



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE _____ March 23, 2005

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515/281-5834

Auditor of State David A. Vaudt today released an audit report on the City of Atlantic, 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 \$10,153,566 for the year ended June 30, 2004. The receipts included \$2,387,875 in property tax, \$177,535 from tax increment financing, \$835,462 from charges for service, \$1,085,433 from operating grants, contributions and restricted interest, \$1,836,780 from capital grants, contributions and restricted interest, \$616,797 from local option sales tax, \$14,749 from unrestricted interest on investments, \$3,020,923 from bond, note and loan proceeds and \$178,012 from other general receipts.

Disbursements for the year totaled \$10,493,039, and included \$3,574,090 for capital projects, \$2,042,651 for debt service and \$1,212,067 for public safety. Also, disbursements for business type activities totaled \$524,110.

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 ATLANTIC

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

JUNE 30, 2004

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City of Atlantic

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January 2004)		
John Krogman	Mayor	Jan 2006
David Jones	Council Member	Jan 2004
Mark Knudsen	Council Member	Jan 2004
Kern Miller	Council Member	Jan 2004
John O'Brien	Council Member	Resigned
Shirley Warne	Council Member	Resigned
John Rueb	Council Member	Jan 2006
Mike Waters	Council Member	Jan 2006
(After January 2004)		
John Krogman	Mayor	Jan 2006
Dave Wheatley	Council Member	Jan 2006
John Rueb	Council Member	Jan 2006
Mike Waters	Council Member	Jan 2006
Dave Dunfee	Council Member	Jan 2008
David Jones	Council Member	Jan 2008
Kern Miller	Council Member	Jan 2008
Pat Simmons	Council Member	Jan 2008
Ron Crisp	Administrator	Indefinite
Debbie L. Wheatley Field	Clerk	Jan 2006
Sue Muri	Treasurer	Jan 2006
James C. VanGinkel	Attorney	Jan 2006

City of Atlantic



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Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying primary government financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Atlantic, 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 Atlantic'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.

The financial statements referred to above include only the primary government of the City of Atlantic, which consists of all funds, organizations, institutions, agencies, departments and offices that comprise the City's legal entity. The financial statements do not include financial data for the City's legally separate component unit, which U.S. generally accepted accounting principles require to be reported with the financial data of the City's primary government. As a result, the primary government financial statements do not purport to, and do not, present fairly the cash basis financial position of the reporting entity of the City of Atlantic as of June 30, 2004, and the changes in its cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information for the primary government of the City of Atlantic 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 14, 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 reports dated February 1, 2005 on our consideration of the City of Atlantic’s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. Those reports are 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 13 and 36 through 38 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 basic financial statements for the primary government of the City of Atlantic. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2003 (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 6, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, 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.


DAVID A. VAUDT, CPA
Auditor of State


WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

February 1, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Atlantic 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

- Receipts of the City's governmental funds increased 18%, or approximately \$1,447,000, from fiscal year 2003 to fiscal year 2004. Property tax, intergovernmental and miscellaneous decreased approximately \$12,000, \$450,000 and \$830,000, respectively, and bond proceeds increased \$2,670,000.
- Disbursements and other financing uses of the City's governmental funds increased 17%, or approximately \$1,421,000, in fiscal year 2004 from fiscal year 2003. Debt service and public works increased approximately \$924,000 and \$183,000, respectively, and capital projects decreased approximately \$724,000. The City also refunded \$1,050,000 of debt during the year.
- The City's total cash basis net assets decreased 8%, or approximately \$339,000, from June 30, 2003 to June 30, 2004. Of this amount, the assets of the governmental activities decreased approximately \$305,000 and the assets of the business type activities decreased by approximately \$34,000.

USING THIS ANNUAL REPORT

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

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

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

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

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

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. In addition, the Schedule of Expenditures of Federal Awards provides details of various federal programs benefiting the City.

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 storm water 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 Local Option Sales Tax, 3) the Debt Service Fund and 4) the Capital Projects 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 and for the Internal Service Funds. Enterprise Funds are used to report business type activities. The City maintains two Enterprise Funds to provide separate information for the storm water and sewer funds, considered 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 statement for proprietary funds is a statement of cash receipts, disbursements and changes in cash balances.

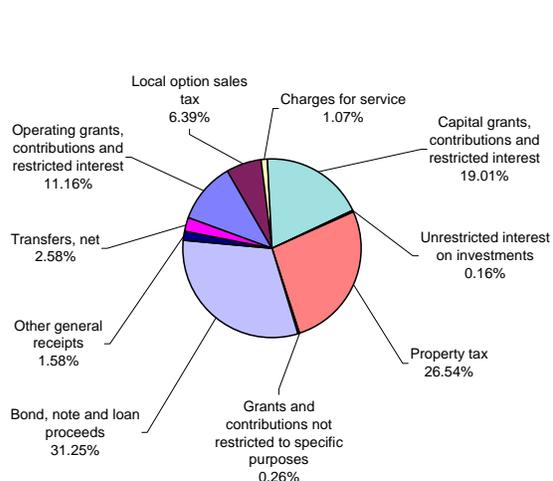
Reconciliations between the government-wide statement and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

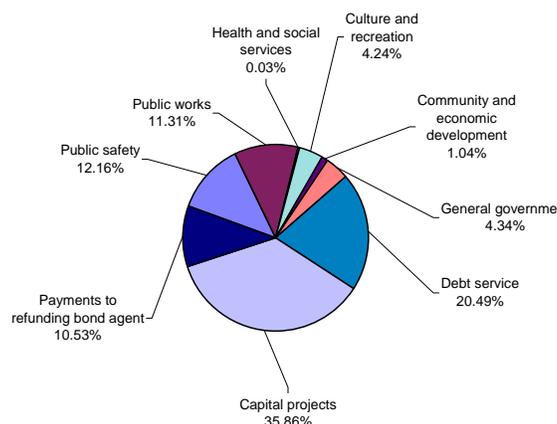
Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased from a year ago, decreasing from \$3.5 million to \$3.2 million. The analysis that follows focuses on the changes in cash balances for governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities (Expressed in Thousands)	
	Year ended June 30, 2004
Receipts and transfers:	
Program receipts:	
Charges for service	\$ 103
Operating grants, contributions and restricted interest	1,078
Capital grants, contributions and restricted interest	1,837
General receipts:	
Property tax	2,565
Local option sales tax	617
Grants and contributions not restricted to specific purposes	25
Unrestricted interest on investments	15
Bond, note and loan proceeds	3,021
Other general receipts	153
Transfers, net	249
Total receipts and transfers	<u>9,663</u>
Disbursements:	
Public safety	1,212
Public works	1,127
Health and social services	3
Culture and recreation	423
Community and economic development	104
General government	433
Debt service	2,042
Capital projects	3,574
Payments to refunding bond agent	1,050
Total disbursements	<u>9,968</u>
Decrease in cash basis net assets	(305)
Cash basis net assets beginning of year	<u>3,551</u>
Cash basis net assets end of year	<u>\$ 3,246</u>

Receipts by Source



Disbursements by Function



The City's total receipts for governmental funds increased by 18%, or \$1,447,000. The total cost of all programs and services increased by approximately \$1,421,000, or 17%, with no new programs added this year. The significant increase in receipts was primarily the result of proceeds received from the issuance of general obligation notes.

The City decreased property tax rates for 2004 by an average of 1.7 percent. This decrease, in conjunction with an increase in assessed valuation, raised the City's property tax levied by approximately \$19,000 in 2004. Based on decreases in the total assessed valuation and increases in the property tax rates for 2005, property tax receipts are budgeted to increase by an additional \$28,000 next year.

