

CITY OF MILFORD
INDEPENDENT AUDITORS' REPORTS
PRIMARY GOVERNMENT
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION

JUNE 30, 2005

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CITY OF MILFORD
OFFICIALS

<u>NAME</u>	<u>TITLE</u>	<u>TERM EXPIRES</u>
Virgil Wahlman	Mayor	January 1, 2006
Terresa Netsch	Mayor Pro-Tem	January 1, 2006
Michael Anderson	Council Member	January 1, 2006
Terresa Netsch	Council Member	January 1, 2006
Howard Kyle	Council Member	January 1, 2008
Detlef Ball	Council Member	January 1, 2008
Rick Kilts	Council Member	January 1, 2008
Bryan Read	City Administrator/Treasurer	Indefinite
David Stein, Sr.	Attorney	Indefinite

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Certified Public Accountants

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INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and
Members of the City Council
City of Milford
Milford, IA 51351

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 primary government of the City of Milford, 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 Milford's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, 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 Milford, 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 financial position - cash basis of the reporting entity of the City of Milford as of June 30, 2005, and the changes in its financial position - cash basis for the year then ended in conformity with the basis of accounting described in Note 1.

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 for the primary government of the City of Milford at 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 July 28, 2005 on our consideration of The City of Milford's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants, agreements and other matters. 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.

Budgetary comparison information on pages 16 through 18 is not a required part of the basic financial statements, but is 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.

The City has not presented management's discussion and analysis which introduces the basic financial statements by presenting certain financial information as well as management's analytical insight on that information that the Government Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements of the City's primary government. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements of the City's primary government for the three years ended June 30, 2004 (none of which are presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 4 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.

Wintner, Stave + Co., LLP

July 28, 2005

BASIC FINANCIAL STATEMENTS

CITY OF MILFORD
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	\$ 439,934	\$ 27,299	\$ 77,850	
Public works	327,265	2,029	205,703	
Health and social services	3,511			
Culture and recreation	233,151	2,415	22,662	
Community and economic development	62,476	17,336		
General government	271,992			
Debt service	271,401			
Capital projects	122,584			
Total governmental activities	<u>1,732,314</u>	<u>49,079</u>	<u>306,215</u>	
Business-type activities:				
Sewer	106,428	85,432		
Solid waste	207,527	210,470		
Total business-type activities	<u>313,955</u>	<u>295,902</u>		
TOTAL	<u>\$2,046,269</u>	<u>\$344,981</u>	<u>\$306,215</u>	

General Receipts:
Property taxes levied for:
 General purposes

 Tax increment financing

 Debt service

Local option sales 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:

 TIF supported projects

 Debt service

 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
\$ (334,785)		\$ (334,785)
(119,533)		(119,533)
(3,511)		(3,511)
(208,074)		(208,074)
(45,140)		(45,140)
(271,992)		(271,992)
(271,401)		(271,401)
(122,584)		(122,584)
<u>(1,377,020)</u>		<u>(1,377,020)</u>
	\$ (20,996)	(20,996)
	2,943	2,943
	<u>(18,053)</u>	<u>(18,053)</u>
<u>(1,377,020)</u>	<u>(18,053)</u>	<u>(1,395,073)</u>
597,759		597,759
513,594		513,594
80,664		80,664
381,954		381,954
3,081		3,081
24,498	2,041	26,539
190,886	2,094	192,980
(26,115)	26,115	
<u>1,766,321</u>	<u>30,250</u>	<u>1,796,571</u>
389,301	12,197	401,498
<u>1,207,019</u>	<u>105,963</u>	<u>1,312,982</u>
<u>\$1,596,320</u>	<u>\$118,160</u>	<u>\$1,714,480</u>
\$ 655,314		\$ 655,314
63,419		63,419
194,018		194,018
<u>683,569</u>	<u>\$118,160</u>	<u>801,729</u>
<u>\$1,596,320</u>	<u>\$118,160</u>	<u>\$1,714,480</u>

