



**OFFICE OF AUDITOR OF STATE
STATE OF IOWA**

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NEWS RELEASE

FOR RELEASE February 16, 2005

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Auditor of State David A. Vaudt today released an audit report on the City of Newhall, Iowa.

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

The City's receipts totaled \$1,129,721 for the year ended June 30, 2004. The receipts included \$122,070 in property tax, \$134,502 from tax increment financing, \$271,055 from charges for service, \$118,566 from operating grants, contributions and restricted interest, \$473,893 from bond proceeds, \$2,284 from unrestricted interest on investments and \$7,351 from other general receipts.

Disbursements for the year totaled \$1,145,511, and included \$275,527 for public works, \$89,533 for debt service and \$87,376 for culture and recreation. Also, disbursements for business type activities totaled \$591,810.

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

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CITY OF NEWHALL

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

JUNE 30, 2004

Table of Contents

		<u>Page</u>
Officials		3
Independent Auditor’s Report		5-6
Management’s Discussion and Analysis		7-12
Basic Financial Statements:	<u>Exhibit</u>	
Government-wide Financial Statement:		
Statement of Activities and Net Assets – Cash Basis	A	14-15
Governmental Fund Financial Statement:		
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	B	16-17
Proprietary Fund Financial Statement:		
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	C	18
Notes to Financial Statements		19-23
Required Supplementary Information:		
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances - Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Funds		26-27
Notes to Required Supplementary Information – Budgetary Reporting		28
Other Supplementary Information:	<u>Schedule</u>	
Statement of Cash Receipts, Disbursements and Changes in Cash Balances - Nonmajor Governmental Funds	1	31
Schedule of Indebtedness	2	32-33
Bond Maturities	3	34
Independent Auditor’s Report on Compliance and on Internal Control over Financial Reporting		35-36
Schedule of Findings		37-41
Staff		42

City of Newhall

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January 2004)		
Patrick C. Butz	Mayor	Jan 2004
Otis Sebastian	Mayor Pro tem	Jan 2004
Jan Mattson	Council Member	Jan 2004
Michael Hagen	Council Member	Jan 2004
Curtiss Becker	Council Member	Jan 2004
Mike Corpman	Council Member	Jan 2004
(After January 2004)		
Patrick C. Butz	Mayor	Jan 2006
Michael Hagen	Mayor Pro tem	Jan 2006
Jan Mattson	Council Member	Jan 2006
Ruby Carolan	Council Member	Jan 2006
Curtiss Becker	Council Member	Jan 2006
Patricia Ingalls	Council Member	Jan 2006
Janice Lawrence	Clerk/Treasurer	Jan 2006
Larry D. Schlue	Attorney	Indefinite

City of Newhall



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Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Newhall, Iowa, as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Newhall's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2003, as discussed in the proceeding paragraph, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Newhall as of June 30, 2004, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

As described in Note 10, during the year ended June 30, 2004, the City adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences.

In accordance with Government Auditing Standards, we have also issued our report dated October 18, 2004 on our consideration of the City of Newhall's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 12 and 26 through 28 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Newhall's basic financial statements. Other supplementary information included in Schedules 1 through 3 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2003, as discussed in the third paragraph, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.


DAVID A. VAUDT, CPA
Auditor of State


WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

October 18, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Newhall provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2004. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

Because the City is implementing new reporting standards for this fiscal year with significant changes in content and structure, much of the information is not easily comparable to prior years. However, in future years, comparisons will be more meaningful and will go further in explaining the City's financial position and results of operations.

2004 FINANCIAL HIGHLIGHTS

- The cash basis net assets for the City's governmental funds decreased due to an increase in major street and storm water improvement project disbursements.
- The cash basis net assets for the City's business type activities increased due to the issuance of bonds to finance water improvements and a decrease in general water and sewer maintenance disbursements.

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 and proprietary funds.