The cost of all governmental activities this year was \$8.9 million compared to \$8.5 million last year. However, as shown in the Statement of Activities and Net Assets on pages 16-17, the amount taxpayers ultimately financed for these activities was only \$5.9 million because some of the cost was paid by those directly benefited from the programs (\$103,000) or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest (\$2,915,000). The City paid for the remaining "public benefit" portion of governmental funds with approximately \$6,600,000 in tax (some of which could only be used for certain programs) and other receipts, such as interest, general entitlements and bond, note and loan proceeds.

Changes in Cash Basis Net Assets of Business Type Activities (Expressed in Thousands)	
	Year ended June 30, 2004
Receipts:	
Program receipts:	
Charges for service:	
Storm water	\$ 175
Sewer	558
Operating grants, contributions and restricted interest	7
Total receipts	<u>740</u>
Disbursements and transfers:	
Storm water	12
Sewer	512
Transfers	249
Total disbursements and transfers	<u>773</u>
Decrease in cash basis net assets	(33)
Cash basis net assets beginning of year	<u>586</u>
Cash basis net assets end of year	<u>\$ 553</u>

Total business type activities receipts for the fiscal year were approximately \$740,000 compared to approximately \$650,000 last year. This significant increase was due primarily to the receipt of an additional \$93,000 in storm water collections in 2004. The cash balance decreased by approximately \$33,000 from the prior year because surplus sewer funds were used to purchase a jet rodder. Total disbursements and transfers for the fiscal year increased by 12% to approximately \$773,000.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Atlantic completed the year, its governmental funds reported a combined fund balance of \$3,200,239, a decrease of approximately \$301,000 below last year's total of \$3,500,851. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance increased by \$5,140 to \$971,502. Total receipts decreased 2.7% and total disbursements increased 4%. Transfers from other funds increased approximately \$90,000, resulting in an insignificant increase in the year end fund balance.
- The Road Use Tax Fund cash balance increased by \$12,991 to \$768,445 during the fiscal year. This increase was attributable to approximately \$41,000 from charges for service and miscellaneous refunds received this fiscal year. The City intends to use this money to continue funding the street department operations, street maintenance programs and replacement of equipment.
- The Local Option Sales Tax Fund was established to account for special sales taxes collected. At the end of the fiscal year, the cash balance was \$531,367, a decrease of \$2,265 from the previous year. The decrease was the result of sales tax collections staying constant, a decrease in projects and contributions and an increase in transfers out to other funds.

- The Debt Service Fund cash balance decreased by \$142,144 to a deficit of \$77,302 during the fiscal year. This decrease was due to a decrease in property tax and all other receipts. The City called several bond issues and sold refunding bonds during the year. Some of the debt payments were not included in the property tax levy this year but will be made up in subsequent fiscal years.
- The Capital Projects Fund cash balance decreased by \$228,009 to \$486,051 during the fiscal year. The decrease was due to grants, donations and bond and note proceeds accumulated in prior years and used in the current year for large projects, such as the recreation center and airport improvements.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Storm Water Fund was established in the previous fiscal year to accumulate funds to be used for storm water management and flood protection. At the end of the fiscal year, the cash balance increased by \$166,493 to \$213,005, due primarily to the completion of the first full year of operations. Disbursements decreased by \$23,295 due primarily to operating costs, such as payroll, not charged to the fund in the current year.
- The Sewer Fund cash balance decreased by \$199,880 to \$335,761, due primarily to the purchase of a jet rodder machine for \$123,500 and an increase in transfers to other funds for administrative costs and capital projects.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget once. The amendment was approved on May 19, 2004 and resulted in an increase of \$1,962,500 in operating disbursements related to the purchase of additional equipment, calling outstanding bonds, increased fees, vandalism and the inclusion of fire department expenses. The City received insurance settlements, sold bonds and had sufficient cash balances to absorb these additional costs.

DEBT ADMINISTRATION

At June 30, 2004, the City had \$7,140,000 in bonds and other long-term debt, compared to \$6,920,000 last year, as shown below.

Outstanding Debt at Year-End	
	June 30, 2004
General obligation notes	\$3,840,000
Tax increment financing (TIF) revenue bonds	520,000
Revenue bonds and notes	1,965,000
Special assessment notes	15,000
General obligation project anticipation note	800,000
Total	<u>\$7,140,000</u>

Debt increased as a result of issuing general obligation notes for an economic development project and to refund three general obligation issues. In addition, the City issued local option sales and services tax revenue bonds for the purpose of defraying a portion of the cost of the recreation center project of the City.

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, tax increment financing, local option sales and services tax and general obligation project anticipation debt of \$6,375,000 is below its constitutional debt limit of \$11,488,000.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City of Atlantic's elected and appointed officials and citizens considered many factors when setting the fiscal year 2005 budget, tax rates and fees that will be charged for various City activities.

These factors were taken into account when adopting the budget for fiscal year 2005. Amounts available for appropriation in the operating budget are \$2.4 million, an increase of 1% over the final 2004 budget. Property tax is expected to lead this increase. The City will use the increases in receipts to finance programs we currently offer. Budgeted disbursements are expected to fall by approximately \$2,480,000. The decrease is due to a reduction in debt service payments. No issues will be refunded and the City has added no major new programs or initiatives to the 2005 budget.

If these estimates are realized, the City's budgeted cash balance is expected to increase by approximately \$229,500 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 Debbie L. Wheatley Field, City Clerk, 23 East 4th Street, City of Atlantic, Iowa 50022-1319.

City of Atlantic

Basic Financial Statements

City of Atlantic

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	Capital Grants, Contributions and Restricted Interest
Functions / Programs:				
Governmental activities:				
Public safety	\$ 1,212,067	13,704	69,112	-
Public works	1,127,011	21,200	951,853	-
Health and social services	2,980	-	-	-
Culture and recreation	423,553	38,741	49,308	-
Community and economic development	103,790	2,140	1,996	-
General government	432,787	27,142	-	-
Debt service	2,042,651	-	5,929	8,557
Capital projects	3,574,090	-	-	1,828,223
Total governmental activities	8,918,929	102,927	1,078,198	1,836,780
Business type activities:				
Storm water	12,090	175,027	766	-
Sewer	512,020	557,508	6,469	-
Total business type activities	524,110	732,535	7,235	-
Total	\$ 9,443,039	835,462	1,085,433	1,836,780
General Receipts:				
Property and other city tax levied for:				
General purposes				
Tax increment financing				
Debt service				
Local option sales tax				
Grants and contributions not restricted to specific purpose				
Unrestricted interest on investments				
Bond, note and loan proceeds				
Payments to refunding bond agent				
Miscellaneous				
Transfers				
Total general receipts and transfers				
Change in cash basis net assets				
Cash basis net assets beginning of year, as restated				
Cash basis net assets end of year				
Cash Basis Net Assets				
Restricted:				
Streets				
Urban renewal purposes				
Debt service				
Other 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
(1,129,251)	-	(1,129,251)
(153,958)	-	(153,958)
(2,980)	-	(2,980)
(335,504)	-	(335,504)
(99,654)	-	(99,654)
(405,645)	-	(405,645)
(2,028,165)	-	(2,028,165)
(1,745,867)	-	(1,745,867)
(5,901,024)	-	(5,901,024)
-	163,703	163,703
-	51,957	51,957
-	215,660	215,660
(5,901,024)	215,660	(5,685,364)
1,778,455	-	1,778,455
177,535	-	177,535
609,420	-	609,420
616,797	-	616,797
25,029	-	25,029
14,749	-	14,749
3,020,923	-	3,020,923
(1,050,000)	-	(1,050,000)
152,983	-	152,983
249,492	(249,492)	-
5,595,383	(249,492)	5,345,891
(305,641)	(33,832)	(339,473)
3,551,346	586,552	4,137,898
\$ 3,245,705	552,720	3,798,425
\$ 762,651	-	762,651
44,348	-	44,348
-	94,916	94,916
344,916	-	344,916
2,093,790	457,804	2,551,594
\$ 3,245,705	552,720	3,798,425