See Notes to Financial Statements

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

	<u>Special Revenue</u>		
	<u>General</u>	<u>TIF Supported Projects</u>	<u>Debt Service</u>
RECEIPTS:			
Property tax	\$ 516,819		\$ 80,664
Tax increment financing collections		\$513,594	
Other city tax	301,954		
Licenses and permits	23,379		
Use of money and property	23,090	9,595	804
Intergovernmental	103,218		
Charges for service	16,355		
Miscellaneous	<u>38,076</u>		<u>152,947</u>
TOTAL RECEIPTS	<u>1,022,891</u>	<u>523,189</u>	<u>234,415</u>
DISBURSEMENTS:			
Operating:			
Public safety	439,934		
Public works	41,055		
Health and social services	3,511		
Culture and recreation	233,151		
Community and economic development	62,476		
General government	271,992		
Debt service			271,401
Capital projects		<u>122,584</u>	
TOTAL DISBURSEMENTS	<u>1,052,119</u>	<u>122,584</u>	<u>271,401</u>
EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS	<u>(29,228)</u>	<u>400,605</u>	<u>(36,986)</u>
OTHER FINANCING SOURCES (USES):			
Operating transfers in	128,314		97,250
Operating transfers out	<u>(26,115)</u>	<u>(97,250)</u>	
TOTAL OTHER FINANCING SOURCES (USES)	<u>102,199</u>	<u>(97,250)</u>	<u>97,250</u>
NET CHANGE IN CASH BALANCES	72,971	303,355	60,264
CASH BALANCES - BEGINNING OF YEAR	<u>610,598</u>	<u>351,959</u>	<u>3,155</u>
CASH BALANCES - END OF YEAR	<u>\$ 683,569</u>	<u>\$655,314</u>	<u>\$ 63,419</u>
CASH BASIS FUND BALANCES:			
Reserved:			
Debt service			\$ 63,419
Unreserved:			
General fund	\$ 683,569		
Special revenue funds		\$655,314	
Capital projects fund			
TOTAL CASH BASIS FUND BALANCES	<u>\$ 683,569</u>	<u>\$655,314</u>	<u>\$ 63,419</u>

See Notes to Financial Statements

Exhibit B

Other Nonmajor Governmental Funds	Total Governmental Funds (Memorandum Only)
\$ 80,940	\$ 678,423
80,000	513,594
592	381,954
205,703	23,379
	34,081
	308,921
	16,355
	<u>191,023</u>
<u>367,235</u>	<u>2,147,730</u>
	439,934
286,210	327,265
	3,511
	233,151
	62,476
	271,992
	271,401
	<u>122,584</u>
<u>286,210</u>	<u>1,732,314</u>
<u>81,025</u>	<u>415,416</u>
	225,564
(128,314)	<u>(251,679)</u>
(128,314)	<u>(26,115)</u>
(47,289)	389,301
<u>241,307</u>	<u>1,207,019</u>
<u>\$194,018</u>	<u>\$1,596,320</u>
	\$ 63,419
	683,569
\$191,313	846,627
<u>2,705</u>	<u>2,705</u>
<u>\$194,018</u>	<u>\$1,596,320</u>