BASIS OF ACCOUNTING

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

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

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

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

- Governmental Activities include public safety, public works, 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 and the sanitary sewer system. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Urban Renewal Tax Increment, and 3) the Debt Service Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

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

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The City's cash balance for governmental activities decreased \$88,513 from a year ago, from \$346,990 to \$258,477. The analysis that follows focuses on the changes in cash balances for governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities	
	Year ended June 30, 2004
Receipts:	
Program receipts:	
Charges for service	\$ 80,415
Operating grants, contributions and restricted interest	118,566
General receipts:	
Property tax	256,572
Unrestricted interest on investments	2,284
Other general receipts	7,351
Total receipts	<u>465,188</u>
Disbursements:	
Public safety	47,970
Public works	275,527
Culture and recreation	87,376
Community and economic development	1,210
General government	52,085
Debt service	89,533
Total disbursements	<u>553,701</u>
Decrease in cash basis net assets	(88,513)
Cash basis net assets beginning of year	<u>346,990</u>
Cash basis net assets end of year	<u>\$ 258,477</u>

The cash basis net assets for the City's governmental funds decreased due to an increase in major street and storm water improvement project disbursements.

Changes in Cash Basis Net Assets of Business Type Activities	
	Year ended June 30, 2004
Receipts:	
Program receipts:	
Charges for service:	
Water	\$ 121,205
Sewer	69,435
General receipts:	
General obligation water improvement bond proceeds	376,116
Water revenue bond proceeds	97,777
Total receipts	<u>664,533</u>
Disbursements:	
Water	554,234
Sewer	37,576
Total disbursements	<u>591,810</u>
Increase in cash basis net assets	72,723
Cash basis net assets beginning of year	<u>193,001</u>
Cash basis net assets end of year	<u>\$ 265,724</u>

The City's cash balance for business type activities increased \$72,723 from \$193,001 to \$265,724. The increase was due primarily to the issuance of bonds to finance water improvements and to a decrease in general water and sewer maintenance disbursements.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As Newhall completed the year, its governmental funds reported a combined fund balance of \$258,477, a decrease of more than \$88,000 from last year's total of \$346,990. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance decreased \$25,366 from the prior year to \$67,905. The major reason for this decrease was due to storm water improvement costs.
- The Road Use Tax Fund cash balance decreased by \$48,784 to \$55,891 during the fiscal year. Very little street maintenance was done in the previous fiscal year due to water main improvements. The City expended a larger sum in fiscal 2004 for street repairs after water main improvements were completed.
- The Urban Renewal Tax Increment Fund was established in 1993. At the end of fiscal 2004, the cash balance was \$112,457, a decrease of \$9,639 from the previous year. Generally, receipts were expended for developer rebate agreements and general obligation water improvement bond principal and interest payments, with a small build-up of reserves to pay off the general obligation bond on its call date.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance increased by \$40,684 to \$177,005, due primarily to very little maintenance expense in fiscal year 2004.
- The Sewer Fund cash balance increased by \$31,859 to \$88,719, due primarily to very little maintenance expense in fiscal year 2004.

BUDGETARY HIGHLIGHTS

In accordance with the Code of Iowa, the City of Newhall annually adopts a budget following required public notice and hearing for all funds. This is referred to as the certified budget. The certified budget may be amended during the year utilizing similar statutorily prescribed procedures. The City’s certified budget is prepared on the cash basis. The City of Newhall did not amend its certified budget in fiscal year 2004.

The budget was exceeded due to expenses made by the Newhall Recreation Board which has not been integrated into the City’s accounting system. The City is considering the methods needed to integrate, which will eliminate future unknown expenses by the Recreation Board.

DEBT ADMINISTRATION

At June 30, 2004, the City had \$573,047 in bonds outstanding compared to \$178,154 last year, as shown below.

Outstanding Debt at Year-End	
	June 30, 2004
General obligation bonds	\$ 470,000
Revenue bonds	103,047
Total	<u>\$ 573,047</u>

Debt increased as a result of issuing general obligation and revenue bonds for a water improvement project.

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City’s corporate limits. The City’s outstanding general obligation debt of \$470,000 is significantly below its constitutional debt limit of approximately \$1,700,000.

ECONOMIC FACTORS AND NEXT YEAR’S BUDGETS AND RATES

Newhall’s elected and appointed officials and citizens considered many factors, such as the economy, inflation and City needs when setting the fiscal year 2005 budget, tax rates and fees that will be charged for various City activities.

Amounts available for appropriation in the operating budget for fiscal year 2005 are \$1.6 million, an increase of 15% over the final 2004 budget. Proceeds from the water revenue bond are expected to lead this increase. The City will use this increase to continue water system improvements. Budgeted disbursements are expected to generally stay the same as fiscal year 2004.

