



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE

April 3, 2006

Contact: Andy Nielsen
515/281-5834

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

The City has implemented new reporting standards for the year ended June 30, 2005, 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 \$962,238 for the year ended June 30, 2005. The receipts included \$179,176 in property tax, \$81,447 from tax increment financing, \$491,770 from charges for service, \$111,479 from operating grants, contributions and restricted interest, \$96,576 from local option sales tax and \$1,790 from unrestricted investment earnings.

Disbursements for the year totaled \$1,064,486, and included \$297,468 for public works, \$204,720 for debt service and \$118,182 for culture and recreation. Also, disbursements for business type activities totaled \$196,859.

A copy of the report is available for review in the City Clerk's office, in the Office of Auditor of State and on the Auditor of State's web site at <http://auditor.iowa.gov/reports/reports.htm>.

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

JUNE 30, 2005

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City of Armstrong

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Marvin Dailey	Mayor	Jan 2006
Kevin Laabs	Mayor Pro tem	Jan 2006
Patricia Harris	Council Member	Jan 2006
John Larsen	Council Member	Jan 2006
Todd Eisenbacher	Council Member	Jan 2008
Donald Leach	Council Member	Jan 2008
Connie Thackery	Clerk/Treasurer	Indefinite
Harold White	Attorney	Indefinite

City of Armstrong



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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 Armstrong, Iowa, as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Armstrong's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles. Also, as permitted by the Code of Iowa, the accounting records of the City have not been audited for all prior years. Accordingly, we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2004.

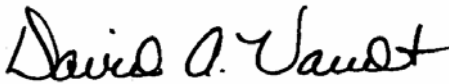
In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2004, as discussed in the preceding paragraph, the financial statements referred to above present fairly in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Armstrong as of June 30, 2005, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

As described in Note 11, during the year ended June 30, 2005, the City adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences.

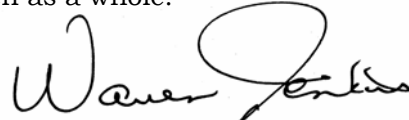
In accordance with Government Auditing Standards, we have also issued our report dated January 6, 2006 on our consideration of the City of Armstrong's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 12 and 30 through 32 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We applied certain 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 conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Armstrong's basic financial statements. Other supplementary information included in Schedules 1 through 3 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2004, as discussed in the third paragraph, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

January 6, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Armstrong 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, 2005. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

Because the City is implementing new reporting standards for this fiscal year with significant changes in content and structure, and since the City is not required to be audited annually, much of the information is not easily comparable to prior years. Comparative data has been provided if available.

2005 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities decreased 7%, or approximately \$59,000, from fiscal 2004 to fiscal 2005. Property tax receipts, excluding tax increment financing (TIF) receipts, increased approximately \$14,000.
- Disbursements decreased 3%, or approximately \$24,000, in fiscal 2005 from fiscal 2004. Public works disbursements increased approximately \$55,000 and culture and recreation disbursements decreased approximately \$60,000.
- The City's total cash basis net assets decreased 39%, or approximately \$102,000, from June 30, 2004 to June 30, 2005. Of this amount, the assets of the governmental activities decreased approximately \$122,000 and the assets of the business type activities increased by approximately \$20,000.

USING THIS ANNUAL REPORT

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

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

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

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

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

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

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

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, readers should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as 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, health and social services, 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, Local Option Sales Tax and Urban Renewal Tax Increment, 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 include a statement of cash receipts, disbursements and changes in cash balances.

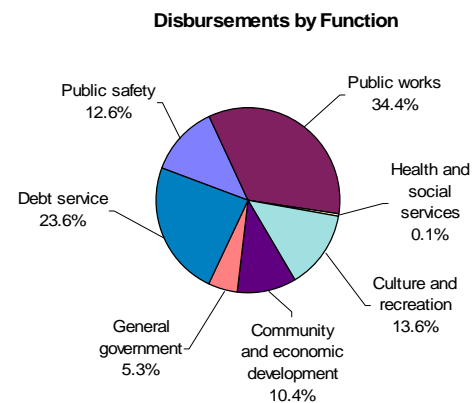
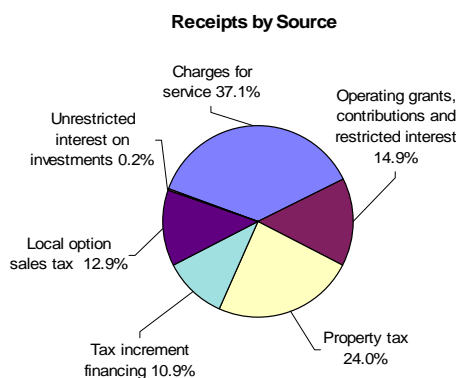
2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains two Enterprise Funds to provide separate information for the water and sewer funds, considered to be major funds of the City.

The required financial statement for proprietary funds include 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 decreased sharply from a year ago, from \$250,133 to \$128,269. 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, 2005
Receipts:	
Program receipts:	
Charges for service	\$ 275,327
Operating grants, contributions and restricted interest	111,479
General receipts:	
Property tax	179,176
Tax increment financing	81,447
Local option sales tax	96,576
Unrestricted interest on investments	1,756
Total receipts	<u>745,761</u>
Disbursements:	
Public safety	109,629
Public works	297,468
Health and social services	827
Culture and recreation	118,182
Community and economic development	90,488
General government	46,313
Debt service	204,720
Total disbursements	<u>867,627</u>
Decrease in cash basis net assets	(121,866)
Cash basis net assets beginning of year	<u>250,135</u>
Cash basis net assets end of year	<u>\$ 128,269</u>



The City's total receipts for governmental activities decreased by 7%, or approximately \$59,000. The total cost of all programs and services decreased by approximately \$24,000, or 3%, with no new programs added this year. The significant decrease in receipts was primarily the

result of proceeds received in the prior year from the issuance of urban renewal tax increment financing revenue bonds.

The City increased property tax rates for 2005 by an average of approximately 9.5%. This increase raised the City's property tax receipts, including tax increment financing, by approximately \$22,500 in 2005. Based on increases in the property tax rates, property tax receipts, including tax increment financing, are budgeted to increase by approximately \$17,000 next year.

The cost of all governmental activities this year was approximately \$868,000 compared to approximately \$892,000 last year. However, as shown in the Statement of Activities and Net Assets on pages 14 and 15, the amount taxpayers ultimately financed for these activities was only approximately \$481,000 because some of the cost was paid by those directly benefited from the programs (\$275,327) or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest (\$111,479).

Total business type activities receipts for the fiscal year were \$216,477 compared to approximately \$207,000 last year. The increase was due primarily to an increase in charges for service. The cash balance increased \$19,618 from the prior year because of the increase in charges for service and a reduction in disbursements.

Changes in Cash Basis Net Assets of Business Type Activities	
	Year ended June 30, 2005
Receipts:	
Program receipts:	
Charges for service:	
Water	\$ 118,518
Sewer	97,925
Unrestricted investment earnings	34
Total receipts	<u>216,477</u>
Disbursements:	
Water	110,269
Sewer	86,590
Total disbursements	<u>196,859</u>
Increase in cash balance	19,618
Cash basis net assets beginning of year	<u>10,912</u>
Cash basis net assets end of year	<u><u>\$ 30,530</u></u>

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Armstrong completed the year, its governmental funds reported a combined fund balance of \$128,269, a decrease of approximately \$122,000 below last year's total of \$250,135. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance decreased \$17,131 from the prior year to a deficit balance of \$91,906.
- The Road Use Tax Fund cash balance decreased by \$13,518 to \$2,049 during the fiscal year.
- The Revolving Loan Fund balance decreased from \$163,422 to \$108,012. The City loaned out an additional \$62,293 to local businesses. Transfers of \$136,830 were made to the General Fund as an interfund loan.
- The Employee Benefits Fund balance increased from \$5,541 to \$20,119 as a result of taxes being collected in excess of actual disbursements.
- The Local Option Sales Tax Fund balance decreased \$44,601 to \$49,805, due primarily to a decrease in receipts.
- The Urban Renewal Tax Increment Fund ending balance decreased from \$28,069 to \$14,641.
- The Capital Projects Fund balance increased from \$14,695 to \$22,362.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance increased \$8,263 to \$15,774, due primarily to the sale of water in excess of the disbursements.
- The Sewer Fund cash balance increased \$11,355 to \$14,756, due primarily to the collection of sewer fees in excess of disbursements and debt repayment.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget one time. The amendment was approved on May 16, 2005 and resulted in an increase in operating disbursements of \$179,040. Public works was increased because a local factory outside of the City limits was upgrading its paint system and the recommendation was to hook up to the City sewer. As a result, they voluntarily annexed into the city limits and the City paid the cost to install the sewer hookup. This accounted for \$72,128 of the budget increase and also accounted for a portion of the deficit in the General Fund. As a result of the annexation into the City limits, the property tax valuation will increase, which will result in more taxes for the City to operate with. The community and economic development increase was due to disbursements from the Revolving Loan Fund. The culture and recreation increase was necessary because the Iowa Department of Public Health would not allow the City to open the pool unless major improvements were made to the pool.

Even with this budget amendment, the City exceeded the budget in the health and social services, culture and recreation, community and economic development, general government, debt service and business type activities functions.

DEBT ADMINISTRATION

At June 30, 2005, the City had approximately \$962,000 in notes and other long-term debt, compared to approximately \$1,163,000 last year, as shown below.

	Outstanding Debt at Year-End	
	June 30,	
	2005	2004
General obligation capital loan notes	\$ 436,000	495,000
Deferred payment agreement	239,983	359,975
Sewer revenue capital loan notes	286,000	308,000
Total	\$ 961,983	1,162,975

Debt decreased as a result of redeeming approximately \$201,000 in debt principal during the year.

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 \$675,983 is significantly below its constitutional debt limit of \$877,381.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City of Armstrong'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's fiscal year 2005 assessed property value decreased approximately \$238,000 from the FY 2004 level. As a result, the City increased the levy rate by \$.99732 per \$1,000 of taxable valuation. By increasing the property tax levy, excluding tax increment financing receipts, property taxes for FY05 were expected to increase by \$11,000.

The City of Armstrong's elected and appointed officials and citizens considered many factors when setting the fiscal year 2006 budget, tax rates and fees charged for various City activities. The City's fiscal year 2006 assessed property value increased approximately \$1,902,000. The City decreased the levy rate by \$1.29558 per \$1,000 of taxable valuation. By decreasing the property tax levy, excluding the tax increment financing receipts, property taxes are expected to decrease approximately \$7,000.

The proposed FY 2006 budget includes total receipts of \$907,251 and disbursements of \$845,310. If these estimates are realized, the City's budgeted cash balance is expected to increase by approximately \$62,000 by the close of FY 2006.

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 Ms. Connie Thackery, Clerk/Treasurer, 101 Main Street, City of Armstrong, Iowa 50514-0229.

Basic Financial Statements

City of Armstrong

Statement of Activities and Net Assets – Cash Basis

As of and for the year ended June 30, 2005

	Disbursements	Program Receipts	
		Charges for Service	Operating Grants, Contributions and Restricted Interest
Functions/Programs:			
Governmental activities:			
Public safety	\$ 109,629	14,580	185
Public works	297,468	57,212	81,400
Health and social services	827	-	-
Culture and recreation	118,182	16,172	25,776
Community and economic development	90,488	143,758	684
General government	46,313	1,126	3,431
Debt service	204,720	42,479	3
Total governmental activities	867,627	275,327	111,479
Business type activities:			
Water	110,269	118,518	-
Sewer	86,590	97,925	-
Total business type activities	196,859	216,443	-
Total	\$ 1,064,486	491,770	111,479

General Receipts:

Property tax levied for:
 General purposes
 Tax increment financing
 Debt service
Local option sales tax
Unrestricted interest on investments

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:
 Streets
 Local option sales tax
 Debt service
 Other purposes
Unrestricted

Total cash basis net assets

See notes to financial statements.

Net (Disbursements) Receipts and
Changes in Cash Basis Net Assets

Governmental Activities	Business Type Activities	Total
(94,864)	-	(94,864)
(158,856)	-	(158,856)
(827)	-	(827)
(76,234)	-	(76,234)
53,954	-	53,954
(41,756)	-	(41,756)
(162,238)	-	(162,238)
(480,821)	-	(480,821)
-	8,249	8,249
-	11,335	11,335
-	19,584	19,584
(480,821)	19,584	(461,237)
167,802	-	167,802
81,447	-	81,447
11,374	-	11,374
96,576	-	96,576
1,756	34	1,790
358,955	34	358,989
(121,866)	19,618	(102,248)
250,135	10,912	261,047
\$ 128,269	30,530	158,799
\$ 2,049	-	2,049
49,805	-	49,805
17,828	14,001	31,829
150,493	-	150,493
(91,906)	16,529	(75,377)
\$ 128,269	30,530	158,799

City of Armstrong

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

As of and for the year ended June 30, 2005

	Special Revenue			
	General	Road Use Tax	Revolving Loan	Employee Benefits
Receipts:				
Property tax and other city tax	\$ 124,372	-	-	39,340
Tax increment financing	-	-	-	-
Local option sales tax	-	-	-	-
Licenses and permits	1,126	-	-	-
Use of money and property	3,440	-	143,758	-
Intergovernmental	18,754	81,400	-	-
Charges for service	73,095	-	-	-
Special assessments	-	-	-	-
Miscellaneous	24,501	-	-	-
Total receipts	245,288	81,400	143,758	39,340
Disbursements:				
Operating:				
Public safety	83,378	-	-	16,594
Public works	167,846	94,918	-	2,625
Health and social services	827	-	-	-
Culture and recreation	110,126	-	-	3,525
Community and economic development	6,525	-	62,293	-
General government	44,295	-	-	2,018
Debt service	-	-	-	-
Total disbursements	412,997	94,918	62,293	24,762
Excess (deficiency) of receipts over (under) disbursements	(167,709)	(13,518)	81,465	14,578
Other financing sources (uses):				
Operating transfers in	150,578	-	2,955	-
Operating transfers out	-	-	(139,830)	-
Total other financing sources (uses)	150,578	-	(136,875)	-
Net change in cash balances	(17,131)	(13,518)	(55,410)	14,578
Cash balances beginning of year	(74,775)	15,567	163,422	5,541
Cash balances end of year	\$ (91,906)	2,049	108,012	20,119
Cash Basis Fund Balances				
Reserved for debt service	\$ -	-	-	-
Unreserved:				
General fund	(91,906)	-	-	-
Special revenue funds	-	2,049	108,012	20,119
Capital projects fund	-	-	-	-
Total cash basis fund balances	\$ (91,906)	2,049	108,012	20,119

See notes to financial statements.