See Notes to Financial Statements

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

	Solid Waste	Nonmajor Proprietary Fund Sewer	Total
OPERATING RECEIPTS:			
Charges for service	\$210,470	\$ 85,432	\$295,902
Use of money and property	2,021	20	2,041
Miscellaneous	2,094		2,094
TOTAL RECEIPTS	<u>214,585</u>	<u>85,452</u>	<u>300,037</u>
OPERATING DISBURSEMENTS:			
Business type activities	<u>207,527</u>	<u>106,428</u>	<u>313,955</u>
TOTAL OPERATING DISBURSEMENTS	<u>207,527</u>	<u>106,428</u>	<u>313,955</u>
EXCESS (DEFICIENCY) OF OPERATING RECEIPTS OVER (UNDER) OPERATING DISBURSEMENTS	7,058	(20,976)	(13,918)
OTHER FINANCING SOURCES:			
Operating transfers in	<u> </u>	<u>26,115</u>	<u>26,115</u>
NET CHANGE IN CASH BALANCES	7,058	5,139	12,197
CASH BALANCES - BEGINNING OF YEAR	<u>94,020</u>	<u>11,943</u>	<u>105,963</u>
CASH BALANCES - END OF YEAR	<u>\$101,078</u>	<u>\$ 17,082</u>	<u>\$118,160</u>
CASH BASIS FUND BALANCES:			
Unreserved	<u>\$101,078</u>	<u>\$ 17,082</u>	<u>\$118,160</u>
TOTAL CASH BASIS FUND BALANCES	<u>\$101,078</u>	<u>\$ 17,082</u>	<u>\$118,160</u>

See Notes to Financial Statements

CITY OF MILFORD
 STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND
 CHANGES IN CASH BALANCE
 FIDUCIARY FUND
 AS OF AND FOR THE YEAR ENDED JUNE 30, 2005

	<u>Agency Fund</u>
RECEIPTS:	
Additions	\$ 1,455
Interest	<u>111</u>
TOTAL RECEIPTS	<u>1,566</u>
 DISBURSEMENTS:	
Deductions	<u>9,763</u>
EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS	(8,197)
CASH BALANCE - BEGINNING OF YEAR	<u>11,593</u>
CASH BALANCE - END OF YEAR	<u>\$ 3,396</u>

See Notes to Financial Statements

NOTES TO FINANCIAL STATEMENTS

CITY OF MILFORD
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Milford, Iowa is a political subdivision of the State of Iowa located in Dickinson County. The City operates under the Mayor-Council form of government with the Mayor and City Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, health and social services, culture and recreation, community and economic development, and general government services. The City also provides solid waste and sewer 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 present the primary government of the City of Milford but do not include any component units for which it is financially accountable.

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.

Milford Municipal Utilities is considered a component unit of the City of Milford. The financial statements of this component unit are audited by other auditors and are presented on the accrual basis of accounting. Complete financial statements of Milford Municipal Utilities can be obtained from their administrative offices. Therefore, the City has elected not to include Milford Municipal Utilities or any other potential component units in these financial statements.

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: Dickinson County Assessor's Conference Board, Upper Des Moines Opportunity Board, Dickinson County Emergency Management Commission, and Dickinson County Joint E911 Service Board.

B. Basis of Presentation

Government-Wide Financial Statements - The statement of activities and net assets reports information on all of the nonfiduciary activities of the primary government 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 results when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

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

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

Fund Financial Statements - Separate financial statements are provided for governmental funds, proprietary funds and a fiduciary fund. Major individual governmental and proprietary funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds. The only nonmajor proprietary fund is included in a separate column in the fund financial statements.

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 TIF Supported Projects Fund is used to account for projects financed by tax increment financing.

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

Additionally, the City reports the following major proprietary fund:

The Solid Waste Fund accounts for the operation and maintenance of the City's solid waste utility.

C. Measurement Focus and Basis of Accounting

The City of Milford 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 or 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.

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; and perfected repurchase agreements.

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 month 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.

3. BONDS AND NOTES PAYABLE

Annual debt service requirements to maturity for a general obligation note and an urban renewal tax increment financial revenue bond are as follows:

Year Ending June 30,	General Obligation Note		Urban Renewal Tax Increment Financing Revenue Bond		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2006	\$30,000	\$3,000	\$85,000	\$17,100	\$115,000	\$20,100
2007	30,000	1,500	90,000	13,063	120,000	14,563
2008			90,000	8,787	90,000	8,787
2009			95,000	4,512	95,000	4,512
Total	\$60,000	\$4,500	\$360,000	\$43,462	\$420,000	\$47,962

The City of Milford reserves the right to prepay the principal of the General Obligation Street Improvement Note issued March 12, 1997. The City may prepay the principal of these notes in whole or in part at any time prior to and in inverse order of maturity on terms of par and accrued interest. All principal so prepaid shall cease to bear interest on the prepayment date.

