

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

Prepared by the Office of the City Clerk

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INTRODUCTORY SECTION

August 27, 2004

To: Citizens of Spencer, Iowa

The Comprehensive Annual Financial Report of the City of Spencer, Iowa, (City) for the fiscal year ended June 30, 2004, is hereby submitted. Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, including all disclosures, rests with the City. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of operations of the various funds of the City. All disclosures necessary to enable the reader to gain an understanding of the City's financial activities have been included.

The financial statements and schedules included in this report reflect all the funds of the City in accordance with standards set by the Governmental Accounting Standards Board.

The Comprehensive Annual Financial Report is presented in four sections: introductory, financial, statistical, and single audit. The introductory section includes this letter of transmittal, the City's organizational chart, and a directory of City Officials. The financial section includes the independent auditors report, management's discussion and analysis, the basic financial statements, required supplementary information and other supplementary information. The statistical section includes selected, unaudited financial and demographic information, generally presented on a multi-year basis.

The City underwent an annual single audit in accordance with U. S. Office of Management and Budget Circular A-133. *Audits of States, Local Governments, and Non-Profit Organizations*. Information related to this single audit, including the schedule of expenditures of federal awards, and the independent auditors' report on compliance with requirements applicable to each major program and internal control over compliance, are included in the single audit section of this report.

The City has applied criteria for this reporting entity in light of GASB Statement 14. Included in this report are all funds of the City. The report includes the operations administered by the City Council, the Airport Board of Trustees, the Park Board, Library Board and the Golf Course Board, all of which are deemed to be dependent on the City. Dependence on the City was determined through evaluation of the areas of budget adoption, taxing authority, and outstanding debt secured by general obligations of the City. Based on this information, the Spencer Municipal Hospital has been presented as a discretely presented component unit. The Spencer Municipal Utilities and Spencer Community School District are separate governmental entities and have not met the established criteria for inclusion in the reporting entity, and accordingly, are excluded from this report.

SPENCER'S CURRENT ECONOMIC CONDITION

The progressive City of Spencer, Iowa, consists of nine square miles of stores, factories, warehouses, and homes. It has a prosperous central shopping district and an enclosed shopping mall. Annual retail sales have grown from \$21 million in 1960 to \$188.65 million in 2003, with retail establishments totaling 528. Spencer's unique location results in a rich trading area encompassing Northwest Iowa. Spencer takes pride in its progressive civic leadership. An aggressive, friendly atmosphere prevails in Spencer, Iowa.

Since 1964, Spencer, Iowa, has attracted more than 40 new industries. The City is served by I & M Rail Link, and several modern trucking firms. U. S. Highways 71 and 18 intersect at the north and south edges of the City limits and pass through Spencer's beautiful business and residential district. The Daily Reporter, Mediacom, Spencer Municipal Communications Utility, KICD AM/FM, KIGL FM, AND KDWD FM serve Spencer, Iowa, Northwest Iowa, and Southwest Minnesota.

Spencer is in the midst of a period of considerable construction activity. Two major public improvements are nearing completion, the expansion of the regional hospital and the construction of major downtown renovations, which includes new storm sewer, new decorative street lights, new curbs and sidewalks with decorative pavers and a variety of amenities to enhance the downtown shopping area. Also, Menard Inc. has announced they will be building a Menards store in the southwest part of the City. Major Highway 71 improvements are planned to facilitate traffic flow to the new store as well as other businesses in the area. Plans are also underway to expand and renovate the Spencer Fire Station. Long-term planning for these major improvements has allowed the City to accomplish these projects with minimal impact on the City's property tax levy.

These projects and numerous others underway will continue to make Spencer a growing service area for our region.

SPENCER'S FUTURE ECONOMIC OUTLOOK

Spencer, Iowa, and the fertile farmlands surrounding it offer unlimited opportunity. The City has made outstanding progress and is considered a city "on the move". Because Spencer meets the needs of a strong and prosperous trade area reaching over 50 miles, the retailers are constantly striving to provide shoppers with quality merchandise, fair prices, and excellent service. Spencer shoppers will continue to find a varied mix of large national chain stores and small owner-operator businesses.

Economic development has always been and will continue to be a top priority in Spencer, Iowa. Industries such as Eaton, Shine Brothers, Christians Sheet Metal, General Machine Works, Perry Judd, Hy-Line International, National Spencer, Morton Buildings, SPM, Tecton Industries, Freudenberg-NOK, Community Newspaper Holdings, Inc., Maurer Manufacturing, Simonsen Iron Works, Inc., and others exemplify the strength and diversity in the industrial base of Spencer. The City in cooperation with the Jobs Trust, facilitated new industrial businesses in Spencer in this fiscal year, along with other industries.

The City has formed a partnership for growth with area governments and utilities through the Corridor of Opportunity. The City of Spencer is a member of this area regional economic development organization. Spencer Municipal Utilities, Iowa Lakes Electric Cooperative, Aquilla, and Qwest provide reliable and competitive service and are very open to working with and assisting new business/industries. Spencer currently has two industrial parks with over 100 acres of available property, with plans to construct a new speculative building.

Spencer, Iowa, also realizes the importance of transportation for its industries. Shipping of products can be accomplished in a variety of ways. UPS has a regional terminal based in Spencer, Iowa, and can ship to major markets in Chicago, Minneapolis, Des Moines, Kansas City, Omaha, and Sioux Falls. The I & M Rail Link is an active form of transportation for grain hauling. The Northwest Iowa Regional Airport is constantly maintained and upgraded for another type of transportation. Companies can land a jet, charter a flight, utilize a conference room, or rent a car.

Spencer, Iowa, is looking ahead to the future for its citizens.

FINANCIAL INFORMATION

INTERNAL CONTROLS

The City of Spencer, Iowa, has established a system of internal control, which is designed to provide adequate control using available resources. The system is continually monitored and additions or changes in controls are made in conjunction with recommendations of external auditors. It is believed that the internal accounting controls of the City are adequate.

ACCOUNTING SYSTEM AND BUDGETING CONTROLS

The City's accounting records are maintained on a cash basis during the year with a conversion to modified accrual or accrual at year's end for annual reporting purposes. Annually, formal budgets are adopted, on a program basis, and control is maintained at both the fund and the program level. The programs are Public Safety, Public Works, Culture and Recreation, Community and Economic Development, General Government, Debt Service, Capital Projects, and Business-type activities. Department heads purchase within the limits of program appropriations.

SINGLE AUDIT

As a recipient of federal and state financial assistance, the City is responsible for ensuring that adequate internal controls are in place to ensure compliance with applicable laws and regulations related to those programs. These internal controls are subject to periodic evaluation by management.

As a part of the City's single audit, the auditors perform tests that are made to determine the adequacy of internal control, including the portion related to federal financial assistance programs, and to determine that the City has complied with applicable laws and regulations. The results of the City's single audit for the fiscal year ended June 30, 2004, provided no instances of weaknesses in internal controls or significant violations of applicable laws and regulations.

MANAGEMENT DISCUSSION AND ANALYSIS

The Management Discussion and Analysis provides a detailed analysis of the changes in the City's financial position. One item of particular interest is the change in reporting model to a one bottom line number approach, which is close to that of the private sector.

CASH MANAGEMENT

The City maintains an aggressive cash management strategy whereby idle cash is invested to the fullest extent and at the highest rate of return available from local financial institutions. The City has also become a part of the Iowa Public Agency Investment Trust, which is a short-term and fixed-term investment pool. Due to lower CD rates, the City's investment in certificates of deposit declined significantly. The interest-bearing checking account maintained a 3.5% rate of interest per agreement with Farmer's Bank.

Interest earning history:

1994 – 95	4.60
1995 – 96	5.80
1996 – 97	6.30
1997 – 98	5.80
1998 – 99	5.46
1999 – 00	5.65
2000 – 01	5.80
2001 – 02	4.70
2002 – 03	3.50
2003 – 04	3.50

PROPERTY VALUATIONS

Taxable valuations of \$320,476,404 represented an increase of 0.35% over the preceding year. Comparative valuations with the property components are presented below:

	2003-2004	2002-2003
Assessed value	\$ 508,432,224	\$ 494,216,473
Taxable value	320,476,404	319,344,876

RISK MANAGEMENT

During the fiscal year 2004, the City continued to be insured against loss from theft, injury to employees, natural disasters, and damage to the City’s assets. The City requests competitive quotes every three years to insure the highest quality coverage for the money spent. In addition, the City is continually educating its employees with accident prevention training.

LITIGATION

While there are several lawsuits being defended by the City at this time, it is my understanding and belief that the City will not be found to have committed any wrongdoing, and that the financial exposure to the City will be the cost of defense, of which most is being paid by insurance.

INDEPENDENT AUDIT

In compliance with the State Code, the City contracts for an annual audit of its financial records. For the fiscal year ended June 30, 2004, the audit was performed by Certified Public Accountants from Williams & Company, P. C., Spencer, Iowa. Their written opinions appear in this report.

FINANCIAL CONDITION

I believe that the financial condition of the City of Spencer, Iowa, at June 30, 2004, remains strong. Planned capital improvement projects completed during the fiscal year accounted for increased spending. Long range planning has provided cash reserves to fund anticipated capital projects. Services were delivered to levels desired by citizens within the financial ability of the City. For the most part, revenue and expenditure levels were realized within the parameters established in the annual budget. The enterprise funds changed financial position at levels both anticipated and desired.

ACKNOWLEDGEMENTS

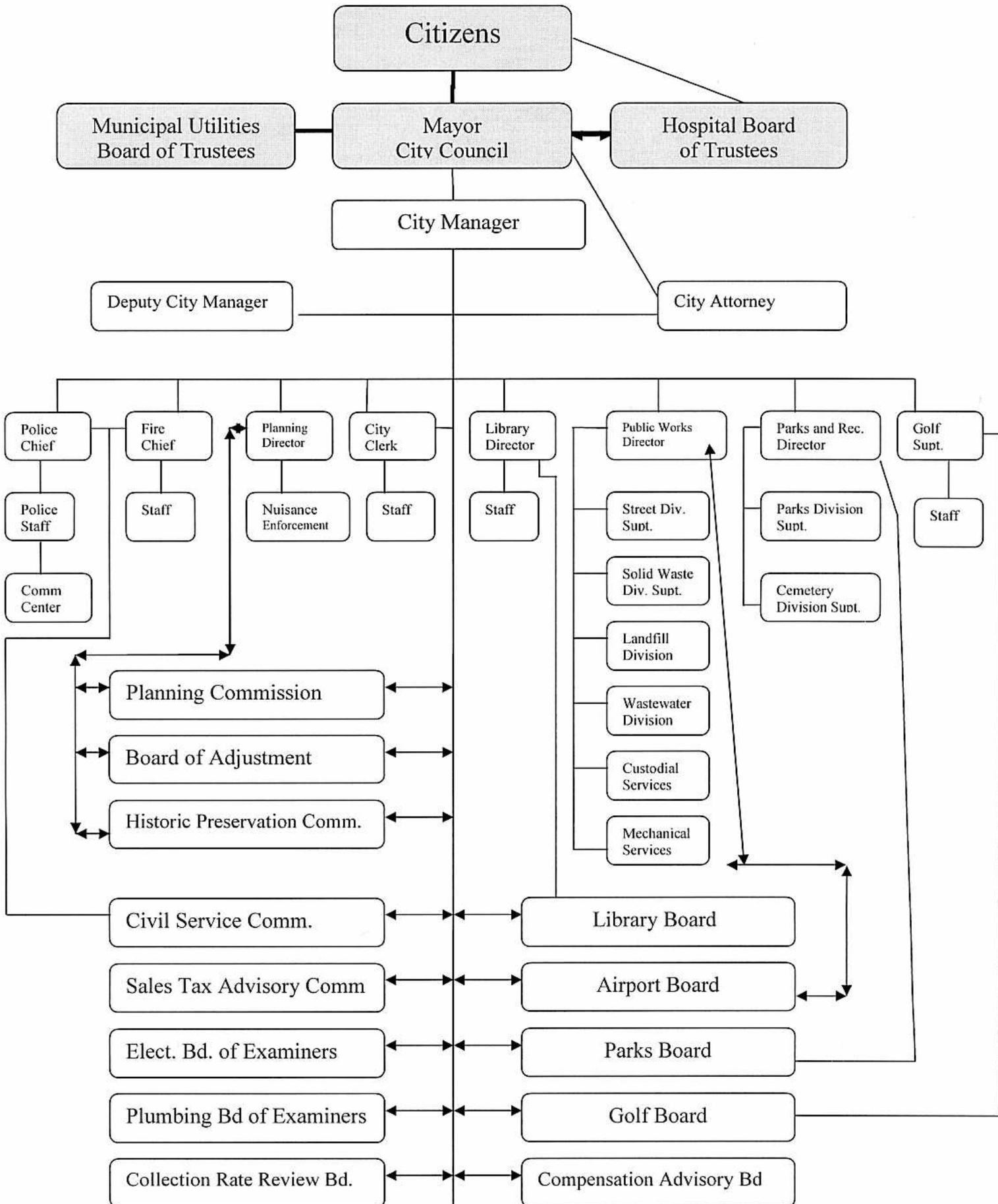
The successful completion of this report was made possible through the dedication of the City Council and City staff. It is sincerely hoped that this report accomplishes its purposes of providing financial results of City operations to all with a need and desire to know.

Respectfully Submitted,

Donna M. Fisher
City Clerk/Finance Officer

ORGANIZATIONAL CHART City of Spencer

Supervisory Authority
Advisory Capacity



**CITY OF SPENCER, IOWA
DIRECTORY OF CITY OFFICIALS AND RELATED ORGANIZATION' TRUSTEES
AS OF JUNE 30, 2004**

MAYOR

Reynold L. Peterson

MAYOR PRO-TEM:

David A. Scott

COUNCIL MEMBERS

Steve Waller
Randy Swanson
Rich Prentice

Edward J. Krebs
James P. Roling

Steve Bomgaars
David A. Scott

CITY MANAGER

Dean Torreson

CITY CLERK

Donna M. Fisher

CITY ATTORNEY

Donald J. Hemphill

DIRECTOR OF PUBLIC WORKS

Blake Fannesbeck

CHIEF OF POLICE

Mike Lashbrook

FIRE CHIEF

Douglas Duncan

CAD OFFICER

CEMETARY SUPT.

Irwin Martin

PARK

DelRay Bredehoeft

STREET SUPERINTENDENT

Elmer Williams

GOLF COURSE CLUB HOUSE MGR.

