



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

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**NEWS RELEASE**

FOR RELEASE

July 5, 2005

Contact: Andy Nielsen  
515/281-5834

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

The City has implemented new reporting standards for the years ended June 30, 2004 and June 30, 2003, 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 \$3,990,151 for the year ended June 30, 2004, a 262 percent increase from 2003. The receipts included \$216,559 in property tax, \$229,649 from tax increment financing, \$149,165 from charges for service, \$474,707 from operating grants, contributions and restricted interest, \$326,192 from capital grants, contributions and restricted interest, \$36,981 from local option sales tax, \$19,832 from unrestricted interest on investments, \$942,195 from note proceeds, \$790,000 from USDA loan proceeds, \$790,000 from interim bank financing and \$14,871 from other general receipts.

Disbursements for the year totaled \$2,880,843, a 146 percent increase from the prior year, and included \$1,210,924 for capital projects, \$965,600 for debt service and \$200,573 for public safety. Also, disbursements for business type activities totaled \$124,588.

The significant increase in receipts and disbursements is due primarily to the receipt of a USDA loan for the construction of a daycare center.

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 CENTRAL CITY**

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

**JUNE 30, 2004 AND JUNE 30, 2003**

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**City of Central City**

**Officials**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>(Before January 2004)</b>		
Don Gray	Mayor	Jan 2004
Denise McGovern	Mayor Pro Tem	Jan 2006
Jay Gallery	Council Member	Jan 2004
Bernice Boots	Council Member	Jan 2004
R. J. Smith	Council Member	(Resigned)
Mary Flansburg (Appointed)	Council Member	Jan 2006
Jason Levenhagen	Council Member	Jan 2006
<b>(After January 2004)</b>		
Don Gray	Mayor	Jan 2008
Denise McGovern	Mayor Pro Tem	Jan 2006
Mary Flansburg	Council Member	Jan 2006
Jason Levenhagen	Council Member	Jan 2006
Bernice Boots	Council Member	Jan 2008
Jay Gallery	Council Member	Jan 2008
LaNeil McFadden	City Clerk	Jan 2006
Jara Plavis	Deputy Clerk	Jan 2006
William J. Sueppel	City Attorney	Indefinite

**City of Central City**



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Independent Auditor's Report

To the Honorable Mayor and  
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Central City, Iowa, as of and for the years ended June 30, 2004 and June 30, 2003, 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 Central City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, 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.

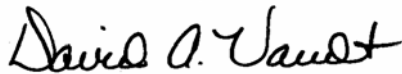
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Central City as of June 30, 2004 and June 30, 2003, and the respective changes in cash basis financial position for the years then ended in conformity with the basis of accounting described in Note 1.

As described in Note 15, 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.

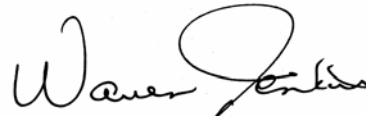
In accordance with Government Auditing Standards, we have also issued our reports dated March 30, 2005 on our consideration of the City of Central City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. Those 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 40 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 required supplementary information. We did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Central City's basic financial statements. Other supplementary information included in Schedules 1 through 5, including the Schedules 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

March 30, 2005

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## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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The City of Central City 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.

### **2004 FINANCIAL HIGHLIGHTS**

- Receipts of the City's governmental activities increased 289%, or \$2,878,713, from fiscal 2003 to fiscal 2004. Property tax increased \$18,898.
- Disbursements of the City's governmental activities increased 167%, or \$1,723,102, in fiscal 2004 over fiscal 2003. Debt service and capital projects disbursements increased \$885,943 and \$1,120,731, respectively.
- The City's total cash basis net assets increased 170%, or \$1,109,308, from June 30 2003 to June 30, 2004. Of this amount, the assets of the governmental activities increased \$1,117,035 and the assets of the business type activities decreased by \$7,727.

### **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 waterworks and the sanitary sewer system. These activities are financed primarily by user charges.

### *Fund Financial Statements*

The City has two kinds of funds:

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

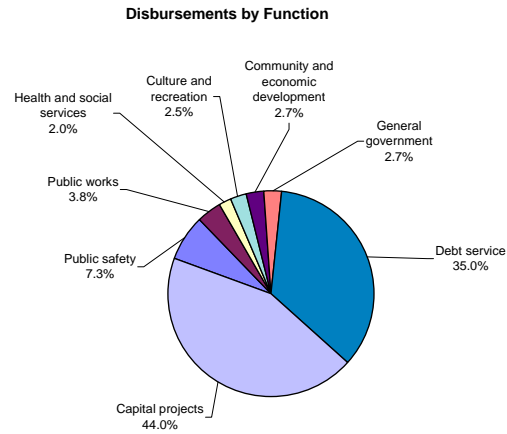
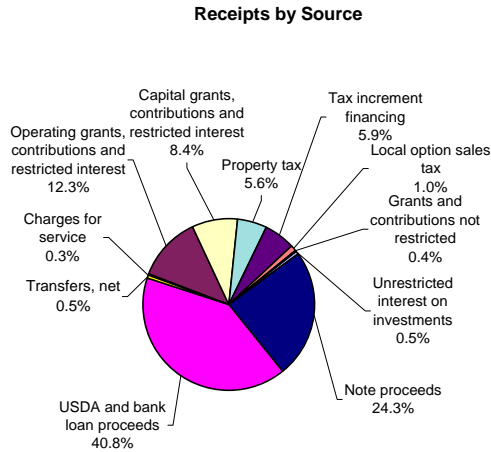
2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains two Enterprise Funds to provide separate information for the water and sewer funds, considered to be major funds of the City.

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

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased sharply from a year ago, increasing from \$504,179 to \$1,621,214. The analysis that follows focuses on the changes in cash balances for governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities		
	Year ended June 30,	
	2004	2003
Receipts and transfers:		
Program receipts:		
Charges for service	\$ 13,529	11,535
Operating grants, contributions and restricted interest	474,707	369,472
Capital grants, contributions and restricted interest	326,192	65,985
General receipts:		
Property tax	216,559	197,661
Tax increment financing	229,649	184,677
Local option sales tax	36,981	96,628
Grants and contributions not restricted to specific purposes	14,871	29,204
Unrestricted interest on investments	18,607	9,977
Note proceeds	942,195	-
USDA and bank loan proceeds	1,580,000	-
Transfers, net	20,000	29,438
Total receipts and transfers	<u>3,873,290</u>	<u>994,577</u>
Disbursements:		
Public safety	200,573	436,881
Public works	104,348	124,348
Health and social services	55,372	53,914
Culture and recreation	68,540	66,940
Community and economic development	75,226	106,172
General government	75,672	75,048
Debt service	965,600	79,657
Capital projects	1,210,924	90,193
Total disbursements	<u>2,756,255</u>	<u>1,033,153</u>
Increase (decrease) in cash basis net assets	1,117,035	(38,576)
Cash basis net assets beginning of year, as restated	<u>504,179</u>	<u>542,755</u>
Cash basis net assets end of year	<u>\$ 1,621,214</u>	<u>504,179</u>



The City's total receipts for governmental activities increased by 289%, or \$2,878,713. The total cost of all programs and services increased by approximately \$1,723,102, or 170%, with no new programs added this year. The significant increase in receipts was primarily the result of proceeds from the issuance of general obligation street improvement notes and a USDA and bank loan for the construction of a daycare facility.

The City increased property tax rates for 2004 by an average of 7 percent. This increase raised the City's property tax receipts by approximately \$19,000 in 2004. Based on a decrease in the property tax rate for 2005, property tax receipts are budgeted to decrease by approximately \$17,000 next year.

The cost of all governmental activities for fiscal 2004 was \$2.8 million compared to \$1 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 \$1.9 million because some of the cost was paid by those directly benefited from the programs (\$13,529) or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest (\$800,899). Overall, the City's governmental activities receipts, including intergovernmental aid and fees for service, increased in 2004 from \$446,992 to \$814,428, principally due to receiving CDBG grant proceeds to construct a daycare center. The City paid for the remaining "public benefit" portion of governmental activities with approximately \$216,559 in tax (some of which could only be used for certain programs) and with other receipts, such as interest and general entitlements.

Changes in Cash Basis Net Assets of Business Type Activities		
	Year ended June 30,	
	2004	2003
Receipts:		
Program receipts:		
Charges for service		
Water	\$ 62,866	63,158
Sewer	71,186	71,204
General receipts:		
Unrestricted investment earnings	1,225	1,746
Other general receipts	1,584	2,098
Total receipts	<u>136,861</u>	<u>138,206</u>
Disbursements and transfers:		
Water	56,943	53,696
Sewer	67,645	82,877
Transfers	20,000	29,438
Total disbursements and transfers	<u>144,588</u>	<u>166,011</u>
Decrease in cash basis net assets	(7,727)	(27,805)
Cash basis net assets beginning of year	<u>150,129</u>	<u>177,934</u>
Cash basis net assets end of year	<u>\$ 142,402</u>	<u>150,129</u>

Total business type activities receipts for the fiscal year were \$136,861 compared to \$138,206 last year. The cash balance decreased by \$7,727 from the prior year. Total disbursements and transfers for the fiscal year decreased by 13% to \$144,588.

