,449	-	-	-	-	-
-	-	-	-	-	-	-
80,470	-	198,000	-	-	-	-
-	-	-	-	-	-	-
-	10,713	-	-	-	-	-
<u>-</u>	<u>-</u>	<u>-</u>	<u>88,420</u>	<u>-</u>	<u>-</u>	<u>175,720</u>
<u>210,642</u>	<u>131,162</u>	<u>198,000</u>	<u>88,420</u>	<u>-</u>	<u>-</u>	<u>175,720</u>
<u>(80,470)</u>	<u>14,523</u>	<u>-</u>	<u>(20,501)</u>	<u>-</u>	<u>-</u>	<u>(161,146)</u>
<u>(18,592)</u>	<u>(343,058)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
(99,062)	(328,535)	-	(20,501)	-	-	(161,146)
<u>125,392</u>	<u>339,567</u>	<u>-</u>	<u>(2,850)</u>	<u>(10,135)</u>	<u>98,250</u>	<u>(59,447)</u>
<u>26,330</u>	<u>11,032</u>	<u>-</u>	<u>(23,351)</u>	<u>(10,135)</u>	<u>98,250</u>	<u>(220,593)</u>
26,330	11,032	-	-	-	-	-
-	-	-	(23,351)	(10,135)	98,250	(220,593)
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>26,330</u>	<u>11,032</u>	<u>-</u>	<u>(23,351)</u>	<u>(10,135)</u>	<u>98,250</u>	<u>(220,593)</u>

Schedule 1

<u>Projects</u>	<u>Permanent</u>	
<u>Other</u>	<u>Cemetery</u>	
<u>Capital</u>	<u>Perpetual</u>	
<u>Projects</u>	<u>Care</u>	<u>Total</u>
-	-	370,407
-	-	513,847
-	-	384,909
-	-	6,091
-	-	653,296
<u>-</u>	<u>-</u>	<u>8,883</u>
<u>-</u>	<u>-</u>	<u>1,937,433</u>
-	-	123,117
-	-	634,789
-	-	56,482
-	-	278,470
-	-	464,880
-	-	10,713
<u>55,733</u>	<u>-</u>	<u>319,873</u>
<u>55,733</u>	<u>-</u>	<u>1,888,324</u>
<u>(55,733)</u>	<u>-</u>	<u>49,109</u>
<u>371,325</u>	<u>-</u>	<u>(73,372)</u>
315,592	-	(24,263)
<u>(315,592)</u>	<u>77,660</u>	<u>166,241</u>
<u>-</u>	<u>77,660</u>	<u>141,978</u>
-	-	220,147
-	-	(155,829)
<u>-</u>	<u>77,660</u>	<u>77,660</u>
<u>-</u>	<u>77,660</u>	<u>141,978</u>

CITY OF OSCEOLA

Schedule of Indebtedness
Year ended June 30, 2005

OBLIGATION	DATE OF ISSUE	INTEREST RATES	AMOUNT ORIGINALLY ISSUED
<u>Primary Government</u>			
General Obligation Bonds:			
General Corporate Purpose	June 1, 1993	4.875-5.50%	\$ 925,000
General Corporate Purpose	Aug 1, 1998	4.00-4.50%	1,235,000
General Obligation Notes:			
Economic Development Note	Sept 3, 1997	8.00%	100,000
Fire Truck	Dec 10, 1999	4.49%	280,000
Aquatic Facility	Feb 15, 2001	5.95%	1,550,000
General Corporate Purpose	Sept 12, 2003	2.50-4.30%	500,000
Special Obligation Loan Agreement			
Anticipation (Project) Note:			
Clarke County Recreation Complex	Dec 3, 2002	3.00%	290,000
Urban Renewal Tax Increment			
Financing (TIF) Revenue Bonds	July 18, 1995	8.75%	114,000
Revenue Bonds:			
State Revolving Fund (SRF) Loan	May 2, 1994	4.37%	1,880,000
State Revolving Fund (SRF) Loan	Oct 27, 2003	3.00%	2,670,000
Other Long-term Debt:			
RISE Loan	Nov 1, 1996	3.00%	75,205
Truck	Nov 16, 2000	5.36%	26,067
Total City of Osceola			
<u>Component Unit</u>			
Revenue Bonds:			
Water	Nov 1, 1996	4.25-5.10%	485,000
Water	May 14, 2002	3.00%	4,066,000

See accompanying independent auditors' report.