Darrell Dutler

GOLF COURSE SUPT.

Brian Mohr

PLANNING DIRECTOR

Kirby Schmidt

SOLID WASTE SUPERINTENDENT

Kent Herbold

LIBRARY DIRECTOR

Vicki Myron

LANDFILL

Paul Merideth

COUNCIL STANDING COMMITTEES

PUBLIC SAFETY

Ed Krebs, Chairperson
Randy Swanson
Steve Waller

PUBLIC WORKS

James P. Roling, Chairperson
David Scott
Rich Prentice

FINANCE & PERSONNEL

Steve Waller, Chairperson
Rich Prentice
Steve Bomgaars

PROGRESS & DEVELOPMENT

David Scott, Chairperson
Steve Bomgaars
Randy Swanson

BOARD AND COMMISSIONS

MUNICIPAL UTILITIES TRUSTEES

Gary Tolzmann
Dave Hultgren
Bruce Tamisiea
Tom Howe
Murray Hart

GOLF COURSE BOARD

Larry Slota
Dean DeKoter
Scott Merchant
Lavonne Peterson
Paul Brenner

PLANNING & ZONING COMMISSION

Mark Carey
Richard Thiessen
Duane Willrett
Todd Doyle
Ed Nygaard
Kathy Fueston
Marjorie Eeten

COMPENSATION ADVISORY BOARD

Jeff Bohnenkamp
Mary Rahn
Del Brockshus
Jim Halverson
Martin Koch
Vance Frommie

CIVIL SERVICE COMMISSION

Paula Zenor
Eldon Kopel
Rich Mishler

COLLECTION RATE REVIEW BOARD

Bill Campbell
Marilee Bitts
Dean Torreson

AIRPORT BOARD OF TRUSTEES

Dr. Harry Rasdal
Mike Peterson
Tim Steffen
Al Schmidt
Bill Hemme

PARK BOARD

Denny Phillips
Dick Montgomery
Larry Clausen
Nancy Bell
Paul Stadsvold

MUNICIPAL HOSPITAL TRUSTEES

Gary VanHofwegen
Neal Conover
Nancy Whittenburg
Charles Gass
John Rahn

ZONING BOARD OF ADJUSTMENT

Dale Peters
Lance Selzer
Kirby Froehlich
Roger Green
Burdette Lorenzen
Mark Lykke
Don Baxter

LIBRARY TRUSTEES

Mary Frank
Esther Connell
Joe Conover
Sue Hitchcock
Jim Morony
Roger Littlefield
Cathy Greiner
Susan Jespersion
Dorothy DeGroot

PLUMBERS EXAMINERS BOARD

Joe Froiland
Rick Dean
Jarold Krogman

ELECTRICAL BOARD OF EXAMINERS

Dave Nelson
Steve McAllister
Steve Nolting

COMMUNICATION CENTER BOARD

Joel Sorenson
Ken Chalstrom
Randy Swanson
Rich Prentice
Mike Lashbrook
Randy Krukow

BOARDS AND COMMISSIONS – CONTINUED

HISTORIC PRESERVATION COMMISSION

Bonnie Hoover
Harry Rasdal
Bruce Lamport
John Frans
Don Veitch
Dan Frink
Jim Morony

SALES TAX ADVISORY COMMITTEE

Randy Cauthron
Mary Jean Montgomery
John Goede
Tim Kehoe
Pete Paulsen
Tom Nelson
Clinton Jones
Larry Harden
Dick Schallau

**FINANCIAL
SECTION**

INDEPENDENT AUDITORS' REPORT

The Honorable Mayor and Members of the City Council
City of Spencer, Iowa

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

We did not audit the financial statements of Spencer Municipal Hospital (a discretely presented component unit), which statements reflect total assets of \$63,342,981 as of June 30, 2004, and total operating revenues of \$40,849,904 for the year then ended. Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Spencer Municipal Hospital, is based solely on the report of the other auditors.

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

In our opinion, the financial statements and the report of the other auditors 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 as of 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. In addition, in our opinion, the Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual (Cash Basis) presents fairly, in all material respects, the cash transactions and the legally adopted budget of the general fund and other major special revenue funds of the City for the year ended June 30, 2004.

The management's discussion and analysis and budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 27, 2004, on our consideration of the City of Spencer, Iowa's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be read in conjunction with this report in considering the results of our audit.

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

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

Certified Public Accountants

Spencer, Iowa
August 27, 2004

Management Discussion and Analysis

June 30, 2004

This discussion and analysis of the City of Spencer's financial performance provides an overview of the City's financial activities for the fiscal year ending June 30, 2004. We encourage the readers to consider the information presented here in conjunction with the additional information furnished in our letter of transmittal on page 1 and the City's financial statements that follow this report.

Financial Highlights:

- The assets of the City of Spencer exceeded liabilities at June 30, 2004, by \$35,035,701. Of this amount, \$14,639,210 is unrestricted and may be used to meet the government's ongoing obligations to citizens and creditors.
- The City's net assets increased by \$1,086,166 during the year. Of this amount, the assets of our Governmental Activities increased \$1,288,454 and the assets of our Business Activities decreased \$202,288.
- The largest factor in the increase in fund balance was the amount by which capital outlays exceeded depreciation in the current period. In fiscal year 2004, that excess was \$ 504,350.
- The City's long-term debt decreased \$1,194,897 (11.7%) due to the long-term financing of General Obligation Debt for capital projects and normal principal payments. Outstanding General Obligation debt totals \$8,330,000 and other outstanding long-term debt totals \$664,350.

OVERVIEW OF THE FINANCIAL STATEMENTS

In addition to the Management Discussion and Analysis, this annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. Fund financial statements tell how these services were financed in the short term, as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds. The remaining statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government. An additional part of the basic financial statements are the Notes to the Financial Statements. This report also contains other supplementary information in addition to the basic financial statements.

REPORTING THE CITY AS A WHOLE

The Statement of Net Assets and the Statement of Activities

The government-wide statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

One of the most important questions asked about the City's finances is *"Is the City of Spencer in a better financial position at the end of this fiscal year, compared to last year?"* The Statement of Net Assets and the Statement of Activities report information about the City as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is very similar to the method of accounting used by most private-sector companies. These two statements report the City's net assets, which is the difference between assets and liabilities, as one way to measure the City's financial health, or financial position. Over time, increases or decreases in the City's net assets are one indicator of whether its financial health is improving or deteriorating. Additional factors, such as changes in the City's property tax base and sales tax collections and condition of the City's infrastructure, are also important in making this determination.

In the Statement of Net Assets and the Statement of Activities, we have divided the City into two kinds of activities:

- **Governmental Activities** – Most of the City's basic services are reported here, such as Police, Fire, Public Works and Parks departments, and general administration. Property taxes and state and federal grants finance most of these activities.
- **Business Type Activities** – The City charges fees to customers to cover the cost of these services. Included here are the Waste Water Treatment Plant, Solid Waste and Landfill funds.

REPORTING THE CITY'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds – not the City as a whole. Some funds are required to be established by State law or by bond requirements. The City Council also established funds to control and manage money for particular purposes (such as construction projects) and to show that it is properly using certain revenues (such as Sales Tax Revenues). The City has the following types of funds:

- **Governmental Funds** – Most of the City's basic services are included in Governmental Funds, which focus on how money moves into and out of these funds and the balances left at year-end that are available for spending. These funds are reported using the "modified accrual basis" of accounting, which measures cash and all other financial assets that can readily be converted to cash. The Governmental Fund Statements provide a detailed short-term view of the City's general governmental operations and 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 City programs. We describe the relationship between Governmental Activities (reported in the Statement of Net Assets and the Statement of Activities) and Governmental Funds in a reconciliation following each Governmental Fund financial statement.
- **Proprietary Funds** – When the City charges customers for the service it provides, these services are generally reported in Proprietary Funds. Proprietary Funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities. The major difference between the Proprietary Funds report and the Business Type Activities we report in the government-wide statements is the detail and additional information, such as cash flows, provided in the Proprietary Funds report.

THE CITY AS TRUSTEE

Reporting the City's Fiduciary Responsibilities

Fiduciary Funds are used to account for resources held for the benefit of parties outside the City government. The City is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the City's fiduciary activities are reported in a separate Statement of Fiduciary Net Assets and a Statement of Changes in Fiduciary Net Assets. We exclude these activities from the City's government-wide financial statements because the City cannot use these assets to finance its operations.

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes can be found behind the Fiduciary Funds statements.

THE CITY AS A WHOLE

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

The following comparison chart shows the changes in net assets for the years ended June 30, 2004 and 2003:

	General Governmental Activities		Business-Type Activities		Totals	
	2004	2003	2004	2003	2004	2003
Current & Other Assets	\$ 17,603,733	\$ 18,118,208	\$ 3,682,238	\$ 3,661,020	\$ 21,285,971	\$ 21,779,228
Capital Assets	<u>23,730,752</u>	<u>23,235,285</u>	<u>4,513,723</u>	<u>4,773,287</u>	<u>28,244,475</u>	<u>28,008,572</u>
Total Assets	41,334,485	41,353,493	8,195,961	8,434,307	49,530,446	49,787,800
Long-Term Liabilities						
Outstanding	7,194,503	8,670,667	1,983,342	1,977,284	8,994,350	10,647,951
Other Liabilities	<u>5,124,906</u>	<u>4,955,751</u>	<u>191,994</u>	<u>234,110</u>	<u>5,316,900</u>	<u>5,189,861</u>
Total Liabilities	12,319,409	13,626,418	2,175,336	2,211,394	14,494,745	15,837,812
Net Assets:						
Invested in Capital Assets,						
Net of Related Debt	16,536,249	14,845,885	2,895,204	3,154,768	19,431,453	18,000,653
Restricted	965,038	644,916	-	-	965,038	644,916
Unrestricted	<u>11,513,789</u>	<u>12,236,274</u>	<u>3,125,421</u>	<u>3,068,145</u>	<u>14,639,210</u>	<u>15,304,419</u>
Total Net Assets	\$ 29,015,076	\$ 27,727,075	\$ 6,020,625	\$ 6,222,913	\$ 35,035,701	\$ 33,949,988

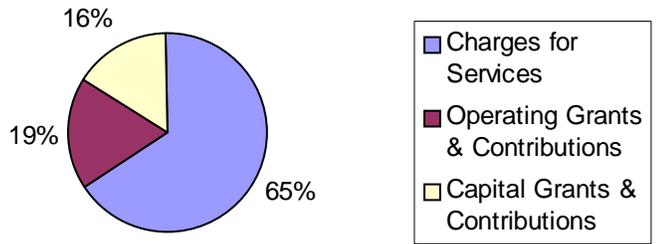
This summary reflects an increase of 4.6% for the Governmental Activities and a decrease of 3.2% in the Business-Type Activities.

Total revenue reported in Fiscal 2004 was \$13,835,087. The following table breaks down revenues collected for General Governmental Activities and Business-Type Activities for Fiscal Years 2004 and 2003:

	General Governmental Activities		Business-Type Activities		Totals	
	2004	2003	2004	2003	2004	2003
Program Revenues:						
Charges for Services	\$ 944,248	\$ 937,253	\$ 3,128,357	\$ 2,780,731	\$ 4,072,605	\$ 3,717,984
Operating Grants and Contributions	1,171,595	1,092,089	-	-	1,171,595	1,092,089
Capital Grants and Contributions	<u>998,378</u>	<u>549,499</u>	<u>-</u>	<u>-</u>	<u>998,378</u>	<u>549,499</u>
Total Program Revenues	3,114,221	2,578,841	3,128,357	2,780,731	6,242,578	5,359,572
General Revenues and Transfers:						
Taxes	5,581,930	5,391,272	-	-	5,581,930	5,391,272
Special Assessments	419,635	554,825	-	-	419,635	554,825
In Lieu of Tax	387,888	372,940	-	-	387,888	372,940
Interest	428,807	397,003	116,621	116,733	545,428	513,736
Revenue from Use of Property	11,906	10,046	5,795	5,795	17,701	15,841
Gain on Sale of Assets	59,792	-	-	-	59,792	-
Miscellaneous	471,347	492,490	108,788	162,461	580,135	654,951
Interfund Transfers	<u>239,478</u>	<u>429,894</u>	<u>(239,478)</u>	<u>(429,894)</u>	<u>-</u>	<u>-</u>
Total General Revenues and Interfund Transfers	<u>7,600,783</u>	<u>7,648,470</u>	<u>(8,274)</u>	<u>(144,905)</u>	<u>7,592,509</u>	<u>7,503,565</u>
Total Revenues and Interfund Transfers	\$ 10,715,004	\$ 10,227,311	\$ 3,120,083	\$ 2,635,826	\$ 13,835,087	\$ 12,863,137

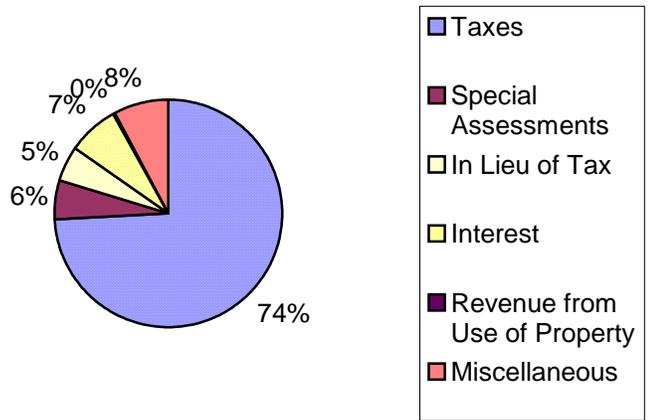
Program revenues totaled \$6,242,578 for fiscal year 2004. Governmental Activities provided \$3,114,221 and Business-Type Activities provided \$2,578,841. Revenue collected for Charges for Services during fiscal year 2004 was \$4,072,605, accounting for 65% of the total program revenues. The following chart breaks down program revenues by source:

Program Revenues



General Revenues for fiscal year 2004 totaled \$7,592,509. Governmental Activities provided \$7,600,783 and Business-Type Activities provided \$(8,274). Tax Revenues for fiscal year 2004 totaled \$5,581,930, accounting for 74% of General Revenues. The following chart breaks down General Revenues by source:

General Revenues



Expenditures for Fiscal 2004 totaled \$12,748,921. Expenditures for General Governmental Activities totaled \$9,426,550, accounting for 74% of total expenditures. Business-Type Activity expenditures totaled \$3,322,371, for 26% of the total. The following table shows total expenditures by Function/Program:

	General Governmental Activities		Business-Type Activities		Totals	
	2004	2003	2004	2003	2004	2003
Public Safety	\$ 2,033,840	\$ 1,939,094	\$ -	\$ -	\$ 2,033,840	\$ 1,939,094
Public Works	2,207,553	2,032,960	-	-	2,207,553	2,032,960
Culture and Recreation	1,788,839	1,469,195	-	-	1,788,839	1,469,195
Community and Economic Development	1,466,591	907,602	-	-	1,466,591	907,602
General Government	1,373,558	1,093,786	-	-	1,373,558	1,093,786
Debt Service	309,598	340,084	-	-	309,598	340,084
Capital Projects	246,571	833,022	-	-	246,571	833,022
Waste Water Treatment Plant	-	-	1,175,989	1,018,876	1,175,989	1,018,876
Solid Waste	-	-	1,322,904	1,030,074	1,322,904	1,030,074
Landfill	-	-	823,478	561,473	823,478	561,473
Total Expenditures	\$ 9,426,550	\$ 8,615,723	\$ 3,322,371	\$ 2,610,423	\$ 12,748,921	\$ 11,226,146

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

Program Level	Activity
Public Safety	Individual & Community Protection, Physical Health
Public Works	Roadway Construction, Airport Operations, Street Lighting, Transportation Services
Culture and Recreation	Education & Culture, Leisure Time Opportunities
Community and Economic Development	Economic Development, Community Beautification, Planning & Zoning
General Government	Administration, Support Services
Debt Service	Payment of Interest
Capital Projects	Construction of Capital Facilities
Waste Water Treatment Plant	Operation of the waste water treatment plant
Solid Waste	Operation of garbage collection and disposal
Landfill	Operation of landfill

Governmental Activities

To aid in the understanding of the Statement of Activities, some additional explanation is given. Of particular interest is the format that is significantly different than a typical Statement of Revenues, Expenses and Changes in Fund Balance. Please note that the expenses are listed in the first column, with revenues from that particular program reported to the right. The result is a Net (Expense) Revenue calculation. This format highlights the respective financial burden that each of the functions place on the taxpayers. For example, for Public Safety, the City spent \$2,033,840 and received \$329,877 in revenue, thus leaving a cost to the taxpayer of \$1,703,963 to be funded by various methods. The new format also identifies how much each function draws from general revenues or is self-financing through fees or grants. Some of the individual line item revenues reported for each function are:

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

The total cost of governmental activities this year was \$9,426,550. Of these costs, \$944,248 was paid by those who directly benefited from the programs. Costs paid by other governments and organizations that subsidized certain programs with grants and contribution was \$2,169,973, leaving a Net Expense of \$6,312,329 for Governmental Activities. These expenses of \$6,312,329 were covered with tax revenues, interest and other general revenues. The Statement of Activities in the financial statements provides further detail. The Net (Expense) Revenue by Governmental Activity is shown in the following table:

Functions/Programs	Net (Expense) Revenue	
	2004	2003
Governmental Activities:		
Public Safety	\$ (1,703,963)	\$ (1,582,365)
Public Works	(1,111,452)	(982,857)
Culture and Recreation	(1,179,926)	(898,545)
Community and Economic Development	(1,211,591)	(907,602)
General Government	(857,884)	(975,569)
Debt Service	(309,598)	(340,084)
Capital Projects	<u>62,085</u>	<u>(349,860)</u>
Total Net (Expense) Revenue		
Governmental Activities	(6,312,329)	(6,036,882)
General Revenues & Interfund Transfers	<u>7,600,783</u>	<u>7,648,470</u>
Change in Net Assets	<u>\$ 1,288,454</u>	<u>\$ 1,611,588</u>

Total resources available during the year to finance governmental operations were \$38,441,626, consisting of Net Assets at July 1, 2003 of \$27,726,622, Program Revenues of \$3,114,221 and General Revenues of \$7,600,783. Total Governmental Activities during the year expended \$9,426,550; thus, Net Assets were increased by \$1,288,454, to \$29,015,076.

Business Type Activities

Business Type Activities decreased the City's net assets by \$202,288.

The cost of all Proprietary Activities this year was \$3,322,371. As shown in the Statement of Activities, the amounts paid by users of the systems was \$3,128,357, resulting in total Net Expense for Business Type Activities of \$194,014. The Net (Expense) Revenue by Business Type Activity is shown in the following table:

Business-Type Activities	Net (Expense) Revenue	
	2004	2003
Waste Water Treatment Plant	\$(125,344)	\$ 102,187
Solid Waste	(79,574)	141,805
Landfill	<u>10,904</u>	<u>(73,684)</u>
Total Net (Expense) Revenue		
Business Type Activities	(194,014)	170,308
General Revenues & Interfund Transfers	<u>(8,274)</u>	<u>(144,905)</u>
Change in Net Assets	<u>\$(202,288)</u>	<u>\$ 25,403</u>

Total resources available during the year to finance Proprietary Fund activities were \$9,342,996, consisting of Net Assets at July 1, 2003 of \$6,222,913, Program Revenues of \$3,128,357 and General Revenues of \$(8,274). Total Proprietary Fund Activities during the year expended \$3,322,371; thus Net Assets were decreased by \$202,288, to \$6,020,625.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing financing requirements. Unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of a fiscal year. The City's Governmental Funds reported combined ending fund balances of \$12,309,646 (91% unreserved). The combined Governmental Funds balance decreased \$538,218 from the prior year.

The General Fund is the primary operating fund of the City. During the year, revenues exceeded expenditures in the General Fund by \$790,113.

GENERAL FUND BUDGETARY HIGHLIGHTS

Comparing the fiscal year 2004 original (adopted) General Fund amount of \$5,323,385 to the final budget amount of \$6,368,385 shows a net increase of \$1,045,000.

Original Budget	Supplemental Changes	Amended Budget
\$ 5,323,385	\$ 1,045,000	\$ 6,368,385

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

Expenditures	Amended Budget	Actual	Variance
Public Safety	\$ 1,849,468	\$ 1,730,780	\$ 118,688
Public Works	363,125	362,597	528
Culture and Recreation	1,511,581	1,475,510	36,071
Community and Economic Development	747,800	838,906	(91,106)
General Government	1,146,814	987,073	159,741
Transfers Out	<u>749,597</u>	<u>781,559</u>	<u>(31,962)</u>
Total Expenditures	<u>\$ 6,368,385</u>	<u>\$ 6,176,425</u>	<u>\$ 191,960</u>

CAPITAL ASSETS

The City's investment in capital assets, including land, buildings and improvements, equipment, streets, sewer systems, lighting systems, traffic signals and other infrastructure represents the value of the resources utilized to provide services to our citizens. The investment in capital assets as of June 30, 2004, was \$19,250,125 (net of accumulated depreciation and outstanding financings). This is an increase of \$ 1,430,800 (8%) over FY2003. The gross additions to capital assets for Fiscal 2004 and 2003 are as follows:

	General Governmental Activities		Business-Type Activities		Totals	
	2004	2003	2004	2003	2004	2003
Land	\$ 55,000	\$ -	\$ 134,973	\$ -	\$ 189,973	\$ -
Infrastructure	1,940,704	940,523	-	-	1,940,704	940,523
Buildings	19,063	507,798	-	108,841	19,063	616,639
Improvements –						
Other than Buildings	159,498	121,623	-	-	159,498	121,623
Equipment	197,044	179,787	44,261	903,151	241,305	1,082,938
Construction in Progress	<u>1,687,782</u>	<u>2,034,079</u>	<u>89,755</u>	<u>45,218</u>	<u>1,777,537</u>	<u>2,079,297</u>
Total Gross Additions	<u>\$ 4,059,091</u>	<u>\$ 3,783,810</u>	<u>\$ 268,989</u>	<u>\$ 1,057,210</u>	<u>\$ 4,328,080</u>	<u>\$ 4,841,020</u>

Construction in Progress and Infrastructure was the major capital outlay for Governmental Activities in Fiscal 2004. These outlays included work on the following projects: Eastside Storm Sewer, Leach Park Trail, East Pederson Park Trail, paving of 37th Ave West, 11th Ave West, West 8th St, 10th Ave SE and the Deerfield 4th and 5th Additions, Downtown Renovations, Hospital Utility Relocation, Cornbelt Sewer and Water Extension, Library Roof replacement and airport improvements. The majority of expenditures for construction in progress are incurred by the Capital Project Funds. The majority of equipment purchased was licensed vehicles. The capital outlay for buildings was the columbarium, while land acquired was the Beck property behind the fire station.

For Business-Type Activities, the \$ 268,989 of additions results mainly from the construction of an additional landfill cell.

See Note 4 to the financial statements for more information on the City's capital assets.

DEBT ADMINISTRATION

At year-end the City had \$8,994,350 of debt outstanding. This is a decrease of \$1,194,897,(12%) from the prior year.

Debt administration is quite conservative, with over 90% of all City debt repaid within the next 10 years. This rapid repayment, when combined with the use of TIF and Local Option Sales Tax Revenue, has allowed the City to maintain our 1A rating. This rating is good and reflects well on our community.

The City continues to operate well under State debt capacity limitations. The State limits the amount of General Obligation Debt outstanding to 5% of the assessed value of all taxable property in the community. Thus, our debt capacity is \$25,421,611. With outstanding General Obligation Debt applicable to this limit of \$7,715,579, we are utilizing 30% of this limit. More detailed information on debt administration is provided in Note 5 of the financial statements.

ECONOMIC FACTORS

Spencer is in the midst of a period of considerable construction activity. Building permits in fiscal year 2004 totaled \$31,179,549. This amount shows a continuing trend of growth in the community. Construction underway includes two housing developments, a major hospital expansion and a remodel of part of the main mall. The hospital represents about \$20 million in construction.

These developments should have a significant impact on sales tax collections and increased property tax base for Spencer, Clay County and the Spencer Community School District.

New housing developments in the city include private development, including water, sewer and paving improvements. The City has also taken a significant role in development by developing housing lots in the area of the expanded Spencer Municipal Golf Course.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the office of the City Clerk at 712-580-7200.

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

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Spencer Municipal Hospital
Assets				
Cash and Pooled Investments	\$ 12,076,166	\$ 290,921	\$ 12,367,087	\$ 15,542,915
Receivables:				
Property Tax	29,715	-	29,715	-
Property Tax - Succeeding Year	3,970,512	-	3,970,512	-
Special Assessments	683,583	-	683,583	-
Interest	34,819	9,326	44,145	-
In-lieu of Tax	98,818	-	98,818	-
Accounts	21,575	309,509	331,084	5,873,299
Notes	182,193	-	182,193	-
Interfund Receivable	-	6,241	6,241	-
Due from Other Governmental Agencies	301,477	-	301,477	-
Grants	71,586	-	71,586	-
Estimated Unbilled Usage	-	65,564	65,564	-
Prepaid Insurance	133,289	61,066	194,355	-
Other Assets	-	-	-	2,685,491
Restricted Assets:				
Cash and Pooled Investments	-	2,939,611	2,939,611	5,584,255
Other	-	-	-	258,770
Capital Assets (Net, Where Applicable, of Accumulated Depreciation):				
Land	1,834,304	1,555,865	3,390,169	1,432,384
Buildings	3,778,417	1,650,867	5,429,284	11,171,564
Improvements - Other than Buildings	4,530,569	-	4,530,569	282,823
Equipment	1,782,622	1,306,991	3,089,613	8,244,475
Infrastructure	10,175,551	-	10,175,551	-
Construction in Progress	1,629,289	-	1,629,289	12,267,005
Total Assets	41,334,485	8,195,961	49,530,446	63,342,981
Liabilities				
Accounts Payable	337,124	75,766	412,890	2,316,677
Accrued Wages and Compensated Absences	451,189	71,949	523,138	2,781,533
Accrued Interest Payable	48,013	-	48,013	-
Interfund Payable	6,241	-	6,241	-
Deferred Revenue	3,970,512	-	3,970,512	-
Estimated Liability for Landfill Closure	-	183,495	183,495	-
Other Liabilities	-	-	-	1,708,868
Notes Payable - Current	143,611	-	143,611	-
Current Portion of General Obligation Bonds	1,990,153	1,799,847	3,790,000	-
Compensated Absences and Benefits, Long-Term	311,827	44,279	356,106	-
Long-Term Notes Payable	520,739	-	520,739	-
General Obligation Bonds	4,540,000	-	4,540,000	-
Revenue Bonds	-	-	-	10,666,664
Capital Lease Payable	-	-	-	533,150
Total Liabilities	12,319,409	2,175,336	14,494,745	18,006,892
Net Assets				
Invested in Capital Assets, Net of Related Debt	16,536,249	2,895,204	19,431,453	23,070,912
Restricted for:				
Debt Service	614,421	-	614,421	-
Endowments	350,617	-	350,617	-
Component Unit	-	-	-	1,990,289
Unrestricted	11,513,789	3,125,421	14,639,210	20,274,888
Total Net Assets	\$ 29,015,076	\$ 6,020,625	\$ 35,035,701	\$ 45,336,089

See Accompanying Notes to Financial Statements

**CITY OF SPENCER, IOWA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2004**

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
Public Safety	\$ 2,033,840	\$ 138,700	\$ 136,682	\$ 54,495
Public Works	2,207,553	147,603	948,265	233
Culture and Recreation	1,788,839	542,271	34,193	32,449
Community and Economic Development	1,466,591	-	-	255,000
General Government	1,373,558	115,674	-	400,000
Interest on Long-Term Debt	309,598	-	-	-
Capital Projects	246,571	-	52,455	256,201
Total Governmental Activities	9,426,550	944,248	1,171,595	998,378
Business-Type Activities:				
Waste Water Treatment Plant	1,175,989	1,050,645	-	-
Solid Waste	1,322,904	1,243,330	-	-
Landfill	823,478	834,382	-	-
Total Business-Type Activities	3,322,371	3,128,357	-	-
Total Primary Government	\$ 12,748,921	\$ 4,072,605	\$ 1,171,595	\$ 998,378
Component Unit:				
Spencer Municipal Hospital	38,645,092	40,849,904	-	32,935
Total Component Unit	\$ 38,645,092	\$ 40,849,904	\$ -	\$ 32,935
General Revenues and Transfers:				
Taxes				
Special Assessments				
In Lieu of Tax				
Interest				
Revenue from Use of Property				
Gain on Sale of Assets				
Miscellaneous				
Interfund Transfers				
Total General Revenues and Transfers				
Change in Net Assets				
Net Assets - Beginning				
Net Assets - Ending				

Net (Expense) Revenue and Changes in Net Assets			Component Unit
Governmental Activities	Business-Type Activities	Total	Spencer Municipal Hospital
\$ (1,703,963)	-	\$ (1,703,963)	\$ -
(1,111,452)	-	(1,111,452)	-
(1,179,926)	-	(1,179,926)	-
(1,211,591)	-	(1,211,591)	-
(857,884)	-	(857,884)	-
(309,598)	-	(309,598)	-
62,085	-	62,085	-
<u>(6,312,329)</u>		<u>(6,312,329)</u>	<u>-</u>
-	\$ (125,344)	(125,344)	-
-	(79,574)	(79,574)	-
-	10,904	10,904	-
-	<u>(194,014)</u>	<u>(194,014)</u>	<u>-</u>
<u>\$ (6,312,329)</u>	<u>\$ (194,014)</u>	<u>\$ (6,506,343)</u>	<u>\$ -</u>
			2,237,747
			<u>\$ 2,237,747</u>
5,581,930	-	5,581,930	-
419,635	-	419,635	-
387,888	-	387,888	-
428,807	116,621	545,428	175,627
11,906	5,795	17,701	-
59,792	-	59,792	5,188
471,347	108,788	580,135	612,109
239,478	(239,478)	-	-
<u>7,600,783</u>	<u>(8,274)</u>	<u>7,592,509</u>	<u>792,924</u>
1,288,454	(202,288)	1,086,166	3,030,671
27,726,622	6,222,913	33,949,535	42,305,418
<u>\$ 29,015,076</u>	<u>\$ 6,020,625</u>	<u>\$ 35,035,701</u>	<u>\$ 45,336,089</u>

**CITY OF SPENCER, IOWA
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30,2004**

	General	Local Option Sales Tax	Road Use Tax
Assets			
Cash and Pooled Investments	\$ 7,602,517	\$ 176,225	\$ 405,735
Receivables:			
Property Taxes	22,407	-	-
Property Taxes - Succeeding Year	2,668,888	-	-
Special Assessments	683,583	-	-
Interest	25,274	510	-
In-lieu of Tax	98,818	-	-
Accounts	21,575	-	-
Notes	182,193	-	-
Due from Other Governmental Agencies	9,476	189,205	74,993
Grants	44,347	-	-
Prepaid Insurance	71,249	-	35,180
Total Assets	<u>11,430,327</u>	<u>365,940</u>	<u>515,908</u>
Liabilities and Fund Balances			
Liabilities			
Accounts Payable	147,905	37,584	23,928
Accrued Wages and Compensated Absences	425,663	-	17,183
Due to Other Funds	-	-	-
Deferred Revenue	3,197,909	-	-
Total Liabilities	<u>3,771,477</u>	<u>37,584</u>	<u>41,111</u>
Fund Balances			
Reserved	253,442	-	35,180
Unreserved - Designated	4,477,622	-	-
Unreserved - Undesignated	2,927,786	328,356	439,617
Total Fund Balances	<u>7,658,850</u>	<u>328,356</u>	<u>474,797</u>
Total Liabilities and Equity	<u>\$ 11,430,327</u>	<u>\$ 365,940</u>	<u>\$ 515,908</u>

2003 Downtown Renovation	Debt Service	Other Governmental Funds	Total Governmental Funds
\$ 1,803,471	\$ 615,902	\$ 1,472,316	\$ 12,076,166
-	2,976	4,332	29,715
-	330,118	971,506	3,970,512
-	-	-	683,583
5,221	1,784	2,030	34,819
-	-	-	98,818
-	-	-	21,575
-	-	-	182,193
-	-	27,803	301,477
-	-	27,239	71,586
-	-	26,860	133,289
<u>1,808,692</u>	<u>950,780</u>	<u>2,532,086</u>	<u>17,603,733</u>
60,846	-	66,861	337,124
8,343	-	-	451,189
-	6,241	-	6,241
-	330,118	971,506	4,499,533
<u>69,189</u>	<u>336,359</u>	<u>1,038,367</u>	<u>5,294,087</u>
-	614,421	377,477	1,280,520
-	-	-	4,477,622
1,739,503	-	1,116,242	6,551,504
<u>1,739,503</u>	<u>614,421</u>	<u>1,493,719</u>	<u>12,309,646</u>
<u>\$ 1,808,692</u>	<u>\$ 950,780</u>	<u>\$ 2,532,086</u>	<u>\$ 17,603,733</u>

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**CITY OF SPENCER, IOWA
RECONCILIATION OF THE BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2004**

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

Total Fund Balance - Governmental Funds (page 24)	\$ 12,309,646
Infrastructure, property, and equipment used in governmental activities are not financial resources and, therefore, are not reported in the funds	23,730,752
The Internal Service funds is used by management to fund and maintain the City's payroll	-
Deferred revenues that provide current financial resources for governmental activities	529,021
Accrued interest expense that does not require current financial resources	(48,013)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds	<u>(7,506,330)</u>
Total Net Assets - Governmental Activities (page 20)	<u><u>\$ 29,015,076</u></u>

CITY OF SPENCER, IOWA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2004

	General	Local Option Sales Tax	Road Use Tax
Revenue			
Taxes	\$ 2,700,671	\$ 1,255,291	\$ -
Special Assessments	140,487	-	-
Licenses and Permits	518,414	-	-
Intergovernmental Revenue	945,521	-	948,265
Rent	26,506	-	-
Charges for Services	689,447	-	-
Fines	91,561	-	-
Interest	286,629	5,421	-
Contributions	6,394	-	-
Miscellaneous	186,393	-	-
Total Revenue	<u>5,592,023</u>	<u>1,260,712</u>	<u>948,265</u>
Expenditures			
Public Safety	1,784,638	-	-
Public Works	374,907	-	913,754
Culture and Recreation	1,482,651	-	-
Community and Economic Development	823,765	490,575	-
General Government	971,558	-	-
Debt Service	-	-	-
Capital Projects	-	-	-
Total Expenditures	<u>5,437,519</u>	<u>490,575</u>	<u>913,754</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>154,504</u>	<u>770,137</u>	<u>34,511</u>
Other Financing Sources (Uses)			
Proceeds from Debt Financing	-	-	-
Payments on Debt	-	-	-
Interfund Transfers In	1,244,703	70,300	-
Interfund Transfers Out	(609,094)	(784,497)	(32,271)
Total Other Financing Sources (Uses)	<u>635,609</u>	<u>(714,197)</u>	<u>(32,271)</u>
Net Change in Fund Balance	790,113	55,940	2,240
Fund Balances-Beginning of Year	6,868,737	272,416	472,557
Fund Balances- End of Year	<u>\$ 7,658,850</u>	<u>\$ 328,356</u>	<u>\$ 474,797</u>

EXHIBIT 4

2003 Downtown Renovation	Debt Service	Other Governmental Funds	Total Governmental Funds
\$ -	\$ 387,796	\$ 1,189,382	\$ 5,533,140
-	-	100,368	240,855
-	-	-	518,414
-	-	256,201	2,149,987
-	-	-	26,506
-	-	-	689,447
-	-	-	91,561
75,620	23,775	37,362	428,807
100,000	-	62,082	168,476
201,663	-	76,697	464,753
<u>377,283</u>	<u>411,571</u>	<u>1,722,092</u>	<u>10,311,946</u>
-	-	242,267	2,026,905
-	-	2,464	1,291,125
-	-	71,856	1,554,507
-	-	152,251	1,466,591
-	-	372,328	1,343,886
-	852,275	-	852,275
1,203,394	-	730,959	1,934,353
<u>1,203,394</u>	<u>852,275</u>	<u>1,572,125</u>	<u>10,469,642</u>
<u>(826,111)</u>	<u>(440,704)</u>	<u>149,967</u>	<u>(157,696)</u>
2,371,978	45,300	482,722	2,900,000
(2,720,000)	-	(800,000)	(3,520,000)
154,690	836,071	626,520	2,932,284
(30,388)	(120,643)	(1,115,913)	(2,692,806)
<u>(223,720)</u>	<u>760,728</u>	<u>(806,671)</u>	<u>(380,522)</u>
(1,049,831)	320,024	(656,704)	(538,218)
2,789,334	294,397	2,150,423	12,847,864
<u>\$ 1,739,503</u>	<u>\$ 614,421</u>	<u>\$ 1,493,719</u>	<u>\$ 12,309,646</u>

See Accompanying Notes to Financial Statements

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CITY OF SPENCER, IOWA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2004

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

Net Change in Fund Balances - Total Governmental funds (page 27)	\$	(538,218)
Governmental funds report capital outlays, including infrastructure, as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.		504,350
The net effect of sale transactions involving capital assets is to decrease net assets.		(15,200)
Revenues not reported in the funds that are available to provide current financial resources		178,780
Accrued interest expense that does not require current financial resources		(5,595)
Long-term accrual of compensated absences is not reported in the governmental funds as it does not consume current financial resources. The net change in in the long-term compensated absences for the year was:		(30,560)
The issuance of indebtedness provides current financial resources to the governmental funds without affecting net assets. The Statement of Activities does not reflect the proceeds from the issuance of long-term debt. The proceeds from the issuance of long-term debt for the year was:		(2,900,000)
The retirement and repayment of the principal of long-term debt consumes the current financial resources of governmental funds without affecting the net assets. The Statement of Activities does not reflect the payment of principal on long-term debt or the retirement of long-term debt. The principal paid on long-term debt and long-term debt retired during the year was:		4,094,897
Change in Net Assets of Governmental Activities (page 22)	\$	<u><u>1,288,454</u></u>

**CITY OF SPENCER, IOWA
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30,2004**

	Business Type Activities		
	Waste Water Treatment Plant	Solid Waste	Landfill
Assets			
Cash and Pooled Investments	\$ 84,366	\$ 97,964	\$ 108,591
Receivables:			
Accrued Interest	4,801	3,739	786
Accounts	90,723	109,299	109,487
Estimated Unbilled Usage	38,039	27,525	-
Due From Other Funds	-	100,000	6,241
Prepaid Insurance	12,293	40,978	7,795
Restricted Assets:			
Cash and Cash Equivalents	1,574,764	1,192,232	172,615
Capital Assets (Net, Where Applicable of Accumulated Depreciation):			
Land	30,842	16,000	1,509,023
Buildings	1,407,564	138,543	104,760
Equipment	1,044,828	130,888	131,275
Total Assets	<u>4,288,220</u>	<u>1,857,168</u>	<u>2,150,573</u>
Liabilities			
Accounts Payable	9,770	30,778	35,218
Due To Other Funds	-	-	100,000
Accrued Wages and Compensated Absences	5,170	55,059	11,720
Current Portion of General Obligation Bonds	-	-	1,799,847
Estimated Liability for Landfill Closure	-	-	183,495
Compensated Absences and Benefits, Long-Term	-	38,977	5,302
General Obligation Bonds	-	-	-
Total Liabilities	<u>14,940</u>	<u>124,814</u>	<u>2,135,582</u>
Net Assets			
Contributed Capital	99,068	-	82,260
Invested in Capital Assets, Net of Related Debt	2,483,234	285,431	(54,789)
Unrestricted	1,690,978	1,446,923	(12,480)
Total Net Assets	<u>\$ 4,273,280</u>	<u>\$ 1,732,354</u>	<u>\$ 14,991</u>

Total	Governmental Activities Internal Service
\$ 290,921	\$ -
9,326	-
309,509	-
65,564	-
106,241	-
61,066	-
2,939,611	-
1,555,865	-
1,650,867	-
1,306,991	-
8,295,961	-
75,766	-
100,000	-
71,949	-
1,799,847	-
183,495	-
44,279	-
-	-
2,275,336	-
181,328	-
2,713,876	-
3,125,421	-
\$ 6,020,625	\$ -

CITY OF SPENCER, IOWA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2004

	Business Type Activities		
	Waste Water Treatment Plant	Solid Waste	Landfill
Operating Revenues:			
Charges for Services	\$ 1,050,645	\$ 1,243,330	\$ 834,382
Use of Property	-	-	5,795
Miscellaneous	100,337	4,064	4,387
Total Operating Revenue	1,150,982	1,247,394	844,564
Operating Expenses:			
Salaries	92,238	477,363	134,010
Payroll Taxes	10,954	58,044	15,883
Repairs and Maintenance	106,017	77,125	108,067
Utilities	769	11,489	2,944
Contract Services	649,937	-	9,622
Insurance Premiums	22,515	133,679	27,701
Gas and Oil	1,225	40,889	26,362
Supplies	9,684	15,758	6,829
Other Expense	39,824	34,451	287,903
Depreciation	227,826	102,249	63,419
Closure/Post-Closure Costs	-	-	40,156
Landfill Charges	-	354,721	100,582
Collection Fee	15,000	17,136	-
Total Operating Expenses	1,175,989	1,322,904	823,478
Operating Income (Loss)	(25,007)	(75,510)	21,086
Non-Operating Income:			
Interest Income	57,734	48,874	10,013
Total Non-Operating Income	57,734	48,874	10,013
Income (Loss) before Contributions and Transfers	32,727	(26,636)	31,099
Interfund Transfers Out	(122,588)	(51,651)	(65,239)
Change in Net Assets	(89,861)	(78,287)	(34,140)
Net Assets - Beginning	4,363,141	1,810,641	49,131
Net Assets - Ending	\$ 4,273,280	\$ 1,732,354	\$ 14,991

Total	Governmental Activities Internal Service
\$ 3,128,357	\$ 3,412,629
5,795	-
108,788	-
<u>3,242,940</u>	<u>3,412,629</u>
703,611	3,419,399
84,881	-
291,209	-
15,202	-
659,559	-
183,895	-
68,476	-
32,271	-
362,178	-
393,494	-
40,156	-
455,303	-
32,136	-
<u>3,322,371</u>	<u>3,419,399</u>
(79,431)	(6,770)
116,621	-
<u>116,621</u>	<u>-</u>
37,190	(6,770)
<u>(239,478)</u>	<u>-</u>
(202,288)	(6,770)
<u>6,222,913</u>	<u>6,770</u>
<u>\$ 6,020,625</u>	<u>\$ -</u>

**CITY OF SPENCER, IOWA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2004**

	Business Type Activities		
	Waste Water Treatment Plant	Solid Waste	Landfill
Cash Flows from Operating Activities			
Cash Received from Customers	\$ 1,163,025	\$ 1,238,837	\$ 864,172
Cash Payments to Suppliers for Goods and Services	(943,394)	(741,874)	(606,507)
Cash Payments to Employees for Services	(91,712)	(457,251)	(127,329)
Net Cash Provided (Used) by Operating Activities	127,919	39,712	130,336
Cash Flows from Non-Capital Financing Activities			
Interfund Loans	-	(100,000)	93,759
Operating Transfers to Other Funds	(122,588)	(51,651)	(65,239)
Net Cash (Used) by Non-Capital Financing Activities	(122,588)	(151,651)	28,520
Cash Flows from Capital and Related Financing Activities			
Purchase of Equipment	(11,761)	(21,414)	(100,755)
Net Cash (Used) by Capital Related Financing Activities	(11,761)	(21,414)	(100,755)
Cash Flows from Investing Activities			
Interest and Dividends on Investments	57,454	49,003	9,767
Net Cash Provided by Investing Activities	57,454	49,003	9,767
Net Increase (Decrease) in Cash and Cash Equivalents	51,024	(84,350)	67,868
Cash and Cash Equivalents at Beginning of Year	1,608,106	1,374,546	213,338
Cash and Cash Equivalents at End of Year	<u>\$ 1,659,130</u>	<u>\$ 1,290,196</u>	<u>\$ 281,206</u>

Total	Governmental Activities Internal Service
3,266,034	3,412,629
(2,291,775)	-
(676,292)	(3,421,593)
297,967	(8,964)
(6,241)	-
(239,478)	-
(245,719)	-
(133,930)	-
(133,930)	-
116,224	-
116,224	-
34,542	(8,964)
3,195,990	8,964
\$ 3,230,532	\$ -

See Accompanying Notes to Financial Statements

CITY OF SPENCER, IOWA
STATEMENT OF CASH FLOWS (Continued)
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2004

	Business Type Activities		
	Waste Water Treatment Plant	Solid Waste	Landfill
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities			
Operating Income (Loss)	\$ (25,007)	\$ (75,510)	\$ 21,086
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) By Operating Activities			
Depreciation Expense	227,826	102,249	63,419
(Increase) Decrease in Operating Assets:			
Accounts Receivable	7,816	(8,140)	19,608
Unbilled Usage	4,227	(417)	-
Prepaid Insurance	(1,595)	(664)	(873)
Increase (Decrease) in Operating Liabilities:			
Accounts Payable	(85,874)	2,082	(19,741)
Accrued Wages	526	12,928	3,684
Accrued Post Closure Costs	-	-	40,156
Accrued Compensated Absences	-	7,184	2,997
Total Adjustments	152,926	115,222	109,250
Net Cash Provided (Used) By Operating Activities	\$ 127,919	\$ 39,712	\$ 130,336
Cash and Cash Equivalents			
Unrestricted	\$ 84,366	\$ 97,964	\$ 108,591
Restricted Assets	1,574,764	1,192,232	172,615
Total Cash and Cash Equivalents	\$ 1,659,130	\$ 1,290,196	\$ 281,206

Total	Governmental Activities Internal Service
\$ (79,431)	\$ (6,770)
393,494	-
19,284	-
3,810	-
(3,132)	-
(103,533)	(2,194)
17,138	-
40,156	-
10,181	-
377,398	(2,194)
\$ 297,967	\$ (8,964)
290,921	\$ -
2,939,611	-
\$ 3,230,532	\$ -

**CITY OF SPENCER, IOWA
STATEMENT OF FIDUCIARY NET ASSETS
AGENCY FUNDS
JUNE 30,2004**

Assets	
Cash and Pooled Investments	\$ 568,818
Due from Other Government	1,930
Interest Receivable	1,639
Total Assets	<u>572,387</u>
 Liabilities	
Due to Other Governments	572,387
Total Liabilities	<u>572,387</u>
 Net Assets	
Unrestricted	-
Total Net Assets	<u><u>\$ -</u></u>

SPENCER, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

Note 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- A. Reporting Entity -- The City of Spencer, Iowa, is a political subdivision of the State of Iowa, located in Clay County. It was first incorporated in 1880, and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, culture, recreation, public improvements, and general administrative services.

These financial statements have been prepared in conformity with U.S. Generally Accepted Accounting Principles (GAAP) that applies to governmental units. All funds created under the authority of the State Code of Iowa, the operations of which are under the control of the City's governing body, and by financial reporting standards for governmental units are included herewith.

The Governmental Accounting Standards Board is responsible for establishing U.S. GAAP for state and local government through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. The City applies only the applicable FASB pronouncements issued prior to November 30, 1989 in accounting and reporting its business-type activities. The internal service funds follow FASB pronouncements issued before November 30, 1989. The more significant accounting policies established in U.S. GAAP and used by the City are discussed below.

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

- The Fiduciary Fund is not included.
- A Management Discussion and Analysis (MD&A) section providing an analysis of the City's overall financial position and result of operations.
- Financial statements prepared using full accrual accounting for all the City's activities, including infrastructure (roads, bridges, etc.)
- A change in the fund financial statements to focus on the major funds of the City.

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

CITY OF SPENCER, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

Note 1 – **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the City. The City considers Spencer Municipal Hospital a discretely presented component unit. The Hospital has a June 30 year-end.

The Spencer Municipal Hospital (SMH) is a city public hospital, organized under Chapter 347 of the Code of Iowa and governed by a five-member board of trustees elected by the voters. The Hospital is reported in a separate column in the combined financial statements to emphasize it is legally separate from the City, but financially accountable to the City. Complete financial statements for SMH may be obtained at their administrative offices.

The Spencer Municipal Utilities (SMU) provides electric and water utility services to the citizens of Spencer. SMU is not considered a component unit of the City because it does not meet the criteria stated above. Currently, SMU made voluntary payments of \$372,940 in lieu of property tax payments to the City.

The Northwest Iowa Regional Airport, Spencer Municipal Golf Course, Spencer Public Library, and various recreational parks are not legally separate from the City and have been included in the funds and account groups of the City.

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.

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

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

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

CITY OF SPENCER, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

Note 1 – **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

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

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

- C. Fund Accounting -- The accounting policies of the City of Spencer, Iowa conform to U.S. generally accepted accounting principles applicable to governmental units. The accounting system is organized and operated on the basis of funds. Each fund is considered to be a separate fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which is segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulation, restrictions, or limitations.

The emphasis in fund financial statements is on the major funds in either the governmental or business-type activities categories. Nonmajor funds by category are summarized in to a single column. GASB No. 34 sets forth minimum criteria for the determination of major funds. The City elected to add the Debt Service fund and the Road Use Tax fund, as major funds. The nonmajor funds are combined in a column in the fund financial statements. The various funds reported in the financial statements are grouped into fund types as follows:

Governmental Fund Types -- Governmental Funds are those through which most governmental functions of the City are financed. The acquisition, use, and balances of the City's expendable financial resources and the related liabilities (except for those accounted for in proprietary funds) are accounted for through governmental funds. All governmental funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets. The following are the Governmental Fund Types:

General Fund -- The General Fund is used to account for all financial transactions not properly included in other funds. It serves as the general operating fund of the City and derives its major revenues from property taxes, licenses and permits, state allocation, and charges for services. The expenditures of the General Fund are categorized as follows:

Public Safety -- Activities related to public safety include police protection, fire protection, and the communication center.

Public Works -- Activities related to public works include roadway construction and maintenance, transportation services, street lighting, and airport operations.

Culture and Recreation -- Activities related to culture and recreation include parks and recreation, aquatic center, library, and golf course operations.

CITY OF SPENCER, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

Note 1 – **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Community and Economic Development -- Activities related to community and economic development include community beautification, housing and urban renewal, planning and zoning, and economic development operations.

General Government – Activities related to general government include City Council activities, legal services, and executive and financial administration and support services.

Special Revenue Funds -- The Special Revenue Funds are used to account for the receipts of specific revenue sources (other than expendable trusts, or major capital projects) that are legally restricted to expenditures for specific purposes.

Debt Service Fund -- The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest. General property taxes or tax increment financing and fund transfers are to provide the revenues for the debt service payments.

Capital Projects Funds -- The Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds and trust funds). Revenues to the funds come primarily from governmental grants, general obligation bond issues, and special assessment levies.

Permanent Fund – The Permanent Fund accounts for assets held by the City pursuant to a trust agreement. The principal portion of this fund type must remain intact, but the earnings may be used to achieve the objectives of the fund.

Proprietary Fund Types -- Proprietary Funds of the City consist of Enterprise Funds and Internal Service Funds, whose measurement focus is on a flow of economic resources. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Fund equity (i.e., net total assets) is segregated into contributed capital and retained earnings components. Proprietary fund-type operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The government applies only the applicable FASB pronouncements issued prior to November 30, 1989, in accounting and reporting its proprietary operations.

Enterprise Funds -- The Enterprise Funds are used to finance and account for the acquisition, operation, and maintenance of governmental facilities and services that are supported by user charges. The following are the Enterprise Funds:

Waste Water Treatment Plant – To account for the operation of a municipally owned waste water treatment plant and collection system. All activities necessary to provide such services are accounted for in this fund, including, but not limited to, waste water treatment, handling and supporting services, capital outlay, and debt service.

CITY OF SPENCER, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

Note 1 – **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Solid Waste – To account for the operation of municipally owner garbage collection and disposal service.

Landfill – To account for the operation of municipally owned landfill.

Internal Service Fund -- The Internal Service Fund is used to account for the financing of goods or services provided by one department or agency to other departments or agencies of a government, or to other governments, on a cost-reimbursement basis.

The City's internal service fund is presented in the proprietary fund financial statements. Because the principal users of the internal services are the City's governmental activities, the financial statements of the internal service fund are consolidated into the governmental column when presented in the government-wide financial statements. To the extent possible, the cost of these services is reported in the appropriated functional activity.

Fiduciary Fund Types -- Fiduciary Funds account for assets held by the government in trustee capacity or as an agent on behalf of others and therefore not available to support City programs. Since agency funds are custodial in nature, they do not involve the measurement of results of operations and are not incorporated into the government-wide financial statements.

- D. Basis of Accounting -- Basis of Accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements, regardless of the measurement focus applied. The City's accounting records are maintained on a cash basis during the year with a conversion to modified accrual or accrual at year's end for financial statement purposes.

Accrual Basis – It is used for all activities in the government-wide financial statements and for the proprietary and fiduciary activities in the fund financial statements. Revenues are recognized when earned and expenses are recognized when incurred. Utility services provided but not yet billed are estimated and recorded as revenue in the period that the service is provided.

Modified Accrual Basis -- It is used by all governmental funds in the fund financial statements. Revenues are recognized when they become measurable and available as net current assets. Available means collectible within the current period or soon enough thereafter to pay current liabilities. Expenditures are recognized when the related fund liability is incurred, except for unmatured interest on general long-term debt, which is recognized when due. Disbursements for the purchase of assets providing future benefits are recorded as expenditures at the time of purchase.

In applying the measurable and available criteria to intergovernmental revenues, the legal and contractual requirements of the individual programs are used as guidance. There are, however, essentially two types of revenues. In one, monies must be expended on the specific purposes or project before any amounts will be recorded. In the other, monies are made available through regular allocations and are usually available prior to their being expended. These resources are reflected as revenues at the time of receipt or earlier if they meet the criteria of being both measurable and available.

**CITY OF SPENCER, IOWA
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2004**

Note 1 – **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Property taxes are considered available if they are collected within 60 days after year-end. A one-year availability period is used for revenue recognition for all other governmental fund revenues.

The revenues susceptible to accrual are property taxes, special assessments, intergovernmental revenue, interest, and charges for services.

E. Assets, Liabilities, and Fund Equity

Cash and Cash Equivalents -- Cash on hand, cash in bank, and temporary cash investments with original maturities of three months or less are considered cash and cash equivalents for purposes of the statement of cash flows.

Temporary Cash -- Non-negotiable certificates of deposits with original maturities of more than three months are stated at cost.

Investments -- Investments are recorded at fair value, except for pooled investments operated in a manner consistent with the SEC's Rule 2a-7 of the Investment Company Act of 1940, which are valued at amortized cost.

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

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

Property Tax Receivable – Succeeding Year -- Property tax receivable is recognized on the levy or lien date, which is the date that the tax asking is certified by the Council to the appropriate County Auditors. Current year delinquent property taxes receivable represents unpaid taxes from the current year. The succeeding year property tax receivable represents taxes certified by the Council to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the Council is required to certify its budget to the County Auditor by June 1 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 and will not be recognized as revenue until the year for which it is levied.

Fixed Assets – Property and equipment are valued at historical cost or estimated historical cost if actual historical cost is not available. Contributed assets are reported at their fair market value as of the date received. Additions, improvements, and other capital outlays that significantly extend the useful life of an assets are capitalized. Other costs incurred for repairs and maintenance are expenses as incurred. Infrastructure has been capitalized using historical or estimated historical cost beginning in 1980 as required by GASB 34.

Depreciation on all assets is provided on the straight-line basis over the following estimate lives:

Buildings & Structures	40 Years
Land Improvements.....	20 Years
Machinery & Equipment	5-10 Years
Infrastructure	15-70 Years

**CITY OF SPENCER, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

Note 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accrued Compensated Absences -- Accrued compensated absences represent the unpaid vacation and sick leave costs as of the end of the year. Also included in this account are the related payroll costs associated with the unpaid vacation. All uncompensated amounts not paid within 60 days after year end for governmental fund types are recorded as long-term liabilities in the General Fund and the Enterprise Funds because they represent amounts that are not expected to be liquidated with expendable available financial resources. The uncompensated amounts paid within 60 days after year end are recorded as liabilities in the funds in incurring the salaries and payroll taxes.

Encumbrances -- The City does not employ encumbrance accounting.

Deferred Revenues -- The government reports deferred revenue on its statement of net assets. Deferred revenues arise when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period.

Fund Balances

Reserved Fund Balance -- Reserved Fund Balance indicates that portion of fund equity which has been legally restricted for specific purposes.

Undesignated Fund Balance -- Undesignated Fund Balance indicates that portion of fund equity which has been designated by the Council for a specific purpose.

Note 2 – BUDGET

Iowa budget law requires the adoption of legal budgets for expenditures (expenses) on a program basis. The programs 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. Although the budget document presents program expenditures (expenses) by fund, the legal level of control is at the aggregated program level, not at the fund level. For example, all budget categories of a particular fund may be exceeded so long as total budgeted program expenditures (expenses) are not exceeded on a "city-wide" basis. Program expenditures (expenses) required to be budgeted include expenditures for the General Fund, Special Revenue Fund, Debt Service Fund, Capital Project Funds, Permanent Funds and the expenses of the Proprietary Fund Types. Legally adopted budgets may be prepared on a cash basis or on a basis consistent with U.S. generally accepted accounting principles.

The City follows these procedures in establishing the budgeting data reflected in the financial statements:

- A. At least six weeks prior to March 15, the City Clerk submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.

**CITY OF SPENCER, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

Note 2 – **BUDGET** (Continued)

- B. Public hearings are conducted to obtain taxpayer comments.
- C. Prior to March 15, the budget is legally enacted through passage of resolution.
- D. Amendments to the budget are considered and reviewed throughout the fiscal year. Amendments are subject to departmental review and by justification to the City Clerk. The budget is formally amended by City Council resolution and cannot be amended without the Council's approval. Public hearings on budget amendments constitute the annual appropriated budget. There are no other appropriations of budget that occur. The following amendments to the original budget occurred during the fiscal year ended June 30, 2004:

Program Structure	Original Budget	1/19/04 Amendment	5/17/04 Amendment	Amended Budget
Public Safety	\$ 2,007,553	\$ -	\$ 95,000	\$ 2,102,553
Public Works	1,264,742	-	-	1,264,742
Culture and Recreation	1,585,288	-	-	1,585,288
Community and Economic Development	800,650	476,000	350,000	1,626,650
General Government	1,234,205	400,000	70,000	1,704,205
Debt Service	859,875	-	-	859,875
Capital Projects	4,993,480	4,500,000	-	9,493,480
Business-Type	<u>2,843,117</u>	<u>-</u>	<u>250,000</u>	<u>3,093,117</u>
Total	<u>\$ 15,588,910</u>	<u>\$ 5,376,000</u>	<u>\$ 765,000</u>	<u>\$ 21,729,910</u>

Budget amendments are for additional expenditures related to the following: CAT Grant received and expended, bond proceeds for 2001 East Side Storm Sewer and 2003 Downtown Renovations Projects, Hotel/Motel tax expenditures to the Event Center and Soccer Complex, additional expenditures to the Event Center Construction Project, Economic Development Grant received and expended, improvements for Golf Course and Country Club Lane Housing Projects, Landfill Settlement, increased cost for Unemployment and Group Medical Insurance, and the purchase of property for Fire Station expansion.

- E. Legally adopted budgets are prepared on a program basis for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds, Proprietary Fund Types, Permanent Fund, and Fiduciary Fund on a cash basis. The Council directs City personnel on operating transfers within and between funds.
- F. Unexpended appropriations lapse at the end of each fiscal year.

Although the level of legal budget control is at the program level on a "city-wide" basis, management has elected to utilize budgets as a control device for program expenditures of the General, Special Revenue, Debt Service, Capital Projects Funds, and Permanent Funds.

Aggregation of program expenditures/expenses for Governmental, Proprietary, and Fiduciary Fund Types is shown on the following table to demonstrate the City's legal compliance to the budget.

CITY OF SPENCER, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

Note 2 – **BUDGET** (Continued)

	General, Special Revenue, Debt Service, Capital Projects, Permanent	Enterprise	Internal Service	Fiduciary	Total	Amended Budget	Variance Favorable (Unfavorable)
REVENUES							
Taxes	\$ 5,529,935	\$ -	\$ -	\$ -	\$ 5,529,935	\$ 5,104,610	\$ 425,325
Special Assessments	235,015	-	-	-	235,015	60,000	175,015
Licenses and Permits	513,812	-	-	-	513,812	458,100	55,712
Intergovernmental	2,208,431	-	-	31,949	2,240,380	2,330,423	(90,043)
Charges for Services	709,839	2,811,826	-	2,954	3,524,619	3,353,250	171,369
Fines	90,801	-	-	-	90,801	76,000	14,801
Interest on Investments	425,524	116,226	-	20,141	561,891	185,316	376,575
Miscellaneous	597,032	141,262	-	-	738,294	361,128	377,166
Contributions	69,776	-	-	3,733	73,509	5,750	67,759
Rent	26,505	5,795	-	-	32,300	26,200	6,100
Total Revenues	10,406,670	3,075,109	-	58,777	13,540,556	11,960,777	1,579,779
EXPENDITURES							
Public Safety	1,970,803	-	-	-	1,970,803	2,102,553	131,750
Public Works	1,284,450	-	-	-	1,284,450	1,264,742	(19,708)
Culture and Recreation	1,549,364	-	-	-	1,549,364	1,585,288	35,924
Community and Economic Development	1,583,542	-	-	-	1,583,542	1,626,650	43,108
General Government	1,350,667	-	-	31,396	1,382,063	1,704,205	322,142
Debt Service	846,034	-	-	-	846,034	859,875	13,841
Capital Projects	5,478,562	-	-	-	5,478,562	9,493,480	4,014,918
Business Type/ Enterprises	-	2,801,089	-	-	2,801,089	3,093,117	292,028
Total Expenditures	14,063,422	2,801,089	-	31,396	16,895,907	21,729,910	4,834,003
REVENUES OVER (UNDER) EXPENDITURES	(3,656,752)	274,020	-	27,381	(3,355,351)	(9,769,133)	6,413,782
OTHER FINANCING SOURCES (USES):							
Operating Transfers From Other Funds	2,932,284	-	-	-	2,932,284	2,075,661	856,623
Operating Transfers To Other Funds	(2,692,806)	(239,478)	-	-	(2,932,284)	(2,075,661)	(856,623)
Bond Proceeds	2,900,000	-	-	-	2,900,000	2,900,000	-
Cash Transferred for Payroll	-	-	3,412,638	-	3,412,638	-	-
Cash Disbursed for Payroll	-	-	(3,421,602)	-	(3,421,602)	-	(8,964)
Total Other Financing Sources (Uses)	3,139,478	(239,478)	(8,964)	-	2,891,036	2,900,000	(8,964)
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES AND OTHER FINANCING SOURCES (USES)	(517,274)	34,542	(8,964)	27,381	(464,315)	(6,869,133)	6,404,818
FUND BALANCE/RETAINED EARNINGS – BEGINNING OF YEAR	12,593,440	3,195,990	8,964	541,437	16,339,831	14,781,895	1,557,936
FUND BALANCE/RETAINED EARNINGS – END OF YEAR	\$ 12,076,166	\$ 3,230,532	\$ -	\$ 568,818	\$ 15,875,516	\$ 7,912,762	\$ 7,962,754

As noted previously, the actual results of operations are presented in accordance with U.S. generally accepted accounting principles, which differ in certain respects from those practices used in the preparation of the 2003-2004 budget. For purposes of preparing the budget comparison above and the Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual (Cash Basis), the actual results of operations have been adjusted to the cash basis, which is consistent with the City's budget revenues and expenditures/expenses.

**CITY OF SPENCER, IOWA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004**

Note 2 – **BUDGET** (Continued)

The adjustments required to convert the results of operations at the end of the year are as follows:

EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES AND OTHER FINANCING SOURCES (USES)

	General	Special Revenue	Debt Service	Capital Projects	Enterprise	Internal Service	Permanent	Fiduciary
GAAP Basis	\$ 790,113	\$ 56,088	\$ 320,024	\$(1,704,541)	\$(202,288)	\$(6,770)	\$ 98	\$ 29,273
(Increase) Decrease due to Revenue:								
Taxes Receivable	(186,091)	742	(401)	-	-	-	-	-
Taxes Receivable – Succeeding Year	(12,447)	33,475	48,837	-	-	-	-	-
Interest Receivable	(2,053)	242	(965)	2,824	(396)	-	832	(119)
Grants Receivable	(25,285)	1,000	-	108,029	-	-	-	-
Miscellaneous Receivable.....	25,612	(4,315)	-	623	12,959	-	-	7,397
Charges for Service	-	-	-	-	3,894	-	-	-
Increase (Decrease) due to Expenditures/Expenses:								
Prepaid Insurance	(2,424)	-	-	-	(3,133)	-	-	-
Accounts Payable	(19,951)	(102,726)	6,241	(33,742)	(103,532)	(2,194)	-	(9,170)
Accrued Expenses	65,028	1,409	-	7,535	67,473	-	-	-
Deferred Revenue – Property Taxes	191,227	(33,475)	(48,837)	-	-	-	-	-
Depreciation	-	-	-	-	393,494	-	-	-
Acquisition of Capital Assets	-	-	-	-	(133,929)	-	-	-
Budget Basis	<u>\$ 823,729</u>	<u>\$(47,560)</u>	<u>\$ 324,899</u>	<u>\$ (1,619,272)</u>	<u>\$ 34,542</u>	<u>\$(8,964)</u>	<u>\$ 930</u>	<u>\$ 27,381</u>

**CITY OF SPENCER, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

Note 3 – CASH AND CASH EQUIVALENTS AND POOLED INVESTMENTS

The City 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.

At June 30, 2004, the City's carrying amount of deposits was as follows:

	Total Primary Government Carrying Balance	Total Primary Government Bank Balance	Component Unit Spencer Municipal Hospital Carrying Balance
Demand Deposits/Savings Accounts	\$ 15,303,048	\$ 15,509,026	\$ 17,875,485
Time Certificates and Pooled Investments	-	-	3,251,685
Cash on Hand	<u>3,650</u>	<u>3,650</u>	<u>-</u>
	<u>\$ 15,306,698</u>	<u>\$ 15,512,676</u>	<u>\$ 21,127,170</u>

The reconciliation of cash and cash equivalents and temporary cash and pooled investments for the City is as follows:

Cash and Cash Equivalents	\$ 12,367,087
Restricted – Cash and Cash Equivalents	<u>2,939,611</u>
	<u>\$ 15,306,698</u>

The City had no investments that are subject to risk categorization. The City had investments in the Iowa Public Agency Investment Trust (IPAIT) which are valued at an amortized cost of \$341,408 and are also not subject to risk categorization. IPAIT had been established under Iowa law pursuant to Iowa Code Chapter 28E and Sections 331.555 and 384.21, which authorize Iowa cities, counties, city utilities, and other eligible participants to jointly invest monies pursuant to a joint investment agreement. IPAIT is exempt from registration under the Securities Act of 1933, and the Iowa Uniform Securities Act. IPAIT operates in a manner consistent with the SEC's Rule 2a-7 of the Investment Company Act of 1940. IPAIT uses amortized cost rather than market value to report net assets to compute share prices. Accordingly, the fair value of the position in IPAIT is the same as the value of the IPAIT shares.

**CITY OF SPENCER, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

Note 4 – FIXED ASSETS

The following is a combined presentation of the Fixed Assets as they appear in the financial statements as of June 30, 2004:

	General Fixed Assets	Enterprise Assets	Total	Component Unit Spencer Municipal Hospital
Capital Assets, Not Being Depreciated:				
Land	\$ 1,834,304	\$ 1,555,865	\$ 3,390,169	\$ 1,432,384
Construction in Progress	<u>1,629,289</u>	<u>-</u>	<u>1,629,289</u>	<u>12,267,005</u>
Total Capital Assets, Not Being Depreciated	<u>\$ 3,463,593</u>	<u>\$ 1,555,865</u>	<u>\$ 5,019,458</u>	<u>\$ 13,699,389</u>
Capital Assets, Being Depreciated:				
Infrastructure	\$ 18,987,750	\$ -	\$ 18,987,750	\$ -
Buildings	6,977,953	5,146,859	12,124,812	17,978,993
Improvements other than Buildings	7,057,042	-	7,057,042	669,025
Equipment	<u>5,731,807</u>	<u>5,197,948</u>	<u>10,929,755</u>	<u>28,677,934</u>
Total Assets, Being Depreciated	38,754,552	10,344,807	49,099,359	47,325,952
Less Accumulated Depreciation for:				
Infrastructure	8,812,199	-	8,812,199	-
Buildings	3,199,536	3,495,991	6,695,527	6,807,429
Improvements other than Buildings	2,526,473	-	2,526,473	386,202
Equipment	<u>3,949,185</u>	<u>3,890,958</u>	<u>7,840,143</u>	<u>20,433,459</u>
Total Accumulated Depreciation.....	<u>18,487,393</u>	<u>7,386,949</u>	<u>25,874,342</u>	<u>27,627,090</u>
Total Capital Assets Being Depreciated, Net	<u>\$ 20,267,159</u>	<u>\$ 2,957,858</u>	<u>\$ 23,225,017</u>	<u>\$ 19,698,862</u>

A summary of the changes in the fixed assets for the year ended June 30, 2004, is as follows:

Governmental Activities:

	Balance July 1, 2003	Additions	Retirements	Balance June 30, 2004
Capital Assets, Not Being Depreciated:				
Land	\$ 1,780,662	\$ 55,000	\$ 1,358	\$ 1,834,304
Construction in Progress	<u>2,041,709</u>	<u>1,687,782</u>	<u>2,100,202</u>	<u>1,629,289</u>
Total Capital Assets, Not Being Depreciated	<u>\$ 3,822,371</u>	<u>\$ 1,742,782</u>	<u>\$ 2,101,560</u>	<u>\$ 3,463,593</u>
Capital Assets, Being Depreciated:				
Infrastructure	17,047,046	1,940,704	-	18,987,750
Buildings	6,958,890	19,063	-	6,977,953
Improvements other than Buildings	6,897,544	159,498	-	7,057,042
Equipment	<u>5,588,383</u>	<u>197,044</u>	<u>53,620</u>	<u>5,731,807</u>
Total Assets, Being Depreciated	36,491,863	2,316,309	53,620	38,754,552
Less Accumulated Depreciation for:				
Infrastructure	8,112,005	700,194	-	8,812,199
Buildings	3,050,972	148,564	-	3,199,536
Improvements other than Buildings	2,288,122	238,351	-	2,526,473
Equipment	<u>3,621,533</u>	<u>367,430</u>	<u>39,778</u>	<u>3,949,185</u>
Total Accumulated Depreciation.....	<u>17,072,632</u>	<u>1,454,539</u>	<u>39,778</u>	<u>18,487,393</u>
Total Capital Assets Being Depreciated, Net.....	<u>\$ 19,419,231</u>	<u>\$ 861,770</u>	<u>\$ 13,842</u>	<u>\$ 20,267,159</u>

**CITY OF SPENCER, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

Note 4 – **FIXED ASSETS** (Continued)

The following is included in construction in progress:

Infrastructure	\$ 1,593,700
Library Roof	<u>35,589</u>
	<u>\$ 1,629,289</u>

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

Governmental Activities:	
Public Safety	\$ 131,881
Public Works	991,577
Culture and Recreation	295,664
General Government	<u>35,417</u>
Total Depreciation Expense	<u>\$ 1,454,539</u>

Business-Type Activities:

	Balance July 1, 2003	Additions	Retirements	Balance June 30, 2004
Capital Assets, Not Being Depreciated:				
Land	\$ 1,420,892	\$ 134,973	\$ -	\$ 1,555,865
Construction in Progress	<u>45,218</u>	<u>89,755</u>	<u>134,973</u>	<u>-</u>
Total Capital Assets, Not Being Depreciated	<u>\$ 1,466,610</u>	<u>\$ 224,728</u>	<u>\$ 134,973</u>	<u>\$ 1,555,865</u>
Capital Assets, Being Depreciated:				
Buildings	5,146,859	-	-	5,146,859
Equipment	<u>5,153,687</u>	<u>44,261</u>	-	<u>5,197,948</u>
Total Assets, Being Depreciated	10,300,546	44,261	-	10,344,807
Less Accumulated Depreciation for:				
Buildings	3,367,320	128,671	-	3,495,991
Equipment	<u>3,626,135</u>	<u>264,823</u>	-	<u>3,890,958</u>
Total Accumulated Depreciation.....	<u>6,993,455</u>	<u>393,494</u>	-	<u>7,386,949</u>
Total Capital Assets Being Depreciated, Net.....	<u>\$ 3,307,091</u>	<u>\$ (349,233)</u>	<u>\$ -</u>	<u>\$ 2,957,858</u>

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

Business-type Activities:	
Waste Treatment Plant	\$ 227,826
Solid Waste	102,249
Landfill	<u>63,419</u>
Total Depreciation Expense	<u>\$ 393,494</u>

**CITY OF SPENCER, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

Note 4 – **FIXED ASSETS** (Continued)

Reconciliation of Investment in Capital Assets:

	Governmental Activities	Business Type Activities
Capital Assets (Net of Accumulated Depreciation).....	\$ 23,730,752	\$ 4,513,723
Add: Contributed Capital	-	181,328
Less: G.O. Bonds Payable	6,530,153	1,799,847
Notes Payable	<u>664,350</u>	<u>-</u>
Investment in Capital Assets, Net of Related Debt	<u>\$ 16,536,249</u>	<u>\$ 2,895,204</u>

Note 5 – **GENERAL OBLIGATION DEBT**

The City's computed legal debt limit as of June 30, 2004 is \$25,421,611 of which \$7,715,579 is committed for outstanding general obligation debt.

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

	General Obligation
Bonds Payable – July 1, 2003	\$ 9,385,000
Additional Bonds Issued	2,900,000
Less Bonds Retired	<u>(3,955,000)</u>
Bonds Payable – June 30, 2004	<u>\$ 8,330,000</u>

Of the Bonds Payable, \$1,799,847 was for the purchase of the Landfill and is recorded in the Proprietary Funds. The entire amount is outstanding at June, 30, 2004.

General obligation bonds are direct obligations and pledge the full faith and credit of the government. General obligation bonds currently outstanding are as follows:

Issuance	Date Of Issuance	Interest Rate	Final Due Date	Amount Originally Issued	Outstanding 06/30/04
Bond E	5/2001	4.68 %	2012	\$1,170,000	\$ 975,000
Bond D	2/1999	4.038 %	2009	\$1,175,000	\$ 655,000
Bond T	2/1999	5.85 %	2010	\$ 310,000	\$ 205,000
Bond F	12/2001	3.40 %	2004	\$2,225,000	\$2,225,000
Bond C	7/1995	5.1717 %	2010	\$2,420,000	\$1,370,000
Bond G DT	12/2002	1.75 %	2003	\$3,520,000	\$ 0
Bond G	11/2003	3.98 %	2018	\$1,900,000	\$1,900,000
DT Short Term	11/2003	1.65 %	2004	\$1,000,000	\$1,000,000

**CITY OF SPENCER, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

Note 5 – GENERAL OBLIGATION DEBT (Continued)

The annual requirements to amortize the general obligations bonds outstanding as of June 30, 2004, are as follows:

	General Obligation		Total
	Principal	Interest	
2005	\$ 3,790,000	\$ 271,696	\$ 4,061,696
2006	590,000	195,091	785,091
2007	610,000	171,249	781,249
2008	645,000	145,564	790,564
2009	675,000	117,166	792,166
2010 -2014	1,380,000	266,938	1,646,938
2015 -2018	<u>640,000</u>	<u>70,411</u>	<u>710,411</u>
	<u>\$ 8,330,000</u>	<u>\$ 1,238,115</u>	<u>\$ 9,568,115</u>

The Debt Service Fund has \$614,421 available to service the General Obligation Bonds.

On November 12, 2003, the City received the proceeds from \$1,000,000 General Obligation Anticipation Project Notes and \$1,900,000 General Obligation Corporate Purpose Note. Interest payments will be paid through tax revenues.

Note 6 – OTHER LONG-TERM DEBT

On June 30, 2004, the City had the following other long-term debt:

	Spencer Municipal Utilities	Wal-Mart Loan Agreement	Fire Truck Loan	Totals
Date of Issue	11-19-96	10-01-99	06-01-02	
Date of Maturity	2007	2006	2012	
Interest Rate	0%	5%	4.65%	
Original Issue	\$ 266,250	\$ 390,857	\$ 390,000	\$ 1,047,107
Balance July 1, 2003	133,125	320,122	351,000	804,247
Issued	-	-	-	-
Redeemed	<u>(26,625)</u>	<u>(74,272)</u>	<u>(39,000)</u>	<u>(139,897)</u>
Balance June 30, 2004	\$ <u>106,500</u>	\$ <u>245,850</u>	\$ <u>312,000</u>	\$ <u>664,350</u>

The Spencer Municipal Utilities loan is retired through storm sewer fees.

The Wal-Mart loan is retired through tax increment financing revenues.

The Fire Truck Loan is retired through tax revenues.

**CITY OF SPENCER, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

Note 6 – **OTHER LONG-TERM DEBT** (Continued)

The above long-term debt will mature according to the following schedule:

	Principal	Interest	Total
2005	\$ 143,611	\$ 26,801	\$ 170,412
2006	147,510	21,088	168,598
2007	151,604	15,180	166,784
2008	65,625	9,092	74,717
2009	39,000	7,254	46,254
2010 -2012	<u>117,000</u>	<u>10,886</u>	<u>127,886</u>
	<u>\$ 664,350</u>	<u>\$ 90,301</u>	<u>\$ 754,651</u>

During the year ended June 30, 2004, the following changes occurred in accrued compensated absences:

	07/01/03	Net Increase	06/30/04
Accrued Compensated Absences	<u>\$ 281,267</u>	<u>\$ 30,560</u>	<u>\$ 311,827</u>

Spencer Municipal Hospital (component unit) sold \$11,000,000 of series A and B revenue bonds. Details of SMH's revenue bonds payable at June 30, 2004, are as follows

Issuance	Date Of Issuance	Interest Rate	Final Due Date	Monthly Principal Payment	Amount Originally Issued	Outstanding 06/30/04
Series A Revenue Bonds	12/2003	2.591%	11/2018	\$61,728	\$1,000,000	\$1,000,000
Series B Revenue Bonds	12/2003	4.02%	12/2018	\$55,556	\$10,000,000	\$9,666,664

The revenue bonds were issued under the provisions of Chapter 384.24A of the Code of Iowa and as such the principal and interest payments are payable solely from the revenues of the Hospital and do not constitute a liability or obligation of the City of Spencer.

Spencer Municipal Hospital (component unit) entered into a capital lease to finance the purchase of medical equipment. Details of SMH's capital lease payable at June 30, 2004, are as follows:

Issuance	Date Of Issuance	Interest Rate	Final Due Date	Annual Payment	Amount Originally Issued	Outstanding 06/30/04
Capital Lease for Medical equipment	09/2001	5.25%	09/2006	\$260,868	\$1,150,000	\$533,150

**CITY OF SPENCER, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

Note 6 – OTHER LONG-TERM DEBT (Continued)

The maturities and payment components of the Spencer Municipal Hospital's long-term debt as of June 30, 2004, are as follows:

Fiscal Year	Principal	Interest	Total
2005	\$ 905,234	\$ 422,373	\$ 1,327,607
2006	1,658,802	376,104	2,034,906
2007	969,130	324,466	1,293,596
2008	666,672	295,916	962,588
2009	666,672	269,116	935,788
2010-2014	3,333,360	943,575	4,276,935
2015-2019	<u>2,999,944</u>	<u>276,363</u>	<u>3,276,307</u>
	<u>\$ 11,199,814</u>	<u>\$ 2,907,913</u>	<u>\$ 14,107,727</u>

Note 7 – INTERFUND RECEIVABLES, PAYABLE, AND TRANSFERS

Interfund Activity:

	Interfund Receivable	Interfund Payable
General	\$ -	\$ 6,241
Enterprise	<u>6,241</u>	-
Total	<u>\$ 6,241</u>	<u>\$ 6,241</u>

Transfers:

	Governmental Fund Types				Proprietary Fund Type	Transfer Out
	General	Special Revenue	Debt Service	Capital Projects	Enterprise	
General	\$ -	\$ 118,161	\$ 13,390	\$ 477,543	\$ -	\$ 609,094
Special Revenue	557,502	-	616,491	175,996	-	1,349,989
Debt Service	55,643	65,000	-	-	-	120,643
Capital Projects	463,403	-	143,022	-	-	606,425
Permanent	6,655	-	-	-	-	6,655
Enterprise	<u>161,500</u>	<u>14,810</u>	<u>63,168</u>	<u>-</u>	<u>-</u>	<u>239,478</u>
Total Transfers In	<u>\$ 1,244,703</u>	<u>\$ 197,971</u>	<u>\$ 836,071</u>	<u>\$ 653,539</u>	<u>\$ -</u>	<u>\$ 2,932,284</u>

Transfers are used to:

1. Move revenues from the fund that statute or budget required to collect them to the fund that statute or budget requires to expend them.
2. To move receipts restricted to debt service from the fund collecting the receipts to the debt service fund as debt service payments become due.
3. To use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

**CITY OF SPENCER, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

Note 8 – PENSION AND RETIREMENT BENEFITS

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

Plan members are required to contribute 3.70% of their annual salary and the City is required to contribute 5.75% of annual covered payroll except for police employees, in which case the percentages are 5.90% and 8.86%, respectively. Contribution requirements are established by state statute.

The City's contributions to IPERS for the years ended June 30, 2004, 2003, and 2002 were as follows:

	June 30, 2004	June 30, 2003	June 30, 2002
City's Contribution	\$ 119,063	\$ 113,295	\$ 104,476
Percentage Funded of Required Contribution	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

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, disability, 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 earned compensation and the City's contribution rate may not be less than 17.00% 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 as follows:

	June 30, 2004	June 30, 2003	June 30, 2002
City's Contribution	\$ 218,769	\$ 173,633	\$ 168,156
Percentage Funded of Required Contribution	100.0%	100.0%	100.0%

Note 9 – CONTINGENT LIABILITY

The City is currently named in two lawsuits (along with Spencer Municipal Utilities), filed in the fall of 2000 by MediaCom Iowa, L.L.C. In both actions, MediaCom is challenging certain actions taken by the City and Spencer Municipal Utilities in the establishment of the municipal communications utility. At this time, the outcome of this litigation cannot be predicted, but it is not believed that the City faces significant financial exposure to this litigation.

**CITY OF SPENCER, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

Note 10 – AIRPORT LEASE AGREEMENTS

The City of Spencer and Randy Vander Weide entered into a five-year fixed based operator lease agreement to provide service at the airport, beginning July 1, 2004. Either party may terminate the lease, effective six months after notification. The terms of the lease include monthly rent of \$2,416.67 for use of various facilities and a per-gallon of fuel sold fee.

The City of Spencer and Spencer Avionics, Inc. have entered into a facilities lease agreement under which Spencer Avionics, Inc. leases from the City certain space in the north hangar at the Spencer Municipal Airport for \$1,500 per month. The lease is effective for April 1, 2001 through March 31, 2006. During the year ended June 30, 2004, rent income totaled \$18,000.

The minimum future rentals on the above operating leases for the next twelve months as of June 30, 2004, is \$47,000.

Note 11 – DUE FROM OTHER GOVERNMENTS AND GRANTS RECEIVABLE

At June 30, 2004, amounts due from other governments and grants receivable included the following:

Due from Other Governments:

Due from State of Iowa for Local Option Sales Tax	\$ 189,205
Due from State of Iowa for Hotel/Motel Sales Tax.....	27,803
Due from State of Iowa for Road Use Tax Allocations	74,993
Due from Clay County for June Police Court Fees and Fines.....	<u>9,476</u>
Due from Other Governments	<u>301,477</u>

Grants Receivable:

Due from State of Iowa for HOME Rehab	27,239
Due from ECHO for School Resource Officer	11,665
Other Grants for Capital Projects	<u>32,682</u>
Grants Receivable	<u>\$ 71,586</u>

CITY OF SPENCER, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

Note 12 – FUND BALANCE

A reconciliation of Fund Balance is as follows:

	General	Special Revenue	Debt Service	Capital Projects	Permanent
RESERVED FUND BALANCE					
Reserved for Note Receivable – Non-Current	\$ 182,193	\$ -	\$ -	\$ -	\$ -
Reserved for Endowment	-	-	-	-	350,617
Reserved for Debt Service	-	-	614,421	-	-
Total Reserved Fund Balance	182,193	-	614,421	-	350,617
UNRESERVED DESIGNATED					
Police Bike Patrol	-	-	-	-	-
Bike Helmet Program	-	-	-	-	-
Renaissance Initiative	31,516	-	-	-	-
City Hall	26,266	-	-	-	-
Police Capital Improvement	197,239	-	-	-	-
Fire Department Capital Improvement	381,855	-	-	-	-
Parks Special Projects	4,063	-	-	-	-
Parks Equipment	506,917	-	-	-	-
Parks Acquisition	35,868	-	-	-	-
Golf Course Capital Improvement	5,624	-	-	-	-
Street Improvement Reserve.....	1,004,033	-	-	-	-
Capital Improvements	921,717	-	-	-	-
Storm Sewer	354,524	-	-	-	-
Cable System	87,035	-	-	-	-
Public Works	687,455	-	-	-	-
Bridge	140,934	-	-	-	-
Airport Improvements	53,821	-	-	-	-
D.A.R.E.	17,984	-	-	-	-
Computer-Aided Drafting	9	-	-	-	-
Economic Development	2,047	-	-	-	-
Cemetery	18,715	-	-	-	-
Total Unreserved Designated Fund Balance	4,477,622	-	-	-	-
UNRESERVED UNDESIGNATED					
General	2,999,035	-	-	-	-
L.O.S.T.	-	328,356	-	-	-
Road Use	-	474,797	-	-	-
S.S.M.I.D.	-	6,299	-	-	-
Hotel/Motel Tax – Event Center.....	-	20,604	-	-	-
Hotel/Motel Tax – Soccer	-	49,731	-	-	-
Police Retirement System	-	421,251	-	-	-
Civil Service	-	10,342	-	-	-
Police Special Proceeds	-	11,169	-	-	-
Fire Pension Accumulation	-	100,184	-	-	-
City's Contribution to Retirement	-	51,281	-	-	-
Workers' Compensation Insurance	-	128,438	-	-	-
Trees Forever	-	17,297	-	-	-
Unemployment Insurance	-	7,899	-	-	-
Group Medical/Life Insurance.....	-	90,561	-	-	-
Capital Projects	-	-	-	1,967,549	-
Total Unreserved Undesignated Fund Balance	2,999,035	1,718,209	-	1,967,549	-
TOTAL FUND BALANCE	\$ 7,658,850	\$ 1,718,209	\$ 614,421	\$ 1,967,549	\$ 350,617

**CITY OF SPENCER, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

Note 13 – RISK FINANCING

The City is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters.

Note 14 – INDUSTRIAL DEVELOPMENT REVENUE BONDS

The City has issued a total of \$22,640,000 of industrial development revenue bonds in prior years under the provisions of Chapter 419 of the Code of Iowa. The balances outstanding at June 30, 2004, cannot be approximated since the various companies do not provide this information to the City. The bonds and related interest are payable solely from the rents payable by tenants of the properties constructed, and the bond principal and interest does not constitute liabilities of the City.

Note 15 – CONSTRUCTION COMMITMENTS

The City has entered into contracts totaling \$7,392,657 for various capital projects. As of June 30, 2004, the City has future construction commitments of \$1,817,260.

Note 16 – BUDGET OVER-EXPENDITURE

Per the Code of Iowa, disbursements may not legally exceed budgeted appropriations at the program level. During the year ended June 30, 2004, disbursements in the Public Works Program exceeded the amount budgeted.

Note 17 – LANDFILL CLOSURE/POST CLOSURE CARE COSTS

State and federal laws and regulations require the City's Solid Waste System to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. Although closure and post-closure care costs will be paid only near or after the date that the landfill stops accepting waste, the Solid Waste System reports a capacity used as of each balance sheet date. The \$183,495 reported as landfill closure and post-closure care liability at June 30, 2004, represents the cumulative amount reported to date based on the use of 19% percent of the estimated capacity of the landfill. The estimate for costs as of June 30, 2004 is \$942,408. The Solid Waste System will recognize the remaining estimated cost of closure and post-closure care of \$758,913 as the remaining estimated capacity is filled. The Solid Waste System expects to close the landfill in approximately 30 years. Actual cost may be higher due to inflation, changes in technology, or changes in regulations.

The State of Iowa specifies financial assurance requirements in Code Section 567-Chapter 111. The Iowa Code enumerates various allowable financial assurance mechanisms to meet the costs of closure and post-closure care. The City has met the financial assurance requirement by meeting the Local Government Financial Test. The City has begun to accumulate resources to fund the costs of closure and post-closure care. At June 30, 2004, deposits of \$ 110,943 are held for these purposes.

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REQUIRED SUPPLEMENTARY INFORMATION

In accordance with the Governmental Accounting Standards Board Statements No. 25, No. 27 and No. 34, the following information is a required part of the general purpose financial statements.

CITY OF SPENCER, IOWA
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL (CASH BASIS)
GENERAL FUND AND OTHER MAJOR SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED JUNE 30, 2004

	General Fund			Variance Amended Budget Favorable (Unfavorable)
	Budget		Actual	
	Adopted	Amended		
Revenues				
Taxes	2,676,840	\$ 2,676,840	\$ 2,699,201	\$ 22,361
Special Assessments	60,000	60,000	134,647	74,647
Licenses and Permits	458,100	458,100	513,812	55,712
Intergovernmental	403,201	803,201	910,936	107,735
Charges for Services	639,694	639,694	691,725	52,031
Fines	76,000	76,000	90,802	14,802
Interest on Investments	107,750	107,750	281,802	174,052
Miscellaneous	75,128	75,128	223,750	148,622
Contributions	5,750	5,750	6,394	644
Rent	20,200	20,200	26,505	6,305
Total Revenues	4,522,663	4,922,663	5,579,574	656,911
Expenditures				
Public Safety	1,754,468	1,849,468	1,730,780	118,688
Public Works	363,125	363,125	362,597	528
Culture and Recreation	1,511,581	1,511,581	1,475,510	36,071
Community and Economic Development	197,800	747,800	838,906	(91,106)
General Government	746,814	1,146,814	987,073	159,741
Total Expenditures	4,573,788	5,618,788	5,394,866	223,922
Excess (Deficiency) of Revenues				
Over Expenditures	(51,125)	(696,125)	184,708	880,833
Other Financing Sources (Uses)				
Operating Transfers From Other Funds	287,429	287,429	1,420,581	1,133,152
Operating Transfers to Other Funds	(749,597)	(749,597)	(781,559)	(31,962)
Total Other Financing Sources (Uses)	(462,168)	(462,168)	639,022	1,101,190
Change in Fund Balance	\$ (513,293)	\$ (1,158,293)	823,730	\$ 1,982,023
Fund Balance at Beginning of Year			6,778,787	
Fund Balance at End of Year			\$ 7,602,517	

Local Option Sales Tax				Road Use Tax			
Budget		Actual	Variance Amended Budget Favorable (Unfavorable)	Budget		Actual	Variance Amended Budget Favorable (Unfavorable)
Adopted	Amended			Adopted	Amended		
\$ 1,150,000	1,150,000	\$ 1,252,772	\$ 102,772	\$ -	-	\$ -	\$ -
-	-	-	-	-	-	-	-
-	-	-	-	899,071	899,071	942,565	43,494
-	-	-	-	-	-	-	-
1,500	1,500	5,241	3,741	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
<u>1,151,500</u>	<u>1,151,500</u>	<u>1,258,013</u>	<u>106,513</u>	<u>899,071</u>	<u>899,071</u>	<u>942,565</u>	<u>43,494</u>
-	-	-	-	-	-	-	-
-	-	-	-	899,071	899,071	919,388	(20,317)
-	-	-	-	-	-	-	-
457,000	457,000	485,165	(28,165)	-	-	-	-
-	-	-	-	-	-	-	-
<u>457,000</u>	<u>457,000</u>	<u>485,165</u>	<u>(28,165)</u>	<u>899,071</u>	<u>899,071</u>	<u>919,388</u>	<u>(20,317)</u>
694,500	694,500	772,848	78,348	-	-	23,177	23,177
-	-	70,300	-	-	-	-	-
(694,500)	(694,500)	(784,497)	(89,997)	(19,790)	(19,790)	(32,271)	(12,481)
<u>(694,500)</u>	<u>(694,500)</u>	<u>(714,197)</u>	<u>(89,997)</u>	<u>(19,790)</u>	<u>(19,790)</u>	<u>(32,271)</u>	<u>(12,481)</u>
<u>\$ -</u>	<u>\$ -</u>	58,651	<u>\$ (11,649)</u>	<u>\$ (19,790)</u>	<u>\$ (19,790)</u>	(9,094)	<u>\$ 10,696</u>
		<u>117,574</u>				<u>414,829</u>	
		<u>\$ 176,225</u>				<u>\$ 405,735</u>	

See Accompanying Notes to Financial Statements

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**CITY OF SPENCER, IOWA
OTHER SUPPLEMENTARY INFORMATION**

**CITY OF SPENCER, IOWA
COMBINING BALANCE SHEET
GOVERNMENTAL NONMAJOR FUNDS
JUNE 30, 2004**

	Nonmajor Special Revenue Funds	Nonmajor Capital Project Funds	Nonmajor Permanent Funds	Total Governmental Nonmajor Funds
Assets				
Cash and Cash Equivalents	\$ 878,321	\$ 243,738	\$ 350,257	\$ 1,472,316
Property Tax Receivable	4,332	-	-	4,332
Property Tax Receivable - Succeeding Year	971,506	-	-	971,506
Grants Receivable	-	27,239	-	27,239
Interest Receivable	1,670	-	360	2,030
Due From Other Governments	27,803	-	-	27,803
Prepaid Insurance	26,860	-	-	26,860
Total Assets	<u>1,910,492</u>	<u>270,977</u>	<u>350,617</u>	<u>2,532,086</u>
Liabilities				
Accounts Payable	23,930	42,931	-	66,861
Deferred Revenue - Property Taxes				
Succeeding Year	971,506	-	-	971,506
Total Liabilities	<u>995,436</u>	<u>42,931</u>	<u>-</u>	<u>1,038,367</u>
Fund Balance				
Reserved	26,860	-	350,617	377,477
Unreserved - Undesignated	888,196	228,046	-	1,116,242
Total Fund Balance	<u>915,056</u>	<u>228,046</u>	<u>350,617</u>	<u>1,493,719</u>
Total Liabilities and Fund Balance	<u>\$ 1,910,492</u>	<u>\$ 270,977</u>	<u>\$ 350,617</u>	<u>\$ 2,532,086</u>

See Accompanying Notes to Financial Statements

CITY OF SPENCER, IOWA
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL NONMAJOR FUNDS
FOR THE YEAR ENDED JUNE 30, 2004

	Nonmajor Special Revenue Funds	Nonmajor Capital Project Funds	Nonmajor Permanent Funds	Total Governmental Nonmajor Funds
Revenues				
Taxes	\$ 1,189,382	\$ -	\$ -	\$ 1,189,382
Intergovernmental Revenue	-	256,201	-	256,201
Special Assessments	-	100,368	-	100,368
Interest	29,091	3,713	4,558	37,362
Contributions	9,627	52,455	-	62,082
Miscellaneous	14,019	57,978	4,700	76,697
Total Revenues	<u>1,242,119</u>	<u>470,715</u>	<u>9,258</u>	<u>1,722,092</u>
Expenditures				
Public Safety	242,267	-	-	242,267
Public Works	2,464	-	-	2,464
Culture and Recreation	71,731	-	125	71,856
Community and Economic Development	149,871	-	2,380	152,251
General Government	372,328	-	-	372,328
Capital Projects	-	730,959	-	730,959
Total Expenditures	<u>838,661</u>	<u>730,959</u>	<u>2,505</u>	<u>1,572,125</u>
Excess (Deficiency) of Revenues Over Expenditures	403,458	(260,244)	6,753	149,967
Other Financing Sources (Uses)				
Operating Transfers From Other Funds	127,671	498,849	-	626,520
Operating Transfers To Other Funds	(533,221)	(576,037)	(6,655)	(1,115,913)
Proceeds From the Issuance of Bonds	-	482,722	-	482,722
Payment For the Retirement of Bonds	-	(800,000)	-	(800,000)
Total Other Financing Sources (Uses)	<u>(405,550)</u>	<u>(394,466)</u>	<u>(6,655)</u>	<u>(806,671)</u>
Net Change in Fund Balance	(2,092)	(654,710)	98	(656,704)
Fund Balance at Beginning of Year	<u>917,148</u>	<u>882,756</u>	<u>350,519</u>	<u>2,150,423</u>
Fund Balance at End of Year	<u>\$ 915,056</u>	<u>\$ 228,046</u>	<u>\$ 350,617</u>	<u>\$ 1,493,719</u>

See Accompanying Notes to Financial Statements

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SPECIAL REVENUE FUNDS

CITY OF SPENCER, IOWA
SPECIAL REVENUE FUNDS

MAJOR

LOCAL OPTION SALES TAX

To account for the local option sales tax proceeds and the required distributions to other entities.

ROAD USE TAX FUND

To account for the City's share of motor fuel tax revenue received from the State.

NONMAJOR

TAX INCREMENT FINANCING (T.I.F.) DISTRICT #1

To set up an Urban Renewal Tax District with a \$400,000 urban renewal tax increment revenue bond, entered into November 19, 1990.

SELF-SUPPORTED MUNICIPAL IMPROVEMENT DISTRICT (SSMID)

To account for the self-supported municipal improvement district in Spencer's downtown area, which was established in 1989.

HOTEL MOTEL TAX

To account for the City's share of Hotel Motel tax revenue received from the State.

POLICE RETIREMENT SYSTEMS

A statewide civil service retirement system was created July 1, 1992. This account is used to account for the contributions made to the civil service police fund for the City police employees.

PASSENGER FACILITY CHARGES

To account for usage fee associated with passengers using Spencer Municipal Airport.

CIVIL SERVICE EXPENSE

To account for expenses of the civil service activities, i.e., expenses related to hiring police and fire employees.

POLICE SPECIAL PROCEEDS

To account for federal allocation of forfeited drug-related assets. This is a separate account at Farmers Trust and Savings Bank, not included in the regular City checking account.

FIRE PENSION ACCUMULATION

To account for the fire department's contribution to the civil service fund.

FEDERAL AND STATE RETIREMENT

To account for the FICA and IPERS funds for the City of Spencer employees. Financed with a separate property tax levy.

WORKERS' COMPENSATION INSURANCE

To account for the expense of workers' compensation insurance and claims. Financed with a separate property tax levy.

TREES FOREVER

To account for grants and donations to be used to beautify Spencer through tree plantings.

UNEMPLOYMENT INSURANCE CLAIMS

To account for the expense of self-funded unemployment claims. Financed with a separate property tax levy.

GROUP MEDICAL/LIFE INSURANCE

To account for the expense of group medical and life insurance premiums.

**CITY OF SPENCER, IOWA
COMBINING BALANCE SHEET
GOVERNMENTAL NONMAJOR FUNDS - SPECIAL REVENUE FUNDS
JUNE 30, 2004**

	T.I.F. District #1	SSMD	Hotel Motel Tax- Event Center	Hotel Motel Tax- Soccer	Police Retirement Systems	Passenger Facility Charges	Civil Service Expenses
Assets							