City of Atlantic

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

As of and for the year ended June 30, 2004

	Special Revenue		
	General	Road Use Tax	Local Option Sales Tax
Receipts:			
Property tax	\$ 1,160,950	-	-
Tax increment financing	-	-	-
Other city tax	135,309	-	233,221
Licenses and permits	27,075	-	-
Use of money and property	43,796	-	1,424
Intergovernmental	344,550	604,418	-
Charges for service	31,514	21,201	-
Special assessments	-	-	-
Miscellaneous	133,663	20,412	7,632
Total receipts	1,876,857	646,031	242,277
Disbursements:			
Operating:			
Public safety	907,331	-	-
Public works	376,902	544,037	71,490
Health and social services	-	2,980	-
Culture and recreation	362,690	-	2,792
Community and economic development	60,000	-	43,000
General government	361,077	-	-
Debt service	-	-	27,260
Capital projects	-	-	-
Total disbursements	2,068,000	547,017	144,542
Excess (deficiency) of receipts over (under) disbursements	(191,143)	99,014	97,735
Other financing sources (uses):			
Bond proceeds	-	-	-
Note proceeds, net of \$4,000 discount	-	-	-
Note proceeds, net of \$2,200 discount	-	-	-
Refunding note proceeds, net of \$11,877 discount	-	-	-
Loan proceeds	59,000	-	-
Payments to refunding bond agent	-	-	-
Operating transfers in	137,283	-	-
Operating transfers out	-	(86,023)	(100,000)
Total other financing sources (uses)	196,283	(86,023)	(100,000)
Net change in cash balances	5,140	12,991	(2,265)
Cash balances beginning of year	966,362	755,454	533,632
Cash balances end of year	\$ 971,502	768,445	531,367
Cash Basis Fund Balances			
Unreserved:			
General fund	\$ 971,502	-	-
Special revenue funds	-	768,445	531,367
Debt service fund	-	-	-
Capital projects fund	-	-	-
Total cash basis fund balances	\$ 971,502	768,445	531,367

See notes to financial statements.

Debt Service	Capital Projects	Nonmajor Governmental Funds	Total
595,299	-	573,870	2,330,119
-	-	177,535	177,535
14,121	340,764	14,154	737,569
-	-	-	27,075
5,909	4,004	6,379	61,512
-	721,075	-	1,670,043
-	-	-	52,715
8,557	2,301	-	10,858
20	1,100,843	43,242	1,305,812
623,906	2,168,987	815,180	6,373,238
-	-	292,191	1,199,522
-	-	127,808	1,120,237
-	-	-	2,980
-	-	55,668	421,150
-	-	790	103,790
-	-	68,768	429,845
1,897,126	-	118,265	2,042,651
-	3,469,920	104,170	3,574,090
1,897,126	3,469,920	767,660	8,894,265
(1,273,220)	(1,300,933)	47,520	(2,521,027)
-	1,000,000	-	1,000,000
796,000	-	-	796,000
-	-	107,800	107,800
1,058,123	-	-	1,058,123
-	-	-	59,000
(1,050,000)	-	-	(1,050,000)
326,953	137,745	28,112	630,093
-	(64,821)	(129,757)	(380,601)
1,131,076	1,072,924	6,155	2,220,415
(142,144)	(228,009)	53,675	(300,612)
64,842	714,060	466,501	3,500,851
(77,302)	486,051	520,176	3,200,239
-	-	-	971,502
-	-	520,176	1,819,988
(77,302)	-	-	(77,302)
-	486,051	-	486,051
(77,302)	486,051	520,176	3,200,239

City of Atlantic

City of Atlantic

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, 2004

Total governmental funds cash balances (page 19) \$ 3,200,239

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

The Internal Service Funds are used by management to charge the costs of payroll and self funding of the City's health insurance benefit plan to individual funds. The assets of the Internal Service Funds are included in governmental activities in the Statement of Net Assets.

45,466

Cash basis net assets of governmental activities (page 17)

\$ 3,245,705

Net change in cash balances (page 19)

\$ (300,612)

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

The Internal Service Funds are used by management to charge the costs of payroll and self funding of the City's health insurance benefit plan to individual funds. The change in net assets of the Internal Service Funds is reported with governmental activities.

(5,029)

Change in cash balance of governmental activities (page 17)

\$ (305,641)

See notes to financial statements.

Exhibit D

City of Atlantic

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

As of and for the year ended June 30, 2004

	Enterprise Funds			Internal Service Funds
	Storm Water	Sewer	Total	
Operating receipts:				
Charges for service	\$ 175,027	557,508	732,535	1,751,189
Miscellaneous	-	4,469	4,469	19,859
Total operating receipts	<u>175,027</u>	<u>561,977</u>	<u>737,004</u>	<u>1,771,048</u>
Operating disbursements:				
Governmental activities:				
Public safety	-	-	-	744,294
Public works	-	-	-	367,395
Culture and recreation	-	-	-	242,449
General government	-	-	-	255,306
Business type activities	12,090	443,988	456,078	167,274
Total operating disbursements	<u>12,090</u>	<u>443,988</u>	<u>456,078</u>	<u>1,776,718</u>
Excess (deficiency) of operating receipts over (under) operating disbursements	<u>162,937</u>	<u>117,989</u>	<u>280,926</u>	<u>(5,670)</u>
Non-operating receipts (disbursements):				
Interest on investments	767	2,000	2,767	196
Debt service	-	(67,588)	(67,588)	-
Total non-operating receipts (disbursements)	<u>767</u>	<u>(65,588)</u>	<u>(64,821)</u>	<u>196</u>
Excess (deficiency) of receipts over (under) disbursements	<u>163,704</u>	<u>52,401</u>	<u>216,105</u>	<u>(5,474)</u>
Other financing sources (uses):				
Operating transfers in	50,605	-	50,605	-
Operating transfers out	(47,816)	(252,281)	(300,097)	-
Total other financing sources (uses)	<u>2,789</u>	<u>(252,281)</u>	<u>(249,492)</u>	<u>-</u>
Net change in cash balances	166,493	(199,880)	(33,387)	(5,474)
Cash balances beginning of year	46,512	535,641	582,153	54,894
Cash balances end of year	<u>\$ 213,005</u>	<u>335,761</u>	<u>548,766</u>	<u>49,420</u>
Cash Basis Fund Balances				
Reserved for debt service	\$ -	94,916	94,916	-
Unreserved	213,005	240,845	453,850	49,420
Total cash basis fund balances	<u>\$ 213,005</u>	<u>335,761</u>	<u>548,766</u>	<u>49,420</u>

See notes to financial statements.

City of Atlantic

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, 2004

Total enterprise funds cash balances (page 22) \$ 548,766

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

The Internal Service Funds are used by management to charge the costs of payroll and self funding of the City's health insurance benefit plan to individual funds. The assets of the Internal Service Funds are included in business type activities in the Statement of Net Assets.

3,954

Cash basis net assets of business type activities (page 17)

\$ 552,720

Net change in cash balances (page 22)

\$ (33,387)

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

The Internal Service Funds are used by management to charge the costs of payroll and self funding of the City's health insurance benefit plan to individual funds. The change in net assets of the Internal Service Funds is reported with business type activities.

(445)

Change in cash balance of business type activities (page 17)

\$ (33,832)

See notes to financial statements.

City of Atlantic

Notes to Financial Statements

June 30, 2004

(1) Summary of Significant Accounting Policies

The City of Atlantic is a political subdivision of the State of Iowa located in Cass County. It was first incorporated in 1868 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 storm water and sewer utilities for its citizens.

A. Reporting Entity

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

These financial statements present the City of Atlantic (the primary government) and exclude all component units. The component unit discussed below is not included in the City's reporting entity although its operational or financial relationship with the City is significant.