If these estimates are realized, the City’s budgeted cash balance is expected to increase by approximately \$200,000 by the close of 2005.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Janice Lawrence, City Clerk, 220 First Street E., Newhall, Iowa.

Basic Financial Statements

City of Newhall

Statement of Activities and Net Assets – Cash Basis

As of and for the year ended June 30, 2004

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	
Functions / Programs:				
Governmental activities:				
Public safety	\$ 47,970	2,469	27,577	-
Public works	275,527	68,442	75,364	-
Culture and recreation	87,376	8,087	15,625	-
Community and economic development	1,210	-	-	-
General government	52,085	1,417	-	-
Debt service	89,533	-	-	-
Total governmental activities	553,701	80,415	118,566	-
Business type activities:				
Water	554,234	121,205	-	-
Sewer	37,576	69,435	-	-
Total business type activities	591,810	190,640	-	-
Total	\$ 1,145,511	271,055	118,566	-
General Receipts:				
Property and other city tax levied for:				
General purposes				
Tax increment financing				
Debt service				
Unrestricted interest on investments				
General obligation water improvement bond proceeds				
Water revenue bond proceeds				
Miscellaneous				
Total general receipts				
Change in cash basis net assets				
Cash basis net assets beginning of year				
Cash basis net assets end of year				
Cash Basis Net Assets				
Restricted:				
Streets				
Urban renewal purposes				
Unrestricted				
Total cash basis net assets				

See notes to financial statements.

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
Governmental Activities	Business Type Activities	Total
(17,924)	-	(17,924)
(131,721)	-	(131,721)
(63,664)	-	(63,664)
(1,210)	-	(1,210)
(50,668)	-	(50,668)
(89,533)	-	(89,533)
(354,720)	-	(354,720)
-	(433,029)	(433,029)
-	31,859	31,859
-	(401,170)	(401,170)
(354,720)	(401,170)	(755,890)
121,768	-	121,768
134,502	-	134,502
302	-	302
2,284	-	2,284
-	376,116	376,116
-	97,777	97,777
7,351	-	7,351
266,207	473,893	740,100
(88,513)	72,723	(15,790)
346,990	193,001	539,991
\$ 258,477	265,724	524,201
\$ 55,891	-	55,891
112,457	-	112,457
90,129	265,724	355,853
\$ 258,477	265,724	524,201

City of Newhall

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

As of and for the year ended June 30, 2004

	<u>General</u>
Receipts:	
Property tax	\$ 117,501
Tax increment financing	-
Other city tax	8,897
Licenses and permits	3,508
Use of money and property	2,784
Intergovernmental	18,188
Charges for service	67,859
Special assessments	161
Miscellaneous	9,148
Total receipts	<u>228,046</u>
Disbursements:	
Operating:	
Public safety	30,223
Public works	98,341
Culture and recreation	63,754
Community and economic development	1,210
General government	52,085
Debt service	-
Total disbursements	<u>245,613</u>
Excess (deficiency) of receipts over (under) disbursements	<u>(17,567)</u>
Other financing sources (uses):	
Sale of capital assets	2,560
Operating transfers in	-
Operating transfers out	(10,359)
Total other financing sources (uses)	<u>(7,799)</u>
Net change in cash balances	(25,366)
Cash balances beginning of year	<u>93,271</u>
Cash balances end of year	<u>\$ 67,905</u>
Cash Basis Fund Balances	
Unreserved:	
General fund	\$ 67,905
Special revenue funds	-
Total cash basis fund balances	<u>\$ 67,905</u>

See notes to financial statements.

Special Revenue					
Road Use Tax	Urban Renewal Tax Increment	Debt Service	Nonmajor Governmental Funds		Total
-	-	302	-		117,803
-	134,502	-	-		134,502
-	-	-	-		8,897
-	-	-	19		3,527
-	-	-	1,508		4,292
73,793	-	-	-		91,981
-	-	-	-		67,859
-	-	-	-		161
-	-	-	24,458		33,606
73,793	134,502	302	25,985		462,628
-	-	-	17,747		47,970
122,577	54,609	-	-		275,527
-	-	-	23,622		87,376
-	-	-	-		1,210
-	-	-	-		52,085
-	-	89,533	-		89,533
122,577	54,609	89,533	41,369		553,701
(48,784)	79,893	(89,231)	(15,384)		(91,073)
-	-	-	-		2,560
-	-	91,355	8,536		99,891
-	(89,532)	-	-		(99,891)
-	(89,532)	91,355	8,536		2,560
(48,784)	(9,639)	2,124	(6,848)		(88,513)
104,675	122,096	(2,124)	29,072		346,990
55,891	112,457	-	22,224		258,477
-	-	-	-		67,905
55,891	112,457	-	22,224		190,572
55,891	112,457	-	22,224		258,477

