

**COMPREHENSIVE ANNUAL
FINANCIAL REPORT
OF THE
CITY OF WAVERLY, IOWA
FOR THE FISCAL YEAR ENDED
JUNE 30, 2004**

Prepared by the
Finance Department
Jack Bachhuber, Finance Director

**CITY OF WAVERLY, IOWA
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 FOR THE YEAR ENDED JUNE 30, 2004
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January 11, 2005

Honorable Mayor and City Council
City of Waverly
Waverly, Iowa

We are pleased to provide you with the Comprehensive Annual Financial Report (CAFR) of the City of Waverly. This report is for the fiscal year ended June 30, 2004. The report is submitted each year as required by State Law, Chapter 11.6. The report is prepared according to U.S. generally accepted accounting principles (GAAP) for government as established by the Governmental Accounting Standards Board (GASB). It is audited by Williams & Company, P.C.

The city's Department of Accounting prepared our report. Management of the city is responsible for the accuracy of the presented data and the completeness and fairness of presentation, including all disclosures. To the best of our knowledge and belief, the enclosed information is accurate in all material aspects and is presented in a manner designed to fairly present the financial position and results of operations of the city as measured by the financial activity of its various funds. All disclosures necessary to enable the reader to gain a complete understanding of the City of Waverly's financial activities have been included. Management of the city has established a comprehensive internal control framework that is designed both to protect the city's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the City's financial statement in conformity with GAAP. Since the cost of internal controls should not outweigh their benefits, the City of Waverly's internal controls have been designed to provide reasonable, rather than absolute assurance that the financial statement will be free from material misstatement.

This report is designed to meet the needs of a wide range of financial statement readers, and is presented in three sections.

The **Introductory Section** consists of this transmittal letter, a table of contents, a list of the City's principal elected and appointed officials, an organizational chart.

The **Financial Section** consists of the Independent Auditor's Report completed by Williams & Company, Management's Discussion and Analysis, Government Wide Financial Statements, the Fund Financial Statements, Notes to the Financial Statements, and Other Required Combining and Supplemental Information.

The **Statistical Section**, which is unaudited, consists of selected financial and demographic information for ten years, generally presented on a multi-year basis. This section is intended to offer the reader a better overall picture of the financial and economic trends of the City of Waverly.

GAAP require that management provide an introduction, overview and analysis to accompany the basic financial statement, in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is intended to complement MD&A, found immediately following the report of the City's independent auditors, and should be read in conjunction therewith. State statutes and the City Code require an annual audit by independent certified public accountants to provide reasonable assurance that the information in the CAFR can be relied upon. The auditors' report is included in the financial section of the report.

PROFILE OF THE CITY OF WAVERLY

The City of Waverly was incorporated in 1859 under the provisions of the Iowa State Legislature. It is located in Bremer County along the Cedar River in northeast Iowa, about 15 miles north of the Waterloo-Cedar Falls metropolitan area. Highways serving the area include State Highway 3 and U.S. Highway 218 that is connected to Interstate Highway 380, Avenue of the Saints. The population of 8,968 is located within an 11.3 square mile incorporated area.

The City of Waverly operates under a Mayor-council form of government. One council member is elected from each of the City's five wards, and two are elected at-large. The City administrator is responsible for the day-to-day management of the City. All departments and department directors report to the City Administrator, with the exception of the Library Director who is supervised by an appointed Board of Trustees.

FINANCIAL INFORMATION

The City of Waverly maintains an internal control structure designed to provide reasonable, but not absolute assurance that the assets of the city are protected from loss, theft, or fraud and that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with U.S. generally accepted accounting principles (GAAP). The requirement for reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management.

In addition, the City recognizes the importance of leadership from management in these controls. The City Council has adopted a personnel policy that provides guidance as to certain elements of the internal control structure. The employees are updated on changes to these ethics and personnel policies to stress that internal controls are an important element of the public's trust. The City has incorporated the personnel policy in the training of all employees and elected officials.

The foundation of the City's financial planning and control is the annual budget. The budget process includes sessions with staff, management, and the City Council. To ensure compliance with legal budgetary controls, the City Council and management receive monthly reports comparing budgeted amounts to actual expenditures. The City Council may make additional appropriations during the year for unanticipated revenues or capital projects which were not completed in the prior year.

Project length budgets are prepared for the various capital project funds. A "Five Year Capital Improvement Plan" is prepared and reviewed annually with the City Council. This plan defines the long-term capital plan of the City while each specific capital project is appropriated through different revenue streams. These funds are legally appropriated at the fund level. After adoption, budget adjustments in these funds are authorized by the City Council.

State laws require audits for cities such as Waverly to be conducted by the auditor of state or by certified public accountants. In addition to meeting state requirements, the audit must meet the requirements of the federal Single Audit Act of 1984, and the Single Audit Act amendments of 1996 which substantially revised various provisions of the 1984 Act, and the related U.S. Office of Management and Budget's Circular A-133. An audit is conducted annually in accordance with U.S. generally accepted auditing standards and the standards set forth in the General Accounting Office's Government Auditing Standards. It must examine, among other things, the financial condition and resources of the City, and accuracy of the City's accounts and reports. The audit report is contained the Financial Section which follows.

FACTORS AFFECTING FINANCIAL CONDITION

Local Economy. The City of Waverly is the largest city in Bremer County, and also the County Seat. Waverly offers a convenient small town atmosphere while being only a 25 minute drive to a large metropolitan area. Recent census and residential building figures show Waverly growing at an annual rate of .5% and 7% respectively. These increases will allow the City to receive future increased intergovernmental revenues.

The City benefits from a prosperous downtown retail area plus other shopping areas on the south and north side of the City. The retail economy is very important to Waverly and has gone through a period of expansion. Waverly is the home of Wartburg College, a private four-year college. Wartburg continues to expand its campus with major additions to the student union, science center, and dormitory facilities. These additions will allow the accommodation of the growing student population. The college currently has a record enrollment of over 1,800 full-time students.

The City of Waverly is a growing manufacturing, retailing, educational and health services center in northeast Iowa. Major employers range from CUNA Mutual Life Insurance with 750 employees, Wartburg College with 408 employees, Nestle Beverage, food products, with 315 employees, and Waverly Health Center with 280 employees. Waverly Health Center also recently completed a multi-million dollar addition to their campus facility in 2003-2004.

Sales and use tax activity increased less than one percent over the 2002-2003 fiscal year, but the number of businesses increased 2%. The slight growth still demonstrates the popularity for a local business center. Last year the City of Waverly passed a local option sales tax change which will allow the city to begin specific projects related to safety and infrastructure. The revenue stream will amount to more than \$500,000 a year.

The City's economic outlook continues to be positive, with industry and commercial business showing continued growth in product lines and employment. Bremer County's June 2004, unemployment rate of 2.8% compares favorably to the State's rate of 4.3% for the same period. The tax base for the City is showing favorable increases. At an average increase of 3.3% a year since 1995, growth in the city's taxable valuation has been excellent compared to other cities of similar size. Assessed valuations for the same period increased at a rate of 6.9%, but the state's residential rollback continues to affect the taxing ability of cities. Taxable valuation for the 2004 year improved by 1.3%, primarily due to a combination of new residential and commercial growth. Detail figures are provided in the statistical section.

Long-term Financial Planning. The City of Waverly operates with a cash and investment pool concept, whereby funds not individually invested to the credit of a particular fund are invested to the credit of the General Fund. This is consistent with state law, which provides that with the exception of bond covenants and local ordinances that require investments by fund, investments can be pooled and invested to the credit of the General Fund.

It is the policy of the City to invest public funds in a manner which will provide the maximum security, meet daily cash flow demands, and provide the highest investment return while conforming to all state and local statutes governing the investment of public funds.

The City may invest in any of the securities identified as eligible investments defined in the City of Waverly Investment Policy. In general these consist of interest bearing savings accounts, certificates of deposits, United States Treasury Notes and Bonds, Iowa Public Agency Investment Trust, and government sponsored securities.

The certificate of deposit annual interest rate averaged 1.31% compared to 1.84% last year. The return of Iowa Public Agency Investment Trust averaged only .59% compared to .98% last year. These are two major investment areas. At June 30, 2004 the city's investment position for all funds totaled \$6,127,098 compared to \$5,041,993 in 2003.

Risk Management. The City also manages medical, dental, and vision insurance for its employees via a risk-retention plan administered by a third party administrator. Costs of the program include medical benefits, administration fees, and premiums for stop-loss coverage with limits of \$20,000 per covered employee per year and 125% of expected claims for the year for the City as a whole. The City continues to analyze the insurance market, and educate employees to control rising health care costs. An annual actuarial study provides analysis and information to help the City comply with local and state requirements.

The City is also 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 deductible and claims in the excess of coverage limitations.

Pension Benefits. All permanent City employees are covered by one of two pension plans. Most uniformed employees are included in the Municipal Fire and Police Retirement System of Iowa (MFPRSI), which is a cost-sharing, defined benefit plan, administered by a Board of Trustees appointed by the State of Iowa. All other eligible City employees are covered by the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing, defined benefit plan administered by the State of Iowa.

The City of Waverly does not provide postretirement health, dental, or vision care benefits for any retirees.

Awards and Acknowledgments. The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Waverly for its comprehensive annual financial report (CAFR) for the year ended June 30, 2003. In order to receive this award, the city must publish an easily readable and efficiently organized CAFR. The report must also satisfy both generally accepted accounting principles and applicable legal requirements. The award is valid for one year only. The City is submitting the 2004 annual financial report to GFOA for review to determine its eligibility for an award.

The preparation of this report could not have been accomplished without the support and dedication of the entire staff of the finance and administrative departments. Appreciation is also expressed to the mayor and city council for their support and interest in the financial operations of the City in a responsible and progressive manner.

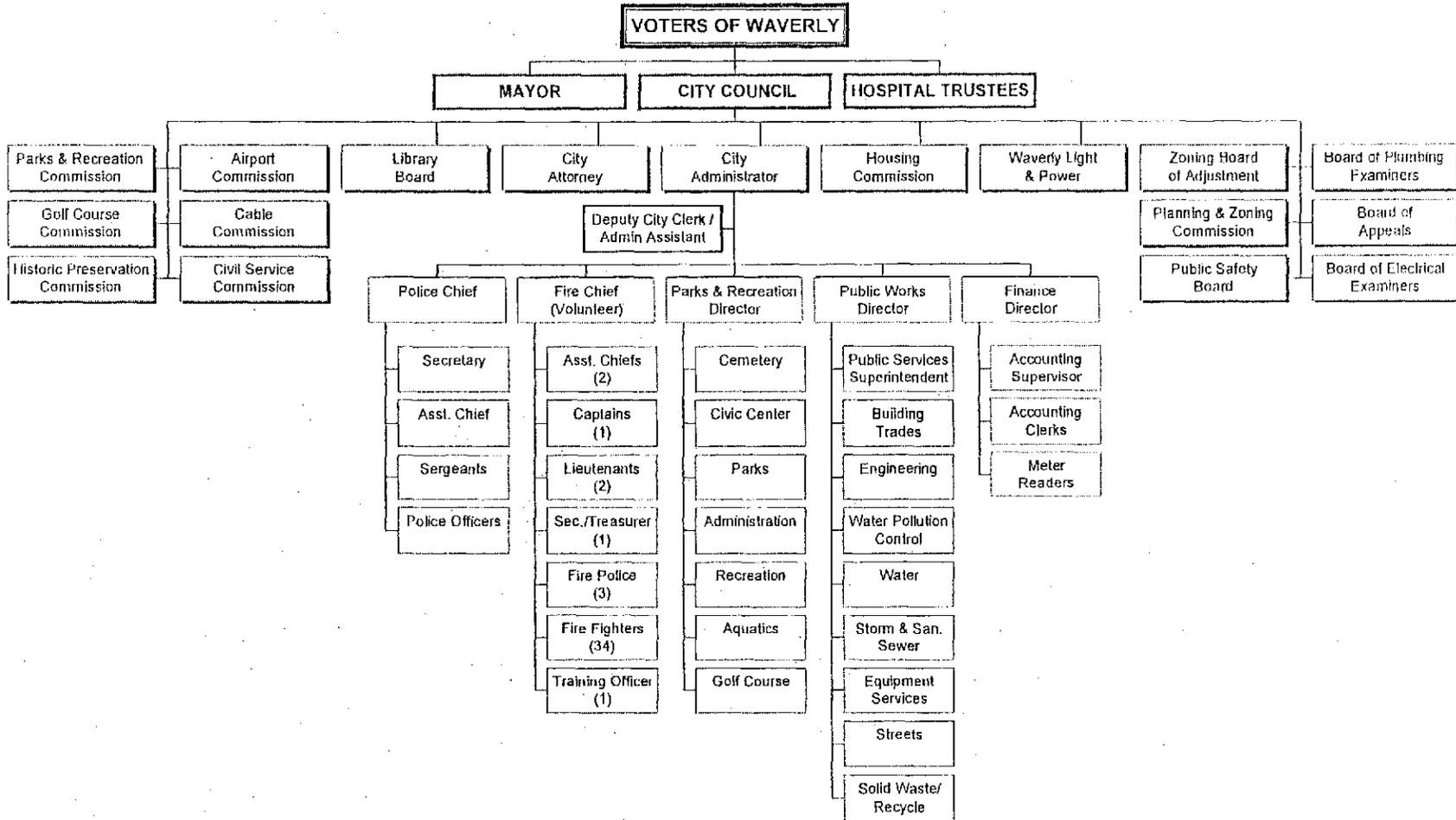
Respectfully submitted,


Richard J. Crayne
City Administrator


Jack A. Bachhuber
Director of Finance

Organizational Flow Chart

The City Of Waverly, Iowa



CITY OF WAVERLY, IOWA

List of Principal Officials
June 30, 2004

ELECTED OFFICIALS

MayorIvan Ackerman
Council Member – Ward 1 Darrel Steege
Council Member – Ward 2 Gary Grace
Council Member – Ward 3 Cyndi Ecker
Council Member – Ward 4 Connie Rasmussen
Council Member – Ward 5 Fred Ribich
Council Member – At Large Gary Boorum
Council Member – At Large Mel Kramer

APPOINTED OFFICIALS

City Administrator/ClerkRichard J. Crayne
Deputy City Clerk JoEllen Raap
Attorney..... Gerald B. Carney
Director of FinanceJack Bachhuber
City Engineer/Director of Public WorksMichael Cherry
Public Services Superintendent..... Brian Sullivan
Police Chief.....Arthur Simpson
Director of Parks and Recreation..... Tabor Ray
Fire Chief Dave Nelson
Library Director Patricia Coffie

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Waverly,
Iowa

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2003

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Nancy L. Zjella

President

Jeffrey R. Emer

Executive Director

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Waverly, Iowa for its comprehensive annual financial report for the fiscal year ended June 30, 2003. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report whose contents conform to program standards. Such comprehensive annual financial report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe our current report continues to conform to the Certificate of Achievement program requirements, and we are submitting it to GFOA.



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INDEPENDENT AUDITORS' REPORT

Honorable Mayor, Members of the City Council
City of Waverly, Iowa

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 Waverly, Iowa, (the City) as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We did not audit the financial statements of Waverly Health Center and Waverly Light and Power (discretely presented component units), which statements reflect total assets of \$36,190,026 and \$34,057,545 as of June 30, 2004 and December 31, 2003, respectively, and total operating revenues of \$19,633,539 and \$9,366,164 for the years then ended. Those financial statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for Waverly Health Center and Waverly Light and Power, is based solely on the reports of the other auditors.

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 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 that our audit and the report of the other auditors provide a reasonable basis for our opinions.

In our opinion, and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the city as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with U.S. generally accepted accounting principles.

The management's discussion and analysis and budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by the Government Accounting Standards Board. We have applied certain limited procedures, which

consisted principally of inquiries of management regarding methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2004 on our consideration of the City of Waverly'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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying Introductory Section and Statistical Section are presented for purposes of additional analysis and are not a required part of the basic financial statements of the City of Waverly, Iowa. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

The accompanying combining non-major fund financial statements, and the Schedule of Expenditures of Federal Awards which is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Williams + Company, P.C.
Certified Public Accountants

Le Mars, Iowa
September 30, 2004

CITY OF WAVERLY, IOWA

Management's Discussion and Analysis

The discussion and analysis of the City of Waverly's financial performance for the year ended June 30, 2004 provides a narrative overview of its financial activities. Readers are encouraged to consider the information presented here in conjunction with additional information we have furnished in our letter of transmittal, which starts on page 1 of this report.

Financial Highlights

- The City's assets of \$52.4 million are divided between Governmental Activities (\$35.9 million) and Business-Type Activities (\$16.5 million). Combined assets exceeded liabilities by \$30.7 million. Of this amount, \$6.2 million is unrestricted and may be used to meet the City's ongoing obligations to citizens and creditors.
- At June 30, 2004, the City of Waverly's governmental funds reported combined ending fund balances of \$3.8 million. Approximately 87 percent of this total amount, \$3.3 million is unreserved, and is available for spending at the government's discretion.
- The unreserved fund balance for the general fund, at the end of the current fiscal year was \$1.3 million. This represents 32 percent of total general fund expenditures.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City of Waverly's basic financial statements. The City's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the City of Waverly's finances, in a manner similar to a private-sector business. The Statement of Net Assets is essentially a balance sheet that combines all funds on a government-wide basis. Changes in net assets over time may be an indicator of whether the City's financial position is improving or worsening.

The Statement of Activities presents information showing how the City's net assets changed during the most recent fiscal year. All changes in the net assets are reported as soon as the underlying event occurs, giving rise to the change regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in the statement for some items that will only result in cash flows in future fiscal periods (e.g. uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City of Waverly that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City of Waverly include general government, public safety, public works, economic development, and culture and recreation. The Business-Type Activities of the City include a water, sewer, and solid waste utility.

The government-wide financial statement includes not only the City of Waverly itself (the primary government), but also the legally separate Waverly Health Center and Waverly, Light, & Power (component units), for which the City has some degree of financial accountability. Financial information for this component unity is reported separately from the financial information presented for the primary government itself.

The government-wide financial statements can be found on page 20-22, of this report.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Waverly, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statement, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of the governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City of Waverly maintains 33 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, debt service fund, and road use tax fund, which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of *combining statements* as supplementary information

The basic governmental fund financial statements can be found on pages 23-28 of this report.

Proprietary Funds. The City of Waverly maintains two types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its Water, Sewer, and Solid Waste Utilities. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for the self-insurance program.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Water, Sewer, and Solid Waste Utilities as all are considered, or have been designated to be major funds of the City. The internal service fund is a single, aggregated presentation in the proprietary fund financial statements.

The basic proprietary fund financial statements can be found on pages 29-36 of this report.