BALANCE BEGINNING OF YEAR	ISSUED DURING YEAR	REDEEMED DURING YEAR	BALANCE END OF YEAR	INTEREST PAID
\$ 330,000	-	75,000	255,000	16,500
<u>650,000</u>	<u>-</u>	<u>120,000</u>	<u>530,000</u>	<u>29,025</u>
<u>980,000</u>	<u>-</u>	<u>195,000</u>	<u>785,000</u>	<u>45,525</u>
45,020	-	13,834	31,186	3,330
186,679	-	34,258	152,421	8,175
1,425,648	-	55,233	1,370,415	84,826
<u>500,000</u>	<u>-</u>	<u>-</u>	<u>500,000</u>	<u>18,592</u>
<u>2,157,347</u>	<u>-</u>	<u>103,325</u>	<u>2,054,022</u>	<u>114,923</u>
97,200	-	-	97,200	2,924
<u>51,320</u>	<u>-</u>	<u>20,127</u>	<u>31,193</u>	<u>5,880</u>
1,416,000	-	116,000	1,300,000	61,879
<u>1,574,851</u>	<u>994,149</u>	<u>102,000</u>	<u>2,467,000</u>	<u>77,329</u>
<u>2,990,851</u>	<u>994,149</u>	<u>218,000</u>	<u>3,767,000</u>	<u>139,208</u>
39,824	-	9,519	30,305	1,195
<u>6,904</u>	<u>-</u>	<u>6,904</u>	<u>-</u>	<u>386</u>
<u>46,728</u>	<u>-</u>	<u>16,423</u>	<u>30,305</u>	<u>1,581</u>
<u>\$ 6,323,446</u>	<u>994,149</u>	<u>552,875</u>	<u>6,764,720</u>	<u>310,041</u>
110,000	-	35,000	75,000	5,905
<u>3,116,914</u>	<u>-</u>	<u>156,000</u>	<u>2,960,914</u>	<u>103,295</u>
<u>\$ 3,226,914</u>	<u>-</u>	<u>191,000</u>	<u>3,035,914</u>	<u>109,200</u>

CITY OF OSCEOLA

Bond and Note Maturities
June 30, 2005

GENERAL OBLIGATION NOTES

Year Ending June 30,	Economic Development Issued Sept 3, 1997		Fire Equipment Issued Dec 10,1999		Aquatic Facility Issued Feb 15, 2001	
	Interest		Interest		Interest	
	Rate	Amount	Rate	Amount	Rate	Amount
2006	8.00	\$ 14,965	4.49	35,597	5.95	59,110
2007	8.00	16,221	4.49	37,195	5.95	62,627
2008		-	4.49	38,865	5.95	66,354
2009		-	4.49	40,764	5.95	70,302
2010		-		-	5.95	74,484
2011		-		-	5.95	78,916
2012		-		-	5.95	83,612
2013		-		-	5.95	88,587
2014		-		-	5.95	93,858
2015		-		-	5.95	99,442
2016		-		-	5.95	105,359
2017		-		-	5.95	111,628
2018		-		-	5.95	118,270
2019		-		-	5.95	125,307
2020		-		-	5.95	132,559
		<u>\$ 31,186</u>		<u>152,421</u>		<u>1,370,415</u>

GENERAL OBLIGATION BONDS

Year Ending June 30,	General Corporate Purpose				
	Issued June 1, 1993		Issued August 1, 1998		Total
	Interest		Interest		
	Rate	Amount	Rate	Amount	
2006	5.00	\$ 80,000	4.35	125,000	205,000
2007	5.00	85,000	4.40	130,000	215,000
2008	5.00	90,000	4.45	135,000	225,000
2009		-	4.50	140,000	140,000
		<u>\$ 255,000</u>		<u>530,000</u>	<u>785,000</u>

Year Ending June 30,	Urban Renewal Tax Increment Financing (TIF) Revenue Bonds Issued July 18, 1995		OTHER LONG-TERM DEBT Rise Loan Issued Nov 1, 1996	
	Interest		Interest	
	Rate	Amount	Rate	Amount
2006	8.75	\$ 14,929	3.00	\$ 9,804
2007	8.75	16,264	3.00	10,099
2008		-	3.00	10,402
		<u>\$ 31,193</u>		<u>\$ 30,305</u>