City of Newhall

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

As of and for the year ended June 30, 2004

	Enterprise Funds		
	Water	Sewer	Total
Operating receipts:			
Charges for service	\$ 105,929	69,435	175,364
Miscellaneous	15,276	-	15,276
Total operating receipts	121,205	69,435	190,640
Operating disbursements:			
Business type activities	71,905	37,576	109,481
Excess (deficiency) of operating receipts over (under) operating disbursements	49,300	31,859	81,159
Non-operating receipts (disbursements):			
Water storage and line improvements	(482,329)	-	(482,329)
General obligation water improvement bond proceeds	376,116	-	376,116
Water revenue bond proceeds	97,777	-	97,777
Total non-operating receipts (disbursements)	(8,436)	-	(8,436)
Net change in cash balances	40,864	31,859	72,723
Cash balances beginning of year	136,141	56,860	193,001
Cash balances end of year	\$ 177,005	88,719	265,724
Cash Basis Fund Balances			
Reserved for water deposits	\$ 12,378	-	12,378
Unreserved	164,627	88,719	253,346
Total cash basis fund balances	\$ 177,005	88,719	265,724

See notes to financial statements.

City of Newhall

Notes to Financial Statements

June 30, 2004

(1) Summary of Significant Accounting Policies

The City of Newhall is a political subdivision of the State of Iowa located in Benton County. It was first incorporated in 1882 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 and sewer utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Newhall 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. The City has no component units which meet the Governmental Accounting Standards Board criteria.

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: Benton County Assessor's Conference Board, Benton County Emergency Management Commission and Benton County Joint E911 Service Board.

B. Basis of Presentation

Government-wide Financial Statement - 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 service.

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

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

Unrestricted net assets consist of net assets not meeting 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 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 not paid from other funds.

Special Revenue:

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

The Urban Renewal Tax Increment Fund is used to account for urban renewal 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 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 Sewer Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

C. Measurement Focus and Basis of Accounting

The City of Newhall 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, 2004, disbursements exceeded the amount budgeted in the culture and recreation function.

(2) Cash and Pooled Investments

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

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

The City had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3.

(3) Bonds and Notes Payable

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

Year Ending June 30,	Principal	Interest	Total
2005	\$ 30,000	14,100	44,100
2006	31,000	13,200	44,200
2007	32,000	12,270	44,270
2008	33,000	11,310	44,310
2009	34,000	10,320	44,320
2010 - 2014	185,000	35,700	220,700
2015 - 2019	125,000	7,590	132,590
Total	\$ 470,000	104,490	574,490

During the year ended June 30, 2004, the City retired \$79,000 of bonds and notes.

On December 1, 2001, the City entered into an agreement with the Iowa Finance Authority, the Iowa Department of Natural Resources and Wells Fargo Bank Iowa, N.A. for the issuance of \$527,000 of water revenue bonds with interest at 3.0% per annum. The bonds were issued pursuant to the provisions of Chapter 384.24A of the Code of Iowa to pay the cost of constructing improvements and extensions to the City's water system. The City will draw down funds from the Trustee upon request to reimburse the City for costs as they are incurred. At June 30, 2004, the City had drawn \$103,047, including a \$5,270 initiation fee, of the \$527,000 authorized. Wells Fargo Bank Iowa, N.A. has the remaining balance of \$423,953 held in trust, which the City will request as the project progresses. A formal repayment schedule has not yet been adopted. However, the City has paid \$648 in interest on the bonds.

The resolution providing for the issuance of the water revenue bonds includes the following provisions:

- (a) The bonds will only be redeemed from the future earnings of the enterprise activity and the bond holders hold a lien on the future earnings of the fund.
- (b) Sufficient monthly transfers shall be made to a water revenue bond sinking account for the purpose of making principal and interest payments when due.

(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. Contribution requirements are established by state statute. The City's contribution to IPERS for the year ended June 30, 2004 was \$4,494, equal to the required contribution for the year.