Excluded Component Unit

The Atlantic Municipal Utilities Board was established under Chapter 388 of the Code of Iowa, is legally separate from the City, but has the potential to provide specific benefits to or impose specific burdens on the City. The Municipal Utilities is governed by a five-member board appointed by the Mayor and approved by the City Council. Complete financial statements, presented on a different basis of accounting, can be obtained from the Municipal Utilities administrative office.

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 or appoint representatives to the following boards and commissions: Cass County Assessor's Conference Board, Cass County Environmental Control Agency,

Cass County Emergency Management Commission, Cass County E911 Joint Service Board, SWIPCO – Regional Planning Commission and Cass County Public Safety Commission.

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 Local Option Sales Tax Fund is used to account for projects financed by local option sales. Tax.

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

The Capital Projects Fund is utilized to account for all resources used in the acquisition and construction of capital facilities, with the exception of those financed through Enterprise Funds.

The City reports the following major proprietary funds:

The Storm Water Fund accumulates funds to be used for storm water management and flood protection.

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

The City also reports the following additional proprietary funds:

Internal Service Funds are utilized to account for the financing of goods or services purchased by one department of the City and provided to other departments or agencies on a cost reimbursement basis.

C. Measurement Focus and Basis of Accounting

The City of Atlantic 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 amounts budgeted in the business type activities 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's investments are categorized to give an indication of the level of risk assumed by the City at year end. The City's investments are all Category 1, which means the investments are insured or registered or the securities are held by the City or its agent in the City's name.

The City's investments at June 30, 2004 are as follows:

Type	Carrying Amount	Fair Value
U.S. Treasury Notes	\$ 5,000	5,405

(3) Bonds and Notes Payable

Annual debt service requirements to maturity for general obligation notes, tax increment financing (TIF) revenue bonds, local option sales and services tax revenue bonds, revenue notes and special assessment notes are as follows:

Year Ending June 30,	General Obligation Notes		Tax Increment Financing (TIF) Revenue Bonds		Local Option Sales and Services Tax Revenue Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest
2005	\$ 685,000	148,529	75,000	33,597	20,000	63,980
2006	585,000	129,931	80,000	28,645	40,000	62,930
2007	630,000	113,236	90,000	23,430	50,000	60,820
2008	315,000	93,026	75,000	17,258	56,125	58,175
2009	305,000	78,172	75,000	12,385	63,022	55,198
2010-2014	1,175,000	190,575	125,000	11,887	327,231	222,900
2015-2019	145,000	11,810	-	-	287,021	142,979
2020-2024	-	-	-	-	366,601	59,299
Total	\$ 3,840,000	765,279	520,000	127,202	1,210,000	726,281

Year Ending June 30,	Revenue Notes		Special Assessment Notes		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2005	\$ 130,000	34,108	15,000	878	925,000	281,092
2006	200,000	27,820	-	-	905,000	249,326
2007	210,000	19,020	-	-	980,000	216,506
2008	215,000	9,675	-	-	661,125	178,134
2009	-	-	-	-	443,022	145,755
2010-2014	-	-	-	-	1,627,231	425,362
2015-2019	-	-	-	-	432,021	154,789
2020-2024	-	-	-	-	366,601	59,299
Total	\$ 755,000	90,623	15,000	878	6,340,000	1,710,263

Refunding of General Obligations Notes – On April 1, 2004, the City issued \$1,070,000 of general obligation refunding notes. The proceeds were used to refund \$665,000 of 1995 general obligation bonds, \$115,000 of 1995 general obligation refunding notes and \$270,000 of 1997 general obligation notes. The resulting net savings to the City in future interest payments totaled \$44,368.

Tax Increment Financing (TIF) Revenue Bonds – These were issued for the purpose of defraying a portion of the cost of carrying out urban renewal projects of the City. The bonds are payable solely from the income and proceeds of the individual urban renewal tax increment financing funds and the taxes to be paid into the funds in accordance with Chapter 403.19 of the Code of Iowa. The proceeds of the tax increment financing (TIF) revenue bonds are to be expended only for purposes which are consistent with the plans of the City's urban renewal area. The bonds are not a general obligation of the City. However, the debt is subject to the constitutional debt limitation of the City.

Local Option Sales and Services Tax Revenue Bonds – These were issued for the purpose of defraying a portion of the cost of constructing street improvements and repaying the local option sales and services tax bond anticipation notes used for the recreation and wellness center. The bonds are payable solely from the proceeds of the local option sales and services tax received by the City in accordance with Chapter 422B.12(3) of the Code of Iowa. The bonds are not a general obligation of the City. However, the debt is subject to the constitutional debt limitation of the City.

The resolution providing for the issuance of the local option sales and services tax revenue bonds includes the following provisions:

- (a) The bonds will only be redeemed from the future earnings of the local option sales tax revenue received by the City and the bond holders hold a lien on the future revenues received.
- (b) A local option sales tax revenue bond sinking account shall be established to account for 15% of the local option sales tax revenue collected.
- (c) Sufficient quarterly deposits shall be made to the sinking account for the purpose of making the bond principal and interest payments when due.
- (d) Additional quarterly deposits of \$2,500 shall be made to a reserve account until \$30,000 has been accumulated. This account is restricted for the purpose of correcting any deficiencies in the sinking account.

Sewer Revenue Notes – The resolution providing for the issuance of the sewer revenue notes includes the following provisions:

- (a) The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the funds.
- (b) Sufficient monthly transfers shall be made to a sewer revenue note sinking account for the purpose of making the note principal and interest payments when due.
- (c) A sewer reserve account shall be established with \$85,000 in note proceeds. This account is restricted for the purpose of paying for principal and interest when funds in the sinking account are inadequate.

- (d) A sewer surplus account is required, into which all of the net revenues remaining after first making the required payments into the sinking and reserve accounts shall be deposited.

Road Use Tax Fund Revenue Notes – These were issued for the purpose of providing funds to acquire equipment for the street department. The notes are payable solely and only from annual road use tax funds received by the City from the State of Iowa. The notes are not a general obligation of the City and are not subject to the constitutional debt limitation of the City.

Street Lighting Loan Agreement – On February 16, 1994, the City entered into an interest-free loan agreement totaling \$200,000 with Atlantic Municipal Utilities for the purpose of paying costs in connection with construction and installation of street lighting fixtures. The loan will be repaid by the City in ten equal annual installments of \$20,000 on June 1 in each of the years 1995 through 2004. At June 30, 2004, this loan had been repaid.

(4) Anticipation Notes

On April 1, 2002, the City issued an \$800,000 general obligation airport improvement project anticipation note to pay the costs of an airport runway expansion project. The note bears interest at 3.65% per annum and matures on March 1, 2004. The note was refunded on March 1, 2004 at an interest rate of 1.70% per annum and matures on March 1, 2005. The note will be repaid through issuance of long term general obligation debt. Interest due of \$29,200 was paid during the year ended June 30, 2004.

(5) Pension and Retirement Benefits

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

Plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of annual covered payroll, except for police employees, in which case the percentages are 5.93% and 8.90%, respectively. For the year ended June 30, 2003, the contribution rates for police employees and the City were 6.04% and 9.07%, respectively, and for the year ended June 30, 2002, the contribution rates for police employees and the City were 6.20% and 9.29%, respectively. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2004, 2003 and 2002 were \$89,332, \$90,780 and \$94,110, respectively, equal to the required contributions for each year.

Chapter 410 Police and Fire Pension – Chapter 410 of the Code of Iowa creates a retirement system for police officers and fire fighters of any City qualified to participate under this Chapter. Any duly appointed member of the police and fire departments whose appointment occurred before March 2, 1934 or police and fire fighters who had been making payments of membership fees and assessments prior to July 1, 1971 may be a member of the system. The pension plan is accounted for by the City in the Special Revenue, Police and Fire Pension Funds.