The urban renewal tax increment financing revenue bond was issued for the purpose of defraying a portion of the costs of carrying out urban renewal projects of the City. The bond is payable solely from tax increment financing collections in accordance with Chapter 403.19 of the Code of Iowa. The proceeds of the urban renewal tax increment financing revenue bond shall be expended only for purposes which are consistent with the plans of the City's urban renewal area. The bond is not a general obligation of the City, however the debt is subject to the constitutional debt limitation of the City.

The City reserves the right to call and prepay any principal amount of the Urban Renewal Tax Increment Financing Revenue Bond issued January 8, 1999 at any time. In the event of prepayment on a date other than an interest payment date, interest shall be paid to the date of prepayment only.

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, IA 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the City is required to contribute 5.75% of annual covered payroll except for police employees, in which case the percentages are 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 \$37,662, \$38,811, and \$34,147, respectively, equal to the required contributions for each year.

5. COMPENSATED ABSENCES

City employees accumulate a limited amount of earned but unused vacation, sick leave, and compensatory time 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, sick leave, and compensatory time payments payable to employees at June 30, 2005, primarily relating to the General Fund is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$18,600
Sick leave	28,600
Compensatory time	<u>5,400</u>
Total	<u>\$52,600</u>

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

6. 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	\$128,314	Special Revenue: Employee Benefits	\$ 85,827
		Special Revenue: Emergency	42,487
Debt Service	97,250	Special Revenue: TIF Supported Projects	97,250
Sewer	<u>26,115</u>	General	<u>26,115</u>
Total	<u>\$251,679</u>		<u>\$251,679</u>

7. RELATED PARTY TRANSACTIONS

The City had business transactions between the City and City officials and employees, totaling \$59,110 during the year ended June 30, 2005.

8. LOCAL GOVERNMENT RISK POOL

The City of Milford 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 Milford'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 Milford's annual contributions to the Pool for the year ended June 30, 2005 were \$46,220.

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. All property risks are also reinsured on an individual-member basis.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event that a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. As of June 30, 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 the 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 Milford also carries commercial insurance purchased from other insurers for coverage associated with workers' compensation. 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.

9. LITIGATION

The City is party to routine legal proceedings and litigation arising in the normal course of governmental operations. These legal proceedings are not expected to have a material adverse impact on the City's financial condition.

10. TAX INCREMENT FINANCING (TIF) DISTRICT AGREEMENT

In April 2005, the City and the financial institution which held the 1998 Urban Renewal Tax Increment Financing Revenue Bond (Bond) entered into an agreement whereby approximately \$152,000 was paid by the financial institution to the City. Concurrently, the financial institution advanced funds to a real estate developer and the City assigned to the financial institution its rights under a promissory note from the developer, as well as future increment property tax revenues through June 2013 from the property involved. Payments due by the developer to the financial institution in excess of increment property tax revenues are the responsibility of the developer. The City subsequently repaid the Bond in full.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF MILFORD
 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 Fund Types Actual	Proprietary Fund Type Actual	Total
RECEIPTS:			
Property tax	\$ 678,423		\$ 678,423
Tax increment financing collections	513,594		513,594
Other city tax	381,954		381,954
Licenses and permits	23,379		23,379
Use of money and property	34,081	\$ 2,041	36,122
Intergovernmental	308,921		308,921
Charges for service	16,355	295,902	312,257
Miscellaneous	191,023	2,094	193,117
TOTAL RECEIPTS	<u>2,147,730</u>	<u>300,037</u>	<u>2,447,767</u>
DISBURSEMENTS:			
Public safety	439,934		439,934
Public works	327,265		327,265
Health and social services	3,511		3,511
Culture and recreation	233,151		233,151
Community and economic development	62,476		62,476
General government	271,992		271,992
Debt service	271,401		271,401
Capital projects	122,584		122,584
Business-type activities		313,955	313,955
TOTAL DISBURSEMENTS	<u>1,732,314</u>	<u>313,955</u>	<u>2,046,269</u>
EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS	415,416	(13,918)	401,498
OTHER FINANCING SOURCES (USES)	<u>(26,115)</u>	<u>26,115</u>	<u> </u>
EXCESS OF RECEIPTS AND OTHER FINANCING SOURCES OVER DISBURSEMENTS AND OTHER FINANCING USES	389,301	12,197	401,498
BALANCES - BEGINNING OF YEAR	<u>1,207,019</u>	<u>105,963</u>	<u>1,312,982</u>
BALANCES - END OF YEAR	<u>\$1,596,320</u>	<u>\$118,160</u>	<u>\$1,714,480</u>