(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. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation termination payments payable to employees at June 30, 2004, primarily relating to the General Fund, totaled \$2,600. This liability has been computed based on rates of pay in effect at June 30, 2004.

(6) Development Agreement

The City has entered into a development agreement to assist in an urban renewal project. The City agreed to rebate 65.87% of the incremental tax paid by a developer in exchange for street improvements made by the developer. The incremental taxes to be received by the City under Chapter 403.19 of the Code of Iowa from the developer will be rebated for a period of ten years, beginning December 1, 2003. The total to be paid by the City under these agreements is not to exceed \$192,000.

During the year ended June 30, 2004, the City rebated \$54,609 of incremental tax under these agreements. The maximum remaining balance at June 30, 2004 was \$137,391.

(7) Interfund Transfers

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

Transfer to	Transfer from	Amount
Special Revenue:		
Newhall Volunteer Fire Department	General	\$ 8,536
Debt Service	General	1,822
	Special Revenue:	
	Urban Renewal Tax	
Debt Service	Increment	89,533
Enterprise:		
Water Revenue	Enterprise:	
Bond Sinking	Water	569
		\$ 100,460
Total		

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

(8) Risk Management

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

(9) Construction Contracts

The City entered into construction contracts totaling \$625,916 for a water storage tank and water main improvements. At June 30, 2004, \$65,459 remains unpaid on the projects. Payments will be made with Iowa Department of Natural Resources State Revolving Loan Funds as work on the projects progresses.

(10) Accounting Change

Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures, and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences, were implemented for the year ended June 30, 2004. The statements create new basic financial statements for reporting the City’s financial activities. The financial statements now include a government-wide financial statement and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

City of Newhall

Required Supplementary Information

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

Required Supplementary Information

Year ended June 30, 2004

	Governmental Funds Actual	Proprietary Funds Actual
Receipts:		
Property tax	\$ 117,803	-
Tax increment financing	134,502	-
Other city tax	8,897	-
Licenses and permits	3,508	-
Use of money and property	2,803	-
Intergovernmental	93,489	-
Charges for service	67,859	175,364
Special assessments	161	-
Miscellaneous	33,606	15,276
Total receipts	462,628	190,640
Disbursements:		
Public safety	47,970	-
Public works	275,527	-
Culture and recreation	87,376	-
Community and economic development	1,210	-
General government	52,085	-
Debt service	89,533	-
Business type activities	-	591,810
Total disbursements	553,701	591,810
Deficiency of receipts under disbursements	(91,073)	(401,170)
Other financing sources, net	2,560	473,893
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(88,513)	72,723
Balances beginning of year	346,990	193,001
Balances end of year	\$ 258,477	265,724

See accompanying independent auditor's report.

Total Actual	Budgeted Amount Final	Final to Actual Variance
117,803	117,154	649
134,502	131,596	2,906
8,897	5,465	3,432
3,508	2,150	1,358
2,803	1,000	1,803
93,489	108,450	(14,961)
243,223	779,681	(536,458)
161	-	161
48,882	13,950	34,932
<u>653,268</u>	<u>1,159,446</u>	<u>(506,178)</u>
47,970	54,200	6,230
275,527	294,890	19,363
87,376	73,245	(14,131)
1,210	6,000	4,790
52,085	62,000	9,915
89,533	106,000	16,467
591,810	696,000	104,190
<u>1,145,511</u>	<u>1,292,335</u>	<u>146,824</u>
(492,243)	(132,889)	(359,354)
<u>476,453</u>	<u>-</u>	<u>476,453</u>
(15,790)	(132,889)	117,099
<u>539,991</u>	<u>276,278</u>	<u>263,713</u>
<u>524,201</u>	<u>143,389</u>	<u>380,812</u>

City of Newhall

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2004

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

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

During the year ended June 30, 2004, disbursements exceeded the amount budgeted in the culture and recreation function.

