

**CITY OF SAC CITY, IOWA**

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

**AS OF AND FOR THE YEAR ENDED JUNE 30, 2005**

## Table of Contents

		<u>Page</u>
Officials		1
Independent Auditor's Report		2-3
Management's Discussion and Analysis		4-10
Basic Financial Statements:	<u>Exhibit</u>	
Government-wide Financial Statement:		
Statement of Activities and Net Assets – Cash Basis	A	11-12
Governmental Fund Financial Statements:		
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	B	13-14
Reconciliation of the Statement of Cash Receipts, Disbursements and Changes in Cash Balances to the Statement of Activities and Net Assets	C	15
Proprietary Fund Financial Statements:		
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	D	16-17
Reconciliation of the Statement of Cash Receipts, Disbursements and Changes in Cash Balances to the Statement of Activities and Net Assets	E	18
Notes to Financial Statements		19-30
Required Supplementary Information:		
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances – Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Funds		31-32
Notes to Required Supplementary Information – Budgetary Reporting		33
Other Supplementary Information:	<u>Schedule</u>	
Statement of Cash Receipts, Disbursements and Changes in Cash Balances – Nonmajor Governmental Funds	1	34-35
Statement of Cash Receipts, Disbursements and Changes in Cash Balances – Nonmajor Proprietary Funds	2	36
Schedule of Indebtedness	3	37-38
Note Maturities	4	39
Schedule of Receipts by Source and Disbursements by Function – All Governmental Funds	5	40

Table of Contents (continued)

	<u>Schedule</u>	<u>Page</u>
Schedule of Changes in Fiduciary Assets and Liabilities – Agency Fund	6	41
Schedule of Expenditures of Federal Awards	7	42
Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters		43-44
Independent Auditor’s Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance		45-46
Schedule of Findings and Questioned Costs		47-50

**City of Sac City, Iowa**

**Officials**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Lonnie Rubendall	Mayor	Jan 2008
Jerry Volkert	Mayor Pro Tem	Jan 2008
Jim Johnston	Council Member	Jan 2006
Gary Hansen	Council Member	Jan 2006
Bryan Buckley	Council Member	Resigned
Roger Jensen	Council Member	Jan 2008
Gary Mahannah	City Administrator/Clerk	Resigned
Sandy Tellinghuisen	Treasurer	Jan 2006
Colin McCullough	Attorney	Jan 2006
Earl Zimmerman	Airport Commission	Jan 2008
Matt Wallace	Airport Commission	Jan 2009
Ken Pap	Airport Commission	Jan 2009
Louis Carnine	Airport Commission	Jan 2010

## Independent Auditor's Report

To the Honorable Mayor and  
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Sac City, 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 Sac City'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 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 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.

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, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Sac City 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 November 21, 2005 on our consideration of the City of Sac City'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 4 through 10 and 31 through 33 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 conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Sac City's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the two years ended June 30, 2004 (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 7, including the accompanying Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, 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.

Cornwell, Frideres, Maher & Associates, P.C.  
Certified Public Accountants

November 21, 2005

City of Sac City  
Management's Discussion and Analysis  
June 30, 2005

This discussion and analysis is intended to be an easily readable analysis of the City of Sac City's financial activities based on current conditions. This analysis focuses on activities for the year ended June 30, 2005 and should be read in conjunction with the attached financial statements.

**2005 FINANCIAL HIGHLIGHTS**

- Total governmental funds cash balances decreased 31% or approximately \$114,725 from fiscal year 2004 to 2005.
- Disbursements of the City's governmental activities increased 79% or approximately \$960,070, in fiscal year 2005 from 2004. This increase in disbursements was due to a capital project at the municipal airport. Due to the project, federal guidelines required the city to perform a single audit performed Public safety and public works disbursements increased from 2004 to 2005 due to increased operation and maintenance costs and capital purchases.
- Revenues of the City's governmental activities increased 71% or approximately \$855,000 from fiscal year 2004 to 2005. Much of this increase is attributed to increased federal funds used for capital projects at the municipal airport. Property taxes increased approximately \$13,550.

**USING THIS ANNUAL REPORT**

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

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

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

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

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

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor governmental funds.

### **Basis of Accounting**

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, the readers 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 result of the year's activities?" The Statement of Activities and Net Assets reports information which help 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 included public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the waterworks, the sanitary sewer system, and municipal gas utilities. These activities are financed primarily by user charges.

## Fund Financial Statements

The City has two kinds of funds:

- 1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax, 3) the Debt Service Fund, 4) the Capital Projects Funds and 5) the Permanent Funds. The governmental fund financial statements provide a detailed, short-term view of the City's general governmental operations and the basic services it provides. Government 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 accounts for the City's Enterprise Funds and for the Internal Service Fund. Enterprise funds are used to report business type activities. The City maintains four enterprise funds to provide separate information for the water, sewer, gas and garbage funds, of which water and gas are determined to be major funds of the City. Internal Service Funds are an accounting device used to accumulate and allocate costs internally among the City's various functions.