#### **INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS**

As City of Central City completed the year, its governmental funds reported a combined fund balance of \$1,621,214, an increase of \$1,117,035 over last year's total of \$504,179. 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 \$144,531 from the prior year to \$338,305. Approximately \$144,000 of this increase was due to a decrease in public safety disbursements from fiscal year 2003 when property buy-outs due to flooding occurred.
- The cash balance of the Special Revenue, Tax Increment Financing Fund was \$155,688 at the end of the fiscal year, an increase of \$68,924 from the previous year. The increase was the result of an increase in incremental property tax generated from increased taxable valuation in the district.
- The Capital Projects Fund cash balance increased by \$850,805 to \$876,597 during the fiscal year. This increase was also attributable to \$790,000 from USDA loan proceeds and approximately \$326,000 from a CDBG grant to construct a daycare center.
- The Debt Service Fund cash balance did not change.

## INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance increased by \$7,987 to \$79,335, due primarily to a reduction in transfers made in 2004.
- The Sewer Fund cash balance decreased by \$15,714 to \$63,067, due primarily to the decrease in disbursements from the previous year.

## BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget once. The amendment was approved on May 12, 2004 and resulted in an increase in operating disbursements related to a cost overrun of approximately \$180,000 for various maintenance projects involving City Hall, to provide additional disbursements due to federal funding of properties in the flood plain and increased funding for economic development.

## DEBT ADMINISTRATION

At June 30, 2004, the City had approximately \$1,965,809 in notes and other long-term debt, compared to approximately \$359,000 last year, as shown below.

Outstanding Debt at Year-End		
	June 30, 2004	June 30, 2003
General obligation bonds	\$ 1,176,000	359,000
Revenue notes	789,809	-
Total	\$ 1,965,809	359,000

Debt increased as a result of issuing general obligation notes for a street improvement project. In addition, the City received a USDA loan for the purpose of defraying a portion of the costs of constructing a daycare center.

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$1,176,000 is significantly below its constitutional debt limit of \$1.97 million.

## ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

Central City's elected and appointed officials and citizens considered many factors when setting the fiscal year 2005 budget, tax rates and fees charged for various City activities. The City has added no new programs or initiatives to the 2005 budget. At the time the financial statements were prepared and audited, the City was aware of the following existing circumstances that could affect its financial health in the future:

Capital projects expenditures are expected to increase due to a street project.

Debt payments are expected to increase due to the issuance of \$745,000 of general obligation corporate purpose and refunding notes which will be used to refund \$296,000 of outstanding notes and for paying the cost of constructing street and related improvements of \$449,000.

If these estimates are realized, the City's budgeted cash balance is expected to decrease by approximately \$1,000,000 by the close of 2005.

## **CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact LaNeil McFadden, City Clerk, 137 4<sup>th</sup> Street N, Central City, Iowa 52214.

**City of Central City**

## **Basic Financial Statements**



City of Central City

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
<b>Functions / Programs:</b>				
Governmental activities:				
Public safety	\$ 200,573	4,522	285,048	-
Public works	104,348	-	96,364	-
Health and social services	55,372	1,819	49,239	-
Culture and recreation	68,540	4,413	44,056	-
Community and economic development	75,226	-	-	-
General government	75,672	2,775	-	-
Debt service	965,600	-	-	-
Capital projects	1,210,924	-	-	326,192
Total governmental activities	2,756,255	13,529	474,707	326,192
Business type activities:				
Water	56,943	64,450	-	-
Sewer	67,645	71,186	-	-
Total business type activities	124,588	135,636	-	-
Total	\$ 2,880,843	149,165	474,707	326,192

**General Receipts:**

- Property tax levied for:
  - General purposes
  - Employee benefits
  - Tort liability
  - Debt service
- Local option sales tax
- Grants and contributions not restricted to specific purpose
- Unrestricted interest on investments
- Note proceeds
- Tax increment financing
- Bank loan proceeds
- USDA loan proceeds

Transfers

Total general receipts and transfers

Change in cash basis net assets

Cash basis net assets beginning of year

Cash basis net assets end of year

**Cash Basis Net Assets**

Restricted:

- Urban renewal purposes
- Falcon Civic Center
- Library purposes
- Streets
- Capital projects

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
88,997	-	88,997
(7,984)	-	(7,984)
(4,314)	-	(4,314)
(20,071)	-	(20,071)
(75,226)	-	(75,226)
(72,897)	-	(72,897)
(965,600)	-	(965,600)
(884,732)	-	(884,732)
(1,941,827)	-	(1,941,827)
-	7,507	7,507
-	3,541	3,541
-	11,048	11,048
(1,941,827)	11,048	(1,930,779)
145,574	-	145,574
8,126	-	8,126
333	-	333
62,526	-	62,526
36,981	-	36,981
14,871	-	14,871
18,607	1,225	19,832
942,195	-	942,195
229,649	-	229,649
790,000	-	790,000
790,000	-	790,000
20,000	(20,000)	-
3,058,862	(18,775)	3,040,087
1,117,035	(7,727)	1,109,308
504,179	150,129	654,308
\$ 1,621,214	142,402	1,763,616
\$ 155,688	-	155,688
91,384	-	91,384
26,178	-	26,178
133,062	-	133,062
876,597	-	876,597
338,305	142,402	480,707
\$ 1,621,214	142,402	1,763,616

City of Central City

Statement of Activities and Net Assets – Cash Basis

As of and for the year ended June 30, 2003

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
<b>Functions / Programs:</b>				
Governmental activities:				
Public safety	\$ 436,881	4,241	187,218	-
Public works	124,348	-	94,195	-
Health and social services	53,914	1,083	42,884	-
Culture and recreation	66,940	3,866	45,175	-
Community and economic development	106,172	-	-	-
General government	75,048	2,345	-	-
Debt service	79,657	-	-	-
Capital projects	90,193	-	-	65,985
Total governmental activities	1,033,153	11,535	369,472	65,985
Business type activities:				
Water	53,696	65,256	-	-
Sewer	82,877	71,204	-	-
Total business type activities	136,573	136,460	-	-
Total	\$ 1,169,726	147,995	369,472	65,985
<b>General Receipts:</b>				
Property tax levied for:				
General purposes				
Employee benefits				
Tort liability				
Debt service				
Local option sales tax				
Grants and contributions not restricted to specific purpose				
Unrestricted interest on investments				
Tax increment financing				
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				
<b>Cash Basis Net Assets</b>				
Restricted:				
Streets				
Urban renewal purposes				
Falcon Civic Center				
Library purposes				
Capital projects				
Unrestricted				
<b>Total cash basis net assets</b>				

See notes to financial statements.

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
Governmental Activities	Business Type Activities	Total
(245,422)	-	(245,422)
(30,153)	-	(30,153)
(9,947)	-	(9,947)
(17,899)	-	(17,899)
(106,172)	-	(106,172)
(72,703)	-	(72,703)
(79,657)	-	(79,657)
(24,208)	-	(24,208)
(586,161)	-	(586,161)
-	11,560	11,560
-	(11,673)	(11,673)
-	(113)	(113)
(586,161)	(113)	(586,274)
149,732	-	149,732
6,009	-	6,009
11,978	-	11,978
29,942	-	29,942
96,628	-	96,628
29,204	-	29,204
9,977	1,746	11,723
184,677	-	184,677
29,438	(29,438)	-
547,585	(27,692)	519,893
(38,576)	(27,805)	(66,381)
542,755	177,934	720,689
\$ 504,179	150,129	654,308
\$ 81,885	-	81,885
86,764	-	86,764
90,384	-	90,384
25,580	-	25,580
25,792	-	25,792
193,774	150,129	343,903
\$ 504,179	150,129	654,308

City of Central City

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

As of and for the year ended June 30, 2004

	General	Special Revenue Tax Increment Financing	Debt Service
Receipts:			
Property tax	\$ 154,033	-	62,526
Tax increment financing	-	229,649	-
Local option sales tax	36,981	-	-
Licenses and permits	7,296	-	-
Use of money and property	9,563	899	-
Intergovernmental	350,136	-	-
Charges for service	5,292	-	-
Miscellaneous	40,308	-	-
Total receipts	<u>603,609</u>	<u>230,548</u>	<u>62,526</u>
Disbursements:			
Operating:			
Public safety	200,573	-	-
Public works	59,161	-	-
Health and social services	55,372	-	-
Culture and recreation	68,071	-	-
Community and economic development	229	74,997	-
General government	75,672	-	-
Debt service	-	-	169,153
Capital projects	-	-	-
Total disbursements	<u>459,078</u>	<u>74,997</u>	<u>169,153</u>
Excess (deficiency) of receipts over (under) disbursements	<u>144,531</u>	<u>155,551</u>	<u>(106,627)</u>
Other financing sources (uses):			
Note proceeds	-	-	-
Bank loan proceeds	-	-	-
USDA loan proceeds	-	-	-
Operating transfers in	-	-	106,627
Operating transfers out	-	(86,627)	-
Total other financing sources (uses)	<u>-</u>	<u>(86,627)</u>	<u>106,627</u>
Net change in cash balances	144,531	68,924	-
Cash balances beginning of year	193,774	86,764	-
Cash balances end of year	<u>\$ 338,305</u>	<u>155,688</u>	<u>-</u>
<b>Cash Basis Fund Balances</b>			
Unreserved:			
General fund	\$ 338,305	-	-
Special revenue funds	-	155,688	-
Capital projects fund	-	-	-
Total cash basis fund balances	<u>\$ 338,305</u>	<u>155,688</u>	<u>-</u>

See notes to financial statements.