Fiduciary Funds. Fiduciary funds are used to account for resources held for the benefit of parties external to the City. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the City of Waverly's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary funds financial statements are reported in a separate *statement of fiduciary net assets*.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 38-60 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The largest part of the City's net assets reflects its investment in capital assets (land, buildings and improvements, and equipment) less any related debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

For the year ended June 30, 2004 net assets changed as follows:

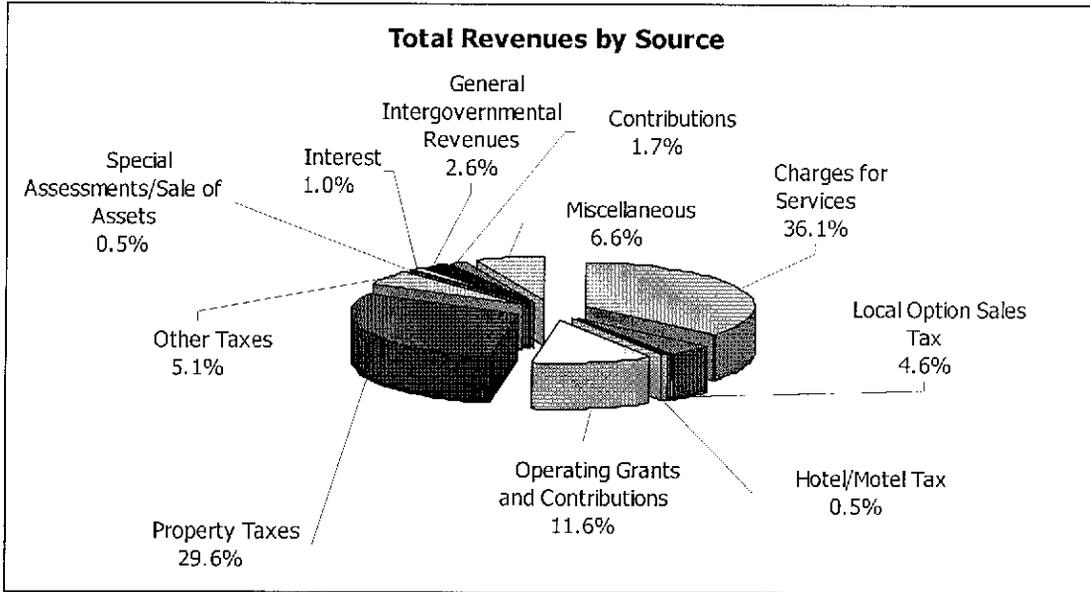
	Governmental Activities	Business- Type Activities	Total
Beginning Net Assets	\$ 17,588,566	\$ 10,964,521	\$ 28,553,087
Increase in Net Assets	1,649,830	495,300	2,145,130
Ending Net Assets	\$ 19,238,396	\$ 11,459,821	\$ 30,698,217

This summary reflects an increase of 9.4 % for the Governmental Activities and an increase of 4.5% in the Business-Type Activities. Net assets of the Governmental Activities accounted for 76.9% of the growth in net assets.

Total revenue reported in Fiscal Year 2004 was \$10,939,572. The following table breaks down revenues collected for General Governmental Activities and Business-Type Activities.

Revenue Source	Governmental Activities	Business- Type Activities	Total
Program Revenues:			
Charges for Services	\$ 1,224,299	\$ 2,725,658	\$ 3,949,957
Operating Grants and Contributions	1,273,888	-	1,273,888
Total Program Revenues	\$ 2,498,187	\$ 2,725,658	\$ 5,223,845
General Revenues & Interfund Transfers			
Property Taxes	\$ 3,243,081	-	\$ 3,243,081
Other Taxes	562,401	-	562,401
Local Option Sales Tax	500,793	-	500,793
Hotel/Motel Tax	58,176	-	58,176
Special Assessments	19,781	-	19,781
Interest	49,554	\$ 64,284	113,838
General Intergovernmental Revenues	280,986	-	280,986
Contributions	131,292	51,000	182,292
Gain on Sale of Assets	32,749	-	32,749
Miscellaneous	120,097	601,533	721,630
Interfund Transfers	32,633	(32,633)	-
Total General Revenues & Interfund Transfers	5,031,543	684,184	5,715,727
Total Revenues & Interfund Transfers	\$ 7,529,730	\$ 3,409,842	\$ 10,939,572

Program revenues totaled \$5,223,845 for fiscal year 2004. Governmental Activities provided \$2,498,187 or 48% and Business-Type Activities provided \$2,725,658 or 52%. Revenue collected for Charges for Services during the year was \$3,949,957, accounting for over 75% of total program revenues. General Revenues for fiscal year 2004 totaled \$5,715,727, with Governmental Activities providing \$5,031,543, and Business-Type Activities providing \$684,184. The following chart shows total revenue, shown as a percentage, by source:



Expenditures for fiscal year 2004 totaled \$8,794,442. Expenditures for General Governmental Activities totaled \$5,879,900, accounting for 67% of total expenditures. Business-Type Activity expenditures totaled \$2,914,542, for 33% of the total. The following table shows total expenditures by Function/Program:

Program Level	Governmental Activities	Business-Type Activities	Total
Public Safety	\$ 1,457,558	-	\$ 1,457,558
Public Works	337,158	-	337,158
Culture and Recreation	1,890,816	-	1,890,816
Community and Economic Development	145,857	-	145,857
General Government	717,406	-	717,406
Debt Service	558,303	-	558,303
Capital Projects	772,802	-	772,802
Water System	-	\$ 934,857	934,857
Sewer System	-	1,302,613	1,302,613
Solid Waste System	-	677,072	677,072
Total Expenditures	\$ 5,879,900	\$ 2,914,542	\$ 8,794,442

The following table shows the activities included within each program level:

Public Safety	Individual & Community Protection, Physical Health
Public Works	Roadway Construction, Airport Operations, General Streets, Transportation Services
Culture and Recreation.....	Education & Culture, Leisure Time Opportunities
Community & Economic Development.....	Economic Development & Community Beautification
General Government	Administration, Accounting, Support Services
Debt Service	Payment of Interest
Capital Projects	Construction of Capital Facilities
Water System	Operation of Water Supply Distribution System
Sewer System	Operation of Waste Water Treatment Plant/Collection System
Solid Waste System	Operation of Garbage and Recycling Collection and Disposal System

Since this is the first year to report all activities in the GASB 34 format, a comparison to the prior year is not appropriate. However, in future years, this section will address the changes between the current and prior year's assets, liabilities, revenues, expenditures, and changes in net assets.

Governmental Activities

To aid in the understanding of the Statement of Activities, some additional clarification is given. Of particular interest is the format that is significantly different than a typical Statement of Revenues, Expenses and Changes in Fund Balance. Please note that the expenses are listed in the first column, with revenues from that particular program reported to the right. The result is a Net (Expense) Revenue calculation. This format highlights the respective financial burden that each of the functions place on the taxpayers. For example, the City spent \$1,457,558 for Public Safety and received \$182,030 in revenue, leaving a cost to taxpayers of \$1,275,528 to be funded by various methods. The new format also identifies how much each function draws from general revenues or is self-financing through fees or grants. Some of the individual line item revenues reported for each function are:

Public Safety	Fines, Fees
Public Works	Road Use Tax, Rent
Culture and Recreation	Fees, State Aid
General Government	Licenses, Permits
Capital Projects	Donations, State Grants, Federal Grants

The total cost of governmental activities this year was \$5,879,900. Of these costs, \$1,224,299 was paid by those who directly benefited from the programs. Costs paid by other governments and organizations that subsidized certain programs with grants and contributions were \$1,273,888, leaving a Net Expense of \$3,381,713 for Governmental Activities. These expenses of \$3,381,713 were covered with tax revenues, interest, and other general revenues. The Statement of Activities in the financial statements provides further detail. The Net (Expense) Revenue by Governmental Activity is shown in the following table:

Functions/Programs	Net (Expense) Revenue
Governmental Activities:	
Public Safety	\$ (1,275,528)
Public Works	1,031,209
Culture and Recreation	(1,157,710)
Community and Economic Development	(145,857)
General Government	(502,722)
Capital Project	(772,802)
Debt Service	(558,303)
Total Net (Expense) Revenue	
Governmental Activities	\$ (3,381,713)
General Revenues & Interfund Transfers	5,031,543
Change in Net Assets	\$ 1,649,830

In future year a comparison of previous year's activity will be presented.

Total resources available during the year to finance governmental operations were \$25,118,296, consisting of Net Assets at July 1, 2003 of \$17,588,566, Program Revenues of \$2,498,187, and General Revenues of \$5,031,543. Total Governmental Activities during the year expended \$5,879,900; thus, Net Assets were increased by \$1,649,830 to \$19,238,396.

Business-Type Activities

Business-Type Activities increased the City's net assets by \$495,300, accounting for 23% of the growth in the City's net assets. This does not include a negative prior period adjustment of \$143,780.

The cost of all Proprietary Activities this year was \$2,914,542. As shown in the Statement of Activities, the amount paid by users of the systems was \$2,725,658, resulting in a total Net Expense of \$188,884. The difference was covered by transfers, and with anticipated rate increases to protect future reductions. The Net (Expense) Revenue by Business-Type Activity is shown in the following table:

Business-Type Activities	Net (Expense) Revenue
Water System	\$ (19,229)
Sewer System	(242,525)
Solid Waste System	72,870
Total Net (Expense) Revenue	
Business-Type Activities	(188,884)
General Revenues & Interfund Transfers	684,184
Change in Net Assets	\$ 495,300

Total resources available during the year to finance Proprietary Fund activities were \$14,374,363, consisting of Net Assets at July 1, 2003, of \$10,964,521, Program Revenues of \$2,725,658, and General Revenues of \$684,184. Total Proprietary Fund Activities during the year expended \$2,914,542; thus, Net Assets were increased by \$495,300 to \$11,459,821.

As stated above, the comparative nature of this report will be more complete when historical figures are available.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance related legal requirements. The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing financing requirements. Unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of a fiscal year. The City's Governmental Funds reported combined ending fund balances \$3,815,466. The combined Governmental Funds balance increased \$51,306 from the prior year.

The General Fund is the primary operating fund of the City. During the year, expenditures exceeded revenues in the General Fund by \$17,728.

GENERAL FUND BUDGETARY HIGHLIGHTS

Comparing the fiscal year 2004 original (adopted) General Fund amount of \$3,390,585 to the final budget amount of \$3,570,464 shows a net increase of \$179,879.

Original Budget	Supplemental Changes	Amended Budget
\$3,390,585	\$179,879	\$3,570,464

The following table shows the General Fund budget variances by program structure:

Expenditures	Amended Budget	Type Actual	Variance
Public Safety	\$1,208,208	\$1,203,668	\$4,540
Public Works	308,728	437,826	(129,098)
Health and Social Services	6,900	-	6,900
Culture and Recreation	1,375,769	1,872,918	(497,149)
Community and Economic Development	61,857	42,000	19,857
General Government	609,002	584,231	24,771
Total Expenditures	\$3,570,464	\$4,140,463	\$(570,179)

CAPITAL ASSETS

The City's investment in capital assets, including land, buildings and improvements, equipment, streets, sewer systems, water systems, and other infrastructure represents the value of the resources utilized to provide services to our citizens. The investment in capital assets as of June 30, 2004, was \$24,043,188, (net of accumulated depreciation and outstanding financings). The gross additions to capital assets for fiscal year 2004 are as follows:

	Governmental Activities	Business- Type Activities	Total
Infrastructure	\$ 1,262,845	-	\$ 1,262,845
Buildings	50,644	-	50,644
Improvements-Other Than Buildings	-	\$1,508,984	1,508,984
Equipment	223,146	219,296	442,442
Construction in Progress	488,464	32,965	521,429
Total Expenditures	<u>\$ 2,025,099</u>	<u>\$1,761,245</u>	<u>\$ 3,786,344</u>

Construction in Progress for governmental activities consisted of costs associated with the various projects including 12th Street SW Reconstruction, 1st Street SW Reconstruction and Trail, East Bremer Avenue Sidewalk, 39th Street Reconstruction, and 1st Avenue SE Parking Lot.

For Business-Type Activities, the Construction in Progress consisted of costs associated with the sewer system improvements.

See Note 6 to the financial statements for more information on the City's capital assets.

DEBT ADMINISTRATION

On June 30, 2004 the City had \$16,661,279 of debt outstanding. This is a decrease of \$1,547,045 from the prior year as no additional debt was incurred this year.

Debt administration is an important aspect of the City's financial obligation to its citizens. Any new debt is amortized over twelve years. At the end of the fiscal year the City's schedule showed that 54% of the existing general obligation debt would be paid off in six years. This rapid repayment, when combined with the use of TIF and Local Option Sales Tax Revenue, has allowed the City to maintain an A1 rating from Moody's.

The City continues to operate well under the State of Iowa debt capacity limitations. The State limits the total outstanding General Obligation Debt to 5 percent of the assessed value of all taxable property in the corporate limits. This formula set the debt capacity at \$20,047,576 at the end of the 2004 fiscal year. With outstanding General Obligation Debt applicable to this limit of \$13,691,350 the city is at 67% of the maximum debt capacity. More detailed information on debt administration is provided in Note 7 of the financial statements.

ECONOMIC FACTORS

The City of Waverly continues to report strong residential and commercial building projects. Last year the City had 63 new single family permits, compared to 40 the previous year. New commercial building permits have averaged six a year over the past five years. Property tax is a major source of revenue and Waverly is fortunate that it has seen minor, but consistent increases in assessed and taxable valuation.

This steady growth has allowed the City to maintain its high level of service. The City has budgeted for use of General Fund balance during the past years, but has projected a balanced budget for the next three years. The General Fund balance continues to remain at a solid 32% of expenditures.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the City of Waverly's financial position for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City of Waverly, Accounting Department, 200 First Street NE, P.O. Box 616, Waverly, Iowa 50677.

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CITY OF WAVERLY, IOWA
STATEMENT OF NET ASSETS
JUNE 30, 2004

	Primary Government			Component Unit	
	Governmental Activities	Business-Type Activities	Total	Waverly Health Center	Waverly Light and Power
ASSETS					
Cash and Cash Equivalents	\$ 1,503,492	\$ 330,950	\$ 1,834,442	\$ 228,597	\$ 1,500,407
Investments	2,373,306	1,176,654	3,549,960	-	4,701,087
Receivables (Net, where applicable, of allowance for uncollectibles)					
Accounts	159,728	122,891	282,619	4,151,534	1,628,286
Taxes	17,636	-	17,636	-	-
Subsequent Year Taxes	3,961,719	-	3,961,719	-	-
Accrued Interest	9,698	2,524	12,222	-	-
Other	-	-	-	13,440	-
Estimated Unbilled Usage	-	82,741	82,741	-	-
Special Assessments	-	461,765	461,765	-	-
Internal Balances	199,750	(199,750)	-	-	-
Due from Other Governmental Agencies	255,693	-	255,693	-	-
Inventories	48,370	85,231	133,601	321,575	562,540
Prepaid Assets	-	51,247	51,247	41,277	21,745
Other	-	-	-	-	369,931
Restricted Assets:					
Cash and Cash Equivalents	-	50,000	50,000	13,886,908	936,267
Investments	-	692,696	692,696	1,667,403	-
Accrued Interest Receivable	-	-	-	24,478	-
Bond Issue Costs	283,379	-	283,379	522,043	25,015
Land	1,832,697	19,191	1,851,888	979,243	122,514
Construction in Progress	234,010	112,325	346,335	6,926,218	257,670
Investment in Joint Venture	151,116	-	151,116	-	-
Infrastructure, Property and Equipment, Net of Accumulated Depreciation (Note 6)	25,321,555	13,098,644	38,420,199	7,427,310	23,932,083
Total Assets	36,352,149	16,087,109	52,439,258	36,190,026	34,057,545
LIABILITIES					
Accounts Payable	315,253	105,895	421,148	2,014,079	246,953
Accrued Wages and Compensated Absences	291,415	65,202	356,617	906,962	278,715
Accrued Expenses	307	-	307	-	146,037
Claims Incurred But Not Reported	183,160	-	183,160	-	-
Deferred Revenue - Subsequent Year Taxes	3,961,719	-	3,961,719	-	-
Accrued Interest Payable	45,937	-	45,937	45,917	18,182
Payables from Restricted Assets:					
Customer Deposits	-	22,634	22,634	-	-
Accrued Revenue Bond Interest	-	23,169	23,169	-	-
Noncurrent Liabilities:					
Due within one year:					
Revenue Bonds Payable	-	335,000	335,000	895,000	685,000
General Obligation Bonds	992,000	155,000	1,147,000	-	-
Notes Payable	65,071	-	65,071	104,034	-
Due in more than one year:					
Revenue Bonds Payable	-	2,700,000	2,700,000	17,105,000	4,465,751
General Obligation Bonds	11,012,612	1,220,388	12,233,000	233,743	-
Notes Payable	246,279	-	246,279	-	-
Total Liabilities	17,113,753	4,627,288	21,741,041	21,304,735	5,840,648
NET ASSETS					
Invested in Capital Assets, Net of Related Debt	15,223,416	8,819,772	24,043,188	(3,005,006)	19,161,516
Restricted for:					
Debt Service	-	-	-	-	233,085
Endowments:					
Nonexpendable	439,592	-	439,592	-	-
Unrestricted	3,575,388	2,640,049	6,215,437	17,890,297	8,822,296
Total Net Assets	\$ 19,238,396	\$ 11,459,821	\$ 30,698,217	\$ 14,885,291	\$ 28,216,897

See Accompanying Notes to Financial Statements

CITY OF WAVERLY, IOWA
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2004

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
Public Safety	\$ 1,457,558	\$ 175,223	\$ 6,807	\$ -
Public Works	337,158	215,740	1,152,627	-
Culture and Recreation	1,890,816	618,652	114,454	-
Community and Economic Development	145,857	-	-	-
General Government	717,406	214,684	-	-
Capital Projects	772,802	-	-	-
Debt Service	558,303	-	-	-
Total governmental activities	<u>5,879,900</u>	<u>1,224,299</u>	<u>1,273,888</u>	<u>-</u>
Business-Type Activities:				
Water System	934,857	915,628	-	-
Sewer System	1,302,613	1,060,088	-	-
Solid Waste System	677,072	749,942	-	-
Total Business-Type Activities:	<u>2,914,542</u>	<u>2,725,658</u>	<u>-</u>	<u>-</u>
Total Primary Government	<u>\$ 8,794,442</u>	<u>\$ 3,949,957</u>	<u>\$ 1,273,888</u>	<u>\$ -</u>
Component Unit:				
Waverly Health Center	<u>\$ 18,286,763</u>	<u>\$ 19,633,539</u>	<u>\$ -</u>	<u>\$ -</u>
Waverly Light and Power	<u>\$ 7,844,520</u>	<u>\$ 9,366,164</u>	<u>\$ -</u>	<u>\$ -</u>

General Revenues:
Property taxes
Other taxes
Local Option Sales Tax
Hotel/Motel Taxes
Special Assessments
Interest
General Intergovernmental Revenues
Contributions
Gain on Sale of Assets
Miscellaneous
Interfund Transfers
Total general revenues and transfers
Change in net assets
Net assets - beginning
Prior Period Adjustment
Net Assets - Beginning as Adjusted
Net assets - ending

See Accompanying Notes to Financial Statements

Net (Expense) Revenue and Changes in Net Assets				
Governmental Activities	Business-Type Activities	Total	Component Unit	
			Waverly Health Center	Waverly Light and Power
\$ (1,275,528)		\$ (1,275,528)		
1,031,209		1,031,209		
(1,157,710)		(1,157,710)		
(145,857)		(145,857)		
(502,722)		(502,722)		
(772,802)		(772,802)		
(558,303)		(558,303)		
<u>(3,381,713)</u>		<u>(3,381,713)</u>		
	(19,229)	(19,229)		
	(242,525)	(242,525)		
	72,870	72,870		
	<u>(188,884)</u>	<u>(188,884)</u>		
<u>(3,381,713)</u>	<u>(188,884)</u>	<u>(3,570,597)</u>		
			\$ 1,346,776	\$ 1,521,644
3,243,081		3,243,081		
562,401		562,401		
500,793		500,793		
58,176		58,176		
19,781		19,781		
49,554	64,284	113,838	101,413	124,081
280,986		280,986		
131,292	51,000	182,292	54,639	
32,749		32,749		
120,097	47,332	167,429		21,424
32,633	(32,633)	-		
<u>5,031,543</u>	<u>129,983</u>	<u>5,161,526</u>	<u>156,052</u>	<u>145,505</u>
1,649,830	(58,901)	1,590,929	1,502,828	1,667,149
17,588,566	11,108,301	28,696,867	13,382,463	26,549,748
	(143,780)	(143,780)		
<u>17,588,566</u>	<u>10,964,521</u>	<u>28,553,087</u>	<u>13,382,463</u>	<u>26,549,748</u>
<u>\$ 19,238,396</u>	<u>\$ 10,905,620</u>	<u>\$ 30,144,016</u>	<u>\$ 14,885,291</u>	<u>\$ 28,216,897</u>

CITY OF WAVERLY, IOWA
BALANCE SHEET
Governmental Funds
JUNE 30, 2004

	General	Debt Service	Road Use Tax
Assets			
Cash and Pooled Investments	\$ 261,760	\$ -	\$ 234,356
Investments	616,683	100,000	-
Receivables (Net, where applicable, of allowance for uncollectibles)			
Accounts	35,240	-	4,161
Taxes	9,825	3,972	-
Subsequent Year Taxes	2,388,530	833,207	-
Accrued Interest	4,853	200	-
Due from Other Funds	675,566	-	52,418
Due from Other Governmental Agencies	75,140	-	60,209
Inventories	48,370	-	-
Total Assets	4,115,967	937,379	351,144
Liabilities and Fund Balances			
Liabilities:			
Accounts Payable	101,540	445	78,808
Accrued Wages and Compensated Absences	258,778	-	32,637
Accrued Expenses	-	-	307
Due to Other Funds	4,096	90,605	-
Deferred Revenue - Subsequent Year Taxes	2,388,530	833,207	-
Total Liabilities	2,752,944	924,257	111,752
Fund Balances:			
Reserved for:			
Debt Service	-	13,122	-
Perpetual Care	-	-	-
Inventories	48,370	-	-
Unreserved	1,314,653	-	239,392
Total Fund Balances	1,363,023	13,122	239,392
Total Liabilities and Equity	\$ 4,115,967	\$ 937,379	\$ 351,144

See Accompanying Notes to Financial Statements

Other Governmental Funds	Total Governmental Funds
\$ 971,305	\$ 1,467,421
1,536,623	2,253,306
11,992	51,393
3,839	17,636
739,982	3,961,719
4,251	9,304
-	727,984
120,344	255,693
-	48,370
<u>3,388,336</u>	<u>8,792,826</u>

129,591	310,384
-	291,415
-	307
318,834	413,535
739,982	3,961,719
<u>1,188,407</u>	<u>4,977,360</u>

-	13,122
439,592	439,592
-	48,370
1,760,337	3,314,382
<u>2,199,929</u>	<u>3,815,466</u>
<u>\$ 3,388,336</u>	<u>\$ 8,792,826</u>

CITY OF WAVERLY, IOWA
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
For the Year Ended June 30, 2004

Amounts reported for Governmental Activities in the Statement of Net assets are different because:

Total Fund Balance - Governmental Funds (page 24)	\$	3,815,466
Infrastructure, property, and equipment used in governmental activities are not financial resources and, therefore, are not reported in the funds		27,539,378
Internal service funds are used by management to fund and maintain the City's health insurance provided to user departments and are included in the statement of net assets.		(37,928)
Accrued expenses from the balance sheet that require current financial resources for governmental activities		(45,937)
Bond issue costs are reported in the governmental activities but are not reported in the funds as they do not provide current economic resources		283,379
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds		(12,315,962)
		<hr/>
Total Net Assets - Governmental Activities (page 20)	\$	<u>19,238,396</u>

See Accompanying Notes to Financial Statements

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CITY OF WAVERLY, IOWA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
Governmental Funds
For the Year Ended June 30, 2004

	General	Debt Service	Road Use Tax
Revenue:			
Taxes	\$ 2,078,313	\$ 846,880	\$ -
Special Assessments	-	-	-
Licenses and Permits	181,939	-	-
Intergovernmental Revenue	360,609	-	752,221
Charges for Services	974,777	-	-
Fines and Forfeits	43,989	-	-
Contributions	107,353	-	-
Proceeds from Sale of Real Estate	-	-	-
Interest	20,033	6,813	-
Miscellaneous	75,471	-	21,325
Total Revenue	<u>3,842,484</u>	<u>853,693</u>	<u>773,546</u>
Expenditures:			
Public Safety	1,203,668	-	-
Public Works	437,826	-	623,488
Culture and Recreation	1,872,918	-	-
Community and Economic Development	42,000	-	-
General Government	584,231	-	-
Capital Projects	-	-	-
Debt Service	-	1,696,695	-
Total Expenditures	<u>4,140,643</u>	<u>1,696,695</u>	<u>623,488</u>
Excess (deficiency) of revenues over expenditures	<u>(298,159)</u>	<u>(843,002)</u>	<u>150,058</u>
Other financing sources (uses):			
Proceeds from Debt Financing	81,610	-	-
Transfers In	238,821	850,718	-
Transfers Out	(40,000)	-	(87,782)
Total other financing sources (uses)	<u>280,431</u>	<u>850,718</u>	<u>(87,782)</u>
Net Change in Fund Balance	(17,728)	7,716	62,276
Fund balances-beginning of year	1,380,751	5,406	177,116
Fund balances- end of year	<u>\$ 1,363,023</u>	<u>\$ 13,122</u>	<u>\$ 239,392</u>

See Accompanying Notes to Financial Statements

Other Governmental Funds	Total Governmental Funds
\$ 1,439,258	\$ 4,364,451
19,781	19,781
-	181,939
442,043	1,554,873
23,595	998,372
-	43,989
23,939	131,292
62,724	62,724
21,236	48,082
27,340	124,136
<u>2,059,916</u>	<u>7,529,639</u>
233,295	1,436,963
-	1,061,314
21,796	1,894,714
103,857	145,857
-	584,231
772,802	772,802
-	1,696,695
<u>1,131,750</u>	<u>7,592,576</u>
<u>928,166</u>	<u>(62,937)</u>
-	81,610
532,388	1,621,927
(1,461,512)	(1,589,294)
<u>(929,124)</u>	<u>114,243</u>
(958)	51,306
2,200,887	3,764,160
<u>\$ 2,199,929</u>	<u>\$ 3,815,466</u>

CITY OF WAVERLY, IOWA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2004

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balances - total governmental funds (page 27)	\$	51,306
<p>Governmental funds report capital outlays, including infrastructure, as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. Capital outlays were exceeded by depreciation expense in the current year as follows:</p>		
Expenditures for capital assets	\$	2,025,099
Depreciation expense		<u>(1,368,977)</u>
		656,122
<p>Governmental funds report the proceeds from the sale of fixed assets as revenue whereas the statement of activities reports the gain on the sale of fixed assets. This is the effect on the change in net assets on the statement of activities.</p>		
		(34,014)
<p>Accrued interest expense that does not require current financial resources</p>		
		4,267
<p>Internal service funds are used by management to fund and maintain the City's insurance policies provided to user departments and are included in the statement of net assets. The net revenue of the internal service funds is reported with governmental activities.</p>		
		(80,366)
<p>The issuance of indebtedness provides current financial resources to the governmental funds without affecting net assets. The statement of activities does not reflect the proceeds from the issuance of long-term debt. The proceeds from the issuance of long-term debt for the year was:</p>		
		(81,610)
<p>The effect of bond issuance costs when new debt is issued, whereas, these amounts are deferred and amortized in the Statement of Activities</p>		
		(34,530)
<p>The repayment of the principal of bonded long-term debt consumes the current financial resources of governmental funds without affecting the net assets. The statement of activities does not reflect the payment of principal on bonded long-term debt. The principal paid on bonded long-term debt during the current year was:</p>		
		<u>1,168,655</u>
Change in net assets of governmental activities (page 22)	<u>\$</u>	<u>1,649,830</u>

See Accompanying Notes to Financial Statements

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CITY OF WAVERLY, IOWA
COMBINING STATEMENT OF NET ASSETS
Proprietary Funds
JUNE 30, 2004

	Business Type Activities	
	Water System	Sewer System
ASSETS		
Cash and Cash Equivalents	\$ 28,736	\$ 240,881
Investments	369,154	472,500
Receivables (Net, where applicable, of allowance for uncollectibles)		
Accounts	45,553	52,004
Accrued Interest	-	2,376
Estimated Unbilled Usage	31,974	50,767
Special Assessments	150,514	311,251
Accrued Interest	-	-
Due from Other Funds	540	192,870
Inventories	41,839	43,392
Prepaid Assets	13,785	15,406
Restricted Assets:		
Cash and Cash Equivalents	-	50,000
Investments	285,196	407,500
Land	-	19,191
Construction in Progress	-	112,325
Infrastructure, Property and Equipment, Net of Accumulated Depreciation	4,359,903	8,467,734
Total Assets	5,327,194	10,438,197
LIABILITIES		
Accounts Payable	23,635	66,333
Accrued Wages and Compensated Absences	18,172	26,172
Due to Other Funds	180,000	213,160
Claims Incurred But Not Reported	-	-
Payables from Restricted Assets:		
Customer Deposits	22,634	-
Accrued Revenue Bond Interest	14,087	9,082
Noncurrent Liabilities:		
Due within one year:		
Revenue Bonds Payable	125,000	210,000
General Obligation Bonds	100,000	55,000
Due in more than one year:		
Revenue Bonds Payable	615,000	2,085,000
General Obligation Bonds	1,030,388	190,000
Total Liabilities	2,128,916	2,854,747
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	2,489,515	6,059,250
Unrestricted	708,763	1,524,200
Total Net Assets	\$ 3,198,278	\$ 7,583,450

See Accompanying Notes to Financial Statements

Business Type Activities		Governmental
Solid		Activities
Waste	Total	Internal
		Service
\$ 61,333	\$ 330,950	\$ 36,071
335,000	1,176,654	120,000
25,334	122,891	108,335
148	2,524	
-	82,741	
-	461,765	
-	-	394
-	193,410	
-	85,231	
22,056	51,247	
-	50,000	
-	692,696	
-	19,191	
-	112,325	
271,007	13,098,644	
714,878	16,480,269	264,800
15,927	105,895	4,869
20,858	65,202	
-	393,160	114,699
-	-	183,160
-	22,634	
-	23,169	
-	335,000	
-	155,000	
-	2,700,000	
-	1,220,388	
36,785	5,020,448	302,728
271,007	8,819,772	
407,086	2,640,049	(37,928)
\$ 678,093	\$ 11,459,821	\$ (37,928)

CITY OF WAVERLY, IOWA
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN NET ASSETS
Proprietary Funds
For the Year Ended June 30, 2004

	Business Type Activities	
	Water System	Sewer System
Operating Revenues:		
Charges for Services	\$ 915,628	\$ 1,060,088
Total Operating Revenue	<u>915,628</u>	<u>1,060,088</u>
Operating Expenses:		
General Government		
Production/Plant/Operating Costs	618,328	807,196
Depreciation	226,489	377,805
Total Operating Expenses	<u>844,817</u>	<u>1,185,001</u>
Operating Income	70,811	(124,913)
Non-Operating Income (Expense):		
Interest Income	12,504	47,216
Revenue from Use of Property	51,000	
Other Non-operating Revenues	4,327	28,014
Interest Expense	(90,040)	(117,612)
Total Non-Operating Income (Expenses)	<u>(22,209)</u>	<u>(42,382)</u>
Income before Contributions and Transfers	48,602	(167,295)
Contributed Capital Revenue	253,835	300,366
Transfers In (Out)	(50,000)	67,367
Change in Net Assets	252,437	200,438
Net Assets - Beginning	3,028,841	7,420,599
Prior Period Adjustment	(83,000)	(37,587)
Net Assets - Beginning as Restated	<u>2,945,841</u>	<u>7,383,012</u>
Net Assets - Ending	<u>\$ 3,198,278</u>	<u>\$ 7,583,450</u>

See Accompanying Notes to Financial Statements

Business Type Activities		Governmental
Solid		Activities
Waste	Total	Internal
		Service
\$ 749,942	\$ 2,725,658	\$ 552,364
749,942	2,725,658	552,364
	-	634,202
632,280	2,057,804	
44,792	649,086	
677,072	2,706,890	634,202
72,870	18,768	(81,838)
4,564	64,284	
	51,000	1,472
14,991	47,332	
	(207,652)	
19,555	(45,036)	1,472
92,425	(26,268)	(80,366)
	554,201	
(50,000)	(32,633)	-
42,425	495,300	(80,366)
658,861	11,108,301	42,438
(23,193)	(143,780)	-
635,668	10,964,521	42,438
\$ 678,093	\$ 11,459,821	\$ (37,928)

CITY OF WAVERLY, IOWA
COMBINING STATEMENT OF CASH FLOWS
Proprietary Funds
For the Year Ended June 30, 2004

	Business Type Activities	
	Water System	Sewer System
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash Received from Customers	\$ 981,812	\$ 1,132,774
Cash Paid to Suppliers for Goods and Services	(375,385)	(554,999)
Cash Paid to Employees for Services	(221,716)	(255,320)
Other Nonoperating Income	55,327	28,014
Net Cash Provided (Used) by Operating Activities	<u>440,038</u>	<u>350,469</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition and Construction of Capital Assets	(71,939)	(247,217)
Principal Paid on Notes and Bonds	(220,000)	(240,000)
Interest Paid on Notes and Bonds	(88,897)	(119,324)
Net Cash (Used) for Capital and Related Financing Activities	<u>(380,836)</u>	<u>(606,541)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
Operating Transfers to Other Funds	(50,000)	
Operating Transfers from Other Funds		67,367
Due From (To) Other Funds	10,521	101,075
Net Cash Provided (Used) for Non-Capital Financing Activities	<u>(39,479)</u>	<u>168,442</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of Investment Securities	(3,891)	(1,200,000)
Proceeds from Sale of Investment Securities		1,200,000
Interest and Dividends on Investments	12,504	48,326
Net Cash Provided for Investing Activities	8,613	48,326
Net Increase (Decrease) in Cash and Cash Equivalents	28,336	(39,304)
Cash and Cash Equivalents at Beginning of Year	<u>400</u>	<u>330,185</u>
Cash and Cash Equivalents at End of Year	<u>\$ 28,736</u>	<u>\$ 290,881</u>

See Accompanying Notes to Financial Statements

<u>Business Type Activities</u>		<u>Governmental</u>
<u>Solid</u>		<u>Activities</u>
<u>Waste</u>	<u>Total</u>	<u>Internal</u>
		<u>Service</u>
\$ 769,979	\$ 2,884,565	\$ 444,029
(287,015)	(1,217,399)	(484,932)
(339,790)	(816,826)	-
14,991	98,332	-
<u>158,165</u>	<u>948,672</u>	<u>(40,903)</u>
	(319,156)	-
	(460,000)	-
	(208,221)	-
<u>-</u>	<u>(987,377)</u>	<u>-</u>
(50,000)	(100,000)	-
	67,367	
(111,276)	320	50,198
<u>(161,276)</u>	<u>(32,313)</u>	<u>50,198</u>
(670,000)	(1,873,891)	-
670,000	1,870,000	-
<u>4,444</u>	<u>65,274</u>	<u>1,134</u>
4,444	61,383	1,134
1,333	(9,635)	10,429
<u>60,000</u>	<u>390,585</u>	<u>25,642</u>
<u>\$ 61,333</u>	<u>\$ 380,950</u>	<u>\$ 36,071</u>

(Continued)

CITY OF WAVERLY, IOWA
COMBINING STATEMENT OF CASH FLOWS (Continued)
Proprietary Funds
For the Year Ended June 30, 2004

	Business Type Activities	
	Water System	Sewer System
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities		
Operating Income (Loss)	\$ 70,811	\$ (124,913)
Provided by Operating Activities:		
Depreciation	226,489	377,805
Miscellaneous Non-Operating Income	55,327	28,014
(Increase) Decrease in Assets:		
Accounts Receivable	38,046	28,699
Special Assessments	30,005	22,474
Estimated Unbilled Usage	31,486	21,513
Prepaid Expenses	(646)	(1,059)
Inventories	6,082	(1,978)
Increase (Decrease) in Liabilities		
Accounts Payable	11,271	(2,563)
Accrued Wages and Compensated Absences	4,520	2,477
Customer Deposits	(33,353)	
Claims Incurred But Not Reported		
Total Adjustments	369,227	475,382
Net Cash Provided (Used) by Operating Activities	\$ 440,038	\$ 350,469

Reconciliation of Cash and Cash Equivalents to the Balance Sheet:

Cash and Cash Equivalents	\$ 28,736	\$ 240,881
Restricted Cash and Cash Equivalents	-	50,000
	\$ 28,736	\$ 290,881

See Accompanying Notes to Financial Statements

<u>Solid Waste</u>	<u>Total</u>	<u>Governmental Activities Internal Service</u>
\$ 72,870	\$ 18,768	\$ (81,838)
44,792	649,086	-
14,991	98,332	-
20,037	86,782	(108,335)
	52,479	
	52,999	-
(3,477)	(5,182)	-
	4,104	-
3,145	11,853	4,514
5,807	12,804	-
	(33,353)	-
	-	144,756
85,295	929,904	40,935
<u>\$ 158,165</u>	<u>\$ 948,672</u>	<u>\$ (40,903)</u>
\$ 61,333	\$ 330,950	\$ 36,071
-	50,000	-
<u>\$ 61,333</u>	<u>\$ 380,950</u>	<u>\$ 36,071</u>

CITY OF WAVERLY, IOWA
STATEMENT OF FIDUCIARY NET ASSETS
Fiduciary Funds
JUNE 30, 2004

ASSETS

Accounts Receivable \$ 66,894

Total Assets 66,894

LIABILITIES

Due to Other Governments 66,894

Total Liabilities 66,894

NET ASSETS

Unrestricted -

Total Net Assets \$ -

See Accompanying Notes to Financial Statements

CITY OF WAVERLY, IOWA
Notes to Financial Statements
June 30, 2004

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Waverly, Iowa, is a political subdivision of the State of Iowa located in Bremer County, and was incorporated in 1859, under the laws of the State of Iowa, later amended in 1974 under the Home Rule City Act. The City operates under a Mayor-Council form of government with an appointed administrator elected on a nonpartisan basis and administers the following programs as authorized by its charter: public safety, public works, health and social services, culture and recreation, community and economic development, general government, capital projects and debt service. The City also has municipal water, sewer and solid waste utility systems which are governed by the City Council.

The City's financial statements are prepared in accordance with U.S. generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. The City applies only the applicable FASB pronouncements issued prior to November 30, 1989 in accounting and reporting its proprietary operations. The more significant accounting policies established in GAAP and used by the City are discussed below.

In June 1999, GASB unanimously approved Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. Certain significant changes in the statement include the following:

For the first time:

- a. A Management Discussion and Analysis (MD&A) section providing an analysis of the City's overall financial position and result of operations.
- b. Financial statements prepared using full accrual accounting for all the City's activities.
- c. A change in the fund financial statements to focus on the major funds of the City.

Also approved by GASB was Statement No. 38, *Certain Financial Statement Note Disclosures*.

These and other changes are reflected in the accompanying financial statements (including notes to the financial statements). The City has implemented the statements for the year ended June 30, 2004.

A. REPORTING ENTITY

For financial reporting purposes, the City of Waverly, Iowa, has included all funds, organizations, account groups, 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

CITY OF WAVERLY, IOWA
Notes to Financial Statements
June 30, 2004

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

the organization to provide specific benefits to, or impose specific financial burdens on the City.

These financial statements present the City of Waverly, Iowa (the primary government) and its component units. The component units discussed below are included in the City's reporting entity because of the significance of their operational or financial relationship with the City. Complete financial statements of the individual component units, which issued separate financial statements as noted below, can be obtained from their respective administrative office.

Discretely Presented Component Units

Waverly Health Center - The City established a municipal hospital, Waverly Health Center, in accordance with paragraph 392.6 of the Code of Iowa. The City provided for the election of a Board of Trustees vested with authority to provide management controls, and the rules for the hospital's economic conduct. The hospital's financial data is reported in a separate column to emphasize that it is legally separate from the City. The Hospital is financially accountable to the City.

Waverly Light and Power – The City established a municipal utility by ordinance on October 3, 1977. The City appoints the governing body and title to all property is in the name of the City. The Utilities financial data is reported in a separate column to emphasize that it is legally separate from the City. The utility operates on a calendar year. Therefore financial statements presented herein are reported for the year ended December 31, 2003.

Jointly Governed Organizations

The City also participates in several jointly governed organizations for which the City is not financially accountable or that the nature and significance of the relationship with the City are such that exclusion does not cause the City's financial statements to be misleading or incomplete. City officials are members of the following Boards or Commissions: Bremer-Waverly Public Safety Board, Bremer County Emergency Management Commission, Bremer County Joint E911 Service Board, and the Tri-County Drug Task Force.

B. BASIC FINANCIAL STATEMENTS – GOVERNMENT-WIDE STATEMENTS

The City's basic financial statements include both government-wide (reporting the City as a whole) and fund financial statements (reporting the City's major funds). Both the government-wide and fund financial statements categorize primary activities as either governmental or business-type. The City's general, special revenue, debt service, and capital projects funds are classified as governmental activities. The City's health insurance internal service fund is classified as a governmental-type activity.

In the government-wide Statement of Net Assets, both the governmental and business-type activities columns (a) are presented on a consolidated basis by column, and (b) are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The City's net assets are reported in three parts—invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. The City first uses restricted resources to finance qualifying activities.

CITY OF WAVERLY, IOWA
Notes to Financial Statements
June 30, 2004

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

The Government-wide Statement of Activities reports both the gross and net cost of each of the City's functions (public safety, public works, health and social services, culture and recreation, community and economic development, general government, etc.) and business-type activities. The functions are also supported by general government expenses (including depreciation) by related program revenue, operating grants, and capital grants. Program revenue must be directly associated with the function or a business-type activity. Operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants.

The City does not allocate indirect costs. Certain expenses of the City are accounted for through the internal service fund on a cost-reimbursement basis.

This government-wide focus is more on the sustainability of the City as an entity and the change in the City's net assets resulting from the current year activities.

C. Fund Accounting

The accounts of the City are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for by a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues or receipts, and expenditures or expenses, as appropriate. Government resources are allocated to, and accounted for, in individual funds based on the purpose for which they are to be spent and the means by which spending activities are controlled.

The emphasis in fund financial statements is on the major funds in either the governmental or business-type activities categories. GASB No. 34 sets forth minimum criteria for the determination of major funds. The City electively added funds, as major funds, which had a specific community focus. The non-major funds are combined into a single column in the fund financial statements.

The City reports the following major governmental funds:

Governmental Fund Types – The governmental fund financial statements are reported using the current financial resources measurement focus. This means that the focus of the governmental funds' measurement is upon the determination of financial position and changes in financial position (sources, uses and balances of financial resources) rather than upon net income. The following is a description of the major governmental funds of the City:

- 1) **General Fund** – The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund. The sources of revenue include property taxes, charges for services, fines and fees, licenses and permits, as well as state and federal grants. The expenditures of the General Fund relate to general administration, police and fire protection, maintenance of public streets, economic development, and culture and recreation.

CITY OF WAVERLY, IOWA
Notes to Financial Statements
June 30, 2004

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

- 2) Special Revenue Funds – The Road Use Tax Fund is used to account for the operation of street maintenance and construction financed by allocations of state fuel taxes.
- 3) Debt Service Fund – Debt Service Fund is used to account for property taxes received to be expended to retire principal and interest on General Obligation Bonds and other debt.

Proprietary Fund Types – The focus of proprietary fund measurement is upon determination of operating income, changes in net assets, financial position, and cash flows. Operating revenues and expenses are distinguished from non-operating revenues and expenses. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal operating revenues of enterprise funds are charges to customers for services. Operating expenses consist of cost of sales and services, administrative expenses and depreciation on capital assets. The U.S. generally accepted accounting principles used are those applicable to similar businesses in the private sector.

- 1) Enterprise Funds – Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises – where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis should be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The City maintains several business-type activities. The major enterprise funds are listed as follows:

The Water Fund is used to account for the operation and maintenance of the City's water system.

The Sewer Fund is used to account for the operation and maintenance of the City's sewer system.

The Solid Waste Fund is used to account for the operation and maintenance of the City garbage disposal system.

- 2) Internal Service Funds – Internal Service Funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the City, or to other governments, on a cost-recovery basis.

The City's internal service fund is presented in the proprietary fund financial statements.

CITY OF WAVERLY, IOWA
Notes to Financial Statements
June 30, 2004

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

Health Insurance – To account for the funding and maintenance of the City's self-funded health insurance provided to City employees. Since the principal users of this internal service are the City's governmental activities, the financial statements of the health insurance internal service fund are consolidated into the governmental column when presented in the government-wide financial statements. To the extent possible, the cost of these services is reported in the appropriate functional activity.

Fiduciary Fund Types – Fiduciary funds are used to report assets held in an agency or custodial capacity for others and therefore not available to support City programs. Since agency funds are custodial in nature, they do not involve the measurement of results of operations and are not incorporated into the government-wide financial statements. The City's Agency Fund is used to account for billing activity between the City and Waverly Light and Power.

D. Basis of Accounting

Basis of accounting refers to the point at which revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made, regardless of the measurement focus applied.

Accrual basis of accounting is used for all activities in the government-wide financial statements and for the proprietary and fiduciary activities in the fund financial statements. Revenues are recognized when earned and expenses are recognized when incurred.

Modified accrual basis of accounting is used by all governmental funds in the fund financial statements. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The government considers property taxes as available if they are collected within 60 days after year-end. A one-year availability period is used for revenue recognition for all other governmental fund revenues.

Expenditures are recorded when the related fund liability is incurred. An exception to this general rule is that principal and interest on general obligation debt, if any, is recognized when due.

Those revenues susceptible to accrual are property taxes, assessments, and intergovernmental revenues. Licenses, fines and permits are not susceptible to accrual because generally they are not measurable until received in cash.

E. Budgets

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2004, disbursements exceeded the amount budgeted in the public works, culture and recreation, and community and economic development functions.

CITY OF WAVERLY, IOWA
Notes to Financial Statements
June 30, 2004

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

F. Cash And Cash Equivalents And Investments

The City is authorized by statute to invest public funds not currently needed for operating expenses in notes, certificates, bonds, prime eligible bankers acceptances, certain high rated commercial paper, perfected repurchase agreements, or other evidences of indebtedness which are obligations of or guaranteed by the United States of America or any of its agencies, or in time deposits or savings accounts in depositories approved by the City Council.

1) Cash and Cash Equivalents

Includes investments with original maturities of three months or less.

2) Investments

The City and its component unit use the following methods in determining the reported amounts.

<u>Type</u>	<u>Method</u>
<u>City</u>	
Nonnegotiable Certificates of Deposit	Cost
Iowa Public Agency Investment Trust	Fair Value Determined by Current Share Prices
<u>Component Unit</u>	
Certificates of Deposit	Cost
U.S. Treasury Notes, State & Local Government Series	Fair Value Determined Based on Quoted Market Price
Iowa Public Agency Investment Trust	Fair Value Determined By Current Share Prices
Debt Securities	
U.S. Government Securities	
Maturity of one year or less when purchased	Amortized Cost
Maturity of more than one year when purchased	Fair Value Based on Quoted Market Price

G. Property Tax Receivable

Property tax in Governmental Funds is accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the City Council to the County Board of Supervisors. Current year delinquent property taxes receivable represents unpaid taxes from the current year. The succeeding year property tax receivable represents taxes certified by the City Council to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the City Council is required to certify its budget to the County Auditor by March 15 of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred

CITY OF WAVERLY, IOWA
Notes to Financial Statements
June 30, 2004

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -- (CONTINUED)

and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2002 assessed property valuations; is for the tax accrual period July 1, 2003 through June 30, 2004 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2002. Any county collections on the 2003-2004 tax levy remitted to the City within 60 days subsequent to June 30, 2004, are recorded as property tax revenue.

H. Short-Term Interfund Receivables/Payables

During the course of its operations, the City has numerous transactions between funds to finance operations, provide services, construct assets, and service debt. To the extent that certain transactions between funds have not been paid or received as of June 30, 2004, balances of interfund amounts payable or receivable have been recorded as "due to other funds" and "due from other funds", respectively. Any residual balances outstanding between governmental activities and business-type activities are reported in the government-wide financial statements as interfund balances.

I. Inventories

Inventories of the proprietary fund types are valued at cost, which approximates market, using the first-in/first-out (FIFO) method. The costs of governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased. The inventory amounts are not material and therefore not recorded on the balance sheet.

J. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2004 are recorded as prepaid items.

K. Restricted Assets

Revenue bond ordinances require the City to reserve certain cash and investments to provide for payment of bonds and interest, for protection of bondholders, and for extension and improvement of facilities. These balances are separately disclosed in the Enterprise Funds.

L. Property and Equipment

Assets with an initial individual cost of \$5,000 or more are considered capital assets. Property and equipment are valued at historical cost or estimated historical cost if actual historical cost is not available. Contributed assets are reported at their fair market value as of the date received. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Infrastructure has been capitalized using historical or estimated historical cost beginning in 1980 as required by GASB 34. Depreciation on all assets is provided on the

CITY OF WAVERLY, IOWA
Notes to Financial Statements
June 30, 2004

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

straight-line basis over the following estimated lives:

Buildings	20 – 50 Years
Utility Plant	30 – 33 Years
Machinery & Equipment	5 - 20 Years
Infrastructure	20 – 100 Years

M. Compensated Absences

Vested or accumulated vacation leave including related employee benefits that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it. Amounts of vested or accumulated vacation leave including related employee benefits that are not expected to be liquidated with expendable available financial resources are reported in the government-wide financial statements. The general fund has been used in prior years to liquidate the liability for compensated absences. Vested or accumulated vacation leave of proprietary funds is recorded as an expense and liability of those funds as the benefits accrue to employees.

N. Long-Term Obligations

Long-term debt is recognized as a liability of a governmental fund when due, or when resources have been accumulated in the debt service fund for payment early in the following year. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund. The remaining portion of such obligations is reported in the government-wide financial statements. Long-term liabilities expected to be financed from proprietary fund operations are accounted for in those funds.

O. Fund Equity

Reserves represent those portions of fund equity legally segregated for a specific future use.

P. Interfund Transactions

Interfund services provided and used are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed.

All other interfund transactions, except interfund services provided and used transactions and reimbursements, are reported as transfers.

CITY OF WAVERLY, IOWA
Notes to Financial Statements
June 30, 2004

Note 2 - CASH AND CASH EQUIVALENTS AND INVESTMENTS

The City's deposits at June 30, 2004, were entirely covered by Federal Depository Insurance collateralized with securities or letters of credit held by the City or by a multiple financial institution collateral pool in accordance with Chapter 12C of the Code of Iowa. Chapter 12C 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 obligation 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; and certain joint investment trusts.

Deposits at June 30, 2004, are shown below:

	<u>Primary Government</u>	<u>Component Unit</u>	<u>Fair Value</u>	<u>Bank Balance</u>
Demand Deposits	\$1,969,904	\$21,240,999	\$23,210,903	\$24,030,086
Time Deposits	2,971,623	1,340,000	4,311,623	4,311,623
	<u>\$ 4,941,527</u>	<u>\$ 22,580,999</u>	<u>\$27,522,526</u>	<u>\$28,341,709</u>

	<u>Fair Value</u>
<u>Primary Government</u>	
Iowa Public Agency Investment Trust (IPAIT) (SEC reg)	<u>\$ 1,185,571</u>
<u>Component Units</u>	
IPAIT	<u>12,267</u>
U.S. Government Securities	<u>\$ 327,403</u>

The primary government's investments and the component unit's investments are categorized to give an indication of the level of risk assumed by the City and component unit at year-end. At June 30, 2004, the City's investments and component unit's investments are in a category characterized as investments that are insured or registered or for which the securities are held by the City or the component unit or its agent in the City's or component unit's name. IPAIT is not subject to risk classification and is not categorized.

There were no significant changes in investments held during the fiscal year ended June 30, 2004.

Note 3 - RECEIVABLES

Receivables at June 30, 2004 are net of allowance for uncollectibles. The component units had an allowance for uncollectibles of \$1,330,000 at June 30, 2004.

CITY OF WAVERLY, IOWA
Notes to Financial Statements
June 30, 2004

Note 4 - DUE FROM OTHER GOVERNMENTS

At June 30, 2004, amounts due from other governments were as follows:

Due from the Iowa Department of Transportation for road use tax allocations	\$	60,209
Due from Waverly Light and Power for cash deficit in Electric Clearing Fund		66,895
Due from the State of Iowa for local option sales taxes		90,153
Due from the State of Iowa for hotel and motel sales taxes		30,191
Due from the State of Iowa for miscellaneous grants		8,245
Total Due from Other Governments	\$	255,693

Note 5 - INTERFUND RECEIVABLES AND PAYABLES

As of June 30, 2004, short-term interfund borrowings were as follows:

<u>Fund Due To</u>	<u>Fund Due From</u>	<u>Amount</u>
General	Nonmajor Governmental	\$ 266,572
General	Debt Service	77,735
General	General – Pro Shop	3,940
General	Internal Service	114,699
Road Use Tax	Nonmajor Governmental	52,418
Proprietary – Sewer	Proprietary – Water	180,000
Proprietary – Sewer	Debt Service	12,870
General	Proprietary – Sewer	213,160
Proprietary – Water	Proprietary – Sewer	540
		\$ 921,934

Note 6 - CAPITAL ASSETS

A summary of changes in capital assets is as follows:

Primary Government

	Balance July 1, 2003	Additions	Deletions	Balance June 30, 2004
Governmental Activities:				
Capital assets not being depreciated:				
Land	\$ 1,886,603		\$ 53,906	\$ 1,832,697
Investment in Joint Venture	151,116			151,116
Construction in Progress	133,048	\$ 488,464	387,502	234,010
Total capital assets not being depreciated	\$ 2,170,767	\$ 488,464	\$ 441,408	\$ 2,217,823

CITY OF WAVERLY, IOWA
Notes to Financial Statements
June 30, 2004

Note 6 - CAPITAL ASSETS – (CONTINUED)

Primary Government

	Balance July 1, 2003	Additions	Deletions	Balance June 30, 2004
Capital assets being depreciated:				
Buildings and Improvements	\$ 6,974,152	\$ 50,644	\$ 262,048	\$ 6,762,748
Equipment	4,664,551	223,146	1,104,245	3,783,452
Infrastructure	23,941,507	1,262,845		25,204,352
Total capital assets being depreciated	35,580,210	1,536,635	1,366,293	35,750,552
Less: Accumulated Depreciation for:				
Buildings and Improvements	1,270,974	156,223		1,427,197
Equipment	1,949,548	281,670	36,449	2,194,769
Infrastructure	5,875,947	931,084		6,807,031
Total Accumulated Depreciation	9,096,469	1,368,977	36,449	10,428,997
Total capital assets being depreciated, net	26,483,741	167,658	1,329,844	25,321,555
Governmental activities capital assets, net	\$ 28,654,508	\$ 656,122	\$ 1,771,252	\$ 27,539,378

Construction in progress at June 30, 2004, for the governmental activities consisted of costs associated with 12th Street S.W. reconstruction, 1st Street SW reconstruction and trail, E Bremer Avenue sidewalk, 39th Street reconstruction and 1st Avenue SE parking lot.

	Balance July 1, 2003	Reclassi- fication	Additions	Deletions	Balance June 30, 2004
Business-Type Activities:					
Capital assets not being depreciated:					
Land	\$ 24,129	\$ (4,938)			\$ 19,191
Construction in Progress	953,422		\$ 32,965	\$ 874,062	112,325
Total capital assets not being depreciated	977,551	(4,938)	32,965	874,062	131,516
Capital assets being depreciated:					
Buildings and Improvements	5,405,353	(10,686)			5,394,667
Equipment	1,480,520	(378,794)	219,296	103,689	1,217,333
Lines and Structures	13,242,581	(101,228)	1,508,984		14,650,337
Total capital assets being depreciated	20,128,454	(490,708)	1,728,280	103,689	21,262,337
Less: Accumulated Depreciation	7,956,336	(351,866)	649,086	89,863	8,163,693
Total capital assets being depreciated, net	12,172,118	(138,842)	1,079,194	13,826	13,098,644
Business-type activities capital assets, net	\$ 13,149,669	\$ (143,780)	\$ 1,112,159	\$ 887,888	\$ 13,230,160

Construction in progress at June 30, 2004 consisted of costs associated with the sewer system improvements.

CITY OF WAVERLY, IOWA
Notes to Financial Statements
June 30, 2004

Note 6 - CAPITAL ASSETS – (CONTINUED)

During the year ended June 30, 2004 raised the capitalization policy threshold to \$5,000. The current year reclassification is the net effect of this change. The net change of \$143,780 has been reported as a prior period adjustment.

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental Activities:	
Public Safety	\$ 71,488
Public Works	1,077,797
Culture and Recreation	149,453
General Government	<u>70,239</u>
Total depreciation expense – governmental activities	<u>\$ 1,368,977</u>
Business-Type Activities:	
Water	\$ 226,489
Sewer	377,805
Solid Waste	<u>44,792</u>
Total depreciation expense – business-type activities	<u>\$ 649,086</u>

A summary of changes in capital assets for the discretely presented component units is as follows:

	Balance July 1, 2003	Additions	Deletions	Balance June 30, 2004
Waverly Health Center:				
Capital assets not being depreciated:				
Land	\$ 979,243			\$ 979,243
Construction in Progress	485,907	\$ 6,440,311		6,926,218
Total capital assets not being depreciated	<u>1,465,150</u>	<u>6,440,311</u>	-	<u>7,905,461</u>
Capital assets being depreciated:				
Land Improvements	506,076			506,076
Buildings and Fixed Equipment	8,192,049	51,859		8,243,908
Major Movable Equipment	5,451,025	809,958	\$ 191,714	6,069,269
Total capital assets being depreciated	<u>14,149,150</u>	<u>861,817</u>	<u>191,714</u>	<u>14,819,253</u>
Less: Accumulated Depreciation	6,540,267	997,213	145,537	7,391,943
Total capital assets being depreciated, net	<u>7,608,883</u>	<u>(135,396)</u>	<u>46,177</u>	<u>7,427,310</u>
Component unit capital assets, net	<u>\$ 9,074,033</u>	<u>\$ 6,304,915</u>	<u>\$ 46,177</u>	<u>\$ 15,332,771</u>

Construction in progress consisted of costs associated with hospital expansion.

CITY OF WAVERLY, IOWA
Notes to Financial Statements
June 30, 2004

Note 6 - CAPITAL ASSETS – (CONTINUED)

	Balance July 1, 2003	Additions	Deletions	Balance June 30, 2004
Waverly Light and Power:				
Capital assets not being depreciated:				
Land	\$ 122,514			\$ 122,514
Construction in Progress	91,975	\$ 165,695		257,670
Total capital assets not being depreciated	214,489	165,695		380,184
Capital assets being depreciated:				
Improvements	26,823,327	401,539	\$ 90,637	27,134,229
Buildings	3,317,756	130,381	4,992	3,443,095
Equipment	1,678,974	744,953	226,948	2,196,979
Louisa Plant	7,416,858	97,806		7,514,664
Total capital assets being depreciated	39,236,915	1,374,629	322,577	40,288,967
Less: Accumulated Depreciation	15,239,356	1,440,105	322,577	16,356,884
Total capital assets being depreciated, net	23,997,559	(65,476)	-	23,932,083
Component unit capital assets, net	\$ 24,212,048	\$ 100,219	-	\$ 24,312,267

Construction in progress consisted of costs related to the construction of utility distribution systems.

Reconciliation of Investment in Capital Assets:

	Governmental Activities	Business- Type Activities	Component Unit	
			Waverly Health Center	Waverly Light & Power
Land	\$ 1,832,697	\$ 19,191	\$ 979,243	\$ 122,514
Investment in Joint Venture	151,116			
Construction in Progress	234,010	112,325	6,926,218	257,670
Capital Assets (net of accumulated depreciation)	25,321,555	13,098,644	7,427,310	23,932,083
Less: General Obligation Bonds Payable	12,004,612	1,375,388		
Notes Payable	311,350			
Revenue Bonds		3,035,000	18,337,777	5,150,751
Capital Lease				
Investment in Capital Assets, Net of Related Debt	\$ 15,223,416	\$ 8,819,772	\$ (3,005,006)	\$ 19,161,516

CITY OF WAVERLY, IOWA
Notes to Financial Statements
June 30, 2004

Note 7 - LONG-TERM DEBT

The City's computed legal debt limit as of June 30, 2004, is \$20,047,576 of which \$13,366,878 is committed for outstanding general obligation debt.

The following is a summary of bond transactions of the City for the year ended June 30, 2004:

	Governmental Activities	Business Type Activities		Total
	General Obligation	Bonds Paid By Enterprise Funds	Revenue Bonds	
	Bonds and Notes Paid By Debt Service Fund			
<i>Primary Government:</i>				
Bonds payable July 1, 2003	\$ 13,334,505	\$ 1,505,388	\$ 3,365,000	\$ 18,204,893
Plus: bonds issued	-	-	-	-
Less: Payments	1,081,664	130,000	330,000	1,541,664
Bonds Payable June 30, 2004	<u>\$ 12,252,841</u>	<u>\$ 1,375,388</u>	<u>\$ 3,035,000</u>	<u>\$ 16,663,229</u>
Due within one year	<u>\$ 992,000</u>	<u>\$ 155,000</u>	<u>\$ 335,000</u>	<u>\$ 1,482,000</u>
		Waverly Light And Power	Waverly Health Center	Total Component Units
<i>Component Unit:</i>				
Bonds Payable/Capital Loan Notes- June 30, 2003/December 31, 2002	\$ 5,835,000	\$ 2,150,000		\$ 7,985,000
Bonds Issued	-	16,000,000		16,000,000
Bonds Retired	660,000	150,000		810,000
Bonds Payable/Capital Loan Notes- June 30, 2004/December 31, 2003	<u>\$ 5,175,000</u>	<u>\$ 18,000,000</u>		<u>\$ 23,175,000</u>
Due within one year	<u>\$ 685,000</u>	<u>\$ 885,000</u>		<u>\$ 1,570,000</u>

On the Combined Balance Sheet the component unit revenue bonds are shown net of unamortized bond discount of \$24,249.

CITY OF WAVERLY, IOWA
Notes to Financial Statements
June 30, 2004

Note 7 - LONG-TERM DEBT – (CONTINUED)

	Date of Issue	Interest Rates	Final Due Date	Annual Payments	Amount Originally Issued	Outstanding June 30, 2004
General Obligation:						
Civic Center Refunding	1994	3.8-4.75%	2006	\$ 135,000-175,000	\$ 1,195,000	\$ 495,000
1995 A – Airport	1995	4.9-5.6%	2005	30,000-75,000	430,000	75,000
1997 A – Library & Pool	1997	5.0-5.4%	2012	60,000-375,000	2,450,000	1,950,000
*1997 B – Water	1997	4.6–5.5%	2012	30,000-100,000	780,000	565,000
1998 A – ECP	1998	4.15-4.8%	2013	15,000-85,000	795,000	585,000
1998 B Refunding	1998	3.95-4.3%	2006	50,000-55,000	415,000	100,000
*1999 GO Bonds	1999	4.0-4.65%	2014	30,000-115,000	1,165,000	935,000
2000A GO Bonds	2000	4.75-5.20%	2011	100,000-195,000	1,470,000	725,000
2000B GO Bonds	2000	4.80-5.40%	2011	55,000-280,000	1,000,000	540,000
2000C GO Bonds	2001	4.25-5.10%	2016	50,000-220,000	2,030,000	1,880,000
2001 GO Bonds	2001	3.70-4.80%	2016	50,000-90,000	950,000	845,000
2001A GO Bonds	2001	3.0-5.0%	2019	50,000-295,000	2,750,000	2,600,000
2001B GO Bonds	2001	3.0-4.25%	2017	30,000-90,000	1,000,000	920,000
2002 GO Bonds	2002	3.5-4.40%	2012	25,000-45,000	360,000	310,000
*2003 GO Refunding	2003	1.2-3.0%	2010	55,000-195,000	1,025,000	855,000
Total General Obligation					<u>\$ 17,815,000</u>	<u>\$ 13,380,000</u>

In 1994 the City crossover refunded its outstanding 1991 Civic Center Bonds, of \$1,150,000, carrying an interest rate of 5.10-6.80% with new 1994 series bonds of \$1,195,000 issued at a rate of 3.80-4.75%.

In April 2003, the City issued \$1,025,000 in General Obligation Refunding Bonds with an average interest rate of 2.1% to refund the 1994A Hospital, 1995B and 1995C General Obligation Bonds with average interest rates of 4.1%, 5.1% and 4.5%, respectively.

	Date of Issue	Interest Rates	Final Due Date	Annual Payments	Amount Originally Issued	Outstanding June 30, 2003
Revenue Bonds:						
1999 – Sewer	1999	4.0-4.65%	2014	50,000-100,000	\$ 1,095,000	\$ 830,000
2000 – Sewer	2000	5.30-5.80%	2015	20,000-50,000	500,000	405,000
2002 – Sewer	2002	3.0-4.5%	2012	105,000-155,000	1,280,000	1,060,000
2002 – Water	2002	3.0-4.5%	2012	35,000-50,000	435,000	360,000
2003 – Water (Refunding)	2003	2.05-3.4%	2008	85,000-100,000	465,000	380,000
Total Revenue Bonds					<u>\$ 3,775,000</u>	<u>\$ 3,035,000</u>

CITY OF WAVERLY, IOWA
Notes to Financial Statements
June 30, 2004

Note 7 - LONG-TERM DEBT – (CONTINUED)

	Date of Issue	Interest Rates	Final Due Date	Annual Payments	Amount Originally Issued	Outstanding June 30, 2004
2001 Golf Revenue Capital Loan Note	2001	5.1%	2015	15,000-28,000	\$ 300,000	\$ 248,229
Component Units: Waverly Municipal Hospital: 1999 Hospital Capital Loan Notes	1999	5.0-5.8%	2015	150,000-180,000	\$ 2,150,000	\$ 2,000,000
2003 Hospital Capital Loan Notes	2003	2.5-5.5%	2018	545,000	9,800,000	9,800,000
2004 Hospital Capital Loan Notes	2004	2.0-4.9%	2019	195,000	6,200,000	6,200,000
Waverly Light and Power: 1998 Utility Rev. Bonds	1998	4.1-4.4%	2008	50,000-575,000	3,610,000	2,850,000
2002 Utility Rev. Bonds	2002	2.2-4.5%	2012	75,000-200,000	2,500,000	2,325,000
					<u>\$ 24,260,000</u>	<u>\$ 23,175,000</u>

In May 2003, the City issued \$465,000 in water revenue refunding bonds with an average interest rate of 2.65% to refund the water revenue bonds, Series 1995A, with an average interest rate of 4.7%.

All General Obligation Debt except those marked with (*) are to be retired through property tax levies. A portion of those (*) bonds are paid with water and sewer revenues. The revenue bonds are to be retired with water and sewer revenues.

Year Ending June 30,	<u>Governmental Activities</u>		<u>Business-Type Activities</u>	
	<u>Principal*</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2005	\$ 1,015,000	\$ 550,247	\$ 470,000	\$ 187,936
2006	1,055,000	508,522	500,000	282,446
2007	1,080,000	463,536	515,000	152,936
2008	965,000	420,409	535,000	132,911
2009	1,030,000	377,699	485,000	111,429
2010-2014	4,659,612	1,134,821	4,410,388	997,188
2015-2019	2,200,000	272,783	50,000	2,900
	<u>\$ 12,004,612</u>	<u>\$ 3,728,015</u>	<u>\$ 4,410,388</u>	<u>\$ 997,188</u>

CITY OF WAVERLY, IOWA
Notes to Financial Statements
June 30, 2004

Note 7 - LONG-TERM DEBT – (CONTINUED)

The bond principal and interest annual requirements for the component units are as follows:

Waverly Health System

Year Ending June 30,	Capital Loan Notes	Note Payable	Loan	Total Principal	Interest	Total
2005	\$ 895,000	\$ 71,034	\$ 33,000	\$ 999,034	\$ 823,220	\$ 1,822,254
2006	925,000	68,743	33,000	1,026,743	793,650	1,820,393
2007	950,000	-	33,000	983,000	762,991	1,745,991
2008	985,000	-	33,000	1,018,000	730,511	1,748,511
2009	1,020,000	-	33,000	1,053,000	693,691	1,746,691
2010-2014	5,820,000	-	-	5,820,000	2,755,574	8,575,574
2015-2019	7,405,000	-	33,000	7,438,000	1,164,471	8,602,471
Total	18,000,000	139,777	198,000	18,337,777	7,724,108	26,061,885
Less Current Maturities	895,000	71,034	33,000	999,034	823,220	1,822,254
Total Long- Term Debt	\$17,105,000	\$ 68,743	\$ 165,000	\$17,338,743	\$ 6,900,888	\$ 24,239,631

Waverly Light and Power

Year Ending December 31	Principal	Interest	Total
2004	\$ 685,000	\$ 218,188	\$ 903,188
2005	715,000	190,455	905,455
2006	745,000	161,192	906,192
2007	775,000	130,120	905,120
2008	810,000	97,308	907,308
2009-2012	1,445,000	162,692	1,607,692
	\$ 5,175,000	\$ 959,955	\$ 6,134,955

There are a number of limitations and restrictions contained in the various bond indentures creating certain reserve and sinking funds to insure repayment of revenue bonds. The reserve and sinking fund requirements are recorded as restricted assets on the combined balance sheet and meet the minimum requirements of the various bond ordinances.

Notes Payable

The following is a summary of other long-term debt transactions of the City for the year ended June 30, 2004.

CITY OF WAVERLY, IOWA
Notes to Financial Statements
June 30, 2004

Note 7 - LONG-TERM DEBT – (CONTINUED)

	July 1, 2003	Additions	Reductions	June 30, 2004
General long-term Debt				
RISE – Industrial Streets	\$ 7,630		\$ 7,630	-
Land Note	26,666		26,666	-
Ambulance Note	34,206		16,695	\$ 17,511
Equipment Note		\$ 81,610	36,000	45,610
Total other long-term debt	<u>\$ 68,502</u>	<u>\$ 81,610</u>	<u>\$ 86,991</u>	<u>\$ 63,121</u>

Other long-term debt at June 30, 2004 was comprised of the following:

Included in general long-term debt:

A loan from Revitalize Iowa's Sound Economy (RISE) on April 19, 1988 in the amount of \$100,000, due in annual installments of \$7,783 through August of 2003, including interest at 2.00%.	-
A loan from First National Bank of Waverly for the purchase of an ambulance in the amount of \$68,000. Due in annual payments of \$18,371 through July of 2004 including interest at 4.9%.	\$ 17,511
A land purchase contract dated January 5, 2002 in the amount of \$80,000, due in annual installments of \$26,666 plus interest at 7.0% through January of 2004.	-
A loan from First National Bank of Waverly for the purchase of various parks and golf equipment due July 1, 2005 due in annual installments of \$30,000 including interest at 4%.	45,610
Total other general long-term debt	<u>\$ 63,121</u>

Annual debt service requirements for other long-term debt are as follows:

Year Ending June 30,	Principal	Interest
2005	\$ 47,511	\$ 2,233
2006	15,610	624
Total	<u>\$ 63,121</u>	<u>\$ 2,857</u>

Component Unit/Waverly Health System

Note Payable

The Hospital entered into a note agreement to finance the purchase of certain equipment. The note requires monthly payments of \$6,431, including interest at 5.71%, with the final payment due June, 2006. The note is collateralized by the equipment purchased by the Hospital.

CITY OF WAVERLY, IOWA
Notes to Financial Statements
June 30, 2004

Note 7 - LONG-TERM DEBT – (CONTINUED)

In addition, the agreement includes a provision allowing the Hospital to terminate the note in the event no funds or insufficient funds are appropriated or budgeted to make all payments for a subsequent fiscal period. This option must be exercised by the Hospital sixty days prior to the end of a fiscal period to allow for proper termination of the Note. Consequently, this obligation does not constitute indebtedness of the Hospital under the laws of the State of Iowa; however, U.S. generally accepted accounting principles require the asset and liability to be recorded on the balance sheet at June 30, 2004.

Other

The City of Waverly issued a \$330,000 loan to the Hospital to assist in financing an addition to the Hospital and remodeling of certain existing areas. This loan directly resulted from the issuance of a Rural Economic Development loan to the City from the U.S. Department of Agriculture. The loan is interest free and is due in ten annual installments of \$33,000.

Note 8 – TRANSFERS

The following is a summary of transfers between funds:

	General	Debt Service	Nonmajor Governmental	Sewer	Total Transfers Out
General		\$ 40,000			\$ 40,000
Road Use Tax		87,782			87,782
Nonmajor Governmental	\$ 238,821	722,936	\$ 412,388	\$ 87,367	1,461,512
Water			50,000		50,000
Sewer			50,000		50,000
Solid Waste			20,000		20,000
Total Transfers In	\$ 238,821	\$ 850,718	\$ 532,388	\$ 87,367	\$ 1,709,294

Transfers are used to:

1. Move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them.
2. To move receipts restricted to debt service from the fund collecting the receipts to the debt service fund as debt service payments become due.

CITY OF WAVERLY, IOWA
Notes to Financial Statements
June 30, 2004

Note 9 - PENSION AND RETIREMENT

Iowa Public Employees Retirement System - 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 plan to 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 percent of their annual covered salary and the City is required to contribute 5.75 percent of annual covered payroll except for law employees who are covered by another plan. Contribution requirements are established by state statute. The City contribution to IPERS for the years ended June 30, 2004, 2003, and 2002 were \$127,831, \$121,967, and \$113,835, respectively, equal to the required contributions for each year.

Municipal Fire and Police Retirement System of Iowa – The City contributes to the Municipal Fire & Police Retirement System of Iowa (MFPRSI) which is a cost-sharing multiple-employer defined benefit pension plan administered by a Board of Trustees appointed by the State of Iowa. MFPRSI provides retirement and death benefits which are established by State statute to plan members and beneficiaries. MFPRSI issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to MFPRSI, 2836 104th Street, Urbandale, Iowa 50322.

Plan members are required to contribute 9.35% of earnable compensation. The employers' contribution rate is based upon and actuarially determined normal contribution rate. The normal contribution rate is provided by the State statute to be the actuarial liabilities of the plan less current plan assets, the total then being divided by 1 percent of the actuarially determined present value of prospective future compensation of all members, further reduced by member contributions.

Legislatively appropriated contributions from the State may further reduce the employers' contribution rate. However, under the Code of Iowa, the employers' contribution rate cannot be less than 17.00 percent of earnable compensation. Contribution requirements are established by State statute. The City's contribution to MFPRSI for the years ended June 30, 2004, 2003 and 2002 were \$113,783, \$90,929, and \$93,066 respectively, equal to the required contributions for each year.

Note 10 - DEFICIT FUND EQUITY

The City has eight funds with deficit equity balances at June 30, 2004. The City intends to finance these deficits from various resources including; road use tax funds, general funds, special assessments, capital project debt financing and grant revenues and utility charges. The individual fund deficits were as follows:

CITY OF WAVERLY, IOWA
Notes to Financial Statements
June 30, 2004

Note 10 - DEFICIT FUND EQUITY – (CONTINUED)

Internal Service	\$ 37,928
Capital Project – 7 th Avenue	46,713
Capital Project – 12 th Street Reconstruction	20,018
Capital Project – East Bremer Project.....	134,316
Capital Project – 39 th Street Reconstruction	19,893
Capital Project – 1 st Avenue SE Parking Lot.....	3,740
Capital Project – 15 th & 3 rd Street Reconstruction.....	1,000
Capital Project – Kohlman Park	12,721

Note 11 - RISK MANAGEMENT

Medical Insurance - The City uses a partially self-funded medical insurance program accounted for in an internal service fund. Costs of the program include medical benefits, administration fees and premiums for stop-loss coverage with limits of \$20,000 per covered employee per year and 125% of expected claims for year for the City as a whole per year.

Claims payable and estimated claims incurred but not reported are recorded as liabilities of the Internal Service Fund.

Claims payable @ June 30, 2003	\$ 38,404
Claims paid	(378,653)
Claims incurred	523,409
Claims payable @ June 30, 2004	\$ 183,160

Other Risk - The City of Waverly 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 deductible and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three years.

Note 12 - COMMITMENTS

During the year ended June 30, 2004, the City had entered into several construction contracts totaling \$900,000 of which \$445,000 has been expended to date. The remaining balance will be paid as work progresses.

Note 13 - BREMER COUNTY LANDFILL CONTRACT

The City has contracted with Bremer County for solid waste disposal. The new contract began July 1, 2001 and terminated June 30, 2004. The County may not be accumulating sufficient financial resources and the participating governments are obligated for a proportionate share of the debt, therefore, the City of Waverly may have an ongoing financial responsibility. The City pays \$35.75/ton of solid waste delivered to the landfill.

CITY OF WAVERLY, IOWA
Notes to Financial Statements
June 30, 2004

Note 14 - JOINT VENTURE

The City is a participant with Bremer County in a joint venture to operate the Bremer – Waverly Public Safety Board. The City is obligated to remit 30% of the operating budget of the Bremer – Waverly Public Safety Board to the Organization. On dissolution of the Board, the net assets are to be contributed for the operation. The Organization is governed by a five member board composed of two designated representatives from the City and two from the County. The fifth member of the board is chosen by the four designated representatives. Complete financial statements for the Bremer – Waverly Public Safety Board can be obtained from the Board’s administrative office. The City’s share of the assets are reported in Infrastructure, Property and Equipment.

Note 15 - CONDUIT DEBT OBLIGATIONS

The City has issued Industrial Development Revenue Bonds to provide financial assistance to a private-sector entity for the acquisition and construction of commercial facilities deemed to be in the public interest. The bonds are secured by the property financed and payable solely from the private-sector entity. Neither the City, the State, nor any political subdivision thereof is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements. As of June 30, 2004, Industrial Development Revenue Bonds had an original issue amount of \$2,500,000. The outstanding balance at June 30, 2004 was \$1,727,000.

Note 16 - RESERVES

The following schedule reflects all reservations of fund balances as presented in the fund level statements:

	<u>Inventory</u>	<u>Debt Service</u>	<u>Endowments</u>	<u>Total</u>
General Fund	\$ 48,370			\$ 48,370
Debt Service		\$ 13,122		13,122
Permanent Fund				
Cemetery Perpetual Care			\$ 439,592	439,592
Total Reserves of Fund Balances	<u>\$ 48,370</u>	<u>\$ 13,122</u>	<u>\$ 439,592</u>	<u>\$ 501,084</u>

CITY OF WAVERLY, IOWA
Notes to Financial Statements
June 30, 2004

Note 17 - PRIOR PERIOD ADJUSTMENT

During the year ended June 30, 2004, the City raised the threshold for capitalizing property, plant and equipment. The effect of this change was to reduce the infrastructure, property and equipment balance in the proprietary funds by \$143,780 net of accumulated depreciation. The net effect of this adjustment is to reduce retained earnings in the enterprise funds as follows:

Water Fund	\$83,000
Sewer Fund	\$37,587
Solid Waste Fund	\$23,193

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REQUIRED SUPPLEMENTARY INFORMATION

CITY OF WAVERLY, IOWA
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE, BUDGET
AND ACTUAL, GENERAL FUND AND MAJOR SPECIAL REVENUE FUNDS
For the Year Ended June 30, 2004

	General Fund			Variance with Final Budget Positive (Negative)
	Budgeted Amounts		Actual	
	Original	Amended		
Revenue:				
Taxes	\$ 2,096,357	\$ 2,096,357	\$ 2,078,313	\$ (18,044)
Special Assessments		-		-
Licenses and Permits	113,520	145,000	181,939	36,939
Intergovernmental Revenue	380,328	453,013	360,609	(92,404)
Charges for Services	554,835	540,283	974,777	434,494
Fines and Forfeits		-	43,989	43,989
Contributions		-	107,353	107,353
Interest	14,000	14,000	20,033	6,033
Miscellaneous	29,000	78,500	75,471	(3,029)
Total Revenue	<u>3,188,040</u>	<u>3,327,153</u>	<u>3,842,484</u>	<u>515,331</u>
Expenditures:				
Public Safety	1,171,893	1,208,208	1,203,668	4,540
Public Works	254,328	308,728	437,826	(129,098)
Health and Social Services	6,900	6,900		6,900
Culture and Recreation	1,299,994	1,375,769	1,872,918	(497,149)
Community and Economic Development	50,968	61,857	42,000	19,857
General Government	606,502	609,002	584,231	24,771
Total Expenditures	<u>3,390,585</u>	<u>3,570,464</u>	<u>4,140,643</u>	<u>(570,179)</u>
Excess (deficiency) of revenues over expenditures	<u>(202,545)</u>	<u>(243,311)</u>	<u>(298,159)</u>	<u>(54,848)</u>
Other financing sources (uses):				
Proceeds from Debt Financing		-	81,610	81,610
Interfund Transfers In	23,700	23,700	238,821	215,121
Interfund Transfers Out	(106,946)	(106,946)	(40,000)	66,946
Total other financing sources (uses)	<u>(83,246)</u>	<u>(83,246)</u>	<u>280,431</u>	<u>363,677</u>
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	<u>\$ (285,791)</u>	<u>\$ (326,557)</u>	<u>(17,728)</u>	<u>\$ 308,829</u>
Fund balances-beginning of year			<u>1,380,751</u>	
Fund balances- end of year			<u>\$ 1,363,023</u>	

Road Use Tax			
Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
Original	Amended		
\$ -	\$ -	\$ -	\$ -
-	-	-	-
-	-	-	-
721,924	721,924	752,221	30,297
-	-	-	-
-	-	-	-
-	-	-	-
-	-	21,325	21,325
721,924	721,924	773,546	51,622
-	-	-	-
650,051	659,051	623,488	35,563
-	-	-	-
-	-	-	-
-	-	-	-
650,051	659,051	623,488	35,563
71,873	62,873	150,058	87,185
-	-	-	-
-	-	-	-
(87,782)	(87,782)	(87,782)	-
(87,782)	(87,782)	(87,782)	-
<u>\$ (15,909)</u>	<u>\$ (24,909)</u>	62,276	<u>\$ 87,185</u>
		177,116	
		<u>\$ 239,392</u>	

CITY OF WAVERLY
Notes to Required Supplementary Information – Budgetary Reporting
June 30, 2004

In accordance with the Code of Iowa, the City Council annually adopts a budget on the modified accrual basis following required public notice and hearing for all funds except Agency Fund and the Internal Service Fund, and appropriates the amount deemed necessary for each of the different City offices and departments. The budgets may be amended during the year utilizing similar statutorily prescribed procedures. Encumbrances are not recognized on the cash basis budget and appropriations lapse at year end.

Formal and legal budgetary control is based upon 9 major classes of expenditures known as functions, not by fund or fund type. These 9 functions are: public safety, public works, community and economic development, health and social services, culture and recreation, general government, debt service, capital projects, and business-type activities. Function disbursements required to be budgeted include expenditures for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds, and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. Legal budgetary control is also based upon the appropriation to each office or department. During the year, one budget amendment decreased budgeted expenditures by \$221,370. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2004, disbursements in the public works, culture and recreation, and community and economic development functions exceeded the amount budgeted.

During the fiscal year 2004, the City had one budget amendment. The amendment was as follows:

<u>Program</u>	<u>Original Budget</u>	<u>5/17/04 Amendment</u>	<u>Amended Budget</u>
Public Safety	\$1,523,677	\$36,315	\$1,559,992
Public Works	904,379	54,400	958,779
Health and Social Service	6,900		6,900
Culture & Recreation	1,329,994	75,775	1,405,769
Community & Economic Development	89,258	10,889	100,147
General Government	606,502	2,500	609,002
Debt Service	1,910,061		1,910,061
Capital Projects	1,837,771	(430,000)	1,407,771
Business Type/Enterprise	4,004,360	28,751	4,033,111
Total	<u>\$12,212,902</u>	<u>\$(221,370)</u>	<u>\$11,991,532</u>

CITY OF WAVERLY
Notes to Required Supplementary Information – Budgetary Reporting
June 30, 2004

The following schedule demonstrates the City's legal compliance to the budget.

<u>Program</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Public Safety	\$ 1,559,992	\$ 1,436,963	\$ 123,029
Public Works	958,779	1,061,314	(102,535)
Health and Social Service	6,900		6,900
Culture & Recreation	1,405,769	1,894,714	(488,945)
Community & Economic Development	100,147	145,857	(45,710)
General Government	609,002	584,231	24,771
Debt Service	1,910,061	1,696,695	213,366
Capital Projects	1,407,771	772,802	634,969
Business Type/Enterprise	4,033,111	2,914,542	1,118,569
Total	<u>\$11,991,532</u>	<u>\$10,507,118</u>	<u>\$ 1,484,414</u>

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OTHER SUPPLEMENTARY INFORMATION

CITY OF WAVERLY, IOWA
 COMBINING BALANCE SHEET
 Governmental Nonmajor Funds
 JUNE 30, 2004

	Special Revenue Funds			
	Employee Benefit	Local Option Sales Tax	Hotel Motel Tax	Tax Increment Financing
Assets				
Cash and Pooled Investments	\$ 11,510	\$ 179,529	\$ 2,985	\$ 25,354
Investments	-	125,000	-	-
Receivables (Net, where applicable, of allowance for uncollectibles)				
Accounts	-	-	-	-
Taxes	1,507	-	-	1,632
Subsequent Year Taxes	178,610	-	-	513,710
Accrued Interest	-	410	-	-
Due from Other Governmental Agencies	-	90,153	30,191	-
Total Assets	191,627	395,092	33,176	540,696
Liabilities and Fund Balances				
Liabilities:				
Accounts Payable	267	-	-	-
Due to Other Funds	-	-	-	-
Deferred Revenue - Subsequent Year Taxes	178,610	-	-	513,710
Total Liabilities	178,877	-	-	513,710
Fund Balances:				
Reserved for:				
Perpetual Care	-	-	-	-
Unreserved	12,750	395,092	33,176	26,986
Total Fund Balances	12,750	395,092	33,176	26,986
Total Liabilities and Equity	\$ 191,627	\$ 395,092	\$ 33,176	\$ 540,696

Special Revenue Funds					Capital Projects		
Downtown TIF	Trees Forever	Flood Cleanup	Cable TV	Municipal Band	7th Ave	Small Projects	
\$ 23,793	\$ 20,764	\$ -	\$ 59,227	\$ 793	\$ 30,852	\$ 120,110	
-	-	-	-	-	-	-	
-	-	-	11,992	-	-	-	
700	-	-	-	-	-	-	
47,662	-	-	-	-	-	-	
-	-	-	-	-	-	-	
-	-	-	-	-	-	-	
72,155	20,764	-	71,219	793	30,852	120,110	
-	278	-	-	-	74,317	4,485	
-	-	-	-	-	3,248	-	
47,662	-	-	-	-	-	-	
47,662	278	-	-	-	77,565	4,485	
-	-	-	-	-	-	-	
24,493	20,486	-	71,219	793	(46,713)	115,625	
24,493	20,486	-	71,219	793	(46,713)	115,625	
\$ 72,155	\$ 20,764	\$ -	\$ 71,219	\$ 793	\$ 30,852	\$ 120,110	

**CITY OF WAVERLY, IOWA
 COMBINING BALANCE SHEET
 Governmental Nonmajor Funds
 JUNE 30, 2004**

	Capital Projects					
	12th Street Recon.	East Bremer Project	Rec/ Wellness Facility	39th Street Recon.	1st Ave SE Parking Lot	10th Ave RISE
Assets						
Cash and Pooled Investments	\$ -	\$ -	\$ 1,867	\$ -	\$ -	\$ -
Investments	-	-	521,623	-	-	-
Receivables (Net, where applicable, of allowance for uncollectibles)						
Accounts	-	-	-	-	-	-
Taxes	-	-	-	-	-	-
Subsequent Year Taxes	-	-	-	-	-	-
Accrued Interest	-	-	3,636	-	-	-
Due from Other Governmental Agencies	-	-	-	-	-	-
Total Assets	-	-	527,126	-	-	-
Liabilities and Fund Balances						
Liabilities:						
Accounts Payable	15,571	2,737	216	16,610	3,600	-
Due to Other Funds	4,447	131,579	173,926	3,283	140	-
Deferred Revenue - Subsequent Year Taxes	-	-	-	-	-	-
Total Liabilities	20,018	134,316	174,142	19,893	3,740	-
Fund Balances:						
Reserved for:						
Perpetual Care	-	-	-	-	-	-
Unreserved	(20,018)	(134,316)	352,984	(19,893)	(3,740)	-
Total Fund Balances	(20,018)	(134,316)	352,984	(19,893)	(3,740)	-
Total Liabilities and Equity	\$ -	\$ -	\$ 527,126	\$ -	\$ -	\$ -

Capital Projects

16th & 3rd SW Recon.	15th & 3rd Recon.	Plaza Project	4th & Bremer Intersection	Parking Lot Plaza	W. Bremer Sidewalk/ 1st Intersect.	3rd St. SE Bridge	Kohlman Park	Public Works Facility
\$ -	\$ -	\$ 210	\$ -	\$ -	\$ 34,408	\$ -	\$ -	\$ 359,419
-	-	-	-	-	-	-	-	465,000
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	205
-	-	210	-	-	34,408	-	-	824,624
-	1,000	-	-	-	-	-	10,510	-
-	-	-	-	-	-	-	2,211	-
-	-	-	-	-	-	-	-	-
-	1,000	-	-	-	-	-	12,721	-
-	-	-	-	-	-	-	-	-
-	(1,000)	210	-	-	34,408	-	(12,721)	824,624
-	(1,000)	210	-	-	34,408	-	(12,721)	824,624
\$ -	\$ -	\$ 210	\$ -	\$ -	\$ 34,408	\$ -	\$ -	\$ 824,624

**CITY OF WAVERLY, IOWA
 COMBINING BALANCE SHEET
 Governmental Nonmajor Funds
 JUNE 30, 2004**

Capital Projects

	Dry Run	10th Ave. West	Industrial Park
Assets			
Cash and Pooled Investments	\$ 11,752	\$ 938	\$ 73,202
Investments	-	-	-
Receivables (Net, where applicable, of allowance for uncollectibles)	-	-	-
Accounts	-	-	-
Taxes	-	-	-
Subsequent Year Taxes	-	-	-
Accrued Interest	-	-	-
Due from Other Governmental Agencies	-	-	-
Total Assets	<u>11,752</u>	<u>938</u>	<u>73,202</u>
Liabilities and Fund Balances			
Liabilities:			
Accounts Payable	-	-	-
Due to Other Funds	-	-	-
Deferred Revenue - Subsequent Year Taxes	-	-	-
Total Liabilities	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balances:			
Reserved for:			
Perpetual Care	-	-	-
Unreserved	11,752	938	73,202
Total Fund Balances	<u>11,752</u>	<u>938</u>	<u>73,202</u>
Total Liabilities and Equity	<u>\$ 11,752</u>	<u>\$ 938</u>	<u>\$ 73,202</u>

Permanent Fund Cemetery Perpetual Care Fund		Total Governmental Nonmajor Funds	
\$	14,592	\$	971,305
	425,000		1,536,623
	-		-
	-		11,992
	-		3,839
	-		739,982
	-		4,251
	-		120,344
	<u>439,592</u>		<u>3,388,336</u>
	-		129,591
	-		318,834
	-		739,982
	-		<u>1,188,407</u>
	439,592		439,592
	-		1,760,337
	<u>439,592</u>		<u>2,199,929</u>
\$	<u>439,592</u>	\$	<u>3,388,336</u>

CITY OF WAVERLY, IOWA
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
Governmental Nonmajor Funds
JUNE 30, 2004

	Special Revenue Funds			
	Employee Benefit	Local Option Sales Tax	Hotel Motel Tax	Tax Increment Financing
Revenue:				
Taxes	\$ 317,888	\$ 500,793	\$ 58,176	\$ 512,745
Special Assessments	-	-	-	-
Intergovernmental Revenue	-	-	-	-
Charges for Services	-	-	-	-
Contributions	-	-	-	-
Proceeds from Sale of Real Estate	-	-	-	-
Interest	-	1,829	-	-
Miscellaneous	-	-	-	-
Total Revenue	<u>317,888</u>	<u>502,622</u>	<u>58,176</u>	<u>512,745</u>
Expenditures:				
Public Safety	125,765	107,530	-	-
Culture and Recreation	7,435	-	-	-
Community and Economic Development	-	-	-	69,820
Capital Projects	-	-	-	-
Total Expenditures	<u>133,200</u>	<u>107,530</u>	<u>-</u>	<u>69,820</u>
Excess (deficiency) of revenues over expenditures	<u>184,688</u>	<u>395,092</u>	<u>58,176</u>	<u>442,925</u>
Other financing sources (uses):				
Transfers In	-	-	-	-
Transfers Out	(181,566)	-	(25,000)	(486,940)
Total other financing sources (uses)	<u>(181,566)</u>	<u>-</u>	<u>(25,000)</u>	<u>(486,940)</u>
Net Change in Fund Balance	3,122	395,092	33,176	(44,015)
Fund balances (deficits) -beginning of year	<u>9,628</u>	<u>-</u>	<u>-</u>	<u>71,001</u>
Fund balances (deficits) - end of year	<u>\$ 12,750</u>	<u>\$ 395,092</u>	<u>\$ 33,176</u>	<u>\$ 26,986</u>

Special Revenue Funds					Capital Projects	
Downtown TIF	Trees Forever	Flood Cleanup	Cable TV	Municipal Band	7th Ave	Small Projects
\$ 49,656	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	-
-	-	502	-	-	100,000	262,941
-	-	-	23,595	-	-	-
-	-	-	-	2,400	-	-
-	-	-	-	-	39,224	-
-	-	-	-	-	-	2,759
-	12,675	-	-	-	3,841	-
49,656	12,675	502	23,595	2,400	143,065	265,700
-	-	-	-	-	-	-
-	13,107	-	-	1,254	-	-
-	-	-	34,037	-	-	-
-	-	-	-	-	221,241	30,287
-	13,107	-	34,037	1,254	221,241	30,287
49,656	(432)	502	(10,442)	1,146	(78,176)	235,413
-	-	-	-	-	95,870	-
(66,419)	-	(87,367)	-	-	-	(240,894)
(66,419)	-	(87,367)	-	-	95,870	(240,894)
(16,763)	(432)	(86,865)	(10,442)	1,146	17,694	(5,481)
41,256	20,918	86,865	81,661	(353)	(64,407)	121,106
\$ 24,493	\$ 20,486	\$ -	\$ 71,219	\$ 793	\$ (46,713)	\$ 115,625

CITY OF WAVERLY, IOWA
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
Governmental Nonmajor Funds
JUNE 30, 2004

	Capital Projects					
	12th Street Recon.	East Bremer Project	Rec/ Wellness Facility	39th Street Recon.	1st Ave SE Parking Lot	10th Ave RISE
Revenue:						
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Special Assessments	-	8,717	-	-	-	-
Intergovernmental Revenue	-	-	76,600	-	-	-
Charges for Services	-	-	-	-	-	-
Contributions	-	-	10,000	-	-	-
Proceeds from Sale of Real Estate	-	-	-	-	-	-
Interest	-	-	6,958	-	-	-
Miscellaneous	-	-	100	-	-	-
Total Revenue	-	8,717	93,658	-	-	-
Expenditures:						
Public Safety	-	-	-	-	-	-
Culture and Recreation	-	-	-	-	-	-
Community and Economic Development	-	-	-	-	-	-
Capital Projects	20,018	143,033	132,766	19,893	3,740	-
Total Expenditures	20,018	143,033	132,766	19,893	3,740	-
Excess (deficiency) of revenues over expenditures	(20,018)	(134,316)	(39,108)	(19,893)	(3,740)	-
Other financing sources (uses):						
Transfers In	-	-	-	-	-	-
Transfers Out	-	-	(96,120)	-	-	(3,558)
Total other financing sources (uses)	-	-	(96,120)	-	-	(3,558)
Net Change in Fund Balance	(20,018)	(134,316)	(135,228)	(19,893)	(3,740)	(3,558)
Fund balances (deficits) -beginning of year	-	-	488,212	-	-	3,558
Fund balances (deficits) - end of year	\$ (20,018)	\$ (134,316)	\$ 352,984	\$ (19,893)	\$ (3,740)	\$ -

Capital Projects

16th & 3rd SW Recon.	15th & 3rd Recon.	Plaza Project	4th & Bremer Intersection	Parking Lot Plaza	W. Bremer Sidewalk/ 1st Intersect.	3rd St. SE Bridge	Kohlman Park	Public Works Facility
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	2,000	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	23,500	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	7,652
9,419	-	-	-	-	-	-	1,101	-
9,419	25,500	-	-	-	-	-	1,101	7,652
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
57	5,234	24,000	-	790	-	143	133,559	-
57	5,234	24,000	-	790	-	143	133,559	-
9,362	20,266	(24,000)	-	(790)	-	(143)	(132,458)	7,652
146,138	-	-	-	790	34,408	39,062	96,120	100,000
-	(83,095)	(790)	(9,534)	-	-	-	-	-
146,138	(83,095)	(790)	(9,534)	790	34,408	39,062	96,120	100,000
155,500	(62,829)	(24,790)	(9,534)	-	34,408	38,919	(36,338)	107,652
(155,500)	61,829	25,000	9,534	-	-	(38,919)	23,617	716,972
\$ -	\$ (1,000)	\$ 210	\$ -	\$ -	\$ 34,408	\$ -	\$ (12,721)	\$ 824,624

CITY OF WAVERLY, IOWA
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
Governmental Nonmajor Funds
JUNE 30, 2004

	Capital Project		
	Dry Run	10th Ave. West	Industrial Park
Revenue:			
Taxes	\$ -	\$ -	\$ -
Special Assessments	-	11,064	-
Intergovernmental Revenue	-	-	-
Charges for Services	-	-	-
Contributions	-	-	-
Proceeds from Sale of Real Estate	-	-	-
Interest	-	2,038	-
Miscellaneous	204	-	-
Total Revenue	204	13,102	-
Expenditures:			
Public Safety	-	-	-
Culture and Recreation	-	-	-
Community and Economic Development	-	-	-
Capital Projects	37,496	-	545
Total Expenditures	37,496	-	545
Excess (deficiency) of revenues over expenditures	(37,292)	13,102	(545)
Other financing sources (uses):			
Transfers In	20,000	-	-
Transfers Out	-	(180,229)	-
Total other financing sources (uses)	20,000	(180,229)	-
Net Change in Fund Balance	(17,292)	(167,127)	(545)
Fund balances (deficits) -beginning of year	29,044	168,065	73,747
Fund balances (deficits) - end of year	\$ 11,752	\$ 938	\$ 73,202

Permanent Fund	Total Governmental Nonmajor Funds
Cemetery Perpetual Care Fund	
\$ -	\$ 1,439,258
-	19,781
-	442,043
-	23,595
11,539	23,939
-	62,724
-	21,236
-	27,340
11,539	2,059,916
-	233,295
-	21,796
-	103,857
-	772,802
-	1,131,750
11,539	928,166
-	532,388
-	(1,461,512)
-	(929,124)
11,539	(958)
428,053	2,200,887
\$ 439,592	\$ 2,199,929

CITY OF WAVERLY, IOWA
 Combining Statement of Changes in Assets and Liabilities
 Agency Fund
 For the Year Ended June 30, 2004

	Balance July 1, 2003	Additions	Deductions	Balance June 30, 2004
<u>ELECTRIC UTILITY</u>				
<u>Assets</u>				
Accounts Receivable	\$ 31,892	\$ 9,336,224	\$ 9,301,222	\$ 66,894
Total Assets	31,892	9,336,224	9,301,222	66,894
<u>Liabilities</u>				
Due to Other Governments	31,892	9,336,224	9,301,222	66,894
Total Liabilities	\$ 31,892	\$ 9,336,224	\$ 9,301,222	\$ 66,894

TABLE 1

**CITY OF WAVERLY, IOWA
GENERAL GOVERNMENTAL EXPENDITURES BY FUNCTION
LAST TEN FISCAL YEARS**

Fiscal Year	Community Protection/ Public Safety	Home & Comm. Env./ Public Works	Human Development/ Culture & Rec	Community & Economic Development	General Admin./ General Gov't	Capital Projects	Debt Service	Total
1994-1995	\$ 869,397	\$ 863,020	\$ 1,158,364		\$ 434,301	\$ 1,120,690	\$ 855,110	\$ 5,300,882
1995-1996	894,090	650,910	1,318,178		442,057	905,830	1,117,460	5,328,525
1996-1997	1,110,713	794,788	1,217,016		451,229	837,426	1,070,986	5,482,158
1997-1998	920,090	1,164,964	1,013,461		422,585	3,948,715	1,436,797	8,906,612
1998-1999	1,025,280	1,165,602	1,180,699		544,342	1,667,312	2,103,647	7,686,882
1999-2000	1,013,337	2,249,928	1,397,645		522,861	2,027,552	909,877	8,121,200
2000-2001	1,224,628	1,583,322	1,442,320		528,207	4,262,885	1,491,152	10,532,514
2001-2002	1,304,717	1,636,001	1,481,257		566,585	5,411,214	1,540,805	11,940,579
2002-2003	1,275,046	939,123	1,697,989	\$ 112,626	650,401	1,391,725	2,386,601	8,453,511
2003-2004	\$ 1,436,963	\$ 1,061,314	\$ 1,894,714	\$ 145,857	\$ 584,231	\$ 772,802	\$ 1,696,695	\$ 7,592,576

Note: Includes general, special revenue, debt service and capital projects.

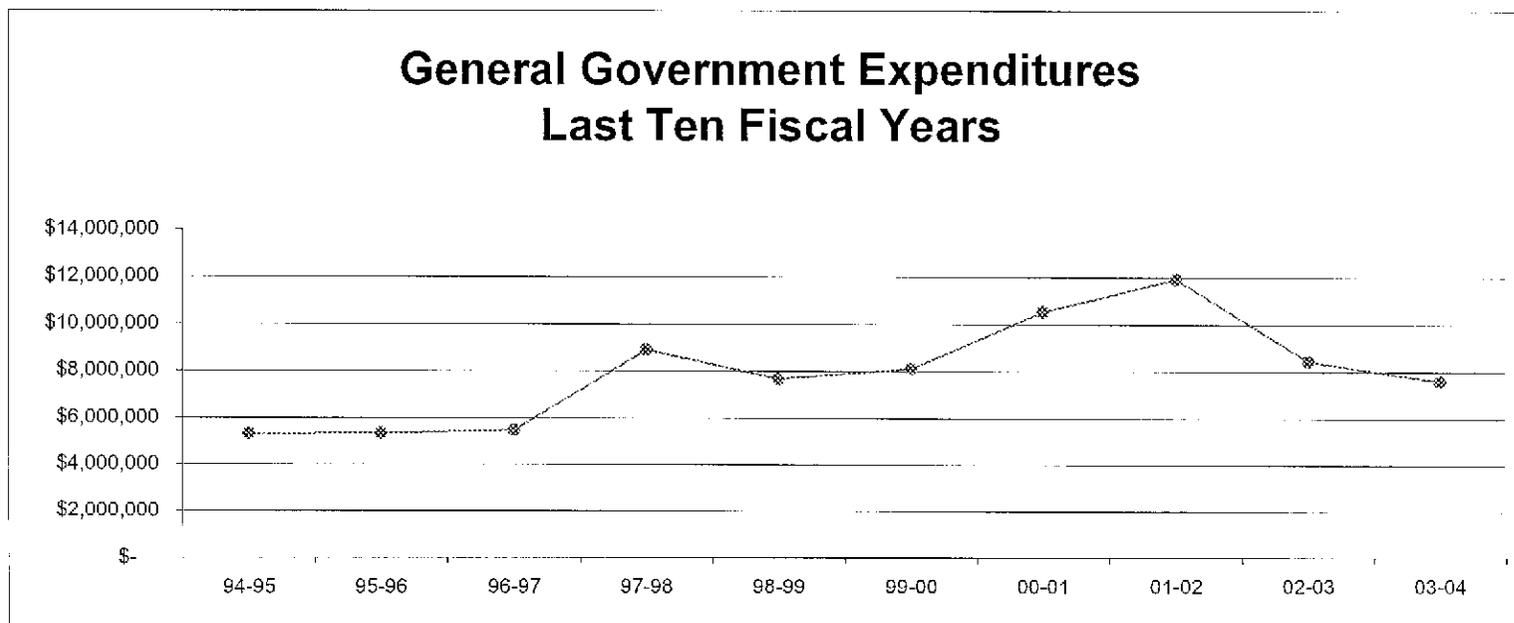


TABLE 2

**CITY OF WAVERLY, IOWA
GENERAL GOVERNMENTAL REVENUES BY SOURCE
LAST TEN FISCAL YEARS**

Fiscal Year	Taxes	Licenses and Permits	Inter-Governmental	Charges for Services	Fines and Forfeitures	Interest & Miscellaneous	Total
1994-95	\$ 2,367,805	\$ 81,736	\$ 817,720	\$ 541,644	\$ 31,157	\$ 307,575	\$ 4,147,637
1995-96	2,476,073	75,045	863,855	595,576	34,247	396,231	4,441,027
1996-97	2,534,067	83,940	961,120	577,234	31,665	405,546	4,593,572
1997-98	3,020,800	80,413	872,725	477,881	36,838	220,201	4,708,858
1998-99	3,163,072	94,573	985,182	653,997	26,493	311,837	5,235,154
1999-00	3,217,093	130,149	2,527,369	632,649	35,276	614,828	7,157,364
2000-01	3,328,017	108,410	1,795,639	606,146	40,515	637,451	6,516,178
2001-02	3,415,136	173,340	1,652,853	638,450	36,484	273,274	6,189,537
2002-03	3,590,566	124,133	1,208,770	741,935	38,428	397,567	6,101,399
2003-04	\$ 4,364,451	\$ 181,939	\$ 1,554,873	\$ 998,372	\$ 43,989	\$ 386,015	\$ 7,529,639

Notes:

- * Taxes include property taxes and tax increment financing.
- * Interest & Miscellaneous include use of money, and other income.
- * Does not include capital projects.

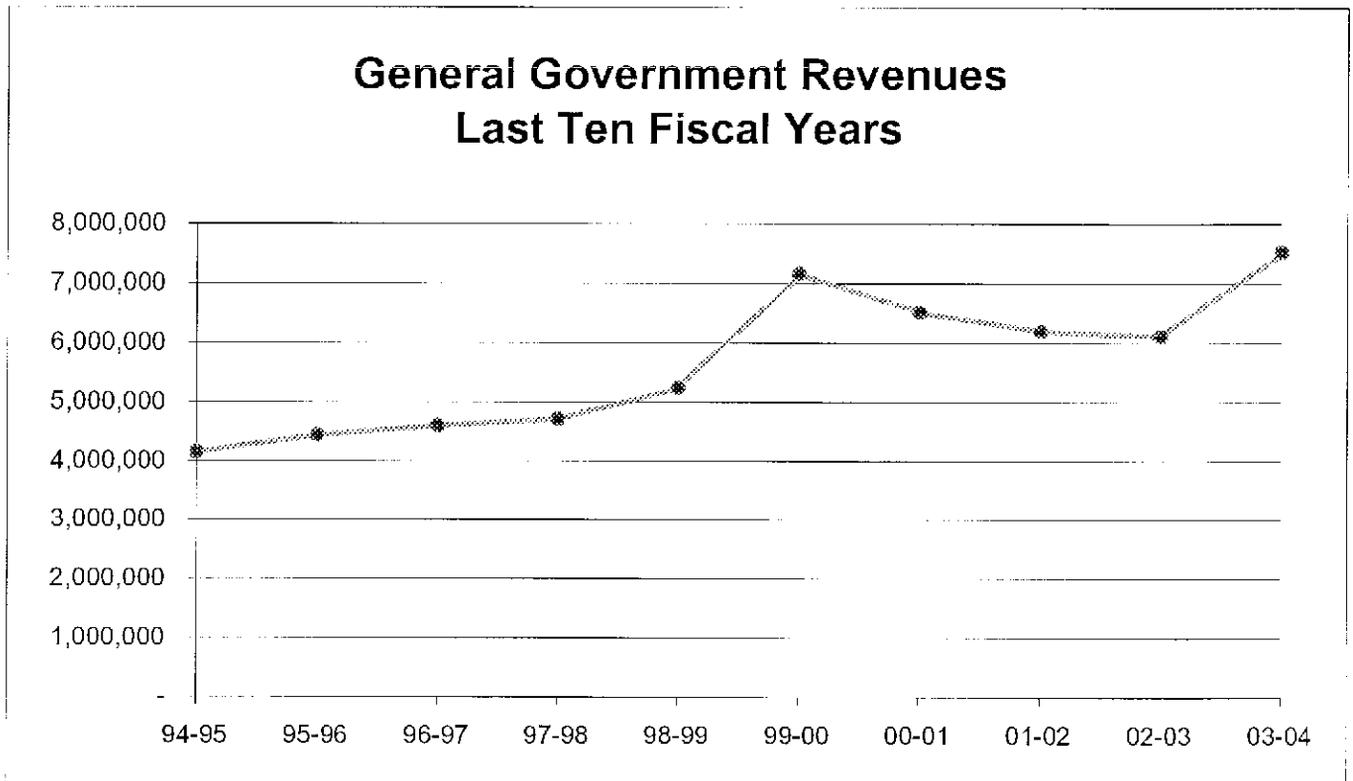


TABLE 3

**CITY OF WAVERLY, IOWA
PROPERTY TAX LEVIES AND COLLECTIONS
LAST TEN FISCAL YEARS**

Fiscal Year	Total Tax Levy	Total Tax Collections	Ratio of Total Tax Collections to Total Tax Levy
1994-95	\$ 1,927,027	\$ 1,907,123	98.97%
1995-96	1,926,297	1,950,804	101.27%
1996-97	2,086,807	2,066,792	99.04%
1997-98	2,407,911	2,447,486	101.64%
1998-99	2,501,244	2,557,808	102.26%
1999-00	2,596,924	2,660,291	102.44%
2000-01	2,749,411	2,819,551	102.55%
2001-02	2,872,431	2,951,815	102.76%
2002-03	3,048,979	3,105,328	101.85%
2003-04	\$ 3,236,314	\$ 3,243,081	100.21%

TABLE 4

**CITY OF WAVERLY, IOWA
CONSTRUCTION VALUES
LAST TEN FISCAL YEARS**

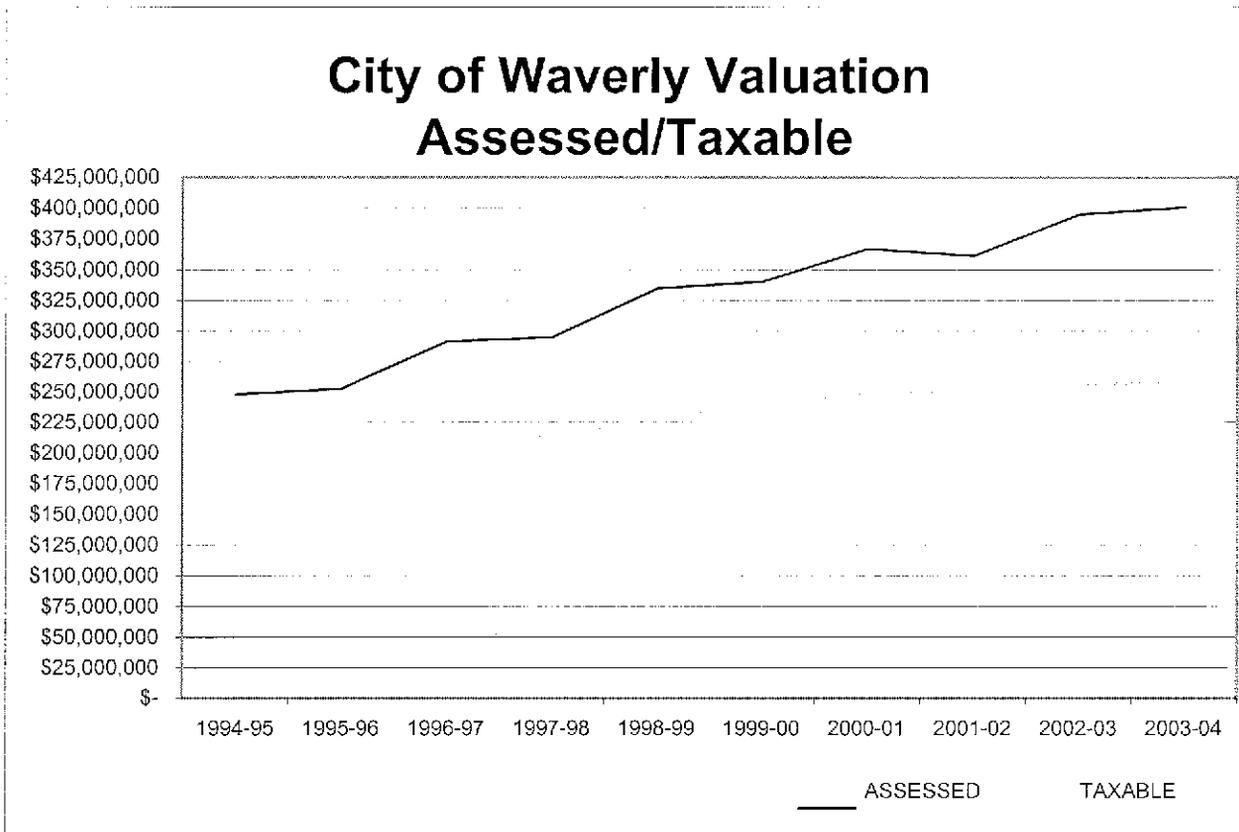
Fiscal Year	Single Family Homes	Single Family Homes Additions	(1) Multiple Family Dwellings	Commercial/ Industrial/ Other	Commercial/ Industrial/ Other Additions	Total
1994-1995	\$ 1,346,920	\$ 1,141,450	\$ 617,000	\$ 3,288,806	\$ 1,242,224	\$ 7,636,400
1995-1996	1,994,434	1,162,966	562,000	2,817,900	2,043,399	8,580,699
1996-1997	1,715,056	1,171,964	2,379,039	3,465,069	1,999,633	10,730,761
1997-1998	3,599,444	1,686,893	1,974,400	302,000	6,105,886	13,668,623
1998-1999	1,605,052	1,464,287	315,000	4,677,942	3,882,579	11,944,860
1999-2000	3,905,364	2,038,626	1,432,000	3,750,566	9,227,758	20,354,314
2000-2001	5,816,677	1,589,268	556,000	2,061,903	4,120,567	14,144,415
2001-2002	5,194,982	1,804,891	2,348,000	2,599,570	2,413,070	14,360,513
2002-2003	6,378,329	1,995,715	200,000	1,917,589	30,623,965	41,115,598
2003-2004	\$ 11,772,210	\$ 1,761,610	\$ 1,170,000	\$ 8,847,598	\$ 12,104,179	\$ 35,655,597

Source: City of Waverly Building Department

TABLE 5

**CITY OF WAVERLY, IOWA
TOTAL ASSESSED AND TAXABLE VALUE OF REAL PROPERTY
LAST TEN FISCAL YEARS**

Fiscal Year	Total Assessed Value	Total Taxable Value	Percentage of Total Taxable Value to Total Assessed Value
1994-95	\$ 247,856,137	\$ 197,085,962	79.52%
1995-96	252,680,868	199,867,233	79.10%
1996-97	291,457,032	210,692,829	72.29%
1997-98	294,773,240	213,461,124	72.42%
1998-99	334,608,349	228,697,748	68.35%
1999-00	340,193,451	237,738,691	69.88%
2000-01	366,903,673	248,932,194	67.85%
2001-02	361,306,642	249,815,253	69.14%
2002-03	395,173,818	255,327,509	64.61%
2003-04	\$ 400,951,528	\$ 258,440,238	64.46%



CITY OF WAVERLY, IOWA
RATIO OF ANNUAL DEBT SERVICE EXPENDITURES FOR
GENERAL BONDED DEBT TO TOTAL GENERAL EXPENDITURES
LAST TEN FISCAL YEARS

TABLE 6

Fiscal Year	Principal	Interest and Other Debt	Total Debt Service	Total General Expenditures	Ratio of Debt Service to Total Expenditures
1994-95	\$ 587,276	\$ 267,834	\$ 855,110	\$ 6,336,199	0.13
1995-96	743,028	374,432	1,117,460	4,324,288	0.26
1996-97	807,633	263,353	1,070,986	5,300,862	0.20
1997-98	1,104,219	332,578	1,436,797	5,328,525	0.27
1998-99	1,696,600	407,047	2,103,647	6,019,570	0.35
1999-00	519,707	390,170	909,877	6,093,648	0.15
2000-01	906,581	584,571	1,491,152	6,269,629	0.24
2001-02	868,161	672,644	1,540,805	6,529,365	0.24
2002-03	1,886,113	700,488	2,386,601	7,061,401	0.34
2003-04*	\$ 1,365,000	\$ 631,695	\$ 1,696,695	\$ 7,592,576	0.22

Note: General Expenditures include General, Special Revenue, and Debt Service funds.
* Includes all governmental activity expenditures

CITY OF WAVERLY, IOWA
RATIO OF NET GENERAL OBLIGATION BONDED DEBT PER CAPITA
LAST TEN FISCAL YEARS

TABLE 7

Fiscal Year	Population	Assessed Value	Gross Bonded Debt	Less Debt Service Fund	Debt Payable From Enterprise Revenues	Net Bonded Debt	Ratio of Net Bonded Debt To Assessed Value	Net Bonded Debt Per Capita
1994-95	8,539	\$ 247,856,137	\$ 5,550,000	\$ 149,304	\$ 627,328	\$ 4,773,368	1.93%	\$ 559
1995-96	8,539	252,680,868	5,660,000	156,041	1,012,236	4,491,723	1.78%	526
1996-97	8,539	291,457,032	8,185,000	225,920	1,624,790	6,334,290	2.17%	742
1997-98	8,539	294,773,240	10,045,000	110,499	1,475,947	8,458,654	2.87%	991
1998-99	8,539	334,608,349	8,795,000	619,398	1,531,834	6,643,768	1.99%	778
1999-00	8,539	340,193,451	10,625,000	85,910	1,891,328	8,647,762	2.54%	1,013
2000-01	8,968	366,903,673	12,535,000	71,770	1,766,035	10,697,195	2.92%	1,193
2001-02	8,968	361,306,642	15,695,000	50,051	1,657,835	13,987,314	3.87%	1,560
2002-03	8,968	395,173,818	14,575,000	5,406	1,505,388	13,064,206	3.31%	1,457
2003-04	8,539	\$ 400,951,528	\$ 13,380,000	\$ 13,122	\$ 1,375,388	\$ 11,991,490	2.98%	\$ 1,404

CITY OF WAVERLY, IOWA
COMPUTATION OF DIRECT AND OVERLAPPING BONDED DEBT
GENERAL OBLIGATION BONDS
June 30, 2003

TABLE 8

Jurisdiction	Net General Obligation bonded Debt Outstanding	Percentage Applicable to City	Amount Applicable to City
Direct:			
City of Waverly	\$ 13,380,000	100%	\$ 13,380,000
Overlapping:			
Bremser County	4,945,000	18%	890,100
Waverly-Shell Rock School District	1,905,000	44%	838,200
	<u>\$ 20,230,000</u>		<u>\$ 15,108,300</u>

TABLE 9

CITY OF WAVERLY, IOWA
PRINCIPAL TAXPAYERS
June 30, 2004

Taxpayer	Type of Business	1/1/2001 Valuation	Percentage Total Assessed Valuation
CUNA Mutual Life Insurance	Life insurance, annuities	\$ 9,662,030	2.41 %
Nestle' USA	Dehydrated and instant food products	6,923,410	1.73
Terex Cranes, Inc. - Waverly Division	Cranes and excavators	3,659,150	.91
GMT Corporation	Custom machining, dies and fixtures	3,137,110	.78
MDM Partnership	Commercial	3,050,940	.76
Village Square Plaza	Commercial & retail property	2,319,510	.58
TDS Automation Inc.	Manufacturing	2,081,960	.52
Red Fox Convention Center	Commercial	1,956,240	.49
Way/Kaz Inc.	Commercial	1,834,900	.46
First National Bank	Commercial	1,593,260	.40
Total Taxable Assessed Value of Principal Taxpayers		36,218,510	9.04
Total Taxable Assessed Value of All Other Taxpayers		364,733,018	90.96
Total		\$ 400,951,528	100.00 %

Notes:

* Assessed valuations as of January 1, 2002.

* Information obtained from the Bremer County Assessor's Office.

TABLE 10

**CITY OF WAVERLY, IOWA
ASSESSED PROPERTY VALUES
LAST TEN FISCAL YEARS**

Fiscal Year	Residential	Commercial	Industrial	Personal Property	Utilities	Ag Land	Total
1994-95	\$ 154,995,240	\$ 45,331,480	\$ 15,644,574	\$ 22,922,165	\$ 6,480,676	\$ 2,482,002	\$ 247,856,137
1995-96	158,405,691	45,813,160	15,609,664	23,680,603	6,697,690	2,474,060	252,680,868
1996-97	192,063,260	52,129,980	16,441,944	22,051,939	6,062,723	2,707,186	291,457,032
1997-98	194,790,200	54,842,450	18,742,320	17,680,570	6,085,140	2,632,560	294,773,240
1998-99	228,607,890	60,001,930	18,729,490	17,945,764	6,219,739	3,103,536	334,608,349
1999-00	232,795,060	62,354,450	19,359,010	16,554,280	6,015,930	3,114,721	340,193,451
2000-01	258,068,452	66,687,480	21,513,990	11,393,165	5,824,544	3,416,042	366,903,673
2001-02	254,101,314	68,079,070	22,276,320	7,879,983	5,793,703	3,176,252	367,100,345
2002-03	284,445,594	74,815,010	22,417,239	3,869,454	6,131,301	3,495,220	395,173,818
2003-04	\$ 292,517,970	\$ 73,558,190	\$ 25,241,740	\$ -	\$ 6,391,538	\$ 3,242,090	\$ 400,951,528

TABLE 11

**CITY OF WAVERLY, IOWA
PROPERTY TAX RATES - DIRECT AND OVERLAPPING GOVERNMENTS
LAST TEN FISCAL YEARS**

Fiscal Year	City of Waverly	Waverly - Shell Rock School	Bremer County	Hawkeye Community College	Total Tax Rate
1994-95	10.53807	14.86388	6.55248	0.50172	32.45615
1995-96	10.73038	14.95304	5.75280	0.74954	32.18576
1996-97	10.77559	13.64768	5.37574	0.68629	30.48530
1997-98	12.15900	13.33311	5.24633	0.68467	31.42311
1998-99	11.81989	13.12906	5.27474	0.69600	30.91969
1999-00	11.76164	12.33389	4.48077	0.71525	29.29155
2000-01	12.05050	12.28616	4.64534	0.69371	29.67571
2001-02	12.47217	12.00157	4.43025	0.69917	29.60316
2002-03	12.96984	12.37041	4.45311	0.78418	30.57754
2003-04	13.47151	12.25940	4.95403	0.74560	31.43054

Notes: State law limits the maximum tax rate for the General Fund to \$8.10 per \$1,000 of taxable valuation. Taxes are July 1 of each year.

Taxes are delinquent if not paid by October 1, and April 1.

Uncollected taxes are considered delinquent and published in the newspaper prior to May 16.

Taxes are collected by Bremer County.

Distribution to the City of Waverly based on all levies and done monthly.

TABLE 12

**CITY OF WAVERLY, IOWA
WATER REVENUE BOND COVERAGE
LAST TEN FISCAL YEARS**

Fiscal Year	(1) Gross Revenues	(2) Direct Operating Expense	Net Revenue Available for Debt Service	Debt Service Requirement			Coverage
				Principal	Interest	Total	
1994-95	\$ 653,335	\$ 402,414	\$ 250,921	\$ 108,117	\$ 21,101	\$ 129,218	\$ 2
1995-96	699,626	380,582	319,044	103,396	75,543	178,939	1.78
1996-97	725,973	433,689	292,284	119,645	85,310	204,955	1.43
1997-98	848,043	504,955	343,088	127,893	98,144	226,037	1.52
1998-99	745,982	460,180	285,802	90,000	67,513	157,513	1.81
1999-00	802,828	517,343	285,485	110,000	41,113	151,113	1.89
2000-01	804,780	506,640	298,140	115,000	36,177	151,177	1.97
2001-02	779,906	517,306	262,600	120,000	32,829	152,829	1.72
2002-03	976,130	594,037	382,093	570,000	45,837	615,837	0.62
2003-04	\$ 1,237,294	\$ 618,328	\$ 618,966	\$ 220,000	\$ 90,040	\$ 310,040	2.00

- (1) Operating revenues plus nonoperating revenues
(2) Operating expenses less depreciation

TABLE 13

**CITY OF WAVERLY, IOWA
SEWER REVENUE BOND COVERAGE
LAST TEN FISCAL YEARS**

Fiscal Year	(1) Gross Revenues	(2) Direct Operating Expense	Net Revenue Available for Debt Service	Debt Service Requirement			Coverage
				Principal	Interest	Total	
1994-95	\$ 646,411	\$ 384,855	\$ 261,556	\$ 97,758	\$ 97,362	\$ 195,120	1.34
1995-96	689,330	462,056	227,274	100,900	17,904	118,804	1.91
1996-97	728,758	423,337	305,421	122,800	34,884	157,684	1.94
1997-98	866,554	537,468	329,086	106,050	97,391	203,441	1.62
1998-99	800,331	555,794	244,537	-	3,981	3,981	61.43
1999-00	889,789	614,025	275,764	50,000	54,487	104,487	2.64
2000-01	912,189	584,742	327,447	70,000	73,124	143,124	2.29
2001-02	995,915	656,202	339,713	75,000	74,720	149,720	2.27
2002-03	1,084,670	706,999	377,671	180,000	119,197	299,197	1.26
2003-04	\$ 1,435,684	\$ 807,196	\$ 628,488	\$ 240,000	\$ 117,612	\$ 357,612	1.76

- (1) Operating revenues plus nonoperating revenues
(2) Operating expenses less depreciation

**CITY OF WAVERLY, IOWA
MISCELLANEOUS STATISTICS
June 30, 2004**

Date of Incorporation	1859
Form of Government	Mayor - Council with appointed City Administrator
Number of Full-Time Employees	69
Area in Square Miles	11.3
Miles of Streets	75
City of Waverly Facilities and Services:	
Culture and Recreation:	
Airports	1
Number of Libraries	1
Parks	19
Park Acreage	100
Miles of Recreation Trails	10
Swimming Pools	1
Civic Center	1
Golf Courses	1 - 18 hole municipal 1 - 18 hole private
Boat Dock and Ramp	1
Skate Parks	1
Fire Protection:	
Number of Stations	1
Number of Part-Time Fire Personnel and Officers	7
Number of Volunteer Fireman	35
Police Protection:	
Number of Stations	1
Number of Police Personnel and Officers	16
Number of Patrol Units	4
Number of Law Violations:	
Physical Arrests	385
Traffic Violations	934
Parking Violations	777
Sewerage System:	
Miles of Sanitary Sewers	62
Number of Treatment Plants	1
Number of Service Connections	3,160
Daily Average Treatment in Gallons	8,976,000
Maximum Daily Capacity of Treatment Plant in Gallons	5,000,000
Water System:	
Miles of Water Mains	64
Number of Service Connections	3,214
Number of Hydrants	587
Daily Average Consumption in Gallons	7,731,278
Maximum Daily Capacity in Gallons	7,000,000
Facilities and Services Not Included in City Government:	
Education:	
Number of Elementary Schools	5 - Public 1 - Private
Number of Middle Schools	1 - Public
Number of Secondary Schools	1 - Public
Number of Colleges	1- Private (approx. 1,600)
Hospitals:	
Waverly Municipal Hospital	1
Number of Patient Beds	66

TABLE 15

**CITY OF WAVERLY, IOWA
COMPUTATION OF LEGAL DEBT MARGIN
June 30, 2004**

2002-03 ESTIMATED ACTUAL VALUATION:	\$ 400,951,528	
DEBT LIMIT - 5% OF ESTIMATED ACTUAL VALUATION		\$20,047,576
AMOUNT OF DEBT APPLICABLE TO DEBT LIMIT		
GENERAL BONDED DEBT	13,380,000	
NOTES PAYABLE	311,350	
	13,691,350	
AMOUNT AVAILABLE FOR REPAYMENT OF GENERAL OBLIGATION DEBT		
TOTAL DEBT APPLICABLE TO DEBT LIMIT		13,691,350
LEGAL DEBT MARGIN		\$ 6,356,226

TABLE 16

**CITY OF WAVERLY, IOWA
DEMOGRAPHIC STATISTICS**

	(1)	(1)	(1)	(1)	(2)	(3)
Fiscal Year	Population	Per Capita Income	in Years Median Age	Education Level of Formal Schooling	School Enrollment	Unemployment Rate
1970	7,205	\$ 2,961	25.2	12.5	2,582	3.80%
1980	8,444	\$ 7,182	27.4		2,282	4.60%
1990	8,539	\$ 11,942	32.5		2,120	4.20%
2000	8,968	\$ 26,410	39.2		1,944	2.40%

Sources:

- (1) Bureau of Census
- (2) Annual School Census
- (3) Iowa Department of Job Service



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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON
INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Honorable Mayor, Members of the City Council
City of Waverly, Iowa

We have audited the financial statements of the CITY OF WAVERLY, IOWA as of and for the year ended June 30, 2004, and have issued our report thereon dated September 30, 2004. We did not audit the financial statements of Waverly Municipal Hospital or Waverly Light and Power (discretely presented component units). Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our report on these financial statements, insofar as it relates to the amounts included for the discretely presented component units was based solely on the reports of other auditors. We conducted our audit in accordance with U.S. generally accepted auditing standards, and those 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 Waverly's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance 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 noncompliance that are required to be reported under *Government Auditing Standards*.

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

Internal Control Over Financial Reporting:

In planning and performing our audit, we considered the City of Waverly's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of Waverly's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying Schedule of Findings and Questioned Costs as item II-A-04.

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 function. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might have reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider item II-A-04 to be a material weakness.

This report is intended solely for the information and use of the City Council, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City during the course of our audit.

If you have any questions concerning the above matters, we would be pleased to discuss them with you at your convenience.

Williams + Company, P.C.
Certified Public Accountants

September 30, 2004
Le Mars, Iowa

CITY OF WAVERLY, IOWA
Schedule of Findings and Questioned Costs
Year Ended June 30, 2004

Part I: Summary of the Independent Auditors' Results

- (a) An unqualified opinion was issued on the financial statements.
- (b) A reportable condition in internal control over financial reporting was disclosed by the audit of the financial statements, and is considered to be a material weakness.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.

Part II: Findings Related to the Financial Statements

Instances of Non-Compliance:

No matters were noted.

There were no prior year audit findings.

Reportable Conditions:

II-A-04 – Financial Accounting - Segregation of Duties

Comment: One important aspect of internal accounting control is the segregation of duties among employees to prevent an individual from handling duties which are incompatible. We noted that the same person receipts cash, prepares the cash receipts listing and receipts journal, and maintains the customer accounts.

Recommendation: We realize that, with a limited number of office employees, segregation of duties is difficult. However, the City should review its operating procedures to obtain maximum internal control under the circumstances.

Response and Corrective Action Plan: The City understands the nature of the weakness and will continue to exercise control through administrative review of reports as an alternative to segregation of duties.

Conclusion: Response accepted.

Part III: Other Findings Related to Required Statutory Reporting

III-A-03 - Official Depositories - A resolution naming official depositories has been approved by the City. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2004.

III-B-03 - Certified Budget – Expenditures for the year ended June 30, 2004 exceeded amounts budgeted in the Public Works, Culture and Recreation, and Community & Economic Development functions.

Recommendation – The budget should be amended before expenditures are made from the individual functions.

Response – Future budgets will be amended before expenditures are made as appropriate.

Conclusion – Response accepted.

III-C-03 - Questionable Expenditures - We noted no questionable expenditures during our audit.

CITY OF WAVERLY, IOWA
Schedule of Findings and Questioned Costs
Year Ended June 30, 2004

- III-D-03 - Travel Expense - No expenditures of City money for travel expenses of spouses of City officials or employees were noted.
- III-E-03 - Business Transactions - There were business transactions between the City and City officials.
- III-F-03 - Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. However, we recommend that the amount of coverage be reviewed annually to insure that the coverage is adequate for current operations.
- III-G-03 - Council Minutes - We noted no transactions requiring approval which had not been approved by the Council.
- III-H-03 - Revenue Bonds - No violations of revenue bond resolutions were noted.
- III-I-03 - Cash and Investments - We noted 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.