Other Supplementary Information

City of Newhall

City of Newhall

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

As of and for the year ended June 30, 2004

	Special Revenue		
	Newhall		
	Volunteer Fire Department	Recreation Board	Total
Receipts:			
Use of money and property	\$ -	19	19
Intergovernmental	1,508	-	1,508
Miscellaneous	9,682	14,776	24,458
Total receipts	<u>11,190</u>	<u>14,795</u>	<u>25,985</u>
Disbursements:			
Operating:			
Public safety	17,747	-	17,747
Culture and recreation	-	23,622	23,622
Total disbursements	<u>17,747</u>	<u>23,622</u>	<u>41,369</u>
Deficiency of receipts under disbursements	(6,557)	(8,827)	(15,384)
Other financing sources:			
Operating transfers in	<u>8,536</u>	-	<u>8,536</u>
Net change in cash balances	1,979	(8,827)	(6,848)
Cash balances beginning of year	<u>11,479</u>	<u>17,593</u>	<u>29,072</u>
Cash balances end of year	<u>\$ 13,458</u>	<u>8,766</u>	<u>22,224</u>
Cash Basis Fund Balances			
Unreserved:			
Special revenue funds	<u>\$ 13,458</u>	<u>8,766</u>	<u>22,224</u>

See accompanying independent auditor's report.

City of Newhall
Schedule of Indebtedness
Year ended June 30, 2004

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation bonds: Water improvement	Dec 1, 2001	3.00%	\$ 527,000
General obligation notes: Street improvement	Oct 1, 1996	5.35-5.55%	\$ 145,000
Revenue bonds: Water	Dec 1, 2001	3.00%	\$ 527,000

See accompanying independent auditor's report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
122,884	376,116	29,000	470,000	9,168
50,000	-	50,000	-	1,365
5,270	97,777	-	103,047	648

Schedule 3

City of Newhall
Bond Maturities
June 30, 2004

Year Ending June 30,	General Obligation Bonds	
	Water Improvement	
	Issued Dec 1, 2001	
	Interest Rates	Amount
2005	3.70%	\$ 30,000
2006	3.00	31,000
2007	3.00	32,000
2008	3.00	33,000
2009	3.00	34,000
2010	3.00	35,000
2011	3.00	36,000
2012	3.00	37,000
2013	3.00	38,000
2014	3.00	39,000
2015	3.00	40,000
2016	3.00	42,000
2017	3.00	43,000
Total		<u>\$ 470,000</u>

See accompanying independent auditor's report.



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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Auditor of State

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Independent Auditor's Report on Compliance
and on Internal Control over Financial Reporting

To the Honorable Mayor and
Members of the City Council:

We have audited the financial statements of the City of Newhall, Iowa, as of and for the year ended June 30, 2004, and have issued our report thereon dated October 18, 2004. Our report on the financial statements, which were prepared in conformity with an other comprehensive basis of accounting, expressed qualified opinions since we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2003.

Except as noted in the Independent Auditor's Report, we conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

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

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior audit statutory comments have been resolved.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Newhall's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of Newhall's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item (A) is a material weakness. Prior audit reportable conditions have been resolved except for items (A), (B) and (C).

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


DAVID A. VAUDT, CPA
Auditor of State


WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

October 18, 2004

City of Newhall
Schedule of Findings
Year ended June 30, 2004

Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

(A) Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. One person had control over each of the following areas for the City:

- 1) Cash – reconciling bank accounts, initiating cash receipts and disbursement transactions and handling and recording cash.
- 2) Investments – detailed record keeping, custody of investments and reconciling.
- 3) Long term debt – recording and reconciling.
- 4) Receipts – collecting, depositing, journalizing and posting.
- 5) Utility receipts – billing, collection, depositing, posting and reconciling.
- 6) Disbursements – purchasing, check signing, recording and reconciling.
- 7) Payroll – preparing and distributing.
- 8) Information system (computer usage) – performing all general accounting functions and controlling all data input and output.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available personnel.

Response – The City will look into possible solutions and changes are being made.

Conclusion – Response accepted.

(B) Receipts – Although the City issues prenumbered receipts, receipts were not issued for all collections.

Recommendation – Prenumbered receipts should be issued for all monies collected.

City of Newhall

Schedule of Findings

Year ended June 30, 2004

Response – Receipts had been issued for any collection that was not an electronic deposit or did not have a computerized report generated for it. The City will issue receipts for all collections in the future.

Conclusion – Response accepted.

- (C) Disbursements – City checks for disbursements only require the City Clerk's signature.

Recommendation – Each check should be prepared and signed by one person and then the supporting documents should be made available along with the check to the second or independent person for review and countersignature.

Response – The City will look into possible solutions.