Capital Projects	Nonmajor Governmental	Total
-	-	216,559
-	-	229,649
-	-	36,981
-	-	7,296
9,789	2,027	22,278
326,192	96,364	772,692
-	-	5,292
-	40	40,348
<u>335,981</u>	<u>98,431</u>	<u>1,331,095</u>
-	-	200,573
-	45,187	104,348
-	-	55,372
-	469	68,540
-	-	75,226
-	-	75,672
796,447	-	965,600
<u>1,210,924</u>	<u>-</u>	<u>1,210,924</u>
<u>2,007,371</u>	<u>45,656</u>	<u>2,756,255</u>
<u>(1,671,390)</u>	<u>52,775</u>	<u>(1,425,160)</u>
942,195	-	942,195
790,000	-	790,000
790,000	-	790,000
-	-	106,627
-	-	(86,627)
<u>2,522,195</u>	<u>-</u>	<u>2,542,195</u>
850,805	52,775	1,117,035
25,792	197,849	504,179
<u>876,597</u>	<u>250,624</u>	<u>1,621,214</u>
-	-	338,305
-	250,624	406,312
<u>876,597</u>	<u>-</u>	<u>876,597</u>
<u>876,597</u>	<u>250,624</u>	<u>1,621,214</u>

City of Central City

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

As of and for the year ended June 30, 2003

	Special		
	General	Road Use Tax	Tax Increment Financing
Receipts:			
Property tax	\$ 167,719	-	-
Tax increment financing	-	-	184,677
Local option sales tax	96,628	-	-
Licenses and permits	6,586	-	-
Use of money and property	9,416	-	-
Intergovernmental	255,347	94,195	-
Charges for service	3,342	-	-
Miscellaneous	47,332	-	-
Total receipts	586,370	94,195	184,677
Disbursements:			
Operating:			
Public safety	436,881	-	-
Public works	31,000	93,348	-
Health and social services	53,914	-	-
Culture and recreation	61,562	-	-
Community and economic development	9,452	-	96,720
General government	75,048	-	-
Debt service	-	-	-
Capital projects	-	-	-
Total disbursements	667,857	93,348	96,720
Excess (deficiency) of receipts over (under) disbursements	(81,487)	847	87,957
Other financing sources (uses):			
Operating transfers in	14,004	-	-
Operating transfers out	(50,277)	-	(13,307)
Total other financing sources (uses)	(36,273)	-	(13,307)
Net change in cash balances	(117,760)	847	74,650
Cash balances beginning of year	311,534	81,038	12,114
Cash balances end of year	\$ 193,774	81,885	86,764
<b>Cash Basis Fund Balances</b>			
Unreserved:			
General fund	\$ 193,774	-	-
Special revenue funds	-	81,885	86,764
Capital projects fund	-	-	-
Total cash basis fund balances	\$ 193,774	81,885	86,764

See notes to financial statements.

Revenue			
Falcon Civic Center Trust	Debt Service	Nonmajor Governmental	Total
-	29,942	-	197,661
-	-	-	184,677
-	-	-	96,628
-	-	-	6,586
2,549	-	1,211	13,176
-	-	65,985	415,527
-	-	-	3,342
-	-	210	47,542
2,549	29,942	67,406	965,139
-	-	-	436,881
-	-	-	124,348
-	-	-	53,914
-	-	5,378	66,940
-	-	-	106,172
-	-	-	75,048
-	79,657	-	79,657
-	-	90,193	90,193
-	79,657	95,571	1,033,153
2,549	(49,715)	(28,165)	(68,014)
-	49,715	30,000	93,719
-	-	(697)	(64,281)
-	49,715	29,303	29,438
2,549	-	1,138	(38,576)
87,835	-	50,234	542,755
90,384	-	51,372	504,179
-	-	-	193,774
90,384	-	25,580	284,613
-	-	25,792	25,792
90,384	-	51,372	504,179



**City of Central City**

City of Central City

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

As of and for the year ended June 30, 2004

	Water	Sewer	Total
Operating receipts:			
Charges for service	\$ 62,866	71,186	134,052
Miscellaneous	1,584	-	1,584
Total operating receipts	<u>64,450</u>	<u>71,186</u>	<u>135,636</u>
Operating disbursements:			
Business type activities	<u>56,943</u>	<u>67,645</u>	<u>124,588</u>
Excess of operating receipts over operating disbursements	7,507	3,541	11,048
Non-operating receipts:			
Interest on investments	<u>480</u>	<u>745</u>	<u>1,225</u>
Excess of receipts over disbursements	7,987	4,286	12,273
Operating transfers out	<u>-</u>	<u>(20,000)</u>	<u>(20,000)</u>
Net change in cash balances	7,987	(15,714)	(7,727)
Cash balances beginning of year	<u>71,348</u>	<u>78,781</u>	<u>150,129</u>
Cash balances end of year	<u>\$ 79,335</u>	<u>63,067</u>	<u>142,402</u>
<b>Cash Basis Fund Balances</b>			
Unreserved	<u>\$ 79,335</u>	<u>63,067</u>	<u>142,402</u>

See notes to financial statements.

**Exhibit C**

## City of Central City

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

As of and for the year ended June 30, 2003

	Water	Sewer	Total
Operating receipts:			
Charges for service	\$ 63,158	71,204	134,362
Miscellaneous	2,098	-	2,098
Total operating receipts	65,256	71,204	136,460
Operating disbursements:			
Business type activities	53,696	82,877	136,573
Excess (deficiency) of operating receipts over (under) operating disbursements	11,560	(11,673)	(113)
Non-operating receipts:			
Interest on investments	728	1,018	1,746
Excess (deficiency) of receipts over (under) disbursements	12,288	(10,655)	1,633
Operating transfers out	(9,438)	(20,000)	(29,438)
Net change in cash balances	2,850	(30,655)	(27,805)
Cash balances beginning of year	68,498	109,436	177,934
Cash balances end of year	\$ 71,348	78,781	150,129
<b>Cash Basis Fund Balances</b>			
Unreserved	\$ 71,348	78,781	150,129

See notes to financial statements.

City of Central City

Notes to Financial Statements

June 30, 2004 and 2003

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

The City of Central City is a political subdivision of the State of Iowa located in Linn County. It was first incorporated in 1859 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, health and social services, culture and recreation, community and economic development and general government services. The City also provides water and sewer utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Central City has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City. The City has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations

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

B. Basis of Presentation

Government-wide Financial Statement - The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from these statements. 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 for the year ended June 30, 2004:

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.

The Special Revenue, Tax Increment Financing Fund is used to account for urban renewal projects financial by tax increment financing.

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

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities, with the exception of those that are financed through enterprise funds.

The City reports the following major governmental funds for the year ended June 30, 2003:

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 Tax Increment Financing Fund is used to account for urban renewal projects financed by tax increment financing.

The Falcon Civic Center Trust Fund is used to account for funds donated to the Civic Center.

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

The City reports the following major proprietary funds for the years ended June 30, 2004 and 2003:

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

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

C. Measurement Focus and Basis of Accounting

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

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

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2004 disbursements exceeded the amounts budgeted in the public safety, health and social services and debt service functions. During the year ended June 30, 2003, disbursements exceeded the amounts budgeted in the public safety, health and social services, community and economic development, debt service and capital projects functions.

**(2) Cash and Pooled Investments**

The City's deposits in banks at June 30, 2004 and June 30, 2003 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

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

**(3) Bonds and Notes Payable**

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

Year ended June 30, 2004:

Year Ending June 30,	General Obligation Notes		Revenue Notes		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2005	\$ 143,000	41,769	-	14,499	143,000	56,268
2006	148,000	36,910	7,560	66,731	155,560	103,641
2007	150,000	31,600	8,648	34,312	158,648	65,912
2008	150,000	26,221	8,943	34,017	158,943	60,238
2009	115,000	20,120	9,439	33,521	124,439	53,641
2010 - 2014	470,000	50,903	53,858	33,097	523,858	84,000
2015 - 2043	-	-	701,361	669,392	701,361	669,392
Total	\$ 1,176,000	207,523	789,809	885,569	1,965,809	1,093,092

Year ended June 30, 2003:

Year Ending June 30,	General Obligation Notes	
	Principal	Interest
2004	\$ 63,000	20,070
2005	63,000	16,706
2006	68,000	13,248
2007	70,000	9,338
2008	65,000	5,639
2009	30,000	1,620
Total	\$ 359,000	66,621

The resolution providing for the issuance of the revenue notes includes the following provisions.