<u>Budgeted Amounts</u>		<u>Final to Actual</u>
<u>Original</u>	<u>Final</u>	<u>Variance</u>
		<u>Positive</u>
		<u>(Negative)</u>
\$ 696,258	\$ 696,258	\$ (17,835)
277,100	277,100	236,494
332,053	332,053	49,901
19,750	19,750	3,629
13,350	13,350	22,772
331,441	331,441	(22,520)
292,600	292,600	19,657
<u>47,450</u>	<u>47,450</u>	<u>145,667</u>
<u>2,010,002</u>	<u>2,010,002</u>	<u>437,765</u>
427,585	445,000	5,066
350,715	350,715	23,450
5,100	5,100	1,589
298,460	298,460	65,309
71,350	71,350	8,874
256,185	272,455	463
205,100	272,161	760
160,000	160,000	37,416
<u>300,805</u>	<u>324,985</u>	<u>11,030</u>
<u>2,075,300</u>	<u>2,200,226</u>	<u>153,957</u>
(65,298)	(190,224)	<u>\$283,808</u>
<u>82,934</u>	<u>82,934</u>	
17,636	(107,290)	
<u>1,224,670</u>	<u>1,224,670</u>	
<u>\$1,242,306</u>	<u>\$1,117,380</u>	

See Accompanying Independent Auditors' Report

CITY OF MILFORD
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 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 \$124,926. The budget amendment is reflected in the final budgeted amounts.

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OTHER SUPPLEMENTARY INFORMATION

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

	Special Revenue			
	Road Use	Local Option Sales Tax	Employee Benefits	Emergency
RECEIPTS:				
Property tax			\$80,940	
Other city tax		\$80,000		
Use of money and property		592		
Intergovernmental	\$205,703			
TOTAL RECEIPTS	<u>205,703</u>	<u>80,592</u>	<u>80,940</u>	<u> </u>
DISBURSEMENTS:				
Operating:				
Public works	222,704	63,506		
TOTAL DISBURSEMENTS	<u>222,704</u>	<u>63,506</u>		
EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS	<u>(17,001)</u>	<u>17,086</u>	<u>80,940</u>	
OTHER FINANCING SOURCES (USES):				
Operating transfers out			(85,827)	\$(42,487)
TOTAL OTHER FINANCING SOURCES (USES)			<u>(85,827)</u>	<u>(42,487)</u>
NET CHANGE IN CASH BALANCES	(17,001)	17,086	(4,867)	(42,487)
CASH BALANCES - BEGINNING OF YEAR	<u>185,424</u>	<u>5,007</u>	<u>5,684</u>	<u>42,487</u>
CASH BALANCES - END OF YEAR	<u>\$168,423</u>	<u>\$22,093</u>	<u>\$ 797</u>	
CASH BASIS FUND BALANCES:				
Unreserved:				
Special revenue funds	\$168,423	\$22,093	\$ 797	
Capital projects fund				
TOTAL CASH BASIS FUND BALANCES	<u>\$168,423</u>	<u>\$22,093</u>	<u>\$ 797</u>	