The plan is administered by the Police Pension Board of Trustees and the Fire Pension Board of Trustees and provides retirement, disability and death benefits. The benefits are established under state statute and provide for full retirement benefits at age 50 with 22 years or more of service. Full benefits are equal to fifty percent of the monthly salary at retirement or disability and twenty-five percent of the monthly salary at death.

There are no active participants. Two retirees and certain beneficiaries are currently receiving benefits from the plan. The unfunded past service liability has not been determined.

(6) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation and compensatory time 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 and compensatory time payable to employees at June 30, 2004, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Vacation	\$ 81,000
Compensatory time	<u>37,000</u>
Total	<u>\$ 118,000</u>

This liability has been computed based on rates of pay in effect at June 30, 2004.

(7) Interfund Transfers

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

Transfer to	Transfer from	Amount
General	Special Revenue:	
	Road Use Tax	\$ 25,000
	Emergency	37,283
	Enterprise:	
	Sewer	50,000
	Storm Water	25,000
		<u>137,283</u>
Special Revenue:	Special Revenue:	
Police Pension	Fire Pension	<u>13,896</u>
Special Revenue:	Capital Projects	
Emergency		<u>14,216</u>
Debt Service	Special Revenue:	
	Road Use Tax	61,023
	Tax Increment Financing	78,578
	Enterprise:	
	Sewer	<u>187,352</u>
		<u>326,953</u>

Transfer to	Transfer from	Amount
Capital Projects	Special Revenue:	
	Local Option Sales Tax	100,000
	Enterprise:	
	Sewer	14,929
	Storm Water	22,816
		<u>137,745</u>
Enterprise:	Capital Projects	50,605
Storm Water		<u>50,605</u>
Total		<u>\$ 680,698</u>

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

(8) Related Party Transactions

The City had business transactions between the City and City officials totaling \$23,236 during the year ended June 30, 2004.

(9) Risk Management

The 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 490 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 300 percent of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

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

The City'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 contributions to the Pool for the year ended June 30, 2004 were \$71,587.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$250,000 per claim. Claims exceeding \$250,000 are reinsured in an amount not to exceed \$1,750,000 per claim and \$5,000,000 in aggregate per year. For members requiring specific coverage from \$2,000,000 to \$10,000,000, such excess coverage is also reinsured. Automobile physical damage risks are retained by the Pool up to \$50,000 each accident, each location, with excess coverage reinsured on an individual-member basis. All property risks are also reinsured on an individual-member basis.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event 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, 2004, settled claims have not exceeded the risk pool or reinsurance 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 workers compensation and airport liability. The City assumes liability for any deductibles, and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(10) Employee Health Insurance Plan

The City's Internal Service, Medical Benefit Self Insurance Fund was established to account for the partial self funding of the City's health insurance benefit plan. The plan is funded by both employee and City contributions and is administered through a service agreement with Marsh Advantage America. The agreement is subject to automatic renewal provisions. The City assumes liability for claims up to the individual stop loss limitation of \$35,000. Claims in excess of coverage are insured through purchase of stop loss insurance.

Monthly payments of service fees and plan contributions to the Internal Service, Medical Benefit Self Insurance Fund are recorded as disbursements from the operating funds. Under the administrative services agreement, monthly payments of service fees and claims processed are paid to Marsh Advantage America from the City's Internal Service Fund, Medical Benefit Self Insurance Account. The City's contribution to the fund for the year ended June 30, 2004 was \$307,753.

(11) Deficit Fund Balance

The Debt Service Fund had a deficit balance of \$77,302 at June 30, 2004. The deficit balance was a result of decreased property tax asking and refunding several bond and note issues. The deficit will be eliminated with future property tax asking.

(12) Community Economic Betterment Account (CEBA) Loan

On August 19, 1999, the City of Atlantic requested \$400,000 from the Iowa Department of Economic Development (Department) under a CEBA loan agreement. A loan agreement has been executed among the Department, the City of Atlantic and Silvercoin Publishing One, Inc. The City's liability for repayment of this note to the Department is limited to those amounts the City collects through its good faith enforcement of the security interest which secures its loan with Silvercoin Publishing One, Inc. Therefore, the liability for this loan is not included on the Schedule of Indebtedness (Schedule 3). Repayments on the loan are made directly to the Department by Silvercoin Publishing One, Inc. However, the Company has defaulted on the loan and it has been forgiven by the Department.

(13) Commitments

The City has entered into various construction contracts for street, swimming pool and bathhouse improvements, depot renovation, airport improvements and construction of a recreation and wellness center totaling \$8,219,447. At June 30, 2004, \$1,558,103 remains unpaid and will be paid as work on the projects progresses. The projects will be funded through bond/note proceeds, grants, donations and local sources, as necessary.

(14) Accounting Change and Restatements

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.

The government-wide financial statement reports the City's governmental and business type activities. Beginning net assets have been restated to include the allocation of the Internal Service Fund, as follows:

	<u>Governmental Activities</u>	<u>Business Type Activities</u>
Cash basis net assets June 30, 2003, as previously reported	\$ 3,500,851	582,153
Internal Service Fund	<u>50,495</u>	<u>4,399</u>
Cash basis net assets July 1, 2003, as restated	<u>\$ 3,551,346</u>	<u>586,552</u>

(15) Subsequent Event

In July, 2004, the City issued \$500,000 of general obligation notes to finance a street project.

City of Atlantic

Required Supplementary Information

City of Atlantic
 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	Less Funds not Required to be Budgeted
Receipts:			
Property tax	\$ 2,330,119	-	-
Tax increment financing	177,535	-	-
Other city tax	737,569	-	-
Licenses and permits	27,075	-	-
Use of money and property	61,512	2,963	196
Intergovernmental	1,670,043	-	-
Charges for service	52,715	2,483,724	1,751,189
Special assessments	10,858	-	-
Miscellaneous	1,305,812	24,328	19,859
Total receipts	<u>6,373,238</u>	<u>2,511,015</u>	<u>1,771,244</u>
Disbursements:			
Public safety	1,199,522	744,294	744,294
Public works	1,120,237	367,395	367,395
Health and social services	2,980	-	-
Culture and recreation	421,150	242,449	242,449
Community and economic development	103,790	-	-
General government	429,845	255,306	255,306
Debt service	2,042,651	-	-
Capital projects	3,574,090	-	-
Business type activities	-	690,940	167,274
Total disbursements	<u>8,894,265</u>	<u>2,300,384</u>	<u>1,776,718</u>
Excess (deficiency) of receipts over (under) disbursements	(2,521,027)	210,631	(5,474)
Other financing sources, net	2,220,415	(249,492)	-
Deficiency of receipts and other financing sources under disbursements and other financing uses	(300,612)	(38,861)	(5,474)
Balances beginning of year	<u>3,500,851</u>	<u>637,047</u>	<u>54,894</u>
Balances end of year	<u>\$ 3,200,239</u>	<u>598,186</u>	<u>49,420</u>

See accompanying independent auditor's report.

Net	Budgeted Amounts		Final to Net Variance
	Original	Final	
2,330,119	2,339,434	2,339,434	(9,315)
177,535	174,889	174,889	2,646
737,569	542,644	542,644	194,925
27,075	11,050	11,050	16,025
64,279	73,450	73,450	(9,171)
1,670,043	1,947,560	1,947,506	(277,463)
785,250	768,400	768,400	16,850
10,858	18,000	18,000	(7,142)
1,310,281	2,597,940	2,687,340	(1,377,059)
7,113,009	8,473,367	8,562,713	(1,449,704)
1,199,522	1,356,196	1,394,196	194,674
1,120,237	1,147,453	1,159,453	39,216
2,980	6,000	6,000	3,020
421,150	449,443	465,443	44,293
103,790	335,800	335,800	232,010
429,845	446,427	449,027	19,182
2,042,651	1,199,774	3,079,774	1,037,123
3,574,090	4,981,445	4,981,445	1,407,355
523,666	501,280	515,180	(8,486)
9,417,931	10,423,818	12,386,318	2,968,387
(2,304,922)	(1,950,451)	(3,823,605)	1,518,683
1,970,923	1,050,000	2,923,100	(952,177)
(333,999)	(900,451)	(900,505)	566,506
4,083,004	3,507,322	3,507,322	575,682
3,749,005	2,606,871	2,606,817	1,142,188

City of Atlantic

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 except Internal Service Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund. 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, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Fund and the Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$1,962,500. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2004, disbursements exceeded the amount budgeted in the business type activities function.