- (a) The notes will only be redeemed from the future earnings of ABC Childcare facility and the note holders hold a lien on the future earnings of the funds.

During the year ended June 30, 2004, \$561 of principal and \$393 of interest were paid out of the Capital Projects Fund and not out of the daycare facility net revenues as required by the note resolution.

- (b) Sufficient monthly transfers shall be made by ABC Childcare to a revenue note sinking account for the purpose of making the note principal and interest payments when due.
- (c) The source of payment is limited to revenues generated by the daycare facility and the notes do not constitute a general obligation of the City and should not be paid in any way from taxation.
- (d) The City is to enter into a Management and Use Payment Agreement with the Central City Community School District to provide for the use, management and operation of the day care facility by the School. As of June 30, 2004, the agreement required to be signed by the School District and the City has not been signed.

**(4) Pension and Retirement Benefits**

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

Plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2004 and 2003 were \$9,285 and \$8,931, respectively, equal to the required contributions for each year.

**(5) Compensated Absences**

City employees accumulate a limited amount of earned but unused vacation, sick leave and compensatory time 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, sick leave and compensatory time termination payments payable to employees at June 30, 2004 and June 30, 2003, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount	
	2004	2003
Vacation	\$ 4,100	5,000
Sick leave	7,300	7,300
Compensatory time	3,900	7,100
Total	<u>\$ 15,300</u>	<u>19,400</u>

These liabilities have been computed based on rates of pay in effect at June 30, 2004 and June 30, 2003, respectively.

**(6) Interfund Transfers**

The detail of interfund transfers for the years ended June 30, 2004 and June 30, 2003 are as follows:

Year ended June 30, 2004:

Transfer to	Transfer from	Amount
Debt Service	Special Revenue:	\$ 86,627
	Tax Increment Financing	
Total	Enterprise:	<u>20,000</u>
	Sewer	
		<u>\$ 106,627</u>



Year ended June 30, 2003:

Transfer to	Transfer from	Amount
General	Special Revenue:	
	Tax Increment Financing	\$ 13,307
	Capital Projects	697
		<u>14,004</u>
Capital Projects	General	<u>30,000</u>
Debt Service	General	20,277
	Enterprise:	
	Water	9,438
	Sewer	20,000
		<u>49,715</u>
Total		<u>\$ 93,719</u>

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

**(7) Related Party Transactions**

The City had business transactions between the City and City officials totaling \$54,549 during the year ended June 30, 2004, and \$154 during the year ended June 30, 2003.

**(8) Development Agreements**

The City has entered into four development agreements, three on November 17, 1997 and one on November 29, 1999, to assist urban renewal projects.

The City agreed to rebate 65.71% of the incremental tax paid by developers in exchange for installation of certain improvements, including sanitary sewers, water mains and housing and residential development, made by the developers. The incremental taxes to be received by the City under Chapter 403.19 of the Code of Iowa from the developers will be rebated for a period of ten years, beginning November 17, 1997. The total to be paid by the City under these agreements is not to exceed \$2,400,000.

During the year ended June 30, 2004, the City rebated \$38,580 of incremental tax under these agreements. The maximum remaining balance at June 30, 2004 was \$2,289,568.

During the year ended June 30, 2003, the City rebated \$31,139 of incremental tax under these agreements. The maximum remaining balance at June 30, 2003 was \$2,328,148.

The City entered into a development agreement on May 30, 2001 to provide funds of \$20,000 per year for five years to a developer to build a six unit apartment building for low and moderate income residents that will be donated by the developer to the Fourth Street Renovation Project. These payments are being made from the Special Revenue, Tax Increment Financing Fund. The remaining balance was \$40,000 at June 30, 2003 and \$20,000 at June 30, 2004.

**(9) Risk Management**

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

**(10) Litigation**

The City is subject to small claims litigation for property damage. The City is awaiting a court decision. The probability of loss, if any, is undeterminable, but the jurisdictional limits of small claims court is \$10,000.

**(11) Construction Contracts**

During the year ended June 30, 2004, the City entered into several construction contracts.

The City entered into a contract totaling \$1,101,144 for the Main Street Improvement Project. At June 30, 2004, no payments had been made. Payments will be made as work on the project progresses.

The City entered into a contract totaling \$997,351 for the construction of the day care facility. The City made payments totaling \$972,381. The balance remaining on the contract at June 30, 2004 totaled \$24,970.

**(12) Contracts With Heritage Area Agency on Aging**

The City is a subcontractor to the Heritage Agency on Aging of Kirkwood Community College. The City agrees to provide the nutrition service at the facility located in Central City. The contractor reimbursed the City \$49,214 and \$42,885 for actual expenses incurred under the terms of the contracts for the fiscal years ended June 30, 2004 and June 30, 2003, respectively.

**(13) Subsequent Event**

In July 2004, the City issued \$745,000 of general obligation corporate purpose and refunding notes, with interest rates ranging from 2.00% to 4.30%, to refund \$120,000 of outstanding general obligation capital loan notes, Series 1992, dated November 1, 1992, \$41,000 of general obligation corporate purpose notes, Series 2000A, dated October 11, 2000, and \$135,000 of outstanding general obligation storm sewer improvement notes, Series 2000, dated February 1, 2000. The City will also use the note proceeds to pay for the costs of constructing street and related improvements of \$449,000. The principal on the 1992 and 2000 series notes were called for redemption on August 2, 2004 and the Series 2000A notes were called for redemption on July 12, 2004. Details of the general obligation corporate purpose and refunding notes are as follows:

Year Ending June 30,	General Obligation Corporate Purpose and Refunding Notes, Series 2004		
	Interest Rates	Principal	Interest
2005	2.00%	\$ 95,000	21,938
2006	2.40	110,000	22,032
2007	2.90	105,000	19,392
2008	3.20	110,000	16,348
2009	3.50	75,000	12,828
2010	3.75	45,000	10,202
2011	4.00	50,000	8,515
2012	4.10	50,000	6,516
2013	4.20	50,000	4,465
2014	4.30	55,000	2,365
Total		<u>\$ 745,000</u>	<u>124,601</u>

The City refunded the notes to obtain an economic gain (difference between the present value of the debt service payments on the old and new debt) of approximately \$10,800.

**(14) Lease Agreement**

The City entered into a lease agreement during October 2002 with William and Laura Buchanan. The tenants agree to lease from the City a city-owned lot located at 351 Elm Street for \$1 per year. The lease is for an indefinite duration.

**(15) Accounting Change**

Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures, and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences, were implemented for the years ended June 30, 2004 and June 30, 2003. 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.

Implementation of these standards had no effect on the beginning balances of the individual funds.

**Required Supplementary Information**

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

Required Supplementary Information

Year ended June 30, 2004

	Governmental Funds Actual	Proprietary Funds Actual
Receipts:		
Property tax	\$ 216,559	-
Tax increment financing	230,548	-
Local option sales tax	36,981	-
Licenses and permits	7,296	-
Use of money and property	21,379	1,225
Intergovernmental	772,692	-
Charges for service	5,292	134,052
Miscellaneous	40,348	1,584
Total receipts	1,331,095	136,861
Disbursements:		
Public safety	200,573	-
Public works	104,348	-
Health and social services	55,372	-
Culture and recreation	68,540	-
Community and economic development	75,226	-
General government	75,672	-
Debt service	965,600	-
Capital projects	1,210,924	-
Business type activities	-	124,588
Total disbursements	2,756,255	124,588
Excess (deficiency) of receipts over (under) disbursements	(1,425,160)	12,273
Other financing sources, net	2,542,195	(20,000)
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	1,117,035	(7,727)
Balances beginning of year	504,179	150,129
Balances end of year	\$ 1,621,214	142,402

See accompanying independent auditor's report.

Total	Budgeted Amounts		Final to Total Variance
	Original	Final	
216,559	206,113	206,113	10,446
230,548	132,000	200,000	30,548
36,981	11,161	36,161	820
7,296	9,000	6,500	796
22,604	18,800	13,000	9,604
772,692	568,127	698,127	74,565
139,344	144,600	144,600	(5,256)
41,932	6,000	2,500	39,432
1,467,956	1,095,801	1,307,001	160,955
200,573	52,675	182,675	(17,898)
104,348	127,538	127,538	23,190
55,372	52,270	52,270	(3,102)
68,540	80,840	80,840	12,300
75,226	60,145	110,145	34,919
75,672	80,292	80,292	4,620
965,600	154,884	154,884	(810,716)
1,210,924	1,900,000	1,900,000	689,076
124,588	140,392	140,392	15,804
2,880,843	2,649,036	2,829,036	(51,807)
(1,412,887)	(1,553,235)	(1,522,035)	109,148
2,522,195	1,500,000	1,663,889	858,306
1,109,308	(53,235)	141,854	967,454
654,308	654,308	654,308	-
1,763,616	601,073	796,162	967,454

City of Central City  
 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, 2003

	Governmental Funds Actual	Proprietary Funds Actual
Receipts:		
Property tax	\$ 197,661	-
Tax increment financing	184,677	-
Local option sales tax	96,628	-
Licenses and permits	6,586	-
Use of money and property	13,176	1,746
Intergovernmental	415,527	-
Charges for service	3,342	134,362
Miscellaneous	47,542	2,098
Total receipts	965,139	138,206
Disbursements:		
Public safety	436,881	-
Public works	124,348	-
Health and social services	53,914	-
Culture and recreation	66,940	-
Community and economic development	106,172	-
General government	75,048	-
Debt service	79,657	-
Capital projects	90,193	-
Business type activities	-	136,573
Total disbursements	1,033,153	136,573
Excess (deficiency) of receipts over (under) disbursements	(68,014)	1,633
Other financing sources, net	29,438	(29,438)
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(38,576)	(27,805)
Balances beginning of year	542,755	177,934
Balances end of year	\$ 504,179	150,129

See accompanying independent auditor's report.

Total	Budgeted Amounts		Final to Total Variance
	Original	Final	
197,661	186,959	186,959	10,702
184,677	130,000	130,000	54,677
96,628	70,033	70,033	26,595
6,586	5,900	5,900	686
14,922	21,400	21,400	(6,478)
415,527	537,633	537,633	(122,106)
137,704	135,800	135,800	1,904
49,640	5,000	5,000	44,640
<u>1,103,345</u>	<u>1,092,725</u>	<u>1,092,725</u>	<u>10,620</u>
436,881	435,264	435,264	(1,617)
124,348	125,636	125,636	1,288
53,914	50,459	50,459	(3,455)
66,940	78,260	78,260	11,320
106,172	89,000	89,000	(17,172)
75,048	81,585	81,585	6,537
79,657	79,057	79,057	(600)
90,193	60,000	60,000	(30,193)
136,573	160,760	160,760	24,187
<u>1,169,726</u>	<u>1,160,021</u>	<u>1,160,021</u>	<u>(9,705)</u>
(66,381)	(67,296)	(67,296)	915
-	-	-	-
(66,381)	(67,296)	(67,296)	915
<u>720,689</u>	<u>708,575</u>	<u>708,575</u>	<u>12,114</u>
<u>654,308</u>	<u>641,279</u>	<u>641,279</u>	<u>13,029</u>



City of Central City

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2004 and June 30, 2003

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

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, 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 ended June 30, 2004, one budget amendment increased budgeted disbursements by \$180,000. The budget amendment is reflected in the final budgeted amounts. The budget for the year ended June 30, 2003 was not amended.

During the year ended June 30, 2004, disbursements exceeded the amounts budgeted in the public safety, health and social services and debt service functions. During the year ended June 30, 2003, disbursements exceeded the amounts budgeted in the public safety, health and social services, community and economic development, debt service and capital projects functions.

**Other Supplementary Information**

**Schedule 1**

## City of Central City

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

As of and for the year ended June 30, 2004

	Special Revenue			
	Falcon Civic Center Trust	J.C. Clegg Library	Road Use Tax	Total
Receipts:				
Use of money and property	\$ 1,000	1,027	-	2,027
Intergovernmental	-	-	96,364	96,364
Miscellaneous	-	40	-	40
Total receipts	1,000	1,067	96,364	98,431
Disbursements:				
Operating:				
Public works	-	-	45,187	45,187
Culture and recreation	-	469	-	469
Total disbursements	-	469	45,187	45,656
Net change in cash balances	1,000	598	51,177	52,775
Cash balances beginning of year	90,384	25,580	81,885	197,849
Cash balances end of year	\$ 91,384	26,178	133,062	250,624
<b>Cash Basis Fund Balances</b>				
Unreserved:				
Special revenue funds	\$ 91,384	26,178	133,062	250,624

See accompanying independent auditor's report.

## City of Central City

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

As of and for the year ended June 30, 2003

	Special Revenue		
	J.C. Clegg Library	Capital Projects	Total
Receipts:			
Use of money and property	\$ 1,211	-	1,211
Intergovernmental	-	65,985	65,985
Miscellaneous	210	-	210
Total receipts	<u>1,421</u>	<u>65,985</u>	<u>67,406</u>
Disbursements:			
Operating:			
Culture and recreation	5,378	-	5,378
Capital projects	-	90,193	90,193
Total disbursements	<u>5,378</u>	<u>90,193</u>	<u>95,571</u>
Deficiency of receipts under disbursements	<u>(3,957)</u>	<u>(24,208)</u>	<u>(28,165)</u>
Other financing sources (uses):			
Operating transfers in	-	30,000	30,000
Operating transfers out	-	(697)	(697)
Net change in cash balances	(3,957)	5,095	1,138
Cash balances beginning of year	<u>29,537</u>	<u>20,697</u>	<u>50,234</u>
Cash balances end of year	<u>\$ 25,580</u>	<u>25,792</u>	<u>51,372</u>
<b>Cash Basis Fund Balances</b>			
Unreserved:			
Special revenue funds	\$ 25,580	-	25,580
Capital projects fund	-	25,792	25,792
Total cash basis fund balances	<u>\$ 25,580</u>	<u>25,792</u>	<u>51,372</u>

See accompanying independent auditor's report.

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

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation notes:			
Capital loan sewer	Nov 1, 1992	3.90-6.90%	\$ 340,000
Storm sewer	Feb 1, 2000	4.80-5.40	220,000
Corporate purpose loan	Oct 1, 2000	4.40-4.65	105,000
Street improvement	Nov 1, 2003	1.75-3.75	950,000
Total			
Revenue notes:			
Childcare center	Jan 22, 2004	4.50	\$ 790,000
Bank loans:			
Childcare center	Dec 23, 2003	3.00	\$ 500,000
Childcare center	Dec 23, 2003	3.00	290,000
Total			

See accompanying independent auditor's report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
145,000	-	25,000	120,000	9,453
160,000	-	25,000	135,000	8,438
54,000	-	13,000	41,000	2,180
-	950,000	70,000	880,000	15,334
<b>\$ 359,000</b>	<b>950,000</b>	<b>133,000</b>	<b>1,176,000</b>	<b>35,405</b>
-	790,000	191	789,809	763
-	500,000	500,000	-	3,544
-	290,000	290,000	-	1,948
<b>\$ -</b>	<b>790,000</b>	<b>790,000</b>	<b>-</b>	<b>5,492</b>

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City of Central City  
Schedule of Indebtedness  
Year ended June 30, 2003

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation notes:			
Capital loan sewer	Nov 1, 1992	3.90-6.90	\$ 340,000
Storm sewer	Feb 1, 2000	4.80-5.40	220,000
Corporate purpose loan	Oct 1, 2000	4.40-4.65	105,000
Total			

See accompanying independent auditor's report.

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Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
170,000	-	25,000	145,000	10,903
180,000	-	20,000	160,000	9,437
65,000	-	11,000	54,000	2,717
<u>\$ 415,000</u>	<u>-</u>	<u>56,000</u>	<u>359,000</u>	<u>23,057</u>



City of Central City  
 Bond and Note Maturities  
 June 30, 2004

Year Ending June 30,	General			
	Capital Loan Sewer		Storm Sewer	
	Issued Nov 1, 1992		Issued Feb 1, 2000	
	Interest Rates	Amount	Interest Rates	Amount
2005	6.25%	\$ 25,000	5.20%	\$ 25,000
2006	6.50	30,000	5.25	25,000
2007	6.75	30,000	5.30	25,000
2008	6.90	35,000	5.35	30,000
2009		-	5.40	30,000
2010		-		-
2011		-		-
2012		-		-
2013		-		-
2014		-		-
Total		<u>\$ 120,000</u>		<u>\$ 135,000</u>

Year Ending June 30,	Revenue Notes	
	Childcare Center	
	Issued Jan 22, 2004	
	Interest Rates	Amount
2005	4.50%	\$ -
2006	4.50	7,560
2007	4.50	8,648
2008	4.50	8,943
2009	4.50	9,439
2010	4.50	9,863
2011	4.50	10,307
2012	4.50	10,681
2013	4.50	11,251
2014	4.50	11,756
2015	4.50	12,284
2016 to 2043	4.50	<u>689,077</u>
Total		<u>\$ 789,809</u>

See accompanying independent auditor's report.

Obligation Notes				
Corporate Purpose Loan		Street Improvement		
Issued Oct 1, 2000		Issued Nov 1, 2003		
Interest Rates	Amount	Interest Rates	Amount	Total
4.60%	\$ 13,000	1.75%	\$ 80,000	\$ 143,000
4.65	13,000	1.75	80,000	148,000
4.65	15,000	2.10	80,000	150,000
	-	2.45	85,000	150,000
	-	2.75	85,000	115,000
	-	3.10	90,000	90,000
	-	3.25	90,000	90,000
	-	3.45	95,000	95,000
	-	3.60	95,000	95,000
	-	3.75	100,000	100,000
	<u>\$ 41,000</u>		<u>\$ 880,000</u>	<u>\$ 1,176,000</u>

City of Central City  
 Bond and Note Maturities  
 June 30, 2003

Year Ending June 30,	General Obligation			
	Capital Loan Sewer		Storm Sewer	
	Issued Nov 1, 1992		Issued Oct 1, 2000	
	Interest Rates	Amount	Interest Rates	Amount
2004	6.00%	\$ 25,000	5.10%	\$ 25,000
2005	6.25%	25,000	5.20	25,000
2006	6.50	30,000	5.25	25,000
2007	6.75	30,000	5.30	25,000
2008	6.90	35,000	5.35	30,000
2009		-	5.40	30,000
Total		<u>\$ 145,000</u>		<u>\$ 160,000</u>

See accompanying independent auditor's report.

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Notes		
Corporate Purpose Loan		
Issued Feb 1, 2000		
Interest		
Rates	Amount	Total
4.55%	\$ 13,000	\$ 63,000
4.60	13,000	63,000
4.65	13,000	68,000
4.65	15,000	70,000
	-	65,000
	-	30,000
	<u>\$ 54,000</u>	<u>\$ 359,000</u>

**Schedule 4**

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## City of Central City

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

For the Last Two Years

	<u>2004</u>	<u>2003</u>
Receipts:		
Property tax	\$ 216,559	197,661
Tax increment financing	230,548	184,677
Other city tax	36,981	96,628
Licenses and permits	7,296	6,586
Use of money and property	21,379	13,176
Intergovernmental	772,692	415,527
Charges for service	5,292	3,342
Miscellaneous	40,348	47,542
	<u>                    </u>	<u>                    </u>
Total	<u>\$ 1,331,095</u>	<u>965,139</u>
Disbursements:		
Operating:		
Public safety	\$ 200,573	436,881
Public works	104,348	124,348
Health and social services	55,372	53,914
Culture and recreation	68,540	66,940
Community and economic development	75,226	106,172
General government	75,672	75,048
Debt service	965,600	79,657
Capital projects	1,210,924	90,193
	<u>                    </u>	<u>                    </u>
Total	<u>\$ 2,756,255</u>	<u>1,033,153</u>

See accompanying independent auditor's report.

City of Central City  
 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 Agriculture:			
Rural Housing Service:			
Community Facilities Loans and Grants	10.766		<u>\$ 790,000</u>
Indirect:			
U.S. Department of Housing and Urban Development:			
Iowa Department of Economic Development:			
Community Development Block Grants/ State's Program	14.228	02-CF-034-01	328,847
Department of Health and Human Services:			
Iowa Department of Public Health:			
Heritage Agency on Aging:			
Special Programs for the Aging-Title III, Part C- Nutrition Services	93.045		43,248
Medical Assistance Program	93.778		1,411
Department of Homeland Security:			
Iowa Department of Public Defense:			
Iowa Homeland Security and Emergency Management Division:			
Hazard Mitigation Grants	97.039	1277-0003	110,506
Public Assistance Grants	97.036	1277-0006	7,178
			<u>491,190</u>
Total			<u>\$ 1,281,190</u>

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

See accompanying independent auditor's report.

**Schedule 5**

City of Central City  
 Schedule of Expenditures of Federal Awards  
 Year ended June 30, 2003

Grantor/Program	CFDA Number	Agency Pass-through Number	Program Expenditures
Indirect:			
U.S. Department of Housing and Urban Development:			
Iowa Department of Economic Development:			
Community Development Block Grants/ State's Program	14.228	02-CF-034-01	\$ 62,420
Department of Homeland Security:			
Iowa Department of Public Defense:			
Iowa Homeland Security and Emergency Management Division:			
Hazard Mitigation Grants	83.548	1277-0006	288,026
Department of Health and Human Services:			
Iowa Department of Public Health:			
Heritage Agency on Aging:			
Special Programs for the Aging-Title III, Part C-			
Nutrition Services	93.045		42,637
Medical Assistance Program	93.778		<u>2,138</u>
Total			<u><u>\$ 395,221</u></u>

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

See accompanying independent auditor's report.



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

David A. Vaudt, CPA  
Auditor of State

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

To the Honorable Mayor and  
Members of the City Council:

We have audited the financial statements of the City of Central City, Iowa, as of and for the years ended June 30, 2004 and June 30, 2003, and have issued our report thereon dated March 30, 2005. Our report expressed an unqualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards, 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 Central City'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 Schedules of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the City's operations for the years ended June 30, 2004 and 2003 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.

Internal Control Over Financial Reporting

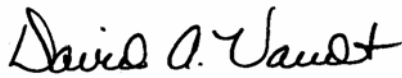
In planning and performing our audit, we considered the City of Central City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial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



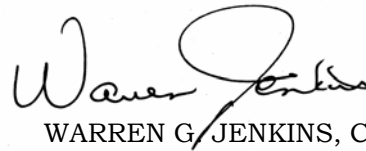
A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe items II-A-04 and II-C-04 are 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 Central City and other parties to whom the City of Central City 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 Central City during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.



DAVID A. VAUDT, CPA  
Auditor of State



WARREN G. JENKINS, CPA  
Chief Deputy Auditor of State

March 30, 2005

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

**City of Central City**



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

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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 Central City, Iowa, with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the years ended June 30, 2004 and June 30, 2003. The City of Central City's major federal programs are identified in Part I of the accompanying Schedules of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City of Central City's management. Our responsibility is to express an opinion on the City of Central City'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 Central City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Central City's compliance with those requirements.

In our opinion, the City of Central City complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the years ended June 30, 2004 and 2003.

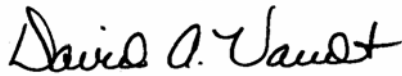
Internal Control Over Compliance

The management of the City of Central City 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 Central City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted a matter for each of the years ended June 30, 2004 and 2003 involving the internal control over compliance and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the City of Central City's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. The reportable condition is described as item III-A-04 and III-A-03 in the accompanying Schedules 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 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. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe item III-A-04 is a material weakness.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Central City and other parties to whom the City of Central City may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.



DAVID A. VAUDT, CPA  
Auditor of State



WARREN G. JENKINS, CPA  
Chief Deputy Auditor of State

March 30, 2005

**City of Central City**

City of Central City  
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) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, including material weaknesses.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) A reportable condition in internal control over the major program was disclosed by the audit of the financial statements, including a material weakness.
- (e) An unqualified opinion was issued on compliance with requirements applicable to the major program.
- (f) The audit disclosed audit findings which are required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) The major program was CFDA Number 10.766 – Community Facilities Loans and Grants.
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$500,000.
- (i) The City of Central City did not qualify as a low-risk auditee.

City of Central City  
Schedule of Findings and Questioned Costs  
Year ended June 30, 2003

**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) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, including material weaknesses.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) A reportable condition in internal control over the major program was disclosed by the audit of the financial statements, including a material weakness.
- (e) An unqualified opinion was issued on compliance with requirements applicable to the major program.
- (f) The audit disclosed audit findings which are required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) The major program was CFDA Number 83.548 – Hazard Mitigation Grants.
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) The City of Central City did not qualify as a low-risk auditee.



City of Central City

Schedule of Findings and Questioned Costs

Years ended June 30, 2004 and 2003

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

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

**REPORTABLE CONDITIONS:**

II-A-04 Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. For the City, one of two individuals has control over each of the following areas:

- (1) Receipts – collecting, depositing, journalizing, posting and reconciling.
- (2) Disbursements – check writing, signing and reconciling.
- (3) Utilities – billing, collecting and posting.
- (4) Payroll – preparation and distribution.

For the Central City Volunteer Fire Department, one individual has control over each of the following areas:

- (1) Receipts – collecting, depositing, posting and reconciling.
- (2) Disbursements – preparing, recording and reconciling.

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

Response –

City and Volunteer Fire Department:

We will review our internal controls to obtain the maximum internal control possible under the circumstances.

Conclusion – Response accepted.

II-B-04 Credit Cards – The City has a credit card for use by several employees while on City business. The City has not adopted a formal policy to regulate the use of credit cards and to establish procedures for the proper accounting of credit card charges.

City of Central City

Schedule of Findings and Questioned Costs

Years ended June 30, 2004 and 2003

Recommendation – The City should adopt a formal written policy regulating the use of City credit cards. The policy, at a minimum, should address who controls credit cards, who is authorized to use credit cards and for what purpose, as well as the types of supporting documentation required to substantiate charges.

Response – The City will adopt a formal written policy regulating the use of City credit cards.

Conclusion – Response accepted.

- II-C-04 Reconciliation of Utility Billings, Collections and Delinquencies – Utility billings, collections and delinquent accounts were not reconciled, certain reports and utility stubs needed for reconciliation were not available and customer stubs available were not marked paid with the date of payment. Also, accounts written off during the year were not approved by the Council.

Recommendation – Procedures should be established to reconcile utility billings, collections and delinquencies. The Council should review the reconciliation and monitor delinquencies. Also, all paid customer stubs should be marked paid with the date of payment. The City should also ensure utility reports are generated timely to help in preparing the reconciliations. Accounts written off should be approved by the Council.

Response – We will establish procedures to reconcile utility billings, collections and delinquencies. All necessary reports will be retained and the Council will be given copies of the reconciliation and delinquency summary reports for review and approval. All customer stubs will be retained and marked paid with the date of payment. Accounts written off will first be approved by the Council.

Conclusion – Response accepted.

- II-D-04 Records of Accounts – The Central City Volunteer Fire Department maintained its checking account records separate from the Clerk's records. The transactions and the resulting balances were not reported to the Council each month and the transactions were not recorded in the Clerk's records. Chapter 384.20 of the Code of Iowa states in part that a city shall keep accounts which show an accurate and detailed statement of all public funds collected, received or expended for any city purpose.

Additionally, prenumbered receipts were not issued, paid invoices or other supporting documentation was not always available and was not properly canceled. Also, accounting records did not facilitate the classification of receipts or disbursements by source and object, respectively, and book balances were not reconciled with bank balances.

Recommendation – The Volunteer Fire Department's financial transactions and balances should be included in the Clerk's monthly financial reports. Internal

City of Central City

Schedule of Findings and Questioned Costs

Years ended June 30, 2004 and 2003

control could be strengthened and operating efficiency could be increased by integrating the account receipts and disbursements with the City accounting records in the Clerk's office.

If the Volunteer Fire Department's account receipts and disbursements are not integrated with the City's accounting records, the Volunteer Fire Department should segregate accounting duties to the extent possible, require the issuance of prenumbered receipts for all collections and cancel all invoices or other appropriate documentation in a manner to help prevent possible duplicate payments. Accounting records should facilitate the classification of receipts and disbursements by source and object, respectively, and book balances should be reconciled with bank balances.

Response – We will do monthly reconciliations of book to bank balances. We are looking into forming our own nonprofit organization. If this is not done, we will comply with all other recommendations.

Conclusion – Response acknowledged. The Volunteer Fire Department should implement all recommended internal controls or integrate its financial records and accounts in with the City's accounting records at City Hall.

II-E-04 City Records and Accounting Procedures – Prenumbered receipts were not issued at the time of collection. They were issued when deposits were prepared. Also, one utility receipt of \$11.50 could not be traced to a deposit.

Also, some paid invoices were not canceled.

Recommendation – Prenumbered receipts should be issued at the time of collection to provide additional control over the proper collection and recording of all money. These receipts should be recorded and reconciled with timely deposits and the reconciliation should be reviewed periodically by an independent person. For those collections, such as utility bills paid in cash, a daily cash collections log should be maintained, issuing one receipt for a day's collection and reconciled with timely deposits. Also, paid invoices should be canceled to help prevent duplicate payment.

Response – We will issue prenumbered receipts at the time of collection. We will record and reconcile these receipts with timely deposits. We will have these independently reviewed by a Council Member periodically. We will do a daily cash collection log and reconcile with timely deposits. Also, paid invoices will be canceled to help prevent duplicate payment.

Conclusion – Response accepted.

II-F-04 Record of Investments – A detailed record of investment transactions was not maintained.

Recommendation – A detailed record of investment transactions by fund should be maintained. This record should include investment number, purchase

City of Central City

Schedule of Findings and Questioned Costs

Years ended June 30, 2004 and 2003

date, redemption date, interest rate and amount of principal and interest received.

Response – We will prepare a detailed record of investment transactions.

Conclusion – Response accepted.

- II-G-04 Employee Benefits Levy – The City levied property tax for employee benefits, as allowed by Chapter 384.6 of the Code of Iowa, and recorded the property tax collections in the General Fund rather than establishing a separate Special Revenue Fund.

Recommendation – The City should establish a separate Special Revenue Fund for this levy and record the related transactions in this fund.

Response – We will establish a separate special revenue fund and record the related transactions in this fund.

Conclusion – Response accepted.

- II-H-04 Prenumbered Checks – Several checks issued by the City were not prenumbered.

Recommendation – Prenumbered checks should be issued to provide additional control over the numerical sequence and proper recording of all disbursements.

Response – We will use prenumbered checks.

Conclusion – Response accepted.

- II-I-04 Accountability for Checks – Central City Volunteer Fire Department checks were not always written in numerical sequence and canceled checks were not always retained.

Recommendation – Internal control would be strengthened if all checks were written in numerical sequence and the numerical sequence of both issued and unissued checks was periodically accounted for. All canceled checks should be retained to provide accountability.

Response – Checks will be written in numerical sequence and all canceled checks will be retained.

Conclusion – Response accepted.

- II-J-04 Transfers – The City transferred money to and from various funds periodically. However, these transfers were not always approved by the Council prior to the actual transfer.

City of Central City

Schedule of Findings and Questioned Costs

Years ended June 30, 2004 and 2003

Recommendation – The Council should approve all fund/account transfers prior to the actual transfer and document approval and amount(s) as part of the minutes record.

Response – All transfers will be approved by the Council and be recorded in the minutes.

Conclusion – Response accepted.

II-K-04 Information Systems – During our review of internal control, the existing control activities in the City’s computer based systems were evaluated in order to determine activities, from a control standpoint, were designed to provide reasonable assurance regarding the achievement of objectives in the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. The following weaknesses in the City’s computer based systems were noted:

The City does not have written policies for:

- Logging off unattended computers.
- Password privacy and confidentiality.
- Daily backups for personal computer hard drives.
- Storage of backup tapes/disks off site.
- Requiring the use of an anti-virus program on computers.
- Ensuring only software licensed to the City is installed on computers.
- Usage of the internet.
- Personal use of computer equipment and software.
- Requiring passwords to be changed at least every 60 to 90 days.

Also, the City does not have a written disaster recovery plan.

Recommendation – The City should develop written policies addressing the above items in order to improve the City’s control over computer based systems. A written disaster recovery plan should be developed.

Response – The City will develop written policies addressing the above items. The City will also develop a written disaster recovery plan.

Conclusion – Response accepted.

City of Central City

Schedule of Findings and Questioned Costs

Years ended June 30, 2004 and 2003

II-L-04 Accounting Procedures – One check for \$12,114 written after the end of the fiscal year was accounted for as outstanding at June 30, 2004. This reconciling item had a material effect on the financial statements. Therefore, adjustment was made.

Recommendation – Disbursements should be recorded when checks are issued. The budget should be adjusted accordingly.

Response – The City will continue to use the cash basis of accounting. Disbursements will be recorded when paid and budgets will be adjusted accordingly to reflect accurate numbers.

Conclusion – Response accepted.

II-M-04 Contract Labor – The City did not file a form 1099 with the Internal Revenue Service for contract labor paid in excess of \$600.

Recommendation – The City should ensure all 1099 forms are properly completed and filed.

Response – The City will prepare the appropriate 1099 forms.

Conclusion – Response accepted.

II-N-04 Accounting System – The accounting system has the ability to delete a transaction rather than requiring a journal entry be made for adjustments and corrections.

Recommendation – To provide better financial information and control, journal entries should be made for adjustments and corrections. The support for the journal entries should also be maintained.

Response – Journal entries will be made and maintained for adjustments and corrections.

Conclusion – Response accepted.

City of Central City  
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 CONDITION:**

**CFDA Number 10.766: Community Facilities Loans and Grants  
Federal Award Year: 2004  
United States Department of Agriculture – Rural Development**

- III-A-04 Segregation of Duties over Federal Receipts – The City did not properly segregate collection, deposit and record-keeping for receipts, including those related to federal programs. See item II-A-04.

City of Central City  
Schedule of Findings and Questioned Costs  
Year ended June 30, 2003

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

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

**REPORTABLE CONDITION:**

**CFDA Number 85.548: Hazard Mitigation Grants**  
**Pass-through Agency Number: 1277-0006**  
**Federal Award Year: 2003**  
**Federal Emergency Management Agency**  
**Passed through the Iowa Department of Homeland Security**

III-A-03 Segregation of Duties over Federal Receipts – The City did not properly segregate collection, deposit and record-keeping for receipts, including those related to federal programs. See item II-A-04.



City of Central City

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. However, maximum deposit amounts for each bank were not included on the depository resolution.

Recommendation – The City should adopt a new depository resolution which establishes maximum deposit amounts for each bank and ensure the official depositories adequately secure all uninsured deposits.

Response – The City will adopt a new depository resolution which establishes maximum amounts and ensures the official depositories have adequate coverage.

Conclusion – Response accepted.

IV-B-04 Certified Budget – Disbursements during the year ended June 30, 2004, exceeded the amounts budgeted in the public safety, health and social services and debt service functions. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – The City will amend future budgets in accordance with Chapter 384.18 of the Code of Iowa.

Conclusion – Response accepted.

IV-C-04 Questionable Disbursement – A Volunteer Fire Department disbursement was noted that may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 since the public benefits to be derived have not been clearly documented. This disbursement is detailed as follows:

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Paid to	Purpose	Amount
Montana’s	Christmas dinner	\$ 350

According to the opinion, it is possible for certain expenses to meet the test of serving a public purpose under certain circumstances, although such expenses will certainly be subject to a deserved close scrutiny. The line to be drawn between a proper and an improper purpose is very thin.

City of Central City

Schedule of Findings and Questioned Costs

Year ended June 30, 2004

Recommendation – The Volunteer Fire Department should thoroughly consider and document the public purpose and propriety of this disbursement or, if appropriate, request reimbursement. If this practice is continued, the Department should establish written policies and procedures, including the requirement for proper documentation.

Response – The Volunteer Fire Department will establish written policies and procedures and require proper documentation.

Conclusion – Response accepted.

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
Don Gray, Mayor, part owner of Shelton Technologies, Inc.	Copier maintenance	\$ 479
Jay Gallery, Council Member, Supervisor for Dave Schmitt Construction	Street construction	54,070

In accordance with Chapter 362.5(11) of the Code of Iowa, the above transactions with Don Gray do not appear to represent a conflict of interest since the individual cumulative amounts were less than \$2,500 during the year. The transaction with Jay Gallery does not appear to represent a conflict of interest since the project was competitively bid.

IV-F-04 Bond Coverage – Surety bond coverage of City officials was not maintained for the year ended June 30, 2004. Chapter 64 of the Code of Iowa states all public officers, except as specifically provided, shall give bond.

Recommendation – The City should comply with the provisions contained in Chapter 64 of the Code of Iowa and periodically review its coverage for adequacy.

Response – The City changed insurance companies in 2002 and was not aware these coverages were not included. The City now has surety bond coverage as outlined in Chapter 64 of the Code of Iowa and will periodically review the coverage for adequacy.

Conclusion – Response accepted

IV-G-04 Council Minutes – Except as noted, no transactions were found that we believe should have been approved in the Council minutes but were not.

A complete list of approved bills was not available in the minutes for all months.

City of Central City

Schedule of Findings and Questioned Costs

Year ended June 30, 2004

Recommendation – The City should ensure complete lists of bills approved for payment by the Council are listed in the minutes.

Response – The Clerk will record warrant numbers on approved bills to ensure that complete bill lists are approved by the Council and listed in the minutes.

Conclusion – Response accepted.

IV-H-04 Deposits and Investments – The interest rate on a certificate of deposit did not meet the minimum rate of interest set by the State Rate Setting Committee.

Recommendation – The City should be aware of the current allowable rates to ensure at least the minimum allowable rate is received for all investments.

Response – The City will check current allowable rates to ensure minimum rates are received.

Conclusion – Response accepted.

IV-I-04 Annual Financial Report – The City prepared the annual financial report for the fiscal year ended June 30, 2004. However, the report did not include all separately maintained Volunteer Fire Department activity for the year as required by Chapter 384.22 of the Code of Iowa.

Recommendation – The annual financial report should be completed and filed as required by Chapter 384.22 of the Code of Iowa.

Response – The Volunteer Fire Department will be included on the annual financial report.

Conclusion – Response accepted.

IV-J-04 Local Option Sales Tax – The local option sales tax ballot dated June 10, 2003 provides for 25 percent of the collections to be allocated for property tax relief. The remaining 75 percent of the collections are to be allocated for street and infrastructure improvements, park improvements, downtown improvements and other expenditures as permitted by law. For the year ended June 30, 2004, all local option sales tax collections were credited to the General Fund.

Recommendation – The City should expend local option sales taxes in accordance with Resolution 031403.

Response – The City will expend local option sales tax in accordance with the allocation percentages stipulated in the referendum.

Conclusion – Response accepted.

IV-K-04 Revenue Notes – The City made the principal and interest payments from general revenues instead of the net revenues of the Childcare Center as required by the note resolution.

City of Central City

Schedule of Findings and Questioned Costs

Year ended June 30, 2004

Also, a Management and Use Payment Agreement has not been signed by the City and Central City Community School as required by the resolution.

Recommendation – The City should make the principal and interest payments from the net revenues of the Childcare Center as required by the note resolution. Also, the City and the School should sign the Management and Use Payment Agreement as required by the resolution.

Response – The City will make the principal and interest payments from the net revenues of the Childcare Center. The City and School will sign the Management and Use Payment Agreement.

Conclusion – Response accepted.

City of Central City

Schedule of Findings and Questioned Costs

Year ended June 30, 2003

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

IV-A-03 Official Depositories – A resolution naming official depositories has been approved by the City. However, maximum deposit amounts for each bank were not included on the depository resolution.

Recommendation – The City should adopt a new depository resolution which establishes maximum deposit amounts for each bank and ensure the official depositories adequately secure all uninsured deposits.

Response – The City will adopt a new depository resolution which establishes maximum amounts and ensure that the official depositories have adequate coverage.

Conclusion – Response accepted.

IV-B-03 Certified Budget – Disbursements during the year ended June 30, 2003 exceeded the amounts budgeted in the public safety, health and social services, community and economic development, debt service and capital projects functions. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – The City will amend future budgets in accordance with Chapter 384.18 of the Code of Iowa.

Conclusion – Response accepted.

IV-C-03 Questionable Disbursements – Certain Volunteer Fire Department disbursements were noted that may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 since the public benefits to be derived have not been clearly documented. These disbursements are detailed as follows:

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Paid to	Purpose	Amount
Gail Morarie	Boat deposit	\$ 50
Special Excursions	Retirement trip to Casino	290

According to the opinions, it is possible for certain expenses to meet the test of serving a public purpose under certain circumstances, although such expenses will certainly be subject to a deserved close scrutiny. The line to be drawn between a proper and an improper purpose is very thin.

City of Central City

Schedule of Findings and Questioned Costs

Year ended June 30, 2003

Recommendation – The Volunteer Fire Department should thoroughly consider and document the public purpose and propriety of these disbursements or, if appropriate, request reimbursement. If this practice is continued, the Department should establish written policies and procedures, including the requirement for proper documentation.

Response – The Volunteer Fire Department will establish written policies and procedures and require proper documentation.

Conclusion – Response accepted.

IV-D-03 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

IV-E-03 Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

Name, Title, and Business Connection	Transaction Description	Amount
Don Gray, Mayor, part owner of Shelton Technologies, Inc.	Copier maintenance	\$ 154

In accordance with Chapter 362.5(11) of the Code of Iowa, the above transactions do not appear to represent a conflict of interest since the individual cumulative amounts were less than \$1,500 during the year.

IV-F-03 Bond Coverage – Surety bond coverage of City officials was not maintained for the year ended June 30, 2003. Chapter 64 of the Code of Iowa states all public officers, except as specifically provided, shall give bond.

Recommendation – The City should comply with the provisions contained in Chapter 64 of the Code of Iowa and periodically review its coverage for adequacy.

Response – The City changed insurance companies in 2002 and was not aware that these coverages were not included. The City now has surety bond coverage as outlined in Chapter 64 of the Code of Iowa and will periodically review the coverage for adequacy.

Conclusion – Response accepted.

IV-G-03 Council Minutes – Except as noted, no transactions were found that we believe should have been approved in the Council minutes but were not.

A complete list of approved bills was not available in the minutes for all months.

Recommendation – The City should ensure complete lists of bills approved for payment by the Council are listed in the minutes.

City of Central City

Schedule of Findings and Questioned Costs

Year ended June 30, 2003

Response – The Clerk will record warrant numbers on approved bills to ensure that complete bill lists are approved by the Council and listed in the minutes.

Conclusion – Response accepted.

IV-H-03 Deposits and Investments – The interest rate on a certificate of deposit did not meet the minimum rate of interest set by the State Rate Setting Committee.

Recommendation – The City should be aware of the current allowable rates to ensure at least the minimum allowable rate is received for all investments.

Response – The City will check current allowable rates to ensure minimum rates are received.

Conclusion – Response accepted.

IV-I-03 Annual Financial Report – The City prepared the annual financial report for the fiscal year ended June 30, 2003. However, the report did not include all separately maintained Volunteer Fire Department activity for the year as required by Chapter 384.22 of the Code of Iowa.

Recommendation – The annual financial report should be completed and filed as required by Chapter 384.22 of the Code of Iowa.

Response – The Volunteer Fire Department will be included on the annual financial report.

Conclusion – Response accepted.

IV-J-03 Local Option Sales Tax – The local option sales tax ballot dated July 10, 2001 provided for 30 percent of the collections to be allocated for property tax relief. The remaining 70 percent of the collections are to be allocated for street and infrastructure improvements. For the year ended June 30, 2003, all local option sales tax collections were credited to the General Fund

Recommendation – The City should expend local option sales tax in accordance with the local option sales tax ballot.

Response – The City will expend local option sales tax in accordance with the allocation percentages stipulated in the referendum.

Conclusion – Response accepted.

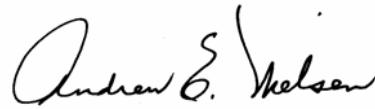
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City of Central City

Staff

This audit was performed by:

Steven M. Nottger, CPA, Manager  
Billie Jo Heth, Senior Auditor  
Jeffrey L. Lenhart, Assistant Auditor  
Brandon J. Yuska, Assistant Auditor

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

Andrew E. Nielsen, CPA  
Deputy Auditor of State