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<u>Capital Projects</u>	<u>Total Nonmajor Governmental Funds</u>
<u>Miscellaneous</u>	\$ 80,940
	80,000
	592
	<u>205,703</u>
	<u>367,235</u>
	<u>286,210</u>
	<u>286,210</u>
	<u>81,025</u>
	<u>(128,314)</u>
	<u>(128,314)</u>
	(47,289)
<u>\$2,705</u>	<u>241,307</u>
 <u>\$2,705</u>	 <u>\$194,018</u>
<u>\$2,705</u>	\$191,313
	<u>2,705</u>
<u>\$2,705</u>	<u>\$194,018</u>

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

<u>Obligation</u>	<u>Date of Issue</u>	<u>Amount Interest Rates</u>	<u>Originally Issued</u>
General Obligation Bond: Corporate Purpose	January 1, 1990	6.00 - 8.50%	\$ 555,555
General Obligation Note: Street improvement	March 12, 1997	5.00%	\$ 230,000
Total			
Urban Renewal Tax Increment Financing (TIF) Revenue Bonds:			
1998 Issue	August 17, 1998	7.50%	\$ 181,152
1999 Issue	January 8, 1999	4.75%	775,000
Total			

Schedule 2

<u>Balance Beginning of Year</u>	<u>Issued During Year</u>	<u>Redeemed During Year</u>	<u>Balance End of Year</u>	<u>Interest Paid</u>	<u>Interest Due and Unpaid</u>
<u>\$ 45,000</u>	<u> </u>	<u>\$ 45,000</u>	<u> </u>	<u>\$ 2,700</u>	<u> </u>
<u>\$ 85,000</u>	<u> </u>	<u>\$ 25,000</u>	<u>\$ 60,000</u>	<u>\$ 4,250</u>	<u> </u>
<u>\$ 87,251</u> <u>440,000</u>	<u> </u>	<u>\$ 87,251</u> <u>80,000</u>	<u>\$360,000</u>	<u>\$ 5,899</u> <u>20,900</u>	<u> </u>
<u>\$527,251</u>	<u> </u>	<u>\$167,251</u>	<u>\$360,000</u>	<u>\$26,799</u>	<u> </u>

CITY OF MILFORD
BOND AND NOTE MATURITIES
JUNE 30, 2005

General Obligation Note

<u>Street Improvement</u> <u>Issued March 12, 1997</u>		
<u>Year Ending</u> <u>June 30,</u>	<u>Interest</u> <u>Rates</u>	<u>Amount</u>
2006	5.00	\$30,000
2007	5.00	<u>30,000</u>
Total		<u>\$60,000</u>

URBAN RENEWAL TAX
INCREMENT FINANCING (TIF)
REVENUE BOND

<u>Issued January 8, 1999</u>		
<u>Year Ending</u> <u>June 30,</u>	<u>Interest</u> <u>Rates</u>	<u>Amount</u>
2006	4.75	\$ 85,000
2007	4.75	90,000
2008	4.75	90,000
2009	4.75	<u>95,000</u>
Total		<u>\$360,000</u>