<u>General Corporate Purpose</u>		
<u>Issued Sept 12, 2003</u>		
Interest		
<u>Rate</u>	<u>Amount</u>	<u>Total</u>
	-	109,672
2.50	50,000	166,043
3.00	50,000	155,219
3.25	50,000	161,066
3.50	55,000	129,484
3.75	55,000	133,916
4.00	55,000	138,612
4.10	60,000	148,587
4.20	60,000	153,858
4.30	65,000	164,442
	-	105,359
	-	111,628
	-	118,270
	-	125,307
	-	132,559
	<u>500,000</u>	<u>2,054,022</u>

CITY OF OSCEOLA

Bond and Note Maturities
June 30, 2005

Year Ending June 30,	REVENUE BONDS				
	Sewer Revenue Bond		Sewer Revenue Bond		Total
	Issued May 2, 1994		Issued October 27, 2003		
	Interest Rate	Amount	Interest Rate	Amount	
2006	4.37	\$ 121,000	3.00	105,000	226,000
2007	4.37	126,000	3.00	109,000	235,000
2008	4.37	132,000	3.00	112,000	244,000
2009	4.37	138,000	3.00	115,000	253,000
2010	4.37	144,000	3.00	119,000	263,000
2011	4.37	150,000	3.00	122,000	272,000
2012	4.37	156,000	3.00	126,000	282,000
2013	4.37	163,000	3.00	130,000	293,000
2014	4.37	170,000	3.00	134,000	304,000
2015		-	3.00	138,000	138,000
2016		-	3.00	142,000	142,000
2017		-	3.00	146,000	146,000
2018		-	3.00	150,000	150,000
2019		-	3.00	155,000	155,000
2020		-	3.00	159,000	159,000
2021		-	3.00	164,000	164,000
2022		-	3.00	169,000	169,000
2023		-	3.00	172,000	172,000
		<u>\$ 1,300,000</u>		<u>2,467,000</u>	<u>3,767,000</u>

Year Ending June 30,	REVENUE BONDS - COMPONENT UNIT				
	Water		Water		Total
	Issued Nov 1, 1996		Issued May 14, 2002		
	Interest Rate	Amount	Interest Rate	Amount	
2006	5.00	\$ 35,000	3.00	161,000	196,000
2007	5.10	40,000	3.00	165,000	205,000
2008		-	3.00	170,000	170,000
2009		-	3.00	175,000	175,000
2010		-	3.00	181,000	181,000
2011		-	3.00	186,000	186,000
2012		-	3.00	192,000	192,000
2013		-	3.00	197,000	197,000
2014		-	3.00	203,000	203,000
2015		-	3.00	210,000	210,000
2016		-	3.00	216,000	216,000
2017		-	3.00	222,000	222,000
2018		-	3.00	229,000	229,000
2019		-	3.00	236,000	236,000
2020		-	3.00	217,914	217,914
		<u>\$ 75,000</u>		<u>2,960,914</u>	<u>3,035,914</u>

See accompanying independent auditor's report.

CITY OF OSCEOLA

Schedule 3
(Continued)

Bond and Note Maturities
June 30, 2005

SPECIAL OBLIGATION LOAN AGREEMENT
ANTICIPATION (PROJECT) NOTES

Clarke County Recreation Complex

Issued Dec 3, 2002

<u>Year Ending</u> <u>June 30,</u>	<u>Interest</u> <u>Rate</u>	<u>Amount</u>
2006	3.00	\$ 97,200

CITY OF OSCEOLA

Schedule 4

Statement of Receipts By Source
and Disbursements By Function -
All Governmental Funds
For the Last Two Years

	<u>2005</u>	<u>2004</u>
Receipts		
Property tax	\$ 1,638,777	1,514,779
Tax increment financing collections	513,847	276,036
Other city tax	620,895	577,349
Licenses and permits	19,346	10,748
Use of money and property	1,041,928	1,083,534
Intergovernmental	1,003,840	508,568
Charges for service	393,136	412,591
Miscellaneous	<u>3,382,729</u>	<u>254,115</u>
 Total	 <u>\$ 8,614,498</u>	 <u>4,637,720</u>
 Disbursements		
Operating		
Public safety	776,541	796,646
Public works	1,317,761	1,070,219
Culture and recreation	671,715	585,097
Community and economic development	322,661	374,608
General government	753,168	698,799
Debt service	502,784	832,239
Capital projects	<u>1,483,962</u>	<u>1,124,611</u>
 Total	 <u>\$ 5,828,592</u>	 <u>5,482,219</u>

See accompanying independent auditor's report.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
AND 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

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 Osceola, 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 January 20, 2006. Our report expressed an unqualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with generally accepted auditing standards of the United States of America 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 the City of Osceola'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.