Other Supplementary Information

City of Atlantic

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

As of and for the year ended June 30, 2004

	Employees' Benefits	Cafeteria Plan	Police Pension
Receipts:			
Property tax	\$ 505,137	-	16,352
Tax increment financing	-	-	-
Other city tax	12,235	-	515
Use of money and property	-	-	-
Miscellaneous	35,913	7,329	-
Total receipts	553,285	7,329	16,867
Disbursements:			
Operating:			
Public safety	250,284	-	27,600
Public works	127,808	-	-
Culture and recreation	55,668	-	-
Community and economic development	-	-	-
General government	64,011	4,757	-
Debt service	-	-	-
Capital projects	-	-	-
Total disbursements	497,771	4,757	27,600
Excess (deficiency) of receipts over (under) disbursements	55,514	2,572	(10,733)
Other financing sources (uses):			
Note proceeds	-	-	-
Operating transfers in	-	-	13,896
Operating transfers out	-	-	-
Total other financing sources (uses)	-	-	13,896
Net change in cash balances	55,514	2,572	3,163
Cash balances beginning of year	57,265	1,488	-
Cash balances end of year	\$ 112,779	4,060	3,163
Cash Basis Fund Balances			
Unreserved:			
Special revenue funds	\$ 112,779	4,060	3,163

See accompanying independent auditor's report.

Special Revenue				
Fire Pension	Emergency	Tax Increment Financing	Economic Development Revolving Loan	Total
16,355	36,026	-	-	573,870
-	-	177,535	-	177,535
515	889	-	-	14,154
4,747	-	37	1,595	6,379
-	-	-	-	43,242
<u>21,617</u>	<u>36,915</u>	<u>177,572</u>	<u>1,595</u>	<u>815,180</u>
14,307	-	-	-	292,191
-	-	-	-	127,808
-	-	-	-	55,668
-	-	790	-	790
-	-	-	-	68,768
-	-	118,265	-	118,265
-	-	104,170	-	104,170
<u>14,307</u>	<u>-</u>	<u>223,225</u>	<u>-</u>	<u>767,660</u>
7,310	36,915	(45,653)	1,595	47,520
-	-	107,800	-	107,800
-	14,216	-	-	28,112
(13,896)	(37,283)	(78,578)	-	(129,757)
<u>(13,896)</u>	<u>(23,067)</u>	<u>29,222</u>	<u>-</u>	<u>6,155</u>
(6,586)	13,848	(16,431)	1,595	53,675
135,476	225	60,779	211,268	466,501
<u>128,890</u>	<u>14,073</u>	<u>44,348</u>	<u>212,863</u>	<u>520,176</u>
<u>128,890</u>	<u>14,073</u>	<u>44,348</u>	<u>212,863</u>	<u>520,176</u>

Schedule 2

City of Atlantic

Combining Schedule of Cash Transactions
Internal Service Funds

As of and for the year ended June 30, 2004

	Payroll Revolving	Medical Benefit Self Insurance	Total
Operating receipts:			
Charges for service:			
Personal service costs from operating funds	\$ 1,456,754	294,435	1,751,189
Miscellaneous:			
Refunds	-	19,859	19,859
Total operating receipts	<u>1,456,754</u>	<u>314,294</u>	<u>1,771,048</u>
Operating disbursements:			
Government activities:			
Public safety	594,524	149,770	744,294
Public works	286,529	80,866	367,395
Culture and recreation	213,761	28,688	242,449
General government	220,183	35,123	255,306
Business type activities	141,670	25,604	167,274
Total operating disbursements	<u>1,456,667</u>	<u>320,051</u>	<u>1,776,718</u>
Excess (deficiency) of operating receipts over (under) operating disbursements	87	(5,757)	(5,670)
Non-operating receipts:			
Use of money and property	-	196	196
Net change in cash balances	87	(5,561)	(5,474)
Balance beginning of year	(87)	54,981	54,894
Balance end of year	<u>\$ -</u>	<u>49,420</u>	<u>49,420</u>

See accompanying independent auditor's report.

City of Atlantic

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

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation bonds:			
General corporate purpose	Jun 1, 1995	4.65-4.80%	\$ 2,015,000
General obligation notes:			
Corporate purpose	Feb 1, 1994	3.10-4.70%	\$ 260,000
Economic development	Feb 1, 1994	4.75-7.00	225,000
Refunding	Sep 1, 1995	4.50-5.25	830,000
Corporate purpose	Jun 1, 1997	4.40-5.25	765,000
Economic development	Sep 1, 1997	6.75-7.35	200,000
Airport improvement	Aug 1, 1999	4.40-5.20	150,000
Swimming pool improvement	Mar 1, 2001	4.40-5.40	700,000
Corporate purpose	Apr 1, 2002	3.00-5.10	1,710,000
Corporate purpose	Apr 1, 2003	1.40-3.70	300,000
Economic development	Sep 1, 2003	2.15-4.60	110,000
Refunding	Apr 1, 2004	1.25-1.95	1,070,000
Total			
Tax increment financing (TIF) revenue bonds:			
Skyjack (TIF)	Dec 1, 1994	8.25-9.10%	\$ 145,000
Cargill (TIF)	Dec 1, 1994	8.25-9.05	100,000
Skyjack (TIF)	Dec 1, 1995	6.70-7.30	115,000
Skyjack (TIF)	Jun 1, 1997	7.65-8.15	90,000
Southeast urban renewal	Feb 1, 1998	4.40-5.15	175,000
Country Oaks Addition	Jul 1, 2001	4.30-5.20	200,000
Total			
Revenue bonds:			
Local option sales and services tax	Sep 1, 1997	4.70-5.65%	\$ 300,000
Local option sales and services tax	Mar 1, 2004	5.25	1,000,000
Total			
Revenue notes:			
Sewer	Dec 1, 1998	4.10-4.50%	\$ 850,000
Road use tax	Mar 1, 2000	5.15-5.50	250,000
Total			
Special assessment notes:			
Downtown redevelopment	Jul 1, 1995	4.60-5.85%	\$ 135,000
Loan agreements with Atlantic Municipal Utilities:			
Street lighting	Feb 16, 1994	-	\$ 200,000
Equipment	Mar 19, 2003	-	59,000
Total			
General obligation project anticipation notes:			
Airport improvement project	Apr 1, 2002	3.65%	\$ 800,000
Airport improvement project	Mar 1, 2004	1.70	800,000
Total			