See Accompanying Independent Auditors' Report

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

	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
RECEIPTS:				
Property and other city tax	\$1,060,377	\$1,025,048	\$1,004,889	\$ 905,735
Tax increment financing collections	513,594	467,036	590,144	377,004
Licenses and permits	23,379	40,417	29,082	14,781
Use of money and property	34,081	20,278	27,523	55,245
Intergovernmental	308,921	309,545	315,028	327,287
Charges for service	16,355	74,897	37,246	338,621
Special assessments				4,441
Miscellaneous	<u>191,023</u>	<u>36,479</u>	<u>56,459</u>	<u>32,415</u>
TOTAL REVENUES	<u>\$2,147,730</u>	<u>\$1,973,700</u>	<u>\$2,060,371</u>	<u>\$2,055,529</u>
DISBURSEMENTS:				
Public safety	\$ 439,934	\$ 570,181		
Public works	327,265	373,108		
Health and social services	3,511	1,000		
Culture and recreation	233,151	247,327		
Community and economic development .	62,476	75,296		
General government	271,992	289,622		
Debt service	271,401	217,665		
Capital projects	<u>122,584</u>	<u>117,238</u>		
TOTAL EXPENDITURES	<u>\$1,732,314</u>	<u>\$1,891,437</u>	*	*

* 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 Milford
Milford, IA 51351

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 Milford, 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 and have issued our report thereon dated July 28, 2005. 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 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 the City of Milford'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 Milford'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 in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial

reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe items I-A-05 is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the financial statements of the primary government of the City of Milford 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 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 primary government 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 Milford, and other parties to whom the City of Milford 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 Milford 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, Stone + Co., LLP

July 28, 2005

CITY OF MILFORD
SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2005

Part I: Findings Related to the Financial Statements

Instances of Noncompliance:

No matters were noted.

Reportable Conditions:

- I-A-05 **Segregation of Duties** - One important aspect of internal control over financial reporting is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted employees were performing incompatible functions.

Recommendation - We realize that it is difficult to appropriately segregate duties when the number of employees is limited. Therefore, we recommend the Council maintain their diligence in the review of the financial records.

Response - We will continue our review.

Conclusion - Response accepted.

- I-B-05 **Financial Institution Accounts Not Reflected in City Financial Records** - During our audit, we noted two financial institution accounts from which expenditures are made without approval by the City Council. Also the City did not receive the bank statements or any other type of financial reporting for one of these accounts. The City also did not include the activity or balances of these accounts in its monthly financial reports.

Recommendation - We recommend the City Council approve all expenditures from these accounts. Statements for both accounts should be delivered to City offices and activity and balances in the account should be reflected in City financial records.

Response - The balances in these accounts are expected to be used during fiscal 2006 or transferred to other City accounts.

Conclusion - Response accepted.

CITY OF MILFORD
SCHEDULE OF FINDINGS - Continued
YEAR ENDED JUNE 30, 2005

Part II: Other Findings Related to Required Statutory Reporting

II-A-05 Official Depositories - A resolution naming official depositories has been approved by the City Council. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2005.

II-B-05 Certified Budget - During the year ended June 30, 2005, one budget amendment was made. We noted the published budget amendment did not correctly present the original certified budget.

Recommendation - Published budget amendments should be reviewed carefully to make sure the amendment is accurately completed.

Response - We will review published budget amendments more carefully in the future to make sure they are accurately completed.

Conclusion - Response accepted.

II-C-05 Questionable Disbursements - We noted no expenditures for parties, banquets, or other entertainment for employees that we believe 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 expenditures of City money for travel expenses of spouses of City officials or employees were noted.

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

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Virgil Wahlman, Mayor, Owner of Marvil, Inc.	Developer rebate agreement	\$59,110

This transaction appears to represent a conflict of interest as defined by Chapter 362.5 of the Code of Iowa. Although the City Council did approve the above expenditure, the City was not able to produce a signed developer rebate agreement related to this expenditure.

Recommendation - We recommend the City contact legal counsel to determine the procedures which should be followed in order for this developer rebate agreement to comply with the conflict of interest requirements of Chapter 362.5 of the Code of Iowa.

Response - We will contact legal counsel for a recommendation of the procedures which should be followed in order to be in compliance.

Conclusion - Response accepted.

CITY OF MILFORD
SCHEDULE OF FINDINGS - Continued
FOR THE YEAR ENDED JUNE 30, 2005

Part II: Other Findings Related to Required Statutory Reporting - Continued

- 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 ensure 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 - We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy.