

CITY OF STORM LAKE
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2004

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City of Storm Lake

Officials

<u>Name</u>	<u>Title</u> (Before January 2004)	<u>Term Expires</u>
Jon Kruse	Mayor	January 2004
Wally Burns	Mayor Pro Tem	January 2004
Julie Eglund	Council Member	January 2004
Hector Velez	Council Member	January 2004
James Treat	Council Member	January 2006
Dennis Vaudt	Council Member	January 2006

<u>Name</u>	<u>Title</u> (After January 2004)	<u>Term Expires</u>
Jon Kruse	Mayor	January 2006
Wally Burns	Mayor Pro Tem	January 2008
James Treat	Council Member	January 2006
Dennis Vaudt	Council Member	January 2006
Julie Eglund	Council Member	January 2008
Sara Monroy-Huddleston	Council Member	January 2008
John M. Call	City Administrator	Indefinite
Patti Moore	City Clerk	Indefinite
Paul Havens	Attorney	Indefinite

August 26, 2004

Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

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

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

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

As described in Note 18 to the financial statements, for the year ended June 30, 2004, the City of Storm Lake adopted Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*; Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*; Statement No. 38, *Certain Financial Statement Note Disclosures*; and Statement No. 41, *Budgetary Comparison Schedule – Perspective Differences*.

Continued...

Independent Auditor's Report
City of Storm Lake

In accordance with *Government Auditing Standards*, we have also issued our reports dated August 26, 2004 on our consideration of the City of Storm Lake's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants 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 testing, and not to provide an opinion on the internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 12 and 58 through 62 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Storm Lake's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2003 (none of which are presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 5, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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

2004 FINANCIAL HIGHLIGHTS

- Revenues of the City's governmental activities increased 10.3%, or approximately \$625,322, from FY03 to FY04. Property tax increased approximately \$58,358.
- Program expenses increased 2.6%, or approximately \$156,276, in FY04 from FY03. Public safety expenses decreased approximately \$80,310, while debt service and capital projects expenses increased approximately \$100,122, and \$14,122, respectively.
- The City's net assets increased 4.6%, or approximately \$1,267,919, from June 30, 2003 to June 30, 2004. Of this amount, the net assets of the governmental activities increased approximately \$1,315,771 and the net assets of the business type activities decreased by approximately \$47,852.

USING THIS ANNUAL REPORT

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

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

Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of the City as a whole and present an overall view of the City's finances.

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

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

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

Other Supplementary Information provides detailed information about the non-major Special Revenue Funds. In addition, the Schedule of Expenditures of Federal Awards provides details of various federal programs benefiting the City.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

One of the most important questions asked about the City's finances is, "Is the City as a whole better or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information which helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting and the economic resources measurement focus, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account, regardless of when cash is received or paid.

The Statement of Net Assets presents all of the City's assets and liabilities, with the difference between the two reported as "net assets". Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods.

The Statement of Net Assets and the Statement of Activities report two kinds of activities:

- Governmental activities include public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business type activities include the waterworks, the sanitary sewer system and the City's sanitation department. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

(1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds and the balances at year-end that are available for spending. Governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Tax Increment Financing Revenues, Local Option Sales Tax and Payroll Tax Levy, 3) the Debt Service Fund and 4) the Capital Projects Fund. These funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund financial statements provide a detailed, short-term view of the City's general governmental operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statements for governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

2) Proprietary funds account for the City's Enterprise Funds. These funds report services for which the City charges customers for the service it provides. Proprietary funds are reported in the same way all activities are reported in the Statement of Net Assets and the Statement of Activities. The major difference between the proprietary funds and the business type activities included in the government-wide statements is the detail and additional information, such as cash flows, provided in the proprietary fund statements. The Enterprise Funds include the Water, Wastewater and Sanitation Funds, each considered to be a major fund of the City. The City is responsible for ensuring the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong.

The financial statements required for proprietary funds include a statement of net assets, a statement of revenues, expenses and changes in fund net assets and a statement of cash flows.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of financial position. The analysis that follows focuses on the changes in the net assets for governmental and business type activities.

Statement of Net Assets June 30, 2004			
	Governmental Activities	Business Type Activities	Total
Current and other assets	\$ 8,309,029	5,087,760	13,396,789
Capital assets	9,194,694	16,304,233	25,498,927
Total assets	<u>17,503,723</u>	<u>21,391,993</u>	<u>38,895,716</u>
Long-term liabilities	896,015	7,238,664	8,134,679
Other liabilities	2,670,609	384,076	3,054,685
Total liabilities	<u>3,566,624</u>	<u>7,622,740</u>	<u>11,189,364</u>
Net assets:			
Invested in capital assets, net of related debt	8,532,131	9,237,306	17,769,437
Restricted	3,855,410	2,471,961	6,327,371
Unrestricted	<u>1,549,558</u>	<u>2,059,986</u>	<u>3,609,544</u>
Total net assets	<u>\$13,937,099</u>	<u>13,769,253</u>	<u>27,706,352</u>

Total net assets increased from FY03 by approximately \$1,267,919, or 4.6%. The largest portion of the City's net assets is invested in capital assets (e.g., land, infrastructure, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets. Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. Unrestricted net assets, the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, legislation or other legal requirements, is approximately \$3,609,544 at the end of this year.

Statement of Activities
Year ended June 30, 2004

	Governmental Activities	Business Type Activities	Total
Revenues:			
Program revenues:			
Charges for service	\$ 648,016	3,656,083	4,304,099
Operating grants, contributions and restricted interest	1,493,889	61,526	1,555,415
Capital grants, contributions and restricted interest	407,556	-	407,556
General revenues:			
Property tax levied for:			
General purposes	1,851,200	-	1,851,200
Employee Benefits	567,999	-	567,999
Debt service	41,684	-	41,684
Tax increment financing revenues	33,264	-	33,264
Local option sales tax	836,884	-	836,884
Grants and contributions not restricted to specific purpose	46,848	-	46,848
Unrestricted investment earnings	63,945	82,483	146,428
Miscellaneous	1,823	-	1,823
Transfers	(5,337)	5,337	0
Total Revenues	<u>5,987,771</u>	<u>3,805,429</u>	<u>9,793,200</u>
Program expenses:			
Public safety	1,871,380	-	1,871,380
Public works	975,207	-	975,207
Health and Social Services	15,700	-	15,700
Culture and recreation	1,040,891	-	1,040,891
Community and economic development	410,277	-	410,277
General government	307,976	-	307,976
Interest on long-term debt	50,569	-	50,569
Water	-	1,981,267	1,981,267
Wastewater	-	1,547,086	1,547,086
Sanitation	-	324,928	324,928
Total expenses	<u>4,672,000</u>	<u>3,853,281</u>	<u>8,525,281</u>
Change in net assets	1,315,771	(47,852)	1,267,919
Net assets beginning of year (as restated)	<u>12,621,328</u>	<u>13,817,105</u>	<u>26,438,433</u>
Net assets end of year	<u>\$13,937,099</u>	<u>13,769,253</u>	<u>27,706,352</u>

INDIVIDUAL MAJOR FUND ANALYSIS

Governmental Fund Highlights

As the City of Storm Lake completed the year, its governmental funds reported a combined fund balance of \$5,114,075, which is less than the \$5,296,146 total fund balance at June 30, 2003. The following are the major reasons for the changes in fund balances of the major governmental funds from the prior year.

The General Fund showed a slight increase of \$10,805 from the prior year to \$1,256,987.

The Road Use Tax Fund accounts for revenue received from the State of Iowa for road improvements. This fund decreased by \$61,207 from the prior year to \$469,950. This decrease was a result of setting aside an additional \$160,000 for future street projects.

The Special Levy Fund is used to account for the property tax levied to finance the payment of employee benefits. This fund increased by \$43,875 from the prior year to \$117,190.

The Local Option Sales Tax Fund accounts for revenue from the tax authorized by referendum and used for capital improvements. This fund increased by \$39,089 from the prior year to \$432,313. Local Option Sales Tax revenue increased by \$33,186 in fiscal year 2004.

The Debt Service Fund decreased by \$255,010 from the prior year to \$202,674. \$101,520 of this decrease came from paying off a hangar at the Storm Lake Municipal Airport early. The remainder came from a transfer out that was done in FY04 to correct a transfer in that was done in error in FY03.

The Capital Projects Fund increased by \$73,211 from the prior year to \$1,849,915.

Proprietary Fund Highlights

The Water Fund, which accounts for the operation and maintenance of the City's water system, ended FY04 with a \$6,314,055 net asset balance compared to the prior year ending net asset balance of \$5,973,141.

The Wastewater Fund, which accounts for the operation and maintenance of the City's wastewater treatment and sanitary sewer system, ended FY04 with a \$7,035,966 net asset balance compared to the prior year ending net asset balance of \$7,479,190.

The Landfill Fund, which accounts for the costs associated with the assessment paid to the Buena Vista County Landfill Commission, ended FY04 with a \$269,687 net asset balance compared to the prior year ending net asset balance of \$245,400.

The Internal Service Funds are used by management to charge the cost of employee health benefits and fleet purchases to the individual funds. The change in net assets of the Internal Service Fund totals \$135,542, of which \$30,171 is reported with business type activities.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City of Storm Lake amended its budget once in May 2004. This amendment was needed to cover unplanned disbursements, including disbursements associated with projects carried over from the prior fiscal year.

The combined tax levy for the City of Storm Lake remains relatively constant at \$11.33 per thousand. The combined effect of the City's tax levy and the increased residential rollback on a \$100,000 home was a \$3.00 reduction in taxes. The Tort Levy was eliminated and the costs were covered out of fund balance.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The City's capital assets include land, buildings and improvements, equipment, streets, sewer systems, lighting systems, traffic signals and other infrastructure. Capital assets for governmental activities totaled \$9,194,694 (net of accumulated depreciation) at June 30, 2004. Capital assets for business type activities totaled \$16,304,233 (net of accumulated depreciation) at June 30, 2004. See Note 3 to the financial statements for more information about the City's capital assets.

The major capital outlays for governmental activities during the year included tuck-pointing of the Library and Fire Station, Airport Runway improvements, Lake Trails, and 2003 and 2004 Street Improvement projects. For business type activities, major additions included the Water Plant Expansion and the construction of Dakota Well #16.

Construction in progress at June 30, 2004 for governmental activities consists primarily of street and airport projects. Construction in progress at June 30, 2004 for business type activities consists of the Water Plant Expansion and well construction.