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

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

## **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

Net assets may serve over time as a useful indicator of financial position. The analysis that follows focuses on the changes in cash balances for governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities

	<u>2005</u>	<u>2004</u>
Receipts and transfers:		
Program receipts:		
Charges for service	\$ 59,870	\$ 69,455
General Receipts:		
Property tax	809,303	795,773
Other city tax	36,744	44,795
License and permits	8,748	6,948
Investment earnings	602	724
Intergovernmental	1,105,952	254,058
Special assessments	14,049	23,349
Miscellaneous	30,516	15,493
Transfers	<u>(1,916)</u>	<u>32,494</u>
Total receipts	<u>2,063,868</u>	<u>1,243,089</u>
 Disbursements:		
Public safety	295,179	272,397
Public works	263,854	268,324
Culture and recreation	226,173	215,432
General government	154,047	140,701
Debt service	320,740	315,860
Capital projects	<u>918,598</u>	<u>5,000</u>
Total disbursements	<u>2,178,591</u>	<u>1,217,714</u>
 Changes in cash basis	 (114,723)	 25,375
Cash basis net assets beginning of the year	<u>372,686</u>	<u>347,416</u>
Cash basis net assets end of the year	<u>257,963</u>	<u>372,791</u>
	=====	=====

The City's total receipts for government activities increased 71%. This significant decrease was due to federal funds for work at the municipal airport.

The City increased property tax rates for Fiscal Year 2004-2005 by 2%. The increase raised the City's property tax receipts by approximately \$14,000 in 2005. Although the city's assessed valuation increased by approximately 4% this year, property tax receipts will actually decrease due to a local option sales tax and lower insurance premiums. The actual property tax decrease will be approximately \$18,000.

The cost of all governmental activities this year was \$2.178 million compared to \$1.218 million last year.

Changes in Cash Basis Net Assets of Business Type Activities

	<u>2005</u>	<u>2004</u>
Receipts:		
Program receipts:		
Charges for services:		
Water	\$ 375,578	397,193
Sewer	196,499	201,165
Gas	1,404,779	1,256,735
Garbage	175,378	170,007
Interest	2,446	5,440
Miscellaneous	---	6,591
Transfers	<u>38,179</u>	<u>---</u>
Total receipts	<u>2,192,859</u>	<u>2,037,131</u>
Disbursements:		
Water	458,197	337,673
Sewer	228,292	201,834
Gas	1,520,425	1,421,169
Garbage	217,036	203,917
Transfers	<u>---</u>	<u>27,314</u>
Total disbursements	<u>2,423,950</u>	<u>2,191,907</u>
Increase (decrease) in cash basis	(231,091)	(154,776)
Cash basis net assets beginning of year	<u>433,725</u>	<u>588,635</u>
Cash basis net assets end of year	\$ <u>202,634</u>	<u>433,859</u>
	=====	=====

Total business type activities receipts for the fiscal year were \$2.1 million compared to \$2.037 million last year. The cash balance decreased approximately \$231,000 from the prior year because of higher gas prices and an unexpected water main project. Total disbursements for the fiscal year increased by 8% to \$2.424 million.

**INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS**

As Sac City completed the year, its governmental funds reported a combined fund balance of \$257,963, a decrease of \$114,723 below last year's total of \$372,686. The following are major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance decreased \$26,880 to \$31,416.
- The Capital Funds cash balance decreased \$92,291 to \$59,224.

**INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS**

- The Water Fund cash balance decreased by \$18,591 to \$18,356.
- The Gas Fund cash balance decreased by \$166,099 to \$177,953 due primarily to increases in gas prices.

**Budgetary Highlights**

Over the course of the year, the City amended its budget once. The amendment was resulted in an increase in capital disbursements related to a grant received from the Airport in the amount of approximately \$900,000.

**Debt Administration**

At June 30, 2005, the City had approximately \$1,230,000 in bonds and other long-term debt, compared to approximately \$1,480,000 last year, as shown below.

	<u>Outstanding Debt at Year-End</u>	
	<u>2004</u>	<u>2005</u>
General Obligation Bonds	\$ <u>1,480,000</u>	<u>1,230,000</u>
Total	\$ 1,480,000 =====	1,230,000 =====

Debt decreased as a result of paying down general obligation bonds.

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 of \$1,230,000 is significantly below its constitutional debt limit of \$3 million.

**ECONOMIC FACTORS AND NEXT YEAR’S BUDGET AND RATES**

Several factors were considered and affected the preparation of the City’s 2006 budget, as follows:

- The local economy has remained consistent with the outlook for 2006 to remain constant.
- The local unemployment rate has remained lower than the state average.

- The rate lids and the property tax rollback imposed by the state of Iowa.
- Newly increased water, sewer and garbage rates
- Grant revenues

## **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 information, contact Jeff Fiegenschuh, City Administrator, 302 E. Main Street, Sac City, Iowa.

## **Basic Financial Statements**

City of Sac City, Iowa  
Statement of Activities and Net Assets - Cash Basis  
As of and for the year ended June 30, 2005

		Program Receipts	
	Charges for	Operating Grants, Contributions, and Restricted	Capital Grants, Contributions and Restricted
<u>Disbursements</u>	<u>Service</u>	<u>Interest</u>	<u>Interest</u>
<b>Functions/Programs:</b>			
Primary Government:			
Governmental activities:			
Public safety	\$ 295,179	11,935	35,649
Public works	263,854	714	208,838
Culture and recreation	226,173	54,821	13,388
General government	152,891	-	2,181
Debt service	320,740	-	-
Capital projects	918,598	14,049	-
Total governmental activities	2,177,435	81,519	260,056
Business type activities:			
Water	458,197	375,578	-
Gas	1,518,982	1,395,353	9,425
Nonmajor	445,328	371,876	-
Total business type activities	2,422,507	2,142,807	9,425
Total	4,599,942	2,224,326	269,481
Component unit:			
Airport	\$ 20,798	12,066	8,636
<b>General Receipts:</b>			
Property tax levied for:			
General purposes			
Debt service			
Unrestricted interest on investments			
Miscellaneous			
Transfers			
Total general receipts and transfers			
Change in cash basis net assets			
Cash basis net assets beginning of year			
Cash basis net assets end of year			
<b>Cash Basis Net Assets</b>			
Restricted:			
Streets			
Debt service			
Other purposes			
Unrestricted			
<b>Total cash basis net assets</b>			

See notes to financial statements.

Exhibit A

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets			Component Unit
Governmental <u>Activities</u>	Business Type <u>Activities</u>	<u>Total</u>	<u>Airport</u>
(247,595)	-	(247,595)	-
(54,302)	-	(54,302)	-
(157,964)	-	(157,964)	-
(150,710)	-	(150,710)	-
(320,740)	-	(320,740)	-
(57,711)	-	(57,711)	-
<u>(989,022)</u>	<u>-</u>	<u>(989,022)</u>	<u>-</u>
-	(82,619)	(82,619)	-
-	(114,204)	(114,204)	-
<u>-</u>	<u>(73,452)</u>	<u>(73,452)</u>	<u>-</u>
<u>-</u>	<u>(270,275)</u>	<u>(270,275)</u>	<u>-</u>
<u>(989,022)</u>	<u>(270,275)</u>	<u>(1,259,297)</u>	<u>-</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>(96)</u>
578,748	-	578,748	-
267,298	-	267,298	-
132	2,448	2,580	1,935
31,193	-	31,193	8,983
(1,916)	38,179	36,263	(36,263)
<u>875,455</u>	<u>40,627</u>	<u>916,082</u>	<u>(25,345)</u>
(113,567)	(229,648)	(343,215)	(25,441)
<u>372,686</u>	<u>433,725</u>	<u>806,411</u>	<u>80,425</u>
<u>\$ 259,119</u>	<u>204,077</u>	<u>463,196</u>	<u>54,984</u>
\$ 76,582	-	76,582	-
505	-	505	-
149,460	1,324	150,784	-
<u>32,572</u>	<u>202,753</u>	<u>235,325</u>	<u>54,984</u>
<u>\$ 259,119</u>	<u>204,077</u>	<u>463,196</u>	<u>54,984</u>

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

		Special Revenue	
	General	Road Use Tax	Employee Benefits
Receipts:			
Property tax	\$ 358,334	-	196,387
Other city tax	14,219	-	9,808
Licenses and permits	8,748	-	-
Use of money and property	602	-	-
Intergovernmental	58,395	196,890	-
Charges for service	59,870	-	-
Special assessments	-	-	-
Miscellaneous	15,346	-	-
Total receipts	515,514	196,890	206,195
Disbursements:			
Operating:			
Public safety	295,179	-	-
Public works	65,359	198,495	-
Culture and recreation	226,173	-	-
General government	154,047	-	-
Debt service	-	-	-
Capital projects	-	-	-
Total disbursements	740,758	198,495	-
Excess (deficiency) of receipts over (under) disbursements	(225,244)	(1,605)	206,195
Other financing sources (uses):			
Operating transfers in	207,195	-	-
Operating transfers out	(8,831)	-	(206,195)
Total other financing sources (uses)	198,364	-	(206,195)
Net change in cash balances	(26,880)	(1,605)	-
Cash balances beginning of year	58,296	18,963	-
Cash balances end of year	\$ 31,416	17,358	-
<b>Cash Basis Fund Balances</b>			
Reserved:			
Debt service	\$ -	-	-
Unreserved:			
General fund	31,416	-	-
Special revenue funds	-	17,358	-
Capital projects funds	-	-	-
Permanent fund	-	-	-
Total cash basis fund balances	\$ 31,416	17,358	-

See notes to financial statements.

Exhibit B

<u>Capital Projects</u>		Other Nonmajor Governmental	
<u>Airport Improvements</u>	<u>Debt Service</u>	<u>Funds</u>	<u>Total</u>
-	254,582	-	809,303
-	12,717	-	36,744
-	-	-	8,748
-	-	-	602
846,838	-	3,829	1,105,952
-	-	-	59,870
-	-	14,049	14,049
-	-	15,170	30,516
<u>846,838</u>	<u>267,299</u>	<u>33,048</u>	<u>2,065,784</u>
-	-	-	295,179
-	-	-	263,854
-	-	-	226,173
-	-	-	154,047
-	320,740	-	320,740
<u>918,598</u>	<u>-</u>	<u>-</u>	<u>918,598</u>
<u>918,598</u>	<u>320,740</u>	<u>-</u>	<u>2,178,591</u>
<u>(71,760)</u>	<u>(53,441)</u>	<u>33,048</u>	<u>(112,807)</u>
71,760	53,166	1,792	333,913
-	-	(120,803)	(335,829)
<u>71,760</u>	<u>53,166</u>	<u>(119,011)</u>	<u>(1,916)</u>
-	(275)	(85,963)	(114,723)
-	780	294,647	372,686
<u>-</u>	<u>505</u>	<u>208,684</u>	<u>257,963</u>
-	505	-	505
-	-	-	31,416
-	-	70,800	88,158
-	-	59,224	59,224
-	-	78,660	78,660
<u>-</u>	<u>505</u>	<u>208,684</u>	<u>257,963</u>

Reconciliation of the Statement of Cash  
Receipts, Disbursements and Changes in Cash Balances  
to the Statement of Activities and Net Assets -  
Governmental Funds  
As of and for the year ended June 30, 2005

<b>Total governmental funds cash balances (page 14)</b>	\$ 257,963
 <i>Amounts reported for governmental activities in the Statement of Activities and Net Assets are different because:</i>	
 The Internal Service Fund is used by management to charge the costs of the City's payroll to individual funds. The assets of the Internal Service Fund are included in governmental activities in the Statement of Net Assets.	
	1,156
<b>Cash basis net assets of governmental activities (page 12)</b>	<u>\$ 259,119</u>
<b>Net change in cash balances (page 14)</b>	(114,723)
 <i>Amounts reported for governmental activities in the Statement of Activities and Net Assets are different because:</i>	
 The Internal Service Fund is used by management to charge the costs of the City's payroll to individual funds. The change in net assets of the Internal Service Fund is reported with governmental activities.	
	1,156
<b>Change in cash balance of governmental activities (page 12)</b>	<u>\$ (113,567)</u>

See notes to financial statements.

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

	Enterprise Funds			
	<u>Water</u>	<u>Gas</u>	<u>Nonmajor</u>	<u>Total</u>
Operating receipts:				
Charges for service	\$ 369,808	1,399,764	365,899	2,135,471
Miscellaneous	5,770	5,015	5,978	16,763
Total operating receipts	<u>375,578</u>	<u>1,404,779</u>	<u>371,877</u>	<u>2,152,234</u>
Operating disbursements:				
Governmental activities:				
Public safety	-	-	-	-
Public works	-	-	-	-
Culture and recreation	-	-	-	-
General government	-	-	-	-
Business type activities	<u>458,197</u>	<u>1,520,425</u>	<u>445,328</u>	<u>2,423,950</u>
Total operating disbursements	<u>458,197</u>	<u>1,520,425</u>	<u>445,328</u>	<u>2,423,950</u>
Excess (deficiency) of operating receipts over (under) operating disbursements	<u>(82,619)</u>	<u>(115,646)</u>	<u>(73,451)</u>	<u>(271,716)</u>
Non-operating receipts:				
Interest on investments	<u>558</u>	<u>1,383</u>	<u>505</u>	<u>2,446</u>
Total non-operating receipts	<u>558</u>	<u>1,383</u>	<u>505</u>	<u>2,446</u>
Excess (deficiency) of receipts over (under) disbursements	<u>(82,061)</u>	<u>(114,263)</u>	<u>(72,946)</u>	<u>(269,270)</u>
Other financing sources (uses):				
Operating transfers in	106,340	14,464	26,545	147,349
Operating transfers out	<u>(42,870)</u>	<u>(66,300)</u>	<u>-</u>	<u>(109,170)</u>
Total other financing sources (uses)	<u>63,470</u>	<u>(51,836)</u>	<u>26,545</u>	<u>38,179</u>
Net change in cash balances	(18,591)	(166,099)	(46,401)	(231,091)
Cash balances beginning of year	<u>36,947</u>	<u>344,052</u>	<u>52,726</u>	<u>433,725</u>
Cash balances end of year	<u>\$ 18,356</u>	<u>177,953</u>	<u>6,325</u>	<u>202,634</u>
<b>Cash Basis Fund Balances</b>				
Unreserved	<u>\$ 18,356</u>	<u>177,953</u>	<u>6,325</u>	<u>202,634</u>
Total cash basis fund balances	<u>\$ 18,356</u>	<u>177,953</u>	<u>6,325</u>	<u>202,634</u>

See notes to financial statements.

Internal  
Service Fund  
Employee  
Payroll

-  
931,367  
931,367

167,814  
115,207  
102,987  
27,148  
515,851  
929,007

2,360

-  
-

2,360

-  
-  
-

2,360  
239  
2,599

2,599

2,599

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

**Total enterprise funds cash balances (page 16)** \$ 202,634

*Amounts reported for business type activities in the Statement of  
Activities and Net Assets are different because:*

The Internal Service Fund is used by management to charge the costs of  
the City's payroll to individual funds. The assets of the Internal Service Fund  
are included in business type activities in the Statement of Net Assets.

1,443

**Cash basis net assets of business type activities (page 12)** \$ 204,077

**Net change in cash balances (page 16)** (231,091)

*Amounts reported for business type activities in the Statement of  
Activities and Net Assets are different because:*

The Internal Service Fund is used by management to charge the costs of  
the City's payroll to individual funds. The change in net assets of the Internal  
Service Fund is reported with business type activities.

1,443

**Change in cash balance of business type activities (page 12)** \$ (229,648)

See notes to financial statements.

City of Sac City, Iowa

Notes to Financial Statements

June 30, 2005

**(1) Summary of Significant Accounting Policies**

The City of Sac City is a political subdivision of the State of Iowa located in Sac County. It was first incorporated in 1875 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, health and social services, culture and recreation, community and economic development, and general government services. The City also provides water, sewer and gas utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Sac City 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.

Discretely Presented Component Unit

These financial statements present the City of Sac City (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.

City of Sac City, Iowa

Notes to Financial Statements

June 30, 2005

The Sac City Municipal Airport Authority (Authority) was established pursuant to Chapter 330A of the Code of Iowa to operate the City's airport facility. The Authority is governed by a five member board appointed by the Sac City City Council. The board members serve at the pleasure of the City. The City annually provides significant operating subsidies to the Authority. In accordance with criteria set by the Governmental Accounting Standards Board, the Authority meets the definition of a component unit which should be discretely presented. The Authority is accounted for as a Governmental Fund in these financial statements.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Sac County Emergency Management Commission, Sac County Landfill Commission, Sac County Joint E911 Service Board, Recreation Center Board, and Kid's World Board.

B. Basis of Presentation

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

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

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

City of Sac City, Iowa

Notes to Financial Statements

June 30, 2005

of *Unrestricted net assets* consist of net assets that do not meet the definition

the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

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

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

The City reports the following major governmental funds:

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

Special Revenue:

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

The Employee Benefits Fund is used to account for receipts to pay for the City's share of payroll taxes.

City of Sac City, Iowa

Notes to Financial Statements

June 30, 2005

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

The City reports the following major proprietary funds:

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

The Gas Fund accounts for the operation and maintenance of the City's gas system.

The City also reports the following additional proprietary fund:

An Internal Service Fund is utilized to account for the City's payroll, which is then allocated to the City's departments on a cost reimbursement basis.

C. Measurement Focus and Basis of Accounting

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

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 capital projects function.

City of Sac City, Iowa

Notes to Financial Statements

June 30, 2005

**(2) Cash**

The City and its component unit'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 and its component unit are 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.

The City and its component unit had no investments at June 30, 2005. The City and its component unit invested its excess funds in savings accounts and certificates of deposit.

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.

City of Sac City, Iowa

Notes to Financial Statements

June 30, 2005

**(3) Notes Payable**

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

Year Ending <u>June 30,</u>	<u>General Obligation Notes</u>	
	<u>Principal</u>	<u>Interest</u>
2006	\$ 220,000	\$ 58,000
2007	230,000	48,342
2008	245,000	37,893
2009	255,000	26,400
2010	155,000	14,010
2011	60,000	6,190
2012	<u>65,000</u>	<u>3,250</u>
Total	\$ 1,230,000	\$ 194,085
	=====	=====

**(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, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of annual covered payroll, except for police employees, in which case the percentages are 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 contributions to IPERS for the years ended June 30, 2005, 2004 and 2003 were \$57,166, \$53,855 and \$51,442, respectively, equal to the required contributions for each year.

City of Sac City, Iowa

Notes to Financial Statements

June 30, 2005

**(5) Compensated Absences**

City employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, retirement, or death. Sick leave or personal leave is not payable 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 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	\$ 49,000
	=====

This liability has been computed based on rates of pay in effect at June 30, 2005.

City of Sac City, Iowa

Notes to Financial Statements

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	Special Revenue: Employee Benefits	\$ 206,195
	Enterprise: Gas	1,000
Debt Service	General	7,039
	Enterprise: Water	42,870
	Gas	3,257
Special Revenue: Long-term Capital Improvement	General: Fire Department	1,792
Enterprise: Gas	Special Revenue: Revolving Loan	14,464
Enterprise: Water	Capital Projects: Special Assessments	106,340
Enterprise: Sewer	Enterprise: Gas	26,545
Capital Projects: Airport Project	Enterprise: Gas	35,497
	Component Unit: Airport	<u>36,263</u>
Total		\$ 481,262 =====

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

City of Sac City, Iowa

Notes to Financial Statements

June 30, 2005

**(7) Risk Management**

The City of Sac City is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 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 professionals liability, property, boiler/machinery, and inland marine. 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's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The City's annual contributions to the Pool for the year ended June 30, 2005 were \$91,447.

City of Sac City, Iowa

Notes to Financial Statements

June 30, 2005

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. Property and automobile physical damage risks are retained by the Pool up to \$100,000 each occurrence, each location, with excess coverage reinsured on an individual-member basis.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event that a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. As of June 30, 2005, settled claims have not exceeded the risk pool or reinsurance company coverage since the Pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their capital contributions. If a member withdraws after the sixth year, the member is refunded 100 percent of its capital contributions. However, the refund is reduced by an amount equal to the annual operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

The City also carries commercial insurance purchased from other insurers for coverage associated with worker's 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.

City of Sac City, Iowa

Notes to Financial Statements

June 30, 2005

**(8) Revolving Loan Fund**

The City has funds available for businesses who wish to create additional jobs within the City. The business must exhaust all other means of raising capital, there must be a public purpose that benefits the City and the business must have collateral for the loan. A committee appointed by the City reviews the application and negotiates the interest rate and payment terms. At June 30, 2005 there was one outstanding loan owed to the City in the amount of \$9,772.

**(9) Sac County Landfill Commission**

The City, in conjunction with nine other municipalities, has created the Sac County 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. On dissolution of the Commission, the net assets of the Commission will be prorated among the municipalities. The Sac County Landfill Commission board consists of an elected representative of the governing body of each participating governmental jurisdiction. The Commission may not be accumulating sufficient financial resources, therefore, the City of Sac City has an ongoing financial responsibility. During the year ended June 30, 2005 the City paid \$60,878 to the Sac County Landfill Commission for landfill fees. Complete financial statements for the Commission can be obtained from the Sac County Landfill Commission. In fiscal year 1997-1998 a 28E organization was formed by nine participating municipalities in order to provide financial assurance mechanisms in the event of closure and postclosure costs associated with the landfill. No estimate of the closure or postclosure costs have been made to date.

**(10) Early Childhood Development Project**

A management agreement is in effect where Kid's World will repay the City the amount it advanced plus interest. A provision in the agreement states that payments may be suspended if there are not sufficient monies to repay the City. However, interest continues to accrue on the unpaid balance. During the fiscal year ended June 30, 2004, the council voted to suspend all payments. The balance owing to the City at June 30, 2005, including interest, is \$278,555.21.

City of Sac City, Iowa

Notes to Financial Statements

June 30, 2005

**(11) Construction Commitment**

The City has committed to an airport construction project for approximately \$1,120,000. This project will be financed with \$1,053,000 from a federal grant and \$67,000 city funds. As of June 30, 2005 approximately \$1,040,000 has been disbursed for this project.

**Required Supplemental Information**

City of Sac City, Iowa

Budgetary Comparison Schedule  
of Receipts, Disbursements, and Changes in Balances -  
Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Funds

Required Supplementary Information

Year ended June 30, 2005

	Governmental Funds <u>Actual</u>	Proprietary Funds <u>Actual</u>	Less Funds not Required to to Budgeted
Receipts:			
Property tax	\$ 809,303	-	-
Other city tax	36,744	-	-
Licenses and permits	8,748	-	-
Use of money and property	602	2,446	-
Intergovernmental	1,105,952	-	-
Charges for service	59,870	2,135,471	-
Special assessments	14,049	-	-
Miscellaneous	30,516	948,130	931,367
Total receipts	<u>2,065,784</u>	<u>3,086,047</u>	<u>931,367</u>
Disbursements:			
Public safety	295,179	167,814	167,814
Public works	263,854	115,207	115,207
Culture and recreation	226,173	102,987	102,987
Community and economic development	-	-	-
General government	154,047	27,148	27,148
Debt service	320,740	-	-
Capital projects	918,598	-	-
Business type activities	-	2,939,801	515,851
Total disbursements	<u>2,178,591</u>	<u>3,352,957</u>	<u>929,007</u>
Excess (deficiency) of receipts over (under) disbursements	(112,807)	(266,910)	2,360
Other financing sources (uses), net	<u>(1,916)</u>	<u>38,179</u>	<u>-</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(114,723)	(228,731)	2,360
Balances beginning of year	<u>372,686</u>	<u>433,964</u>	<u>239</u>
Balances end of year	<u>\$ 257,963</u>	<u>205,233</u>	<u>2,599</u>

See accompanying independent auditor's report.

<u>Net</u>	<u>Budgeted Amounts</u>		<u>Final to Net Variance</u>
	<u>Original</u>	<u>Final</u>	
809,303	805,885	805,885	3,418
36,744	42,134	42,134	(5,390)
8,748	2,600	2,600	6,148
3,048	14,775	14,775	(11,727)
1,105,952	919,775	1,082,357	23,595
2,195,341	2,210,260	2,510,260	(314,919)
14,049	-	-	14,049
47,279	181,038	182,038	(134,759)
<u>4,220,464</u>	<u>4,176,467</u>	<u>4,640,049</u>	<u>(419,585)</u>
295,179	282,325	297,325	2,146
263,854	301,845	301,845	37,991
226,173	211,212	230,212	4,039
-	2,250	3,250	3,250
154,047	159,004	159,004	4,957
320,740	321,090	321,090	350
918,598	768,100	893,100	(25,498)
2,423,950	2,182,341	2,532,341	108,391
<u>4,602,541</u>	<u>4,228,167</u>	<u>4,738,167</u>	<u>135,626</u>
(382,077)	(51,700)	(98,118)	(283,959)
<u>36,263</u>	<u>-</u>	<u>-</u>	<u>36,263</u>
(345,814)	(51,700)	(98,118)	(247,696)
<u>806,411</u>	<u>886,835</u>	<u>886,835</u>	<u>(80,424)</u>
<u>460,597</u>	<u>835,135</u>	<u>788,717</u>	<u>(328,120)</u>

City of Sac City, Iowa

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 receipts by \$463,582 and budgeted disbursements by \$510,000. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2005, disbursements exceeded the amounts budgeted in the capital projects function.

## **Other Supplementary Information**

City of Sac City, Iowa

Statement of Cash Receipts, Disbursements  
and Changes in Cash Balances  
Nonmajor Governmental Funds

As of and for the year ended June 30, 2005

	Special Revenue		
	Unemployment Compensation	Long-term Capital Improvements Fire Department	Revolving Loan
Receipts:			
Intergovernmental	\$ -	3,829	-
Special assessments	-	-	-
Miscellaneous	-	-	14,463
Total receipts	-	3,829	14,463
Disbursements	-	-	-
Excess of receipts over disbursements	-	3,829	14,463
Other financing sources (uses):			
Operating transfers in	-	1,792	-
Operating transfers out	-	-	(14,463)
Total other financing sources (uses)	-	1,792	(14,463)
Net change in cash balances	-	5,621	-
Cash balances beginning of year	9,042	56,137	-
Cash balances end of year	\$ 9,042	61,758	-
<b>Cash Basis Fund Balances</b>			
Unreserved:			
Special revenue funds	\$ 9,042	61,758	-
Capital project funds	-	-	-
Permanent fund	-	-	-
Total cash basis fund balances	\$ 9,042	61,758	-

See accompanying independent auditor's report.