Local Option Sales Tax	Urban Renewal Tax Increment	Capital Projects	Nonmajor	Total
-	-	-	15,464	179,176
-	81,447	-	-	81,447
96,576	-	-	-	96,576
-	-	-	-	1,126
-	-	6	3	147,207
-	-	-	-	100,154
-	-	-	-	73,095
-	-	42,479	-	42,479
-	-	-	-	24,501
96,576	81,447	42,485	15,467	745,761
9,657	-	-	-	109,629
-	32,079	-	-	297,468
-	-	-	-	827
1,931	2,600	-	-	118,182
9,940	11,730	-	-	90,488
-	-	-	-	46,313
109,991	-	34,863	59,866	204,720
131,519	46,409	34,863	59,866	867,627
(34,943)	35,038	7,622	(44,399)	(121,866)
-	-	3,000	48,466	204,999
(9,658)	(48,466)	(2,955)	(4,090)	(204,999)
(9,658)	(48,466)	45	44,376	-
(44,601)	(13,428)	7,667	(23)	(121,866)
94,406	28,069	14,695	3,210	250,135
49,805	14,641	22,362	3,187	128,269
-	14,641	-	3,187	17,828
-	-	-	-	(91,906)
49,805	-	-	-	179,985
-	-	22,362	-	22,362
49,805	14,641	22,362	3,187	128,269

City of Armstrong

City of Armstrong

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

As of and for the year ended June 30, 2005

	Enterprise Funds		
	Water	Sewer	Total
Operating receipts:			
Charges for service	\$ 118,518	97,662	216,180
Special assessments	-	263	263
Total operating receipts	118,518	97,925	216,443
Operating disbursements:			
Business type activities	110,269	50,453	160,722
Excess of operating receipts over operating disbursements	8,249	47,472	55,721
Non-operating receipts (disbursements):			
Interest on investments	14	20	34
Debt service	-	(36,137)	(36,137)
Total non-operating receipts (disbursements)	14	(36,117)	(36,103)
Net change in cash balances	8,263	11,355	19,618
Cash balances beginning of year	7,511	3,401	10,912
Cash balances end of year	\$ 15,774	14,756	30,530
Cash Basis Fund Balances			
Reserved for debt service	\$ -	14,001	14,001
Unreserved	15,774	755	16,529
Total cash basis fund balances	\$ 15,774	14,756	30,530

See notes to financial statements.

City of Armstrong

Notes to Financial Statements

June 30, 2005

(1) Summary of Significant Accounting Policies

The City of Armstrong is a political subdivision of the State of Iowa located in Emmet County. It was first incorporated in 1893 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 Armstrong 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: Emmet County Assessor's Conference Board, Emmet County Emergency Management Commission and Emmet County Joint E911 Service Board.

B. Basis of Presentation

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

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

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

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

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

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

The City reports the following major governmental funds:

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

Special Revenue:

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

The Revolving Loan Fund is used to account for receipts and disbursements for revolving loans made to qualifying businesses.

The Employee Benefits Fund is used to account for special tax levy collections to be used for employee benefits.

The Local Option Sales Tax Fund is used to account for the collection and use of the local option sales tax.

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

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

The City reports the following major proprietary funds:

The 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 Armstrong 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.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are incurred, there are both restricted and unrestricted cash basis net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

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

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2005, disbursements exceeded the amounts budgeted in the health and social services, culture and recreation, community and economic development, general government, debt service and business type activities functions.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2005 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to 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 has no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3, as amended by Statement No. 40.

(3) Notes and Deferred Payment Agreement Payable

Annual debt service requirements to maturity for general obligation capital loan notes, deferred payment agreement and sewer revenue capital loan notes are as follows:

Years Ending June 30,	General Obligation Capital Loan Notes		Deferred Payment Agreement	Sewer Revenue Capital Loan Notes		Total	
	Principal	Interest	Principal	Principal	Interest	Principal	Interest
	2006	\$ 65,000	21,564	119,992	23,000	12,984	207,992
2007	55,000	18,344	119,991	24,000	11,940	198,991	30,284
2008	62,500	15,764	-	25,000	10,851	87,500	26,615
2009	62,500	12,681	-	27,000	9,716	89,500	22,397
2010	62,500	9,519	-	28,000	8,490	90,500	18,009
2011 - 2015	128,500	10,006	-	159,000	22,337	287,500	32,343
Total	\$ 436,000	87,878	239,983	286,000	76,318	961,983	164,196

General Obligation Capital Loan Notes

The Code of Iowa requires principal and interest on general obligation debt be paid from the Debt Service Fund. However, during the year, \$20,000 of general obligation debt principal was paid from the Capital Projects Fund.

Deferred Payment Agreement

On September 9, 2002, the City entered into a preconstruction agreement with the Iowa Department of Transportation (IDOT) to jointly participate in an improvement of an extension of Iowa Highway 15 as a controlled access facility in Emmet County, Iowa. The IDOT also agreed to perform additional work through the City's business district. Originally, the estimated cost for City participation was \$374,483, which the City agreed to reimburse IDOT over a three year period. However, due to cost overruns, the actual cost of the City's participation was \$479,967. On December 29, 2003, the City and IDOT signed an addendum to the original agreement allowing the City to make three payments of \$119,992 and a final payment of \$119,991 to the IDOT. At June 30, 2005, the City's liability balance on the agreement is \$239,883.

Sewer Revenue Capital Loan Notes

On June 21, 1995, the City entered into an agreement which, under the provisions of the State Revolving Fund, resulted in the issuance of \$500,000 of sewer revenue capital loan notes held by Wells Fargo Bank Iowa, N.A. as Trustee. The notes were issued pursuant to the provisions of Sections 384.24A and 384.83 of the Code of Iowa for the purpose of paying costs of constructing improvements and extensions to a municipal sanitary sewer system. The City received disbursements from the Trustee upon request to reimburse the City for costs as they were incurred. Because the project cost less than the original note amount, the note and the repayment schedule were amended to the principal amount borrowed of \$455,000. The interest rate on the notes is 4.54% per annum.

As of June 30, 2005, the City had drawn down \$455,000 of the \$500,000 authorized.

The resolution providing for the issuance of the sewer revenue capital loan notes include the following provisions:

- (a) The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the funds.
- (b) Sufficient monthly transfers shall be made to a separate sewer revenue note sinking account within the Enterprise Funds for the purpose of making the note principal and interest payments when due.
- (c) Additional monthly transfers to a sewer revenue reserve account shall be made until a specific minimum balance has been accumulated. This account is restricted for the purpose of paying for any additional improvements, extensions or repairs to the system.

(4) Interfund Loan

During the year ended June 30, 2005, the Special Revenue, Revolving Loan Fund loaned \$136,830 to the General Fund. The loan bears no interest.

(5) Pension and Retirement Benefits

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

Most regular 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 salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contribution to IPERS for the year ended June 30, 2005 was \$8,588, equal to the required contribution for the year.

(6) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation and sick leave termination payments payable to employees at June 30, 2005, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Vacation	\$ 2,100
Sick leave	<u>10,100</u>
Total	<u>\$ 12,200</u>

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

(7) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2005 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Special Revenue:	
	Revolving Loan	\$ 136,830
	Emergency	4,090
	Local Option Sales Tax	9,658
		<u>150,578</u>
Special Revenue:	Capital Projects	2,955
Revolving Loan		
Debt Service	Special Revenue:	
	Urban Renewal Tax	
	Increment	48,466
Capital Projects	Special Revenue:	
	Revolving Loan	3,000
Total		<u>\$ 204,999</u>

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

(8) Risk Management

The City of Armstrong is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 509 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine and boiler/machinery. There have been no reductions in insurance coverage from prior years.

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

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

The City's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The City's contributions to the Pool for the year ended June 30, 2005 were \$16,952.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$250,000 per claim. Claims exceeding \$250,000 are reinsured in an amount not to exceed \$1,750,000 per claim and \$5,000,000 in the aggregate per year. For members requiring specific coverage from \$2,000,000 to \$10,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$100,000 each occurrence, each location, with excess coverage reinsured on an individual-member basis.

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

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

The City also carries commercial insurance purchased from other insurers for coverage associated with workers compensation and employee blanket bond. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(9) Deficit Balance

The General Fund had a deficit balance of \$91,906 at June 30, 2005.

(10) Revolving Loan Fund

The City of Armstrong has established a revolving loan fund to provide financial assistance to new and expanding businesses. Initial funding for this program was provided through a grant from the Iowa Department of Economic Development. Upon receipt of loan payments from the businesses, the funds remain in the Revolving Loan Fund for subsequent loans to other businesses.

Loans by the Revolving Loan Fund are as follow:

Loaned to	Date of Loan	Original Loan Amount	Interest Rate	Term of Loan	Balance June 30, 2005
Art's Way	August 1996	\$ 25,000	3.5%	10 Years	\$ 4,449
Art's Way	August 1996	400,000	0.0%	10 Years	55,556
Custom Collision Center	May 1998	15,000	3.5%	5 Years	8,030
Armstrong Service Center/Bill Kollasch	July 2002	18,000	3.5%	5 Years	8,200
Choice Auto/Bernard Rezac	March 2002	31,835	3.5%	5 Years	12,347
Hometown Grocer/Cory Pierce	February 2003	4,200	3.5%	4 Years	1,871
Be-Kleen Car Wash/Greg Buum	October 2001	10,800	3.5%	5 Years	3,996
Danielles Trim & Tan/Danielle Buum	November 2001	12,250	3.5%	5 Years	9,268
Armstrong Liquor Store/Jeff Kelly	June 2002	11,848	3.5%	5 Years	6,200
Fitness Quest/Vickie Rooney	August 2002	14,638	3.5%	5 Years	6,915
Hillary's/Hillary Clarey	July 2002	35,000	3.5%	5 Years	18,084
Oleson Chiropractic/Greg Oleson	November 2002	50,000	3.5%	5 Years	26,086
Rezac Chiropractic/Cory Rezac	June 2002	15,804	3.5%	5 Years	8,247
North Iowa Insurance/Jerry Block	November 2003	26,972	3.5%	5 Years	19,802
Dog's Inn/William & Jari Douglas	November 2003	15,984	3.5%	5 Years	11,479
Main Street Hair/Luanne Bjoklund	May 2003	4,375	3.5%	4 Years	2,355
Rezac Lawn & Snow/Steve Rezac	May 2003	3,745	3.5%	4 Years	1,945
CBGB Construction/Greg Buum	July 2004	6,468	3.5%	5 Years	5,568
Dryer, Richard	October 2004	38,675	3.5%	5 Years	33,293
From Me To You/Hillary Clarey	December 2004	7,000	3.5%	5 Years	7,000
Kozy Korner Kafe/Gail Anderson	March 2004	4,774	3.5%	5 Years	3,658
Movie Planet/Renae Kollasch	September 2004	10,150	3.5%	5 Years	8,700
Total					<u>\$ 263,049</u>

(11) Accounting Change

Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures, and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences, were implemented for the year ended June 30, 2005. 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.

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

City of Armstrong

Required Supplementary Information

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

Required Supplementary Information

Year ended June 30, 2005

	Governmental Funds Actual	Proprietary Funds Actual
Receipts:		
Property tax and other city tax	\$ 179,176	-
Tax increment financing	81,447	-
Local option sales tax	96,576	-
Licenses and permits	1,126	-
Use of money and property	147,207	34
Intergovernmental	100,154	-
Charges for service	73,095	216,180
Special assessments	42,479	263
Miscellaneous	24,501	-
Total receipts	745,761	216,477
Disbursements:		
Public safety	109,629	-
Public works	297,468	-
Health and social services	827	-
Culture and recreation	118,182	-
Community and economic development	90,488	-
General government	46,313	-
Debt service	204,720	-
Capital projects	-	-
Business type activities	-	196,859
Total disbursements	867,627	196,859
Excess (deficiency) of receipts over (under) disbursements	(121,866)	19,618
Balances beginning of year	250,135	10,912
Balances end of year	\$ 128,269	30,530

See accompanying independent auditor's report.

Total	Budgeted Amounts		Final to Total Variance
	Original	Final	
179,176	163,015	163,015	16,161
81,447	99,005	99,005	(17,558)
96,576	100,000	100,000	(3,424)
1,126	1,500	3,000	(1,874)
147,241	2,500	114,500	32,741
100,154	86,666	103,535	(3,381)
289,275	290,000	284,200	5,075
42,742	15,797	35,200	7,542
24,501	51,000	18,000	6,501
962,238	809,483	920,455	41,783
109,629	107,770	113,500	3,871
297,468	292,480	364,608	67,140
827	822	822	(5)
118,182	100,408	100,408	(17,774)
90,488	57,000	80,302	(10,186)
46,313	43,046	43,046	(3,267)
204,720	11,400	11,400	(193,320)
-	106,047	180,727	180,727
196,859	153,800	157,000	(39,859)
1,064,486	872,773	1,051,813	(12,673)
(102,248)	(63,290)	(131,358)	29,110
261,047	92,956	261,046	1
158,799	29,666	129,688	29,111

City of Armstrong

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2005

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds. 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 Project Fund and the Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$179,040. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2005, disbursements exceeded the amounts budgeted in the health and social services, culture and recreation, community and economic development, general government, debt service and business type activities functions.

Other Supplementary Information

City of Armstrong

City of Armstrong

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

As of and for the year ended June 30, 2005

	Special Revenue Emergency	Debt Service	Total
Receipts:			
Property tax	\$ 4,090	11,374	15,464
Use of money and property	-	3	3
Total receipts	<u>4,090</u>	<u>11,377</u>	<u>15,467</u>
Disbursements:			
Debt service	-	59,866	59,866
Excess (deficiency) of receipts over (under) disbursements	<u>4,090</u>	<u>(48,489)</u>	<u>(44,399)</u>
Other financing sources (uses):			
Operating transfers in	-	48,466	48,466
Operating transfers out	(4,090)	-	(4,090)
Total other financing sources (uses)	<u>(4,090)</u>	<u>48,466</u>	<u>-</u>
Net change in cash balances	-	(23)	(23)
Cash balances beginning of year	-	3,210	3,210
Cash balances end of year	<u>\$ -</u>	<u>3,187</u>	<u>3,187</u>
Cash Basis Fund Balances			
Reserved for debt service	<u>\$ -</u>	<u>3,187</u>	<u>3,187</u>

See accompanying independent auditor's report.

City of Armstrong
Schedule of Indebtedness
Year ended June 30, 2005

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation capital loan notes:			
Essential corporate purpose	Dec 1, 2000	7.00%	\$ 45,000
Essential corporate purpose	Dec 3, 2001	4.60	160,000
Essential corporate purpose	Jan 15, 2003	2.50 - 4.65	200,000
Essential corporate purpose	Feb 15, 2004	6.15	160,000
Total			
Deferred payment agreement:			
Construction agreement	Dec 29, 2003	-	\$ 479,967
Sewer revenue capital loan notes:			
Sewer improvements	Jun 21, 1995	4.54%	\$ 455,000

See accompanying independent auditor's report.

Balance Beginning of Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
20,000	10,000	10,000	1,400	-
135,000	14,000	121,000	9,626	162
180,000	20,000	160,000	4,718	3,278
160,000	15,000	145,000	9,840	-
<u>\$ 495,000</u>	<u>59,000</u>	<u>436,000</u>	<u>25,584</u>	<u>3,440</u>
<u>359,975</u>	<u>119,992</u>	<u>239,983</u>	<u>-</u>	<u>-</u>
<u>308,000</u>	<u>22,000</u>	<u>286,000</u>	<u>13,983</u>	<u>-</u>

City of Armstrong

Note and Deferred Payment Agreement Maturities

June 30, 2005

Year Ending June 30,	General Obligation			
	Essential Corporate Purpose		Essential Corporate Purpose	
	Issued Dec 1, 2000		Issued Dec 3, 2001	
	Interest	Amount	Interest	Amount
2006	7.00%	\$ 10,000	4.60%	\$ 15,000
2007		-	4.60	15,000
2008		-	4.60	17,500
2009		-	4.60	17,500
2010		-	4.60	17,500
2011		-	4.60	18,500
2012		-	4.60	20,000
2013		-		-
Total		<u>\$ 10,000</u>		<u>\$ 121,000</u>

Year Ending June 30,	Deferred Payment Agreement		Sewer Revenue	
	Construction Agreement		Capital Loan Notes	
	Issued Dec 29, 2003		Sewer Improvements	
	Interest	Amount	Interest	Amount
2006		\$ 119,992	4.54%	\$ 23,000
2007		119,991	4.54	24,000
2008		-	4.54	25,000
2009		-	4.54	27,000
2010		-	4.54	28,000
2011		-	4.54	29,000
2012		-	4.54	30,000
2013		-	4.54	32,000
2014		-	4.54	33,000
2015		-	4.54	35,000
Total		<u>\$ 239,983</u>		<u>\$ 286,000</u>

See accompanying independent auditor's report.

Capital Loan Notes					
Essential Corporate Purpose			Essential Corporate Purpose		
Issued Jan 15, 2003			Issued Feb 15, 2004		
Interest	Amount		Interest	Amount	Total
3.00%	\$ 20,000		6.15%	\$ 20,000	65,000
3.30	20,000		6.15	20,000	55,000
3.70	20,000		6.15	25,000	62,500
4.10	20,000		6.15	25,000	62,500
4.25	20,000		6.15	25,000	62,500
4.40	20,000		6.15	30,000	68,500
4.50	20,000			-	40,000
4.65	20,000			-	20,000
	<u>\$ 160,000</u>			<u>\$ 145,000</u>	<u>436,000</u>

City of Armstrong



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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Independent Auditor's Report on Internal Control over
Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed
in Accordance with Government Auditing Standards

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Armstrong, Iowa, as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated January 6, 2006. Our report on the financial statements which were prepared in conformity with an other comprehensive basis of accounting, expressed qualified opinions since we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2004. Except as noted in the Independent Auditor's Report, we conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

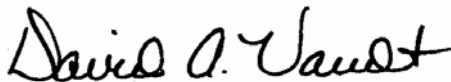
Compliance and Other Matters

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

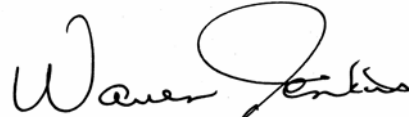
Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2005 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Armstrong and other parties to whom the City of Armstrong 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 Armstrong 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

January 6, 2006

City of Armstrong
Schedule of Findings
Year ended June 30, 2005

Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

(A) Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. When duties are properly segregated, the activities of one employee act as a check on those of another. Generally, one person has control over each of the following areas for the City and the Library:

- (1) Accounting system – performing all general accounting functions and custody of assets.
- (2) Cash – preparing bank account reconciliations, initiating cash receipts and disbursement functions and handling and recording cash.
- (3) Investments – detailed record keeping, custody of investments and reconciling earnings.
- (4) Long term debt – recording and reconciling.
- (5) Receipts – collecting, depositing, journalizing, reconciling and posting.
- (6) Utility receipts – billing, collecting, depositing, posting and reconciling.
- (7) Disbursements – check writing, reconciling, check signing and posting.
- (8) Payroll – preparation, distribution, and posting.
- (9) Financial reporting – preparing, reconciling and distributing.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the City and Library should review their control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available personnel. Evidence of independent reviews should be indicated by initials of the independent reviewer.

Response – A Council Member will help with check reconciling and posting and oversee bookkeeping entries. The previous Major did this for the City.

Conclusion – Response acknowledged. The City and Library should segregate duties to the extent possible with existing personnel and utilize Council Members, to provide additional control through review of financial transactions and reports.

City of Armstrong

Schedule of Findings

Year ended June 30, 2005

- (B) City Records and Accounting Procedures – Checks are signed by the City Clerk and are not countersigned by the Mayor or other independent person.

Recommendation – In order to strengthen internal control over disbursements, the checks should be reviewed and signed by the Mayor or another designated Council Member prior to payment.

Response – A new Council Member will help oversee disbursements.

Conclusion – Response accepted.

City of Armstrong

Schedule of Findings

Year ended June 30, 2005

Other Findings Related to Required Statutory Reporting:

- (1) Official Depositories – A resolution naming official depositories has been approved by the City. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2005.
- (2) Certified Budget – Disbursements during the year ended June 30, 2005 exceeded the amounts budgeted in the health and social services, culture and recreation, community and economic development, general government, debt service and business type activities functions. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

Recommendation – The budget should be amended in sufficient amounts in accordance with Chapter 384.18 of the Code of Iowa before disbursements are allowed to exceed the budget.

Response – The budget will be amended before the funds are exceeded.

Conclusion – Response accepted.

- (3) Questionable Disbursements – No disbursements we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.
- (4) Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- (5) Business Transactions – No business transactions between the City and City officials or employees were noted.
- (6) Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- (7) Council and Community Center minutes – Except as noted below, no transactions were found that we believe should have been approved in the minutes but were not.

All disbursements were not included in the Council minutes.

Certain transfers between funds were not approved in the Council minutes. The City made several temporary transfers and repayments to and from the Revolving Loan Fund and other funds. These transfers were not all properly approved by the City Council.

Minutes of the Community Center board meetings did not include a list of approved bills.

City of Armstrong

Schedule of Findings

Year ended June 30, 2005

Recommendation – All disbursements and transfers between funds should be approved and be included in the Council minutes. Transfers for temporary loans from the Revolving Loan Fund should be authorized by the Council and included in the minutes. Any loans repaid by transfers should also be approved by the Council in the minutes.

A list of approved bills should be included in the minutes of the Community Center board.

Response –

City – Future transfers and disbursements will be noted in the Council minutes.

Community Center Board – The Board Secretary has already started listing the bills in the minutes.

Conclusion – Responses accepted.

(8) Deposits and Investments – No instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.

(9) Deficit Balance – The General Fund had a deficit balance of \$91,906 at June 30, 2005. This deficit remained after the City borrowed \$136,830 from the Special Revenue, Revolving Loan Fund.

Recommendation – The City should investigate alternatives and take steps to eliminate the deficit in order to return the General Fund to a sound financial position.

Response – The City has already taken action to cut disbursements in the General Fund by not filling a vacancy in the Police Department. We have solved this shortage of one employee by joining Police Departments with a neighboring City. This amounts to over \$30,000 savings a year.

Conclusion – Response acknowledged. The Council should establish and approve a plan to repay the \$136,830 loan from the Special Revenue, Revolving Loan Fund and continue its efforts to return the General Fund to a sound financial position.

(10) Payment of General Obligation Notes – Principal totaling \$20,000 for general obligation notes was paid from the Capital Projects Fund. Chapter 384.4 of the Code of Iowa states, in part, "Moneys pledged or available to service general obligation bonds, and received from sources other than property tax, must be deposited in the Debt Service Fund."

Recommendation – The City should transfer from the Capital Projects Fund to the Debt Service Fund for future funding contributions. Payments of the notes should then be made from the Debt Service Fund.

Response – This has already been done on the re-estimated expenses for the 2005-2006 on the budget estimate for 2006-2007.

Conclusion – Response accepted.

City of Armstrong

Schedule of Findings

Year ended June 30, 2005

- (11) City Code of Ordinances – The City Code of Ordinances has not been recodified in the last five years.

Recommendation – In accordance with Chapter 380.8 of the Code of Iowa, a Code of Ordinances must be compiled at least once every five years, unless a supplement to the code of ordinances is compiled at least annually. The City should compile the city ordinances as required.

Response – The City is planning on starting the process in the summer of 2006.

Conclusion – Response accepted.

- (12) Electronic Check Retention – Chapter 554D.114 of the Code of Iowa allows the City to retain cancelled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each cancelled check. The City retains cancelled checks through electronic image, but does not obtain an image of the back of each cancelled check as required.

Recommendation – The City should obtain and retain an image of both the front and back of each cancelled check as required.

Response – The bank has been contacted about printing both sides of the checks from now on.

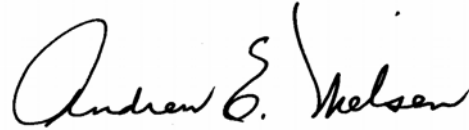
Conclusion – Response accepted.

City of Armstrong

Staff

This audit was performed by:

Pamela J. Bormann, CPA, Manager
James L. Blekfeld, CPA, Senior Auditor
Tiffany A. Gossweiler, 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