See accompanying independent auditor's report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Principal Due and Unpaid
865,000	-	865,000	-	41,520	-
30,000	-	30,000	-	1,410	-
125,000	-	15,000	110,000	8,577	-
230,000	-	230,000	-	14,392	-
350,000	-	350,000	-	17,997	-
135,000	-	40,000	95,000	8,345	-
110,000	-	15,000	95,000	5,473	-
665,000	-	20,000	645,000	33,795	-
1,585,000	-	145,000	1,440,000	69,843	-
300,000	-	25,000	275,000	9,797	-
-	110,000	-	110,000	3,036	-
-	1,070,000	-	1,070,000	-	-
\$ 3,530,000	1,180,000	870,000	3,840,000	172,665	-
90,000	-	10,000	80,000	8,133	-
45,000	-	10,000	35,000	4,037	-
85,000	-	10,000	75,000	5,790	-
75,000	-	10,000	65,000	5,645	5,000
125,000	-	25,000	100,000	5,700	-
185,000	-	15,000	170,000	8,960	-
\$ 605,000	-	80,000	525,000	38,265	5,000
225,000	-	15,000	210,000	12,260	-
-	1,000,000	-	1,000,000	8,829	-
\$ 225,000	1,000,000	15,000	1,210,000	21,089	-
735,000	-	35,000	700,000	32,588	-
110,000	-	55,000	55,000	6,022	-
\$ 845,000	-	90,000	755,000	38,610	-
30,000	-	15,000	15,000	1,740	-
20,000	-	20,000	-	-	-
-	59,000	59,000	-	-	-
\$ 20,000	59,000	79,000	-	-	-
800,000	-	800,000	-	29,200	-
-	800,000	-	800,000	-	-
\$ 800,000	800,000	800,000	800,000	29,200	-

Schedule 4

City of Atlantic
Bond and Note Maturities
June 30, 2004

General Obligation Notes											
Year Ending June 30,	Economic Development Issued Feb 1, 1994		Economic Development Issued Sep 1, 1997		Airport Improvement Issued Aug 1, 1999		Swimming Pool Improvement Issued Mar 1, 2001		Corporate Purpose Issued Apr 1, 2002		
	Interest		Interest		Interest		Interest		Interest		
	Rates	Amount	Rates	Amount	Rates	Amount	Rates	Amount	Rates	Amount	
2005	6.75%	\$ 15,000	7.20%	\$ 20,000	4.85%	\$ 15,000	4.70%	\$ 25,000	3.75%	\$ 145,000	
2006	6.80	15,000	7.25	25,000	4.90	15,000	4.80	25,000	4.00	150,000	
2007	6.85	20,000	7.30	25,000	4.95	15,000	4.85	45,000	4.20	160,000	
2008	6.90	20,000	7.35	25,000	5.00	15,000	4.90	50,000	4.40	165,000	
2009	6.95	20,000	-	-	5.10	15,000	4.95	50,000	4.60	180,000	
2010	7.00	20,000	-	-	5.20	20,000	5.00	55,000	4.70	180,000	
2011	-	-	-	-	-	-	5.05	60,000	4.80	150,000	
2012	-	-	-	-	-	-	5.10	60,000	4.90	165,000	
2013	-	-	-	-	-	-	5.20	65,000	5.00	70,000	
2014	-	-	-	-	-	-	5.25	65,000	5.10	75,000	
2015	-	-	-	-	-	-	5.30	70,000	-	-	
2016	-	-	-	-	-	-	5.40	75,000	-	-	
2017	-	-	-	-	-	-	-	-	-	-	
2018	-	-	-	-	-	-	-	-	-	-	
2019	-	-	-	-	-	-	-	-	-	-	
2020	-	-	-	-	-	-	-	-	-	-	
2021	-	-	-	-	-	-	-	-	-	-	
2022	-	-	-	-	-	-	-	-	-	-	
2023	-	-	-	-	-	-	-	-	-	-	
2024	-	-	-	-	-	-	-	-	-	-	
Total		<u>\$ 110,000</u>		<u>\$ 95,000</u>		<u>\$ 95,000</u>		<u>\$ 645,000</u>		<u>\$ 1,440,000</u>	

Tax Increment Financing (TIF) Revenue Bonds									
Year Ending June 30,	Skyjack (TIF) Issued Dec 1, 1994		Cargill (TIF) Issued Dec 1, 1994		Skyjack (TIF) Issued Dec 1, 1995		Skyjack (TIF) Issued Jun 1, 1997		
	Interest		Interest		Interest		Interest		
	Rates	Amount	Rates	Amount	Rates	Amount	Rates	Amount	
2005	8.95%	\$ 10,000	8.95%	\$ 10,000	7.15%	\$ 10,000	8.00%	\$ 10,000	
2006	8.95	10,000	8.95	10,000	7.20	10,000	8.05	10,000	
2007	9.05	15,000	9.05	15,000	7.20	10,000	8.05	10,000	
2008	9.10	15,000	-	-	7.25	10,000	8.10	10,000	
2009	9.10	15,000	-	-	7.30	10,000	8.15	10,000	
2010	9.10	15,000	-	-	7.30	10,000	8.15	10,000	
2011	-	-	-	-	7.30	15,000	-	-	
2012	-	-	-	-	-	-	-	-	
2013	-	-	-	-	-	-	-	-	
2014	-	-	-	-	-	-	-	-	
2015	-	-	-	-	-	-	-	-	
2016	-	-	-	-	-	-	-	-	
2017	-	-	-	-	-	-	-	-	
2018	-	-	-	-	-	-	-	-	
2019	-	-	-	-	-	-	-	-	
2020	-	-	-	-	-	-	-	-	
2021	-	-	-	-	-	-	-	-	
2022	-	-	-	-	-	-	-	-	
2023	-	-	-	-	-	-	-	-	
2024	-	-	-	-	-	-	-	-	
Total		<u>\$ 80,000</u>		<u>\$ 35,000</u>		<u>\$ 75,000</u>		<u>\$ 60,000</u>	

Schedule 4

City of Atlantic
Bond and Note Maturities
June 30, 2004

Year Ending June 30,	Revenue Bonds					Revenue Notes				
	Local Option Sales and Services Tax		Local Option Sales and Services Tax			Sewer		Road Use Tax		
	Issued Sep 1, 1997		Issued Mar 1, 2004			Issued Dec 1, 1998		Issued Mar 1, 2000		
	Interest Rates	Amount	Interest Rates	Amount	Total	Interest Rates	Amount	Interest Rates	Amount	Total
2005	5.25%	\$ 20,000	5.25%	\$ -	20,000	4.35%	\$ 75,000	5.50%	\$ 55,000	130,000
2006	5.30	20,000	5.25	20,000	40,000	4.40	200,000	-	-	200,000
2007	5.35	20,000	5.25	30,000	50,000	4.45	210,000	-	-	210,000
2008	5.40	20,000	5.25	36,125	56,125	4.50	215,000	-	-	215,000
2009	5.45	25,000	5.25	38,022	63,022	-	-	-	-	-
2010	5.50	25,000	5.25	40,018	65,018	-	-	-	-	-
2011	5.55	25,000	5.25	42,119	67,119	-	-	-	-	-
2012	5.60	25,000	5.25	44,330	69,330	-	-	-	-	-
2013	5.65	30,000	5.25	46,657	76,657	-	-	-	-	-
2014	-	-	5.25	49,107	49,107	-	-	-	-	-
2015	-	-	5.25	51,685	51,685	-	-	-	-	-
2016	-	-	5.25	54,398	54,398	-	-	-	-	-
2017	-	-	5.25	57,254	57,254	-	-	-	-	-
2018	-	-	5.25	60,260	60,260	-	-	-	-	-
2019	-	-	5.25	63,424	63,424	-	-	-	-	-
2020	-	-	5.25	66,753	66,753	-	-	-	-	-
2021	-	-	5.25	70,258	70,258	-	-	-	-	-
2022	-	-	5.25	73,946	73,946	-	-	-	-	-
2023	-	-	5.25	77,828	77,828	-	-	-	-	-
2024	-	-	5.25	77,816	77,816	-	-	-	-	-
Total		<u>\$ 210,000</u>		<u>\$ 1,000,000</u>	<u>1,210,000</u>		<u>\$ 700,000</u>		<u>\$ 55,000</u>	<u>755,000</u>

Year Ending June 30,	Special Assessment Notes	
	Downtown Redevelopment	
	Issued Jul 1, 1995	
Interest Rates	Amount	
2005	5.85% \$ 15,000	
2006	-	
2007	-	
2008	-	
2009	-	
2010	-	
2011	-	
2012	-	
2013	-	
2014	-	
2015	-	
2016	-	
2017	-	
2018	-	
2019	-	
2020	-	
2021	-	
2022	-	
2023	-	
2024	-	
Total	<u>\$ 15,000</u>	

See accompanying independent auditor's report.