Schedule 1

Capital Projects	Permanent	
Special Assessment	Cemetery Perpetual Care	Total
-	-	3,829
14,049	-	14,049
-	707	15,170
14,049	707	33,048
-	-	-
14,049	707	33,048
-	-	1,792
(106,340)	-	(120,803)
(106,340)	-	(119,011)
(92,291)	707	(85,963)
151,515	77,953	294,647
59,224	78,660	208,684
-	-	70,800
59,224	-	59,224
-	78,660	78,660
59,224	78,660	208,684

Statement of Cash Receipts, Disbursements and Changes in Cash Balances  
Nonmajor Proprietary Funds

As of and for the year ended June 30, 2005

	Enterprise Funds		
	<u>Sewer</u>	<u>Garbage</u>	<u>Total</u>
Operating receipts:			
Charges for service	\$ 192,471	173,428	365,899
Miscellaneous	3,749	2,229	5,978
Total operating receipts	<u>196,220</u>	<u>175,657</u>	<u>371,877</u>
Operating disbursements:			
Business type activities	<u>228,292</u>	<u>217,036</u>	<u>445,328</u>
Total operating disbursements	<u>228,292</u>	<u>217,036</u>	<u>445,328</u>
Deficiency of operating receipts under operating disbursements	<u>(32,072)</u>	<u>(41,379)</u>	<u>(73,451)</u>
Non-operating receipts:			
Interest on investments	<u>280</u>	<u>225</u>	<u>505</u>
Total non-operating receipts	<u>280</u>	<u>225</u>	<u>505</u>
Deficiency of receipts under disbursements	<u>(31,792)</u>	<u>(41,154)</u>	<u>(72,946)</u>
Other financing sources:			
Operating transfers in	<u>26,545</u>	<u>-</u>	<u>26,545</u>
Total other financing sources	<u>26,545</u>	<u>-</u>	<u>26,545</u>
Net change in cash balances	(5,247)	(41,154)	(46,401)
Cash balances beginning of year	<u>5,247</u>	<u>47,479</u>	<u>52,726</u>
Cash balances end of year	<u>\$ -</u>	<u>6,325</u>	<u>6,325</u>
<b>Cash Basis Fund Balances</b>			
Unreserved	<u>-</u>	<u>6,325</u>	<u>6,325</u>
Total cash basis fund balances	<u>\$ -</u>	<u>6,325</u>	<u>6,325</u>

See accompanying independent auditor's report.

City of Sac City, Iowa

Schedule of Indebtedness

Year ended June 30, 2005

<u>Obligation</u>	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount Originally Issued</u>
General obligation notes:			
Water note	Feb 1, 1995	5.75-6.80%	\$ 300,000
Swimming pool	May 1, 2000	4.65-5.20%	750,000
Corporate purpose	April 2, 2002	3.00-5.00%	1,195,000
 Total			

See accompanying independent auditor's report.

Schedule 3

<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>
40,000	-	40,000	-	2,720	-
495,000	-	70,000	425,000	25,010	-
<u>945,000</u>	<u>-</u>	<u>140,000</u>	<u>805,000</u>	<u>41,810</u>	<u>-</u>
<u>\$ 1,480,000</u>	<u>-</u>	<u>250,000</u>	<u>1,230,000</u>	<u>69,540</u>	<u>-</u>

## Note Maturities

June 30, 2005

Year Ending <u>June 30,</u>	General Obligation Notes				
	Corporate Purpose Issued April 2, 2002		Swimming Pool Issued May 1, 2001		<u>Total</u>
	<u>Interest Rates</u>	<u>Amount</u>	<u>Interest Rates</u>	<u>Amount</u>	
2006	4.10 %	\$ 145,000	4.95 %	\$ 75,000	\$ 220,000
2007	4.30	150,000	5.00	80,000	230,000
2008	4.50	160,000	5.05	85,000	245,000
2009	4.70	165,000	5.15	90,000	255,000
2010	4.80	60,000	5.20	95,000	155,000
2011	4.90	60,000		-	60,000
2012	5.00	65,000		-	65,000
Total		<u>\$ 805,000</u>		<u>\$ 425,000</u>	<u>\$ 1,230,000</u>

See accompanying independent auditor's report.

Schedule of Receipts By Source and Disbursements By Function -  
All Governmental Funds

For the Last Three Years

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Receipts:			
Property tax	\$ 809,303	795,773	761,249
Other city tax	36,744	44,795	36,637
Licenses and permits	8,748	6,948	6,609
Use of money and property	602	724	312
Intergovernmental	259,114	254,058	366,492
Charges for service	59,870	69,455	58,460
Special assessments	14,049	23,349	95,880
Miscellaneous	<u>30,516</u>	<u>15,493</u>	<u>160,142</u>
 Total	 <u>\$ 1,218,946</u>	 <u>1,210,595</u>	 <u>1,485,781</u>
Disbursements:			
Operating			
Public safety	\$ 295,179	272,397	417,621
Public works	263,854	268,324	579,938
Health and social services	-	-	4,066
Culture and recreation	226,173	215,432	215,440
General government	154,047	140,806	141,353
Debt service	320,740	315,860	318,238
Capital projects	<u>-</u>	<u>5,000</u>	<u>192,235</u>
 Total	 <u>\$ 1,259,993</u>	 <u>1,217,819</u>	 <u>1,868,891</u>

See accompanying independent auditor's report.