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 error 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 that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance

As part of obtaining reasonable assurance about whether the City of Osceola's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, 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 Part IV of the accompanying Schedule of Findings and Questioned Costs.

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 Osceola and other parties to whom the City of Osceola 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 Osceola 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.

May 23, 2006

CITY OF OSCEOLA

Schedule of Findings and Questioned Costs
Year ended June 30, 2005

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

- (A) An unqualified opinion was issued on the financial statements, which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
- (B) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, including material weaknesses.
- (C) The audit did not disclose any noncompliance which is material to the financial statements.
- (D) There were no major federal programs.
- (E) The audit did not disclose any audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (F) The City of Osceola did not qualify as a low-risk auditee.

Part II: Findings Related to the Financial Statements:

Instances of Non-Compliance:

No matters are noted.

Reportable Conditions:

II-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. The cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal are all done by the same person.

Recommendation – We realize that 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 this.

Conclusion – Response acknowledged

II-B-05 Signature of Checks – The City has a control procedure established that requires dual signatures on all checks issued. The City currently has two individuals authorized to sign their checks. Signatures are printed by the City's computer directly onto the check automatically. This defeats the purpose of requiring two signatures because it only takes one individual to access the computer to print both signatures.

Recommendation – If the computer software cannot be modified to prohibit one individual from accessing both signatures with their password, the City should go back to manual signatures on checks to ensure two separate individuals are approving the checks prior to issuance.

CITY OF OSCEOLA

Schedule of Findings and Questioned Costs - Continued
Year ended June 30, 2005

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

II-B-05 Signature of Checks (continued)

Response – We will do so.

Conclusion – Response acknowledged.

Part III: Findings and Questioned Costs for Federal Awards:

Not applicable

Part IV: Other Findings Related to Required Statutory Reporting:

IV-A-05 Official Depositories - A resolution naming official depositories has been approved by the City Council. The maximum deposit amounts were not stated in the resolution.

Recommendation – A resolution with amounts sufficient to cover anticipated balances at all approved depositories should be adopted in accordance with Chapter 12C of the Code of Iowa.

Response – A resolution naming official depositories will be adopted by the City Council and will be reviewed by the City Council annually.

Conclusion – Response accepted.

IV-B-03 Certified Budget - Disbursements during the year ended June 30, 2003 exceeded the amounts budgeted in the public works, community and economic development, debt service and capital projects 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.

CITY OF OSCEOLA

Schedule of Findings and Questioned Costs - Continued
Year ended June 30, 2005

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

IV-C-05 Questionable Disbursements - No disbursements that we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.

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

IV-E-05 Business Transactions - No business transactions between the City and City officials or employees were noted.

IV-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 ensure that coverage is adequate for current operations.

IV-G-05 Council Minutes – The following instances of non-compliance were noted related to the City council minutes.

1. Minutes were not always signed in accordance with Chapter 380.7 of the Code of Iowa.
2. Minutes were not always published as required by Chapter 372.13(6) of the Code of Iowa.
3. The Council went into closed session several times throughout the fiscal year without documenting the specific exemption under Chapter 21.5 of the Code of Iowa.
4. Annual gross salaries were not published as required by Chapter 372.13 of the Code of Iowa and Attorney General's opinion dated April 12, 1978.

Recommendation – The city should comply with all applicable Code of Iowa chapters relating to council minutes and proper documentation.

Response – We will do so.

Conclusion – Response accepted.

IV-H-05 Revenue Bonds - No violations of provisions of revenue bond resolution requirements were noted.

IV-I-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.

CITY OF OSCEOLA

Schedule of Findings and Questioned Costs - Continued
Year ended June 30, 2005

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

IV-J-05 Financial Condition – The City had the following deficit balances at June 30, 2005:

Debt Service:

General Obligation Bonds/Notes	\$	1,272
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Capital Projects Funds:

2004 Housing Rehabilitation	23,351
2005 Paving Project	694,051
2001 Paving Project	10,135
Recreation Complex	220,593

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

Response – We will do so.

Conclusion – Response accepted.