City of Atlantic

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

For the Last Four Years

	2004	2003	2002	2001
Receipts:				
Property tax	\$ 2,330,119	2,342,037	2,018,353	1,933,724
Tax increment financing	177,535	178,049	132,195	163,000
Other city tax	737,569	660,723	587,392	526,872
Licenses and permits	27,075	19,802	18,572	19,343
Use of money and property	61,512	80,735	116,095	172,681
Intergovernmental	1,670,043	2,119,797	899,730	1,084,953
Charges for service	52,715	45,899	44,919	48,656
Special assessments	10,858	12,909	12,260	15,425
Miscellaneous	1,305,812	2,135,906	462,629	412,381
Total	\$ 6,373,238	7,595,857	4,292,145	4,377,035
Disbursements:				
Operating:				
Public safety	\$ 1,199,522	1,199,427	1,228,883	1,126,155
Public works	1,120,237	937,371	737,446	777,057
Health and social services	2,980	-	2,411	3,374
Culture and recreation	421,150	430,953	360,410	366,234
Community and economic development	103,790	100,569	229,574	290,920
General government	429,845	438,215	391,533	365,498
Debt service	2,042,651	1,118,732	883,710	786,226
Capital projects	3,574,090	4,297,777	2,809,890	1,075,539
Total	\$ 8,894,265	8,523,044	6,643,857	4,791,003

See accompanying independent auditor's report.

Schedule 6

City of Atlantic

Schedule of Expenditures of Federal Awards

Year ended June 30, 2004

Grantor/Program	CFDA Number	Agency Pass-through Number	Program Expenditures
Direct:			
U.S. Department of Transportation:			
Federal Aviation Administration Airports Division:			
Airport Improvement Program	20.106	3-19-0005-03-2003	\$ 400,703
Airport Improvement Program	20.106	3-19-0005-04-2004	6,322
Total direct			407,025
Indirect:			
U.S. Department of Housing and Urban Development:			
Iowa Department of Economic Development:			
Community Development Block Grants/State's Program:			
Facility for Disabled Persons	14.228	03-CF-020-01	294,800
Storm Sewer Improvement	14.228	02-CF-003	56,880
Housing Rehabilitation Program	14.228	01-HSG-038	93,380
			445,060
HOME Investment Partnerships Program:			
Rental Rehabilitation Program	14.239	03-HM-185-21	20,196
Total indirect			465,256
Total			\$ 872,281

Basis of Presentation – The Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Atlantic 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.

City of Atlantic

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



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

David A. Vaudt, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

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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 primary government financial statements of the City of Atlantic, Iowa, as of and for the year ended June 30, 2004, and have issued our report thereon dated February 1, 2005. Our report expressed an unqualified opinion on the primary government 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, 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 Atlantic'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 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, 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 year statutory comments have been resolved except for items IV-B-04 and IV-J-04.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Atlantic'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 a matter involving the internal control over financial reporting 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 financial reporting that, in our judgment, could adversely affect the City of Atlantic's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in Part II of the accompanying Schedule of Findings and Questioned Costs.

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, we do not believe the reportable condition described above is a material weakness. The prior year reportable condition has not been resolved and is repeated as item II-A-04.

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 Atlantic and other parties to whom the City of Atlantic 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 Atlantic 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

February 1, 2005

**Independent Auditor's Report on Compliance with Requirements
Applicable to Each Major Program and Internal Control over Compliance**

City of Atlantic



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

David A. Vaudt, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

Independent Auditor's Report on Compliance with Requirements
Applicable to Each Major Program and Internal Control over Compliance

To the Honorable Mayor and
Members of the City Council:

Compliance

We have audited the compliance of the City of Atlantic, 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 programs for the year ended June 30, 2004. The City of Atlantic's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal programs is the responsibility of the City of Atlantic's management. Our responsibility is to express an opinion on the City of Atlantic's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, 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 provisions 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 Atlantic'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 Atlantic's compliance with those requirements.

In our opinion, the City of Atlantic complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended June 30, 2004.

Internal Control Over Compliance

The management of the City of Atlantic is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City of Atlantic'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.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. 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 non-compliance with applicable requirements of laws, regulations, contracts and grants 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. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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 Atlantic and other parties to whom the City of Atlantic 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.


DAVID A. VAUDT, CPA
Auditor of State


WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

February 1, 2005

City of Atlantic

Schedule of Findings and Questioned Costs

Year ended June 30, 2004

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

- (a) Unqualified opinions were 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) A reportable condition in internal control over financial reporting was disclosed by the audit of the financial statements, which was not considered to be a material weakness.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) No material weaknesses in internal control over the major programs were noted.
- (e) An unqualified opinion was issued on compliance with requirements applicable to the major programs.
- (f) The audit did not disclose audit findings which are required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major programs were as follows:
 - CFDA Number 14.228 – Community Development Block Grants/State's Program
 - 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 Atlantic did not qualify as a low-risk auditee.

City of Atlantic
Schedule of Findings and Questioned Costs
Year ended June 30, 2004

Part II: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITION:

II-A-04 Separately Maintained Records – The Atlantic Volunteer Fire Department maintains separate accounting records pertaining to their operation. The financial 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 “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.

Response – We will request monthly financial reports to be included with the Clerk’s monthly report.

Conclusion – Response acknowledged. The City should require the monthly financial reports to enable the City’s compliance with Chapter 384.20 of the Code of Iowa.

City of Atlantic

Schedule of Findings and Questioned Costs

Year ended June 30, 2004

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

No material weaknesses in internal control over the major programs were noted.

City of Atlantic

Schedule of Findings and Questioned Costs

Year ended June 30, 2004

Part IV: Other Findings Related to Statutory Reporting:

IV-A-04 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.

IV-B-04 Certified Budget – Disbursements during the year ended June 30, 2004 exceeded the amount budgeted in the business type activities 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 – We will amend the budget in sufficient amounts in the future.

Conclusion – Response accepted.

IV-C-04 Questionable Disbursements – No disbursements we believe may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 were noted.

IV-D-04 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

IV-E-04 Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Mike Henningsen, Airport Commissioner, Owner of Henningsen Construction	Asphalt patch material, per bid	\$ 23,236

In accordance with Chapter 362.5 of the Code of Iowa, the transaction with the Airport Commissioner does not represent a conflict of interest since it was competitively bid.

IV-F-04 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.

IV-G-04 Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.

IV-H-04 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.

City of Atlantic

Schedule of Findings and Questioned Costs

Year ended June 30, 2004

IV-I-04 Revenue Bonds and Notes – The City has complied with the revenue bond and note resolutions.

IV-J-04 Financial Condition – The Debt Service Fund had a deficit balance at June 30, 2004 of \$77,302.

Recommendation – The City should investigate alternatives to eliminate this deficit in order to return this fund to a sound financial position.

Response – The tax levy and other sources will be adjusted next year to eliminate this deficit.

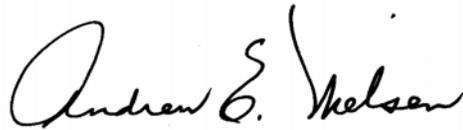
Conclusion – Response accepted.

City of Atlantic

Staff

This audit was performed by:

Pamela J. Bormann, CPA, Manager
Paul K. Kearney, CGFM, Senior Auditor
Jessica L. Christensen, Assistant Auditor
Trevor L. Theulen, 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 a distinct 'E'.

Andrew E. Nielsen, CPA
Deputy Auditor of State