Schedule of Changes in Fiduciary Assets and Liabilities -  
Agency Fund

Year ended June 30, 2005

	<u>Balance Beginning of Year</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance End of Year</u>
<b>Assets</b>				
Cash	\$ -	47,557	47,557	-
<b>Total assets</b>	<u>\$ -</u>	<u>47,557</u>	<u>47,557</u>	<u>-</u>
<b>Liabilities</b>				
Accounts payable	\$ -	47,557	47,557	-
<b>Total liabilities</b>	<u>\$ -</u>	<u>47,557</u>	<u>47,557</u>	<u>-</u>

See accompanying independent auditor's report.

Schedule of Expenditures of Federal Awards

Year ended June 30, 2005

<u>Grantor/Program</u>	<u>CFDA Number</u>	<u>Agency Pass-through Number</u>	<u>Program Expenditures</u>
Direct:			
U.S. Department of Transportation:			
Airport Improvement Program	20.106	3-19-0080-01	\$ 232,422
Airport Improvement Program	20.106	3-19-0080-02	<u>614,416</u>
Total direct			<u>846,838</u>
Indirect:			
Department of Homeland Security:			
Iowa Department of Public Defense:			
Public Assistance	97.036	DR-1518-IA	<u>10,607</u>
Department of Housing and Urban Development:			
Iowa Department of Economic Development:			
Community Development Block Grant/ States Program	14.228	03-CF-022	<u>47,557</u>
Total indirect			<u>58,164</u>
Total			<u>\$ 905,002</u>

**Basis of Presentation** - The Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Sac City and is presented in conformity with an other comprehensive basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

See accompanying independent auditor's report.

Independent Auditor's 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

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, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Sac City, 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 November 21, 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 Sac City'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 Sac City's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part II of the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a reportable 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. However, of the reportable conditions described above, we believe item II-A-05 is a material weakness.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Sac City'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 or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters 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 Sac City and other parties to whom the City of Sac City may report including federal awarding agencies and pass-through entities. 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 Sac City 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.

Cornwell, Frideres, Maher & Associates, P.C.  
Certified Public Accountants

November 21, 2005

Independent Auditor's Report on Compliance with Requirements  
Applicable to Each Major Program and on Internal Control over Compliance  
in Accordance with OMB Circular A-133

To the Honorable Mayor and  
Members of the City Council:

Compliance

We have audited the compliance of the City of Sac City, Iowa, with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal program for the year ended June 30, 2005. City of Sac City's major federal program is identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to its major federal program is the responsibility of the City of Sac City's management. Our responsibility is to express an opinion on the City of Sac City's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards, and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Sac City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Sac City's compliance with those requirements.

In our opinion, the City of Sac City complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2005.

## Internal Control Over Compliance

The management of the City of Sac City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered the City of Sac City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted a matter involving the internal control over compliance and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the City of Sac City's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grant agreements. The reportable condition is described as item III-A-05 in the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a reportable 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 non-compliance with applicable requirements of laws, regulations, contracts and grant agreements caused by error or fraud that would be material in relation to a major federal program 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 compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item III-A-05 is a material weakness.

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 Sac City and other parties to whom the City of Sac City may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

Cornwell, Frideres, Maher & Associates, P.C.  
Certified Public Accountants

November 21, 2005

City of Sac City, Iowa

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 non-compliance which is material to the financial statements.
- (d) A reportable condition in internal control over the major program was disclosed by the audit of the financial statements, including a material weakness.
- (e) An unqualified opinion was issued on compliance with requirements applicable to the major program.
- (f) The audit disclosed no audit findings which are required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) The major program was CFDA Number 20.106 – Airport Improvement Program.
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) The City of Sac City did not qualify as a low-risk auditee.

City of Sac City, Iowa

Schedule of Findings and Questioned Costs

Year ended June 30, 2005

**Part II: Findings Related to the Financial Statements:**

**INSTANCES OF NON-COMPLIANCE:**

No matters were 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. We noticed that certain functions are not entirely segregated, such as preparing receipts and posting utility billing.

Recommendation - We realize that with four 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 feel we are doing the best we can and that no further segregation is possible without additional staff.

Conclusion - Response acknowledged.

**Part III: Findings and Questioned Costs For Federal Awards:**

**REPORTABLE CONDITION:**

**CFDA Number 20.106: Airport Improvement Program**  
**Pass-through Agency Number: 3-19-0080-01 & 3-19-0080-02**  
**Federal Award Year: 2005**  
**Department of Transportation**

III-A-05 Segregation of Duties over Federal Receipts – The City did not properly segregate collection, deposit and record-keeping for receipts, including those related to federal programs. See item II-A-05

City of Sac City, Iowa

Schedule of Findings and Questioned Costs

Year ended June 30, 2005

**Part IV: Other Findings Related to Statutory Reporting:**

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

IV-B-05 Certified Budget – Disbursements during the year ended June 30, 2005 exceeded the amounts budgeted in the capital projects function. 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.

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

Conclusion – Response accepted.

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

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 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 is reviewed annually to insure that coverage is adequate for current operations.

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

City of Sac City, Iowa

Schedule of Findings and Questioned Costs

Year ended June 30, 2005

IV-H-05 Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.

IV-I-05 Employee Benefit Fund – It was noted during the course of our audit that 100% of the revenues from the Employee Benefit Tax Levy is transferred to the General Fund to reimburse the General Fund for employee benefits.

Recommendation – The employee benefit expenditures should be expended directly from the Employee Benefit Fund. This will help the City monitor employee benefit expenses properly.

Response – We will do this effective with the fiscal 06-07 budget.

Conclusion – Response accepted.