Conclusion – Response accepted.

- (D) Records of Accounts – The Newhall Volunteer Fire Department and the Newhall Recreation Board maintain separate accounting records for their operations. These transactions and resulting balances are not included in the City's accounting records.

Recommendation – Chapter 384.20 of the Code of Iowa states in part that a City shall keep accounts which show an accurate and detailed statement of all public funds collected, received, or expended for any City purpose. For better accountability, financial and budgetary control, the financial activity and balances of all City accounts should be included in the city's accounting records and reported to the Council on a monthly basis.

If these accounts are not included in the City's accounting records, the Volunteer Fire Department and Recreation Board should ensure duties are segregated to the extent possible and receipt and disbursement journals are established and maintained, along with subsidiary ledgers to categorize receipts and disbursements. Also, prenumbered receipts should be issued and accounted for in numerical sequence, monthly financial reports should be prepared, monthly bank to book reconciliations should be done and checks should be prepared and signed by one individual and invoices and support provided to a second individual for review and countersignature on the check.

Response – The City is considering its options regarding creating separate non-profit organizations for the fire department and recreation board. The City is also looking into methods for integrating these accounts with the City's accounting records.

Conclusion – Response accepted.

City of Newhall

Schedule of Findings

Year ended June 30, 2004

(E) Computer Controls – The City does not have written policies and procedures for:

- Restricting personal use of computer equipment and software.
- Requiring the logging off of unattended computer terminals.
- Regarding the installation of copyrighted software.
- Regulating the use of the internet.
- A disaster recovery plan.

Recommendation – The City should develop written policies addressing the above items in order to improve the City’s control over computer-based systems.

Response - The City is in the process of developing a computer/internet policy as well as a disaster recovery plan.

Conclusion – Response accepted.

(F) Utility Billings – Utility customers read their own water meters and report readings to the City for billing. The City does not periodically read the customer water meters for verification. Chapter 92 of the City ordinance book in Section 92.04(1) states the Superintendent shall periodically obtain current readings on all water meters.

Recommendation – The City should read customer water meters at least annually to verify the readings are accurate and billings are correct.

Response – The City is considering budgeting for outside meter or automatic data collection devices to be installed over the next several years. In the meantime, efforts will be made to have the meters periodically read by available staff.

Conclusion – Response accepted.

City of Newhall

Schedule of Findings

Year ended June 30, 2004

Other Findings Related to Statutory Reporting:

- (1) Official Depositories – A resolution naming official depositories has been approved by the City. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2004.
- (2) Certified Budget – Disbursements during the year ended June 30, 2004 exceeded the amount budgeted in the culture and recreation 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 accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – The budget was exceeded due to expenses made by the Newhall Recreation Board which has not been integrated into the City’s accounting system. The City is considering the methods needed to integrate, which will eliminate future unknown expenses by the Recreation Board.

Conclusion – Response accepted.

- (3) Questionable Disbursements – No disbursements that we believe may not meet the requirements of a public purpose as defined in an Attorney General’s opinion dated April 25, 1979 were noted.
- (4) Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- (5) Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

Name, Title, and Business Connection	Transaction Description	Amount
Curtiss Becker, Council Member, owner of Furier Oil, Inc.	Fuel	\$ 645
Gerald Gessner, Superintendent of Public Works, owner of Gessner’s Auto Service	Phone reimbursement, supplies and parts	1,687

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

- (6) Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure the coverage is adequate for current operations.

City of Newhall

Schedule of Findings

Year ended June 30, 2004

- (7) Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.
- (8) Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City's investment policy were noted.
- (9) Revenue Bond – No instances of non-compliance with the provisions of the water revenue bond indenture were noted.
- (10) Capital Projects Fund – The City accounted for water main improvements and water storage projects in the Enterprise, Water Fund.

Recommendation – Separate capital projects funds should be established to account for all project costs and financing sources.

Response – Any future capital projects will have a separate project fund established.

Conclusion – Response accepted.

City of Newhall

Staff

This audit was performed by:

Steven M. Nottger, CPA, Manager
John G. Vanis, CGFM, Senior Auditor
Daniel L. Grady, Assistant Auditor

A handwritten signature in black ink that reads "Andrew E. Nielsen". The signature is written in a cursive style with a large initial 'A' and 'N'.

Andrew E. Nielsen, CPA
Deputy Auditor of State