Long-Term Debt

At June 30, 2004, the City had \$896,015 in total long-term debt outstanding for governmental activities. Total long-term debt outstanding for business type activities was \$7,205,384 at June 30, 2004. During the year ended June 30, 2004, the City drew down proceeds of \$7,141,615 of its water revenue capital loan note. The note bears interest at 3% and matures in varying annual amounts ranging from \$279,000 to \$490,000, with the final maturity due in the year ending June 30, 2024.

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5 percent of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt is significantly below its constitutional debt limit of \$15,258,336 million. Other obligations include accrued vacation pay and sick leave. Additional information about the City's long-term debt is presented in Note 6 to the financial statements.

ECONOMIC FACTORS BEARING ON THE CITY'S FUTURE

Several economic factors affected decisions made by the City in setting its FY05 budget. The continued State funding cuts along with the increased residential rollback, and the loss of revenue on investments, has caused the City's revenues to remain flat. The City has also experienced large increases in Police and Fire pension costs due to the recent performance of the 411 Retirement Fund, and large increases in Health and Workman's Compensation Insurance costs.

Inflation in the State continues to be somewhat lower than the national Consumer Price Index (CPI) increase. The State's CPI increase was 3.2 percent for FY04 compared with the national rate of 3.4 percent.

The General Fund is projected to end FY05 with a fund balance of approximately \$681,762, a 44% decrease from FY03. \$350,000 of this decrease is from setting aside money for the City's Capital Improvement Plan.

The tax levy rates per \$1,000 of taxable valuation for FY05 are provided below:

General levy	\$	8.10
Emergency levy		0.27
Debt Service levy		0.22363
Special levy		3.42756
<hr/>		
Total	\$	<u>12.02119</u>

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to present our citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and operating activities. If you have any questions or require additional information please contact the Staff Accountant, 620 Erie Street, City of Storm Lake, Iowa

Basic Financial Statements

City of Storm Lake
Statement of Net Assets
June 30, 2004

	Governmental Activities	Business Type Activities	Total
Assets			
Cash and cash equivalents	\$ 1,372,628	2,377	1,375,005
Investments	3,923,787	1,640,313	5,564,100
Receivables:			
Property tax:			
Delinquent	20,799	0	20,799
Succeeding year	2,527,658	0	2,527,658
Tax increment financing:			
Succeeding year	33,086	0	33,086
Special assessments	1,252	0	1,252
Customer accounts and unbilled usage	0	413,728	413,728
Accounts	15,436	0	15,436
Accrued interest	17,600	17,814	35,414
Due from other governments	244,784	0	244,784
Inventories	47,126	31,156	78,282
Prepaid expenses	104,873	76,127	181,000
Restricted assets:			
Cash and cash equivalents	0	375,056	375,056
Investments	0	2,456,501	2,456,501
Capital assets (net of accumulated depreciation)	9,194,694	16,304,233	25,498,927
Other assets:			
Loan fees, net of accumulated amortization	0	74,688	74,688
Total assets	17,503,723	21,391,993	38,895,716
Liabilities			
Accounts payable	5,420	6,510	11,930
Accrued interest payable	2,968	35,441	38,409
Salaries and benefits payable	64,139	13,693	77,832
Incurred and unpaid claims	7,388	2,116	9,504
Contracts payable	19,962	326,316	346,278
Matured bonds payable	5,000	0	5,000
Matured interest payable	4,988	0	4,988
Deferred revenue:			
Succeeding year property tax	2,527,658	0	2,527,658
Succeeding year tax increment financing	33,086	0	33,086
Long-term liabilities:			
Portion due or payable within one year:			
Customer deposits	0	33,280	33,280
General obligation bonds/notes	311,532	0	311,532
Revenue notes payable	0	279,000	279,000
Compensated absences	88,712	24,230	112,942
Portion due or payable after one year:			
General obligation bonds/notes	351,031	0	351,031
Revenue notes payable	0	6,862,615	6,862,615
Compensated absences	144,740	39,539	184,279
Total liabilities	3,566,624	7,622,740	11,189,364

City of Storm Lake
Statement of Net Assets - Continued
June 30, 2004

	Governmental Activities	Business Type Activities	Total
Net Assets			
Invested in capital assets, net of related debt	\$ 8,532,131	9,237,306	17,769,437
Restricted for:			
Road purposes	469,950	0	469,950
Special levy	118,085	0	118,085
Local option sales tax	432,313	0	432,313
Debt service	200,013	0	200,013
Capital projects	1,849,915	0	1,849,915
Revenue note retirement	0	500,000	500,000
Water improvements	0	979,147	979,147
Wastewater improvement	0	992,814	992,814
Other purposes	785,134	0	785,134
Unrestricted	1,549,558	2,059,986	3,609,544
Total net assets	\$ 13,937,099	13,769,253	27,706,352

See notes to financial statements.

City of Storm Lake

Statement of Activities

Year ended June 30, 2004

	<u>Expenses</u>	<u>Program</u> Charges for Service
Functions / Programs:		
Governmental activities:		
Public safety	\$ 1,871,380	78,853
Public works	975,207	251,527
Health and social services	15,700	0
Culture and recreation	1,040,891	295,827
Community and economic development	410,277	2,250
General government	307,976	17,016
Interest on long-term debt	50,569	2,543
Total governmental activities	<u>4,672,000</u>	<u>648,016</u>
Business type activities:		
Water	1,981,267	2,224,654
Wastewater	1,547,086	1,084,058
Landfill	324,928	347,371
Total business type activities	<u>3,853,281</u>	<u>3,656,083</u>
 Total	 <u>\$ 8,525,281</u>	 <u>4,304,099</u>

General Revenues:

Property and other city tax levied for:
 General purposes
 Employee benefits
 Debt service
 Tax increment financing
 Local option sales tax
 Grants and contributions not restricted to specific purpose
 Unrestricted interest on investment
 Miscellaneous
 Sale of assets
 Transfers
 Total general revenues

Change in net assets

Net assets beginning of year, as restated

Net assets end of year

See notes to financial statements

Exhibit B

Revenues		Net (Expense) Revenue and Changes in Net Assets		
<u>Operating Grants, Contributions and Restricted Interest</u>	<u>Capital Grants, Contributions and Restricted Interest</u>	<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
86,446	11,389	(1,694,692)	0	(1,694,692)
1,200,896	143,337	620,553	0	620,553
0	0	(15,700)	0	(15,700)
48,568	245,666	(450,830)	0	(450,830)
0	2,784	(405,243)	0	(405,243)
37,099	4,380	(249,481)	0	(249,481)
120,880	0	72,854	0	72,854
<u>1,493,889</u>	<u>407,556</u>	<u>(2,122,539)</u>	<u>0</u>	<u>(2,122,539)</u>
61,526	0	0	304,913	304,913
0	0	0	(463,028)	(463,028)
0	0	0	22,443	22,443
<u>61,526</u>	<u>0</u>	<u>0</u>	<u>(135,672)</u>	<u>(135,672)</u>
<u>1,555,415</u>	<u>407,556</u>	<u>(2,122,539)</u>	<u>(135,672)</u>	<u>(2,258,211)</u>
		\$ 1,851,200	0	1,851,200
		567,999	0	567,999
		41,684	0	41,684
		33,264	0	33,264
		836,884	0	836,884
		46,848	0	46,848
		63,945	82,483	146,428
		1,823	0	1,823
		(5,337)	5,337	0
		<u>3,438,310</u>	<u>87,820</u>	<u>3,526,130</u>
		1,315,771	(47,852)	1,267,919
		<u>12,621,328</u>	<u>13,817,105</u>	<u>26,438,433</u>
		<u>\$ 13,937,099</u>	<u>13,769,253</u>	<u>27,706,352</u>

City of Storm Lake
Balance Sheet
Governmental Funds
June 30, 2004

	General	Road Use	Special Levy
Assets			
Cash and cash equivalents	\$ 728,748	407,072	0
Investments	485,923	0	60,790
Receivables:			
Property tax:			
Delinquent	14,699	0	4,987
Succeeding year	1,703,225	0	720,444
Tax increment financing:			
Succeeding year	0	0	0
Special assessments	1,015	0	0
Accounts	15,436	0	0
Accrued interest	2,140	0	0
Due from other governments	19,602	66,782	0
Inventories	41,651	2,589	0
Prepaid expenditures	3,277	0	57,563
Total assets	\$ 3,015,716	476,443	843,784
Liabilities and Fund Balances			
Liabilities:			
Accounts payable	\$ 3,454	0	0
Salaries and benefits payable	48,306	6,493	5,255
Contracts payable	0	0	0
Matured bonds payable	0	0	0
Matured interest payable	0	0	0
Deferred revenue:			
Succeeding year property tax	1,703,225	0	720,444
Succeeding year tax increment financing	0	0	0
Other	3,744	0	895
Total liabilities	1,758,729	6,493	726,594
Fund Balances:			
Reserved for debt service	0	0	0
Unreserved:			
Designated for:			
Cash flow/operating	785,000	0	0
Capital improvements plan	350,000	0	0
Undesignated:			
Reported in:			
General fund	121,987	0	0
Special revenue funds	0	469,950	117,190
Capital projects fund	0	0	0
Permanent fund	0	0	0
Total fund balances	1,256,987	469,950	117,190
Total liabilities and fund balances	\$ 3,015,716	476,443	843,784

Revenue					
Local Option Sales Tax	Debt Service	Capital Projects	Other Nonmajor Governmental	Total	
0	0	225,906	2,607	1,364,333	
370,219	212,056	1,539,192	739,419	3,407,599	
0	623	0	490	20,799	
0	47,237	0	56,752	2,527,658	
0	0	0	33,086	33,086	
0	237	0	0	1,252	
0	0	0	0	15,436	
1,622	53	8,817	2,670	15,302	
60,472	0	97,928	0	244,784	
0	0	0	0	44,240	
0	0	0	44,033	104,873	
<u>432,313</u>	<u>260,206</u>	<u>1,871,843</u>	<u>879,057</u>	<u>7,779,362</u>	
0	0	1,966	0	5,420	
0	0	0	4,085	64,139	
0	0	19,962	0	19,962	
0	5,000	0	0	5,000	
0	4,988	0	0	4,988	
0	47,237	0	56,752	2,527,658	
0	0	0	33,086	33,086	
0	307	0	88	5,034	
<u>0</u>	<u>57,532</u>	<u>21,928</u>	<u>94,011</u>	<u>2,665,287</u>	
0	202,674	0	0	202,674	
0	0	0	0	785,000	
0	0	0	0	350,000	
0	0	0	0	121,987	
432,313	0	0	782,428	1,801,881	
0	0	1,849,915	0	1,849,915	
0	0	0	2,618	2,618	
<u>432,313</u>	<u>202,674</u>	<u>1,849,915</u>	<u>785,046</u>	<u>5,114,075</u>	
<u>432,313</u>	<u>260,206</u>	<u>1,871,843</u>	<u>879,057</u>	<u>7,779,362</u>	

See notes to financial statements

City of Storm Lake

Reconciliation of the Balance Sheet –
Governmental Funds to the Statement of Net Assets

June 30, 2004

Total governmental fund balances	\$ 5,114,075
<i>Amounts reported for governmental activities in the Statement of Net Assets are different because:</i>	
Capital assets used in governmental activities are not current financial resources, and therefore, are not reported in the funds. The costs of assets is \$14,933,318, and the accumulated depreciation is \$5,738,624.	9,194,694
Other long-term assets are not available to pay current period expenditures, and therefore, are deferred in the funds.	5,034
The Internal Service Funds are used by management to charge the cost of employee health benefits and fleet purchases to the individual funds. The assets of the Internal Service Fund are included in governmental activities in the Statement of Net Assets.	522,279
Long-term liabilities, including bonds payable, compensated absences and accrued interest payable, are not due and payable in the current period, and therefore, are not reported as liabilities in the funds.	<u>(898,983)</u>
Net assets of governmental activities	\$ <u>13,937,099</u>

See notes to financial statements

City of Storm Lake
Statement of Revenues, Expenditures
and Changes in Fund Balances
Governmental Funds

Year ended June 30, 2004

	General	Road Use	Special Levy
Revenues:			
Property tax	\$ 1,574,260	0	533,691
Tax increment financing	0	0	0
Other tax	98,496	0	33,413
Licenses and permits	142,724	0	0
Use of money and property	256,229	0	0
Intergovernmental	158,752	844,403	0
Charges for services	464,140	0	0
Special assessments	908	0	0
Miscellaneous	33,670	3,142	1,823
Total revenues	<u>2,729,179</u>	<u>847,545</u>	<u>568,927</u>
Expenditures:			
Current operating:			
Public safety	1,407,702	0	222,167
Public works	284,287	446,252	89,237
Health and social services	15,700	0	0
Culture and recreation	737,562	0	77,908
Community and economic development	75,907	0	0
General government	194,941	0	24,476
Debt service	0	0	0
Capital projects	0	0	0
Total expenditures	<u>2,716,099</u>	<u>446,252</u>	<u>413,788</u>
Excess (deficiency) of revenues over (under) expenditures	13,080	401,293	155,139
Other financing sources (uses):			
Operating transfers in	74,075	0	0
Operating transfers out	(76,350)	(462,500)	(111,264)
	<u>(2,275)</u>	<u>(462,500)</u>	<u>(111,264)</u>
Net change in fund balances	10,805	(61,207)	43,875
Fund balances, beginning of year, restated	<u>1,246,182</u>	<u>531,157</u>	<u>73,315</u>
Fund balances, end of year	<u>\$ 1,256,987</u>	<u>469,950</u>	<u>117,190</u>

See notes to financial statement

Revenue				
Local Option Sales Tax	Debt Service	Capital Projects	Other Nonmajor Governmental	Total
0	41,190	0	52,441	2,201,582
0	0	0	33,264	33,264
836,884	2,580	0	142,043	1,113,416
0	0	0	0	142,724
19,420	113,393	43,963	12,647	445,652
0	0	302,782	170,957	1,476,894
0	0	0	0	464,140
0	49,234	0	0	50,142
0	7,487	60,811	23,210	130,143
<u>856,304</u>	<u>213,884</u>	<u>407,556</u>	<u>434,562</u>	<u>6,057,957</u>
0	0	0	10,216	1,640,085
0	0	0	0	819,776
0	0	0	0	15,700
0	0	0	22,045	837,515
0	0	0	332,818	408,725
0	0	0	49,288	268,705
0	456,073	0	0	456,073
0	0	1,676,848	0	1,676,848
<u>0</u>	<u>456,073</u>	<u>1,676,848</u>	<u>414,367</u>	<u>6,123,427</u>
856,304	(242,189)	(1,269,292)	20,195	(65,470)
200,876	193,021	1,342,503	2,700	1,813,175
(1,018,091)	(205,842)	0	(55,729)	(1,929,776)
<u>(817,215)</u>	<u>(12,821)</u>	<u>1,342,503</u>	<u>(53,029)</u>	<u>(116,601)</u>
39,089	(255,010)	73,211	(32,834)	(182,071)
<u>393,224</u>	<u>457,684</u>	<u>1,776,704</u>	<u>817,880</u>	<u>5,296,146</u>
<u>432,313</u>	<u>202,674</u>	<u>1,849,915</u>	<u>785,046</u>	<u>5,114,075</u>

City of Storm Lake

Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances -
Governmental Funds to the Statement of Activities

Year ended June 30, 2004

Net change in fund balances – Total government funds \$ (182,071)

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

Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets. Capital outlay expenditures exceeded depreciation expense in the current year, as follows:

Expenditure for capital assets	\$ 1,519,256	
Depreciation expense	<u>(444,616)</u>	
		1,074,640

Because some revenues will not be collected for several months after the City's year end, they are not considered available revenues and are deferred in the governmental funds, as follows:

Property tax	(17,231)	
Other	<u>(47,618)</u>	
		(64,849)

The Internal Service Fund is used by management to charge the cost of employee health benefits and fleet purchases to the individual funds. The change in net assets of the Internal Service Fund are included in governmental activities. 105,371

Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets, as follows: 403,697

Some expenses reported in the Statement of Activities do not require the use of current financial resources, and therefore, are not reported as expenditures in governmental funds, as follows:

Compensated absences	(22,824)	
	<u>1,807</u>	
		<u>(21,017)</u>

Change in net assets of governmental activities \$ 1,315,771

See notes to financial statements

City of Storm Lake
Statement of Net Assets
Proprietary Funds

June 30, 2004

	Enterprise	
	Water	Wastewater
Assets:		
Cash and cash equivalents	\$ 0	0
Investments	781,669	486,468
Receivables:		
Customer accounts and unbilled usage	241,468	125,399
Accrued interest	9,692	6,481
Inventories	26,257	4,073
Prepaid expenses	40,293	35,769
Restricted assets		
Cash and cash equivalents	375,056	0
Investments	1,463,687	992,814
Capital assets	10,958,699	5,419,066
Total assets	\$ 13,896,821	7,070,070
Liabilities and Equity:		
Accounts payable	\$ 6,510	0
Incurred but not reported claims	0	0
Salaries and benefits payable	6,200	7,173
Payable from restricted assets:		
Contracts payable	326,316	0
Customer deposits	33,280	0
Revenue notes payable	279,000	0
Accrued interest payable	35,441	0
Compensated absences	12,693	10,233
Long-term liabilities:		
Revenue notes payable	6,862,615	0
Compensated absences	20,711	16,698
Total liabilities	7,582,766	34,104
Net Assets:		
Invested in capital assets, net of related debt	3,817,084	5,419,066
Restricted for:		
Revenue note retirement	500,000	0
Water improvement	979,147	0
Wastewater improvement	0	992,814
Unrestricted	1,017,824	624,086
Total net assets	6,314,055	7,035,966
Total liabilities and net assets	\$ 13,896,821	7,070,070

See notes to financial statements

Funds		Internal Service Funds
Landfill	Total	Total
0	0	10,672
224,376	1,492,513	663,988
46,861	413,728	0
983	17,156	2,956
0	30,330	3,712
65	76,127	0
0	375,056	0
0	2,456,501	0
1,156	16,378,921	0
<u>273,441</u>	<u>21,240,332</u>	<u>681,328</u>
0	6,510	0
0	0	9,504
320	13,693	0
0	326,316	0
0	33,280	0
0	279,000	0
0	35,441	0
1,304	24,230	0
0	6,862,615	0
2,130	39,539	0
3,754	7,620,624	9,504
1,156	9,237,306	0
0	500,000	0
0	979,147	0
0	992,814	0
268,531	1,910,441	671,824
<u>269,687</u>	<u>13,619,708</u>	<u>671,824</u>
<u>273,441</u>	<u>21,240,332</u>	<u>681,328</u>

City of Storm Lake

Reconciliation of the Statement of Net Assets –
Enterprise Funds to the Statement of Net Assets

June 30, 2004

Total enterprise fund net assets	\$ 13,619,708
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Amounts reported for business type activities in the Statement of Net Assets are different because:

The Internal Service Funds are used by management to charge the cost of employee health benefits and fleet purchases to the individual funds. The assets of the Internal Service Fund are included in business type activities in the Statement of Net Assets.

<u>149,545</u>

Net assets of business type activities	\$ <u>13,769,253</u>
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City of Storm Lake

Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds

Year ended June 30, 2004

	Enterprise	
	Water	Wastewater
Operating revenues:		
Charges for services	\$ 2,224,654	1,084,058
Miscellaneous	61,526	0
Total operating revenues	<u>2,286,180</u>	<u>1,084,058</u>
Operating expenses:		
Governmental activities:		
Public safety	0	0
Public works	0	0
Culture and recreation	0	0
Community and economic development	0	0
General government	0	0
Business type activities		
Cost of sales and service	1,571,546	1,094,241
Depreciation and amortization	407,423	459,076
Total operating expenses	<u>1,978,969</u>	<u>1,553,317</u>
Operating income (loss)	307,211	(469,259)
Nonoperating income:		
Interest income	44,720	33,777
Loss on disposal of equipment	(16,354)	(7,742)
	<u>28,366</u>	<u>26,035</u>
Income (loss) before operating transfers	335,577	(443,224)
Transfers from other funds	5,337	0
Change in net assets	340,914	(443,224)
Net assets beginning of year, restated	<u>5,973,141</u>	<u>7,479,190</u>
Net assets end of year	<u>\$ 6,314,055</u>	<u>7,035,966</u>

See notes to financial statement

<u>Funds</u>		<u>Internal Service Funds</u>
<u>Landfill</u>	<u>Total</u>	<u>Total</u>
347,371	3,656,083	492,848
0	61,526	7,981
<u>347,371</u>	<u>3,717,609</u>	<u>500,829</u>
0	0	165,802
0	0	72,405
0	0	43,070
0	0	0
0	0	11,919
326,055	2,991,842	83,951
231	866,730	0
<u>326,286</u>	<u>3,858,572</u>	<u>377,147</u>
21,085	(140,963)	123,682
3,986	82,483	11,860
(784)	(24,880)	0
<u>3,202</u>	<u>57,603</u>	<u>11,860</u>
24,287	(83,360)	135,542
0	5,337	0
24,287	(78,023)	135,542
245,400	13,697,731	536,282
<u>269,687</u>	<u>13,619,708</u>	<u>671,824</u>

City of Storm Lake

Reconciliation of the Statement of Revenues, Expenses and
Changes in Fund Balances -
Enterprise Funds to the Statement of Activities

Year ended June 30, 2004

Net change in net assets – Total enterprise funds	\$ (78,023)
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Amounts reported for business type activities in the Statement of Activities are different because:

The Internal Service Fund is used by management to charge the cost of employee health benefits and fleet purchases to the individual funds. The change in net assets of the Internal Service Fund is reported with business type activities.

30,171
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Change in net assets of business type activities	\$ <u>(47,852)</u>
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City of Storm Lake
Statement of Cash Flows
Proprietary Funds
Year ended June 30, 2004

	Enterprise	
	Water	Wastewater
Cash flows from operating activities:		
Cash received from customers and users	\$ 2,461,688	1,087,305
Cash received from operating funds	0	0
Cash received from other revenues	0	3,156
Cash paid for personal services	(260,570)	(210,625)
Cash paid to employees for claims	0	0
Cash paid to suppliers	(1,075,104)	(882,205)
Net cash provided (used) by operating activities	1,126,014	(2,369)
Cash flows from noncapital financing activities:		
Advances from other funds	14,174	0
Cash flows from capital and related financing activities:		
Acquisition of capital assets	(4,325,863)	(4,282)
Loan fees paid	(75,000)	0
Loan proceeds	7,141,615	0
Net cash provided (used) by capital and related financing activities	2,740,752	(4,282)
Cash flows from investing activities:		
Proceeds from sale of investments	5,736,537	1,097,112
Purchase of investments	(9,277,849)	(1,126,008)
Interest on investments	35,028	35,547
Net cash provided (used) by investing activities	(3,506,284)	6,651
Net increase in cash and cash equivalents	374,656	0
Cash and cash equivalents, beginning of year	400	0
Cash and cash equivalents, end of year	\$ 375,056	0

See notes to financial statements

Funds		Internal Service Funds
<u>Landfill</u>	<u>Total</u>	<u>Total</u>
342,398	3,891,391	0
0	0	492,848
0	3,156	7,981
(25,258)	(496,453)	0
0	0	(318,487)
<u>(300,403)</u>	<u>(2,257,712)</u>	<u>(79,139)</u>
16,737	1,140,382	103,203
0	14,174	0
0	(4,330,145)	0
0	(75,000)	0
<u>0</u>	<u>7,141,615</u>	<u>0</u>
0	2,736,470	0
325,661	7,159,310	397,536
(346,559)	(10,750,416)	(502,153)
4,161	74,736	12,086
<u>(16,737)</u>	<u>(3,516,370)</u>	<u>(92,531)</u>
0	374,656	10,672
0	400	0
<u>0</u>	<u>375,056</u>	<u>10,672</u>

City of Storm Lake
Statement of Cash Flows
Proprietary Funds - Continued

Year ended June 30, 2004

	Enterprise	
	Water	Wastewater
Reconciliation of operating income to net cash provided by operating activities:		
Operating income (loss)	\$ 307,211	(469,270)
Adjustment to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	407,423	459,076
(Increase) decrease in operating assets:		
Customer accounts receivable and unbilled usage	165,108	6,414
Inventories	(3,002)	(3,613)
Prepaid expenses	(2,462)	(1,819)
Increase (decrease) in operating liabilities:		
Accounts payable	5,787	(55)
Contracts payable	194,121	0
Salaries and benefits payable	1,734	3,583
Incurred and unpaid claims	0	0
Customer deposits	10,400	0
Accrued interest	35,441	0
Compensated absences	4,253	3,315
Net cash provided (used) by operating activities	\$ 1,126,014	(2,369)
Reconciliation of cash and cash equivalents at year to specific assets included on the Statement of Net Assets:		
Cash and cash equivalents	\$ 0	0
Restricted assets:		
Cash and cash equivalents:		
Contracts payable	326,316	0
Customer deposits	33,280	0
Water improvements	15,460	0
	375,056	0

See notes to financial statements

Funds		Internal Service Funds
<u>Landfill</u>	<u>Total</u>	<u>Total</u>
21,085	(140,974)	123,682
231	866,730	0
(4,973)	166,549	0
0	(6,615)	28
(19)	(4,300)	0
0	5,732	0
0	194,121	0
94	5,411	0
0	0	(20,507)
0	10,400	0
0	35,441	0
319	7,887	0
<u>16,737</u>	<u>1,140,382</u>	<u>103,203</u>
0	0	10,672
0	326,316	0
0	33,280	0
0	15,460	0
<u>0</u>	<u>375,056</u>	<u>10,672</u>

City of Storm Lake
Statement of Fiduciary Net Assets
Fiduciary Funds
Year ended June 30, 2004

	<u>Pension Trust</u>	<u>Agency Lake Improvement Commission</u>
	<u>Police/Fire</u>	
Assets:		
Cash and cash equivalents	\$ 0	4,965
Investments	70,811	0
Accrued interest receivable	0	22
Due from other governments	0	33,203
Prepaid expenses	<u>0</u>	<u>10,950</u>
 Total assets	 \$ <u>70,811</u>	 <u>49,140</u>
 Liabilities:		
Accounts payable	\$ 0	4,321
Salaries and benefits payable	2,929	0
Contracts payable	0	36,246
Due to other governments	<u>0</u>	<u>8,573</u>
	<u>2,929</u>	<u>49,140</u>
 Net assets		
Reserved for pensions	\$ <u>67,882</u>	<u>0</u>

See notes to financial statements

City of Storm Lake
 Statement of Changes in Fiduciary Net Assets
 Fiduciary Funds

Year ended June 30, 2004

	<u>Pension Trust</u> <u>Police/Fire</u>
Additions: Transfer from special levy fund	\$ 111,264
Deductions: Public safety	<u>130,656</u>
Change in net assets	(19,392)
Net assets beginning of year	<u>87,274</u>
Net assets end of year	\$ <u>67,882</u>

See notes to financial statements

City of Storm Lake

Notes to Financial Statements

June 30, 2004

NOTE (1) Summary of Significant Accounting Policies

City of Storm Lake is a political subdivision of the State of Iowa located in Buena Vista County. It was first incorporated in 1873 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council-Manager form of government with the Mayor and Council Members elected on a non-partisan basis. The City of Storm Lake provides numerous services to citizens, including public safety, public works, health and social services, culture and recreation, community and economic development and general government services. It also provides water, sewer and landfill utilities.

The financial statements of the City of Storm Lake have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

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

B. Basis of Presentation

Government-wide Financial Statements – The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the primary government and its component unit. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which are supported by property tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Net Assets presents the City's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories.

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.

City of Storm Lake

Notes to Financial Statements

June 30, 2004

NOTE (1) Summary of Significant Accounting Policies - Continued

B. Basis of Presentation - Continued

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

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

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

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

The City reports the following major governmental funds:

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

Special Revenue:

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

The Special Levy Fund is used to account for property tax levied to finance the payment of employee benefits.

The Local Option Sales Tax Fund is used to account for the revenues from the tax authorized by referendum and used for capital improvements, equipment and retirement of related debt.

City of Storm Lake

Notes to Financial Statements

June 30, 2004

NOTE (1) Summary of Significant Accounting Policies - Continued

B. Basis of Presentation - Continued

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

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

The City reports the following major proprietary funds:

Enterprise:

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

The Wastewater Fund is used to account for the operation and maintenance of the City's wastewater treatment and sanitary sewer system.

The Landfill Fund is used to account for the operation and maintenance of the City's solid waste collection system.

The City also reports the following additional proprietary funds:

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

C. Measurement Focus and Basis of Accounting

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days after year end.

City of Storm Lake

Notes to Financial Statements

June 30, 2004

NOTE (1) Summary of Significant Accounting Policies - Continued

C. Measurement Focus and Basis of Accounting - Continued

Property tax, local option sales tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest are considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the City.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt are reported as other financing sources.

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

The proprietary funds of the City apply all applicable GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's Enterprise Funds are charges to customers for sales and services. Operating expenses for Enterprise Funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The City maintains its financial records on the cash basis. The financial statements of the City are prepared by making memorandum adjusting entries to the cash basis financial records.

City of Storm Lake

Notes to Financial Statements

June 30, 2004

NOTE (1) Summary of Significant Accounting Policies - Continued

D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the financial statements:

Cash and Cash Equivalents – The City pools cash resources of its various funds in order to facilitate the management of cash. Cash applicable to a particular fund is readily identifiable. The balance in the pooled cash account is available to meet current operating requirements. Cash in excess of current requirements is invested in various interest-bearing securities and disclosed as part of the City's investments.

Cash and cash equivalents at June 30, 2004 consist of cash in bank and temporary cash investments invested with original maturities of three months or less.

Property Tax Receivable, Including Tax Increment Financing – Property tax, including tax increment financing, 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 the tax asking is certified by the City to the County Board of Supervisors. Current year property tax receivable represents taxes collected by the County but not remitted to the City at June 30, 2004 and unpaid taxes. The succeeding year property tax receivable represents taxes certified by the City 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 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 in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenues recognized in these funds become due and collectible in September and March of the current 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 tax asking contained in the budget certified to the County Board of Supervisors in March, 2003.

City of Storm Lake

Notes to Financial Statements

June 30, 2004

NOTE (1) Summary of Significant Accounting Policies - Continued

D. Assets, Liabilities and Fund Equity - Continued

Customer Accounts and Unbilled Usage – Accounts receivable are recorded in the Enterprise Funds at the time the service is billed. Unbilled usage for service consumed between periodic scheduled billing dates is estimated and is recognized as revenue in the period in which the service is provided.

Due From Other Governments – Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories – Inventories are valued at cost using the first-in/first-out method. Inventories in the Enterprise Funds consist of materials and supplies. Inventories are recorded as expenses when consumed rather than when purchased.

Restricted Assets – Funds set aside for payment of Enterprise Fund revenue notes are classified as restricted assets since their use is restricted by applicable note indentures. Other restricted assets include customer deposits restricted for application to unpaid customer accounts or for refund to customers.

Capital Assets – Capital assets, which include property, equipment and vehicles and infrastructure assets (e.g. roads, bridges, curbs, gutters, sidewalks and similar items which are immovable and of value only to the government) are reported in the applicable governmental or business type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair not adding to the value of the asset or materially extend asset lives are not capitalized. Reportable capital assets are defined by the City as assets with initial, individual costs in excess of the following thresholds and estimated useful lives in excess of two years.

<u>Asset Class</u>	<u>Amount</u>
Land, buildings and improvements	\$ 5,000
Equipment and vehicles	5,000
Infrastructure	5,000

City of Storm Lake

Notes to Financial Statements

June 30, 2004

NOTE (1) Summary of Significant Accounting Policies - Continued

D. Assets, Liabilities and Fund Equity - Continued

Capital assets of the City are depreciated using the straight line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives (In Years)</u>
Buildings	20-40 years
Improvements other than buildings	20 years
Equipment and vehicles	5-20 years
Infrastructure	15-20 years

Other Assets – Loan fees are being amortized over the life of the loan, which is 20 years.

Deferred Revenue – Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds, as well as delinquent property tax receivable and other receivables not collected within sixty days after year end.

Deferred revenue in the Statement of Net Assets consists of succeeding year property tax and tax increment financing receivable that will not be recognized as revenue until the year for which they are levied.

Compensated Absences – City employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental fund financial statements only for employees that have resigned or retired. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2004. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund.

Long-term Liabilities – In the government-wide and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental or business type activities column in the Statement of Net Assets and the proprietary fund Statement of Net Assets.

City of Storm Lake

Notes to Financial Statements

June 30, 2004

NOTE (1) Summary of Significant Accounting Policies - Continued

D. Assets, Liabilities and Fund Equity - Continued

In the governmental fund financial statements, the face amount of debt issued is reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Equity - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

NOTE (2) Cash and Pooled Investments

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

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

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

The City's deposits at June 30, 2004 are shown below:

	<u>Carrying Value</u>	<u>Market Value</u>
Cash on hand	\$ 400	\$ 400
Deposits on demand	(519,590)	(519,590)
Deposit with employee health benefit administration	10,672	10,672
Savings account	1,263,545	1,263,545
Time deposits	9,091,413	9,091,413
	<u>\$ 9,846,440</u>	<u>\$ 9,846,440</u>

City of Storm Lake

Notes to Financial Statements

June 30, 2004

NOTE (3) Capital Assets

Capital assets activity for the year ended June 30, 2004 was as follows:

Primary Government	Balance Beginning of Year Restated	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 1,414,678	0	0	1,414,678
Construction in progress - infrastructure	0	483,312	0	483,312
Total capital assets not being depreciated	<u>1,414,678</u>	<u>483,312</u>	<u>0</u>	<u>1,897,990</u>
Capital assets being depreciated:				
Buildings	4,950,127	111,210	0	5,061,337
Improvements other than buildings	3,646,104	444,154	0	4,090,258
Equipment and vehicles	3,459,092	145,977	55,939	3,549,130
Infrastructure, road network	0	334,603	0	334,603
Total capital assets not being depreciated	<u>12,055,323</u>	<u>1,035,944</u>	<u>55,939</u>	<u>13,035,328</u>
Less accumulated depreciation for:				
Buildings	1,614,935	143,092	0	1,758,027
Improvements other than buildings	2,336,798	85,490	0	2,422,288
Equipment and vehicles	1,398,214	216,034	55,939	1,558,309
Infrastructure, road network	0	0	0	0
Total accumulated depreciation	<u>5,349,947</u>	<u>444,616</u>	<u>55,939</u>	<u>5,738,624</u>
Total capital assets begin depreciation, net	<u>6,705,376</u>	<u>591,328</u>	<u>0</u>	<u>7,296,704</u>
Governmental activities capital assets, net	<u>\$ 8,120,054</u>	<u>1,074,640</u>	<u>0</u>	<u>9,194,694</u>
Business type activities:				
Capital assets not being depreciated:				
Land	\$ 8,000	0	0	8,000
Construction in progress - infrastructure	132,195	4,276,117	0	4,408,312
Total capital assets not being depreciated	<u>140,195</u>	<u>4,276,117</u>	<u>0</u>	<u>4,416,312</u>
Capital assets being depreciated:				
Buildings	9,367,671	0	0	9,367,671
Equipment and vehicles	697,621	8,564	131,676	574,509
Infrastructure, water and sewer network	14,590,195	45,464	0	14,635,659
Total capital assets not being depreciated	<u>24,655,487</u>	<u>54,028</u>	<u>131,676</u>	<u>24,577,839</u>
Less accumulated depreciation for:				
Buildings	6,137,365	288,551	0	6,425,916
Equipment and vehicles	471,876	26,552	106,798	391,630
Infrastructure, water and sewer network	5,321,057	551,315	0	5,872,372
Total accumulated depreciation	<u>11,930,298</u>	<u>866,418</u>	<u>106,798</u>	<u>12,689,918</u>
Total capital assets begin depreciation, net	<u>12,725,189</u>	<u>(812,390)</u>	<u>24,878</u>	<u>11,887,921</u>
Business type activities capital assets, net	<u>\$ 12,865,384</u>	<u>3,463,727</u>	<u>24,878</u>	<u>16,304,233</u>

City of Storm Lake

Notes to Financial Statements

June 30, 2004

NOTE (3) Capital Assets - Continued

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

Governmental activities:		
Public safety	\$	137,523
Public works		182,886
Culture and recreation		90,157
General government		<u>34,050</u>
	\$	<u>444,616</u>
Business type activities:		
Water	\$	407,111
Wastewater		459,076
Landfill		<u>231</u>
	\$	<u>866,418</u>

NOTE (4) Intergovernmental Receivables

Intergovernmental receivables as of June 30, 2004, include the following:

<u>From</u>	<u>For</u>	<u>Amount</u>
U.S. Treasury	Fuel tax refunds	\$ 3,577
State of Iowa	Local option sales tax	60,472
	Bank franchise fees	8,250
	Road use tax	66,782
	Highway construction grant	9,258
	Aviation grant	88,670
	Fuel tax refunds	1,944
	Police grants	<u>4,214</u>
		239,590
City of Webster City	Byrne block grant	<u>1,617</u>
		\$ <u>244,784</u>

City of Storm Lake
Notes to Financial Statements
June 30, 2004

NOTE (5) Interfund Transfers

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

Transfer to	Transfer from	Amount
General	Special Revenue: Emergency	\$ 55,729
	Local Option Sales Tax	18,346
		74,075
Special Revenue: Local Option Sales Tax	Debt Service	198,355
	Capital Projects	2,521
		200,876
Special Revenue: Expendable Gift Special Revenue	Special Revenue: Local Option Revenue Bond	2,700
Debt Service	Special Revenue: Local Option Revenue Bond	193,021
Capital Projects	General	75,000
	Special Revenue: Road Use	462,500
	Local Option Sales Tax	804,024
	Enterprise: Water	3,500
		1,345,024
Enterprise: Water	General	1,350
	Debt Service	7,487
		8,837
Fiduciary: Police/Fire Pension Trust	Special Revenue: Special Levy	111,264
		\$ 1,935,797

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

City of Storm Lake

Notes to Financial Statements

June 30, 2004

NOTE (6) Long Term Debt

The City's computed legal debt limit as of June 30, 2004 is approximately \$15,250,000, of which, \$247,563 is committed for outstanding general obligation debt. A summary of changes in long-term liabilities for the year ended June 30, 2004 is as follows:

	Balance Beginning of Year <u>Restated</u>	<u>Increases</u>	<u>Decreases</u>	Balance End of Year	Due Within One Year
Governmental activities:					
General obligation notes	\$ 461,260	0	213,697	247,563	111,532
Special assessment notes	50,000	0	15,000	35,000	15,000
Local option sales tax bonds	555,000	0	175,000	380,000	185,000
Compensated absences	<u>210,628</u>	<u>22,824</u>	<u>0</u>	<u>233,452</u>	<u>88,712</u>
Total	\$ <u>1,276,888</u>	<u>22,824</u>	<u>403,697</u>	<u>896,015</u>	<u>400,244</u>
Business type activities:					
Revenue notes	0	7,141,615	0	7,141,615	279,000
Compensated absences	<u>55,882</u>	<u>7,887</u>	<u>0</u>	<u>63,769</u>	<u>24,230</u>
	\$ <u>55,882</u>	<u>7,149,502</u>	<u>0</u>	<u>7,205,384</u>	<u>303,230</u>

General obligation notes were issued for the purpose of providing funds to purchase a fire truck. The principal and interest on the notes are payable out of taxes levied for the debt service fund. This tax is to be collected at the same time and in the same manner as all other taxes for the City. The balance of general obligation notes outstanding at June 30, 2004 is \$247,563. The general obligation notes are due in annual installments of \$125,000, including interest at 5.44%, with the final maturity due in the year ending June 30, 2007.

Local option sales tax bonds were issued to provide funds to construct a new police station. The principal and interest on these bonds are payable solely from the City's collections of the one-cent local option sales tax. The balance of the local option sales tax bonds outstanding at June 30, 2004 is \$380,000. The bonds are due in annual amounts varying from \$185,000 to \$195,000, and bear interest at rates ranging from 5.25% to 5.30%, with final maturity due in the year ending June 30, 2006.

The special assessment notes were issued to provide funds to pay a portion of the cost of constructing the West Lake Estates Fifth Addition Project. The cost of the project, specially assessed, is payable by the properties benefited by the project, and is made by law a lien upon all such property benefited thereby. The amount so levied upon the property is payable in ten equal annual installments, with interest on all deferred payments, and this note is payable only out of the special assessment fund created by the collection of said special tax, which fund cannot be used for any other purpose so long as this note is outstanding and unpaid. The balance of special assessment notes at June 30, 2004 is \$35,000. The notes are due in annual installments of \$15,000, with interest at 6%. The final maturity is due in the year ending June 30, 2007.

City of Storm Lake
Notes to Financial Statements
June 30, 2004

NOTE (6) Long Term Debt - Continued

Details of the City's general obligation, special assessment and local option sales tax note and bonds payable at June 30, 2004 are as follows:

	Date of Issue	Interest Rates	Final Due Date	Annual Payments	Amount Originally Issued	Outstanding 06/30/04
General obligation notes: Fire truck	08/01/99	5.44%	06/01/07	\$ 125,000	\$ 635,000	\$ 247,563
Special assessment bonds: West Lake Estates	09/01/97	6.00%	12/01/06	16,650	150,000	35,000
Local option sales tax bonds	06/01/96	5.25-5.3%	12/01/05	200,192	1,460,000	380,000
						<u>\$ 662,563</u>

A summary of the governmental bond/note principal and interest requirements to maturity by year is as follows:

	Year Ending June 30,	Principal	Interest	Total
General obligation notes	2005	\$ 111,532	13,467	124,999
	2006	117,600	7,400	125,000
	2007	18,431	1,002	19,433
		<u>247,563</u>	<u>21,869</u>	<u>269,432</u>
Special assessment bonds	2005	15,000	1,650	16,650
	2006	15,000	750	15,750
	2007	5,000	150	5,150
		<u>35,000</u>	<u>2,550</u>	<u>37,550</u>
Local option sales tax bonds	2005	185,000	15,192	200,192
	2006	195,000	5,168	200,168
		<u>380,000</u>	<u>20,360</u>	<u>400,360</u>
		<u>\$ 662,563</u>	<u>44,779</u>	<u>707,342</u>

City of Storm Lake

Notes to Financial Statements

June 30, 2004

NOTE (6) Long Term Debt - Continued

Revenue Capital Loan Note

During the year, the City drew down proceeds of \$7,141,615 of its water revenue capital loan note series 2003. The note bears interest at 3% and matures in varying annual amounts ranging from \$279,000 to \$490,000, with the final maturity due in the year ending June 30, 2024.

The resolution providing for the issuance of the revenue capital loan note includes the following provisions:

- (a) The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the funds.
- (b) Sufficient monthly transfers shall be made to a revenue note retirement account for the purpose of making the note principal and interest payments when due.
- (c) User rates shall be established at a level which produces and maintains net revenues at a level not less than 110% of the amount of principal and interest on the notes falling due in the same year.
- (d) Maintain insurance on the system.

During the year ended June 30, 2004, the City was in compliance with the revenue capital loan note provisions.

Details of revenue capital loan note payable at June 30, 2004 are as follows:

Business type activities Revenue notes	Date of Issue	Interest Rates	Final Due Date	Annual Payments	Amount Originally Issued	Outstanding 06/30/04
Water revenue capital loan note	08/01/03	3.00%	06/01/24	504,000	7,500,000	7,141,615

A summary of the annual revenue capital loan note principal and interest requirements to maturity is as follows:

Year Ending June 30,	Principal	Interest	Total
2005	\$ 279,000	225,000	504,000
2006	288,000	216,630	504,630
2007	296,000	207,990	503,990
2008	305,000	199,110	504,110
2009	314,000	189,960	503,960
2010-2014	1,718,000	802,650	2,520,650
2015-2019	1,991,000	529,080	2,520,080
2020-2024	1,950,615	211,920	2,162,535
	\$ 7,141,615	2,582,340	9,723,955

City of Storm Lake

Notes to Financial Statements

June 30, 2004

NOTE (7) Interest Costs

Interest costs are reflected in the fund financial statements as follows:

Interest costs paid	\$	52,376
Interest costs capitalized in enterprise fund assets		<u>212,273</u>
	\$	<u>264,649</u>

NOTE (8) Jointly-Governed Organizations

The City participates in a jointly-governed organization agreement with the Buena Vista County Solid Waste Commission, a political subdivision created under Chapter 28E of the Code of Iowa. The purpose of the Commission includes providing economic disposal of solid waste produced or generated within the member county and cities.

The City's ongoing financial interest in the jointly-governed organization consists of the operation of the landfill and other solid waste collection and disposal operations. The City collects landfill fees as a part of its regular utility billings. The Commission then bills the City quarterly for its operations. This fee is computed for each municipality on a per capita basis. For the fiscal year ended June 30, 2004 this fee totaled \$292,204.

Copies of the Commission's financial statements are available from the City Clerk at the City of Alta, or from the State Auditor's Office.

The City participates in a jointly-governed organization agreement with the Lake Improvement Commission, a political sub-division created under Chapter 28E of the Code of Iowa. The financial information for the commission is reflected as an agency fund in these financial statements. The purpose of the Commission is to finance and effect a continued dredging of the Lake Storm Lake.

Copies of the Commission's financial statements are available from the City Clerk at City of Storm Lake, or from the State Auditor's Office.

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: Buena Vista County Assessor's Conference Board, Buena Vista County Emergency Management Commission, Joint E911 Service Board, and Region V Drug Task Force.

City of Storm Lake
Notes to Financial Statements
June 30, 2004

NOTE (9) Construction Contracts and Commitments

The City has entered into the following contracts which were not complete as of June 30, 2004:

Project	Estimated Total Contract Price	Paid to June 30, 2004	Remaining Commitment	Retainages Payable
2004 Street Improvements				
Engineer	\$ 87,500	\$ 75,080	\$ 12,420	\$ 0
Construction	576,086	197,031	379,055	10,370
Construction	191,841	182,249	9,592	9,592
			<u>401,067</u>	<u>19,962</u>
Water Improvements				
Construction	130,741	123,691	7,050	6,510
Water Plant Renovation				
Construction	6,167,779	5,859,390	308,389	308,389
Dakota Well				
Construction	657,501	340,616	316,885	17,927
East Spoil Site				
Engineer	54,740	50,244	4,496	0
Construction	927,245	688,684	238,561	36,247
			<u>243,057</u>	<u>36,247</u>
TEA(21) Street				
Construction	136,318	0	136,318	0
2004 Airport Projects				
Engineer	15,395	0	15,395	0
Construction	211,350	0	211,350	0
			<u>226,745</u>	<u>0</u>
			<u>\$ 1,639,511</u>	<u>\$ 389,035</u>

NOTE (10) Commitments

The City has entered into an agreement for the operation and maintenance of the City's waste water treatment facilities through June 2013, with the fee to be negotiated yearly. The fee for the fiscal year ending June 30, 2005 is \$52,215 per month.

The City has entered into an agreement for the operations and maintenance of the City's water and water treatment facilities through June 2013, with the fee to be negotiated yearly. The fee for the fiscal year ending June 30, 2005 is \$60,812 per month.

The City has entered into an agreement for the management of the airport for the fiscal year ending June 30, 2005 for \$2,598 per month.

The City has entered into an agreement to share in the cost of providing public transportation for the fiscal year ending June 30, 2005 for \$10,000.

City of Storm Lake

Notes to Financial Statements

June 30, 2004

NOTE (11) Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; 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 fiscal years.

Effective August 1, 1983, the City adopted a plan of self-insurance for employees health benefits. Deposits are made to the Employee Health Benefit Fund to pay employee claims. An excess coverage insurance policy covers individual claims over \$20,000, or total group claims exceeding 125% of expected claims.

An actuarial study of the adequacy of reserves, rates and financial condition of the Employee Health Benefit Fund was performed for the plan year August 1, 2002 to July 31, 2003. The study included census of covered members as of July 31, 2003, a summary of aggregate and specific excess loss reinsurance coverage, monthly claim expense information, a summary of revenues and expenses, and review of the plan document summary description. At December 31, 2003, the City changed the plan's year end to December 31. An actuarial study will be performed for the period August 1, 2003 to December 31, 2004.

Following is a financial analysis of the plan for the fiscal year ended June 30, 2004. Included in this analysis is an estimate of the amount needed at the end of the plan year for incurred but not paid claims.

	<u>Current Year</u>
Funds on Hand, July 1, 2003	\$ 437,760
Contributions Received	234,000
Interest Received	9,665
Other Sources of Revenue	196
	<u>681,621</u>
Claims Paid	183,725
Aggregate Stop-Loss Premiums and Other Charges	134,762
	<u>318,487</u>
Funds on Hand, June 30, 2004	363,134
Reserved for Incurred but Unpaid Claims	9,504
Unreserved Funds	<u>\$ 353,630</u>

For the prior year, the actuary had estimated the incurred but unreported claims in the amount of \$30,011. The actual amount of claims paid during the current plan year, but incurred in the prior plan year was \$38,995.

City of Storm Lake

Notes to Financial Statements

June 30, 2004

NOTE (12) Deferred Compensation

The City offers its employees deferred compensation plans as allowed by Internal Revenue Code Section 457. The plan allows City employees to defer a portion of the current salary until future years. The employee becomes eligible to withdraw funds upon termination, retirement, death or unforeseeable emergency.

The City has adopted GASB Statement 32 and does not report the assets of the plans on its balance sheet.

NOTE (13) Pension and Retirement

Police and Fire Retirement System

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

Plan members are required to contribute 9.35% of earnable compensation and the City's contribution rate may not be less than 17% of earnable compensation. Contribution requirements are established by state statute. The City's contribution to the Plan for the years ended June 30, 2004, 2003 and 2002 were \$129,867, \$102,275 and \$99,953, respectively, which met the required minimum contribution for each year.

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 statutes to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, PO Box 9117, Des Moines, Iowa 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by State statute. The City's contributions to IPERS for the years ended June 30, 2004, 2003, and 2002 were \$69,386, \$65,980, and \$59,116, respectively, equal to the required contributions for each year.

City of Storm Lake

Notes to Financial Statements

June 30, 2004

NOTE (13) Pension and Retirement - Continued

ICMA Retirement Plan

The Chief of Police and City Administrator are covered under the nationwide retirement plan offered by the International City Manager's Association (ICMA). Contributions required by the employer are 12% of the annual salary for the Chief of Police, and \$8,000 per year for the City Administrator.

The City's responsibility is limited to payment of contributions required by the established rates. The employer's contribution paid by the City for the year ended June 30, 2004 totaled \$15,987.

NOTE (14) Conduit Debt Obligations

To provide for the construction of additions to the library, dormitories and a recreation facility at Buena Vista University, the City has issued a series of Higher Education Facilities Revenue Bonds. In addition, the City issued Elderly Housing Revenue Bonds for the construction of dietary and maintenance facilities and an addition of a 38 unit independent living facility at Methodist Manor Retirement Community. These bonds are special limited obligations of the City, payable solely from, and secured by a pledge of revenues to be received by the university and the care facility. The bonds do not constitute a debt or pledge of the faith and credit of the City, and accordingly, have not been reported in the accompanying financial statements.

A summary of conduit debt obligations is as follows:

Obligation	Amount Originally Issued	Date of Issue	Balance Outstanding June 30, 2004
Higher Education Facilities Revenue Bonds:	\$ 7,630,000	05/24/00	\$ 6,620,000
	345,502	06/01/01	8,068
	3,000,000	07/01/02	1,294,016
			7,922,084
Elderly Housing Revenue Bonds:	4,615,000	07/01/98	4,240,000
	5,325,000	10/01/03	5,285,000
			9,525,000
			\$ 17,447,084

City of Storm Lake

Notes to Financial Statements

June 30, 2004

NOTE (15) Contingent Liabilities

The City has an agreement with Storm Lake Area Development Corporation (SLADC), and Tuscarora, Inc., that in the event that Tuscarora, Inc. does not exercise its option to purchase a building from SLADC, and there has been no sale or lease of the property to a third party, the City would make the remaining payments due on the note secured by the building. The City would use tax increment financing collections received to finance these payments. The City is contingently liable for semi-annual payments of \$79,996 beginning December 1, 2004 through June 1, 2007 for a total of \$479,976.

NOTE (16) Noncash Investing and Financing Activities

Noncash investing or financing transactions did not occur during the year ended June 30, 2004.

NOTE (17) Subsequent Event

In May 2004, the City was awarded an airport improvement grant for \$312,399. In June 2004, the City was awarded a housing rehabilitation grant for \$305,830. These grant funds will be expended in the next fiscal year.

NOTE (18) Accounting Changes and Restatements

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

The enterprise fund net assets have been restated at June 30, 2004 to capitalize an expenditure of \$132,195. The effect of this restatement increases the change in net assets for the fund for the period ended June 30, 2004 by \$132,195.

City of Storm Lake

Notes to Financial Statements

June 30, 2004

NOTE (18) Accounting Changes and Restatements – Continued

The government-wide financial statements report the City's governmental and business type activities. Beginning net assets for governmental activities has been restated to include capital assets and the changes in assets and liabilities at July 1, 2003 resulting from the conversion to the accrual basis of accounting, certain reclassifications of funds, and the allocation of the internal service fund. Beginning net assets for business type activities has been restated at July 1, 2003 to include the allocation of the internal service fund.

Beginning capital assets for governmental activities of \$13,672,762 were restated to \$13,470,001, net of accumulated depreciation of \$5,349,947. The restatement resulted from changing the City's capitalization policy.

The effects of the accounting changes and other restatements are summarized as follows:

	<u>Total</u>
Governmental activities:	
Net assets governmental funds at June 30, 2003, as previously reported	\$ 5,293,275
Reclass nonexpendable trust fund to permanent fund	<u>2,871</u>
Net assets July 1, 2003, as restated for governmental funds	5,296,146
GASB 34 adjustments	
Capital assets, net of accumulated depreciation of \$5,349,947 and changes in capitalization policy	8,120,054
Long term liabilities	(1,276,888)
Deferral of long-term assets	69,883
Interest payable	(4,775)
Allocation of internal service funds	<u>416,908</u>
Net assets July 1, 2003, as restated	<u>\$ 12,621,328</u>
Business type activities:	
Net assets of enterprise funds at June 30, 2003 as previously reported	\$ 13,565,536
Prior period adjustment:	
Capitalize an expenditure	<u>132,195</u>
Net assets July 1, 2003 as restated for enterprise funds	13,697,731
GASB 34 adjustment:	
Allocation of internal service funds	<u>119,374</u>
Net assets, July 1, 2003 as restated	<u>\$ 13,817,105</u>

Required Supplementary Information

City of Storm Lake

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

Required Supplementary Information

Year ended June 30, 2004

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds not Required to be Budgeted
Receipts:			
Property tax	\$ 2,201,776	0	0
Tax increment financing	33,750	0	0
Other city tax	1,119,796	0	0
Licenses and permits	142,349	0	0
Use of money and property	440,848	86,822	12,086
Intergovernmental	1,406,632	0	0
Charges for service	464,140	4,401,068	500,829
Special assessments	51,048	0	0
Miscellaneous	125,452	3,156	0
Total receipts	<u>5,985,791</u>	<u>4,491,046</u>	<u>512,915</u>
Disbursements:			
Public safety	1,646,111	175,844	175,844
Public works	827,478	75,471	75,471
Health and social services	14,034	0	0
Culture and recreation	834,053	45,322	45,322
Community and economic development	413,272	0	0
General government	269,883	12,739	12,739
Debt service	456,073	0	0
Capital projects	1,660,324	0	0
Business type activities	0	7,172,560	88,250
Total disbursements	<u>6,121,228</u>	<u>7,481,936</u>	<u>397,626</u>
Excess (deficiency) of receipts over (under) disbursements	(135,437)	(2,990,890)	115,289
Other financing sources, net	<u>(116,601)</u>	<u>7,071,952</u>	<u>0</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(252,038)	4,081,062	115,289
Balances beginning of year	<u>5,023,970</u>	<u>917,668</u>	<u>559,371</u>
Balances end of year	<u>\$ 4,771,932</u>	<u>4,998,730</u>	<u>674,660</u>

See accompanying independent auditor's report

Total Actual	Budgeted Amounts		Final to Actual Variance
	Original	Final	
2,201,776	2,173,329	2,173,329	28,447
33,750	31,307	31,307	2,443
1,119,796	1,038,446	1,038,446	81,350
142,349	115,750	115,750	26,599
515,584	137,485	237,485	278,099
1,406,632	1,623,218	1,623,218	(216,586)
4,364,379	4,257,816	4,257,816	106,563
51,048	14,292	14,292	36,756
128,608	221,865	1,971,865	(1,843,257)
<u>9,963,922</u>	<u>9,613,508</u>	<u>11,463,508</u>	<u>(1,499,586)</u>
1,646,111	1,810,641	1,810,641	164,530
827,478	860,025	860,025	32,547
14,034	15,700	15,700	1,666
834,053	850,434	880,434	46,381
413,272	435,478	435,478	22,206
269,883	292,600	292,600	22,717
456,073	356,294	456,294	221
1,660,324	2,097,025	2,097,025	436,701
7,084,310	9,035,926	9,035,926	1,951,616
<u>13,205,538</u>	<u>15,754,123</u>	<u>15,884,123</u>	<u>2,678,585</u>
(3,241,616)	(6,140,615)	(4,420,615)	1,178,999
<u>6,955,351</u>	<u>6,000,000</u>	<u>6,000,000</u>	<u>955,351</u>
3,713,735	(140,615)	1,579,385	2,134,350
5,382,267	8,292,459	8,292,459	(2,910,192)
<u>9,096,002</u>	<u>8,151,844</u>	<u>9,871,844</u>	<u>(775,842)</u>

City of Storm Lake
 Budget to GAAP Reconciliation
 Required Supplementary Information
 Year ended June 30, 2004

	<u>Governmental Funds</u>		
	<u>Cash Basis</u>	<u>Accrual Adjustments</u>	<u>Modified Accrual Basis</u>
Revenues	\$ 5,985,791	72,166	6,057,957
Expenditures/expenses	6,121,228	(2,199)	6,123,427
Net	(135,437)	69,967	(65,470)
Other financing sources, net	(116,601)	0	(116,601)
Beginning fund balances/net assets, as restated	5,023,970	272,176	5,296,146
Ending fund balances/net assets	\$ <u>4,771,932</u>	<u>342,143</u>	<u>5,114,075</u>

See accompanying independent auditor's report

Proprietary Funds		
Enterprise		
Cash Basis	Accrual Adjustments	Accrual Basis
\$ 4,491,046	(715,834)	3,775,212
7,481,936	(3,623,364)	3,858,572
(2,990,890)	2,907,530	(83,360)
7,071,952	(7,066,615)	5,337
917,668	12,780,063	13,697,731
<u>\$ 4,998,730</u>	<u>8,620,978</u>	<u>13,619,708</u>

City of Storm Lake

Notes to Required Supplementary Information – Budgetary Reporting

Year ended June 30, 2004

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures. 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 disbursements known as functions, not by fund or fund type. These 9 functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Fund, Permanent Fund and 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. During the year, a budget amendment increased budgeted disbursements by \$130,000. This budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2004, disbursements did not exceed the budgeted amounts.

Other Supplementary Information

City of Storm Lake
 Combining Balance Sheet
 Nonmajor Special Revenue Funds

June 30, 2004

	Special			
	Tort Insurance	Emergency Levy	Hotel Motel Tax	TIF
Assets:				
Cash and cash equivalents	\$ 0	0	0	0
Investments	494,271	0	0	119,157
Receivables:				
Property tax:				
Delinquent	0	490	0	0
Succeeding year	0	56,752	0	0
Tax increment financing:				
Succeeding year	0	0	0	33,086
Accrued interest	2,166	0	0	0
Prepaid items	32,691	0	0	0
	<u>\$ 529,128</u>	<u>57,242</u>	<u>0</u>	<u>152,243</u>
Liabilities and Fund Balances				
Liabilities:				
Salaries and benefits payable	0	0	0	0
Deferred revenue:				
Succeeding year property tax	0	56,752	0	0
Succeeding year tax increment financing	0	0	0	33,086
Other	0	88	0	0
Total liabilities	<u>0</u>	<u>56,840</u>	<u>0</u>	<u>33,086</u>
Fund Balances:				
Unreserved:				
Special revenue funds	529,128	402	0	119,157
Permanent fund	0	0	0	0
	<u>529,128</u>	<u>402</u>	<u>0</u>	<u>119,157</u>
Total liabilities and fund balances	\$ 529,128	57,242	0	152,243

See accompanying independent auditor's report

Revenue					Permanent	
Crime Prevention	Library Special Revenue	Dredging	Expendable Gift Special Revenue	Law Enforcement	Erma Myers Trust	Total
0	0	0	0	0	2,607	2,607
29,128	79,120	12,902	648	4,193	0	739,419
0	0	0	0	0	0	490
0	0	0	0	0	0	56,752
0	0	0	0	0	0	33,086
128	347	0	0	18	11	2,670
0	0	11,342	0	0	0	44,033
<u>29,256</u>	<u>79,467</u>	<u>24,244</u>	<u>648</u>	<u>4,211</u>	<u>2,618</u>	<u>879,057</u>
0	0	4,085	0	0	0	4,085
0	0	0	0	0	0	56,752
0	0	0	0	0	0	33,086
0	0	0	0	0	0	88
0	0	4,085	0	0	0	94,011
29,256	79,467	20,159	648	4,211	0	782,428
0	0	0	0	0	2,618	2,618
<u>29,256</u>	<u>79,467</u>	<u>20,159</u>	<u>648</u>	<u>4,211</u>	<u>2,618</u>	<u>785,046</u>
<u>29,256</u>	<u>79,467</u>	<u>24,244</u>	<u>648</u>	<u>4,211</u>	<u>2,618</u>	<u>879,057</u>

City of Storm Lake

Combining Schedule of Revenues, Expenditures and
Changes in Fund Balances
Nonmajor Special Revenue Funds

Year ended June 30, 2004

	Special			
	Tort Insurance	Emergency Levy	Hotel Motel Tax	TIF
Revenues:				
Property tax	\$ 0	52,441	0	0
Tax increment financing collections	0	0	0	33,264
Other city tax	0	3,283	138,760	0
Use of money and property	10,309	0	0	0
Intergovernmental	0	0	0	0
Miscellaneous	572	0	0	0
Total revenues	<u>10,881</u>	<u>55,724</u>	<u>138,760</u>	<u>33,264</u>
Expenditures:				
Operating:				
Public safety	0	0	0	0
Public works	0	0	0	0
Culture and recreation	0	0	0	0
Community and economic development	0	0	164,129	0
General government	49,288	0	0	0
Total expenditures	<u>49,288</u>	<u>0</u>	<u>164,129</u>	<u>0</u>
Excess (deficiency) of revenues over (under) expenditures	(38,407)	55,724	(25,369)	33,264
Other financing sources (uses):				
Operating transfers in	0	0	0	0
Operating transfers out	0	(55,729)	0	0
	<u>0</u>	<u>(55,729)</u>	<u>0</u>	<u>0</u>
Net change in fund balances	(38,407)	(5)	(25,369)	33,264
Fund balance, beginning of year, restated	<u>567,535</u>	<u>407</u>	<u>25,369</u>	<u>85,893</u>
Fund balance, end of year	\$ <u>529,128</u>	<u>402</u>	<u>0</u>	<u>119,157</u>

See accompanying independent auditor's report

Schedule 2

Revenue					Permanent	
Crime Prevention	Library Special Revenue	Dredging	Expendable Gift Special Revenue	Law Enforcement	Erma Myers Trust	Total
0	0	0	0	0	0	52,441
0	0	0	0	0	0	33,264
0	0	0	0	0	0	142,043
595	1,593	0	0	106	44	12,647
0	8,584	162,373	0	0	0	170,957
7,547	7,433	0	6,063	1,595	0	23,210
<u>8,142</u>	<u>17,610</u>	<u>162,373</u>	<u>6,063</u>	<u>1,701</u>	<u>44</u>	<u>434,562</u>
5,725	0	0	0	4,491	0	10,216
0	0	0	0	0	0	0
0	21,748	0	0	0	297	22,045
0	0	157,245	11,444	0	0	332,818
0	0	0	0	0	0	49,288
<u>5,725</u>	<u>21,748</u>	<u>157,245</u>	<u>11,444</u>	<u>4,491</u>	<u>297</u>	<u>414,367</u>
2,417	(4,138)	5,128	(5,381)	(2,790)	(253)	20,195
0	0	0	2,700	0	0	2,700
0	0	0	0	0	0	(55,729)
<u>0</u>	<u>0</u>	<u>0</u>	<u>2,700</u>	<u>0</u>	<u>0</u>	<u>(53,029)</u>
2,417	(4,138)	5,128	(2,681)	(2,790)	(253)	(32,834)
<u>26,839</u>	<u>83,605</u>	<u>15,031</u>	<u>3,329</u>	<u>7,001</u>	<u>2,871</u>	<u>817,880</u>
<u>29,256</u>	<u>79,467</u>	<u>20,159</u>	<u>648</u>	<u>4,211</u>	<u>2,618</u>	<u>785,046</u>

City of Storm Lake

Statement of Changes in Assets and Liabilities – Agency Fund

Year Ended June 30, 2004

	Lake Improvement Commission			Balance End of Year
	Balance Beginning of Year	Additions	Deductions	
Assets:				
Cash and pooled investments	\$ 225,240	966,007	1,186,282	4,965
Interest receivable	1,281	22	1,281	22
Due from other governments	0	33,203	0	33,203
Prepaid expenses	10,171	10,950	10,171	10,950
Total assets	\$ 236,692	1,010,182	1,197,734	49,140
Liabilities:				
Accounts payable	\$ 27,600	4,321	27,600	4,321
Contracts payable	0	36,246	0	36,246
Other liabilities	209,092	969,615	1,170,134	8,573
Total liabilities	\$ 236,692	1,010,182	1,197,734	49,140

See accompanying independent auditor's report

City of Storm Lake

Schedule of Revenue By Source and Expenditures By Function –

All Governmental Funds

Year ended June 30, 2004

	Modified Accrual Basis			
	2004	2003	2002	2001
Receipts				
Property tax	\$ 2,201,582	2,143,224	2,067,635	2,063,576
Tax increment financing revenue	33,264	31,544	30,661	30,175
Other city tax	1,113,416	961,224	830,486	743,679
License and permits	142,724	97,694	127,029	96,113
Use of money and property	445,652	184,277	312,140	421,797
Intergovernmental	1,476,894	1,291,763	2,093,900	1,561,390
Charges for service	464,140	372,442	358,163	345,797
Special assessments	50,142	21,963	22,513	22,601
Miscellaneous	130,143	328,504	263,919	351,490
Total	\$ 6,057,957	5,432,635	6,106,446	5,636,618
Disbursements				
Operating:				
Public safety	\$ 1,640,085	1,720,395	1,633,205	1,565,691
Public works	819,776	812,980	716,976	738,310
Health and social services	15,700	15,700	10,000	10,000
Culture and recreation	837,515	826,506	718,526	776,700
Community and economic development	408,725	330,421	517,937	116,408
General government	268,705	242,472	329,345	254,725
Debt service	456,073	355,951	386,814	557,564
Capital projects	1,676,848	1,662,726	1,643,794	1,752,688
Total	\$ 6,123,427	5,967,151	5,956,597	5,772,086

City of Storm Lake
 Schedule of Expenditures of Federal Awards
 Year ended June 30, 2004

<u>Grantor/Program</u>	<u>CFDA Number</u>	<u>Agency Pass- Through Number</u>	<u>Program Expenditures</u>
Direct:			
U.S. Department of Justice: COPS in Schools	16.710		\$ 11,273
U.S. Department of Transportation: Airport Improvement Program	20.106		78,313
U.S. Environmental Protection Agency: Clean Water Grant	66.606		162,373
Indirect:			
U.S. Department of Justice: Flow Through City of Webster City: Byrne Block Grant	16.579	FY 04	2,951
U.S. Department of Transportation: Iowa Department of Transportation: Highway Planning and Construction	20.205	STP-E-7422	189,128
Safety Incentive Grants for Use of Seatbelt	20.604	FY 04	3,441
Intoxicated Driver Prevention	20.605	FY 04	3,194
U.S. Environmental Protection Agency: Iowa Department of Natural Resources: Drinking Water State Revolving Loan Fund Capitalization Grant	66.468	FS-11-03-DWSRF-003	3,414,703
			\$ <u>3,865,376</u>

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

See accompanying independent auditor's report

City of Storm Lake

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

August 26, 2004

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

To the Honorable Mayor and
Members of the City Council:

We have audited the financial statements of the City of Storm Lake, Iowa, as of and for the year ended June 30, 2004, and have issued our report thereon dated August 26, 2004. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Storm Lake's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements, and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. There were no prior year reportable conditions.

Compliance

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

Continued...

August 26, 2004
City of Storm Lake
Report on Compliance over Financial Reporting

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior year statutory comments have been resolved except for item IV-J-04.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Storm Lake and other parties to whom the City of Storm Lake may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Storm Lake during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

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

August 26, 2004

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

To the Honorable Mayor and
Members of the City Council:

Compliance

We have audited the compliance of the City of Storm Lake, Iowa, with the types of compliance requirements described in *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2004. The City of Storm Lake's major federal program is identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the City of Storm Lake's management. Our responsibility is to express an opinion on City of Storm Lake's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Storm Lake's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Storm Lake's compliance with those requirements.

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

Continued...

Internal Control Over Compliance

The management of the City of Storm Lake is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City of Storm Lake's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that non-compliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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

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

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

- (a) Unqualified opinions were issued on the financial statements.
- (b) No reportable conditions or material weaknesses in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) No material weaknesses in internal control over the major program were noted.
- (e) An unqualified opinion was issued on compliance with requirements applicable to the major program.
- (f) The audit disclosed no audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) The major program was CFDA Number 66.468 – Drinking Water State Revolving Loan Capitalization Grant Program.
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) City of Storm Lake did not qualify as a low-risk auditee.

City of Storm Lake

Schedule of Findings and Questioned Costs

Year ended June 30, 2004

Part II: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

No comments or recommendations.

City of Storm Lake

Schedule of Findings and Questioned Costs

Year ended June 30, 2004

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

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

City of Storm Lake

Schedule of Findings and Questioned Costs

Year ended June 30, 2004

Part IV: Other Findings Related to Required Statutory Reporting:

IV-A-04 Official Depositories

Comment - A resolution naming official depositories has been approved by the City Council. However, the maximum deposit amount stated in the resolution was exceeded for one depository during the year ended June 30, 2004.

Recommendation - The City should amend the maximum depository amounts stated in the resolution.

Response - We will amend the depository resolution.

Conclusion - Response accepted.

IV-B-04 Certified Budget

Disbursements during the year ended June 30, 2004 did not exceed the amounts in the amended budgeted.

IV-C-04 Entertainment Expense

We noted no disbursements for parties, banquets or other entertainment for employees that we believe may constitute an unlawful expenditure from public funds as defined in an Attorney General's opinion dated April 25, 1979.

IV-D-04 Travel Expense

No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

IV-E-04 Business Transactions

No business transactions were noted between the City and City officials or employees.

IV-F-04 Bond Coverage

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

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

Part IV: Other Findings Related to Required Statutory Reporting:

IV-G-04 Council Minutes

Comment - No transactions were found that we believe should have been approved in the Council minutes but were not.

Although minutes of Council proceedings were published, they did not include a summary of total disbursements by fund as required by Chapter 372.13(b) of the Code of Iowa.

Recommendation - The City should comply with the Code of Iowa and publish the required information.

Response - We will do this.

Conclusion - Response accepted.

IV-H-04 Revenue Note

The City complied with the provisions of the revenue capital loan note resolution.

IV-I-04 Deposits and Investments

We noted no instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City's investment policy.

IV-J-04 Excess Balances

Comment - The cash and investment balances in the Special Revenue Funds - Tort Insurance, and Urban Renewal Tax Increment Accounts at June 30, 2004 were in excess of the disbursements made from the respective funds during the year.

Recommendation - Although the City indicated that the balances would be used for future projects or costs, the City should consider the necessity of maintaining these substantial balances, and where feasible, consider reducing the balances in an orderly manner through revenue reductions.

Response - The City has discontinued the levy of taxes for tort insurance. The balance in the Special Revenue Urban Renewal Tax Increment Account is needed for project and debt service costs.

Conclusion - Response accepted.

NEWS RELEASE

Schroer & Associates, P.C. today released an audit report on the City of Storm Lake, Iowa.

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

The City's revenues totaled \$9,793,200 for the year ended June 30, 2004, an 8 percent increase from the prior year. Revenues included \$2,460,883 in property tax, \$33,264 for tax increment financing revenues, \$4,304,099 from charges for service, \$1,555,415 from operating grants, contributions and restricted interest, \$407,556 from capital grants, contributions and restricted interest, \$836,884 from local option sales tax, \$146,428 from unrestricted investment earnings and \$48,671 from other general revenues.

Expenses for City operations totaled \$8,525,281, a 14 percent decrease from the previous year. Expenses included \$1,871,380 for public safety, \$1,040,891 for culture and recreation, and \$975,207 for public works. Expenses for business type activities totaled \$3,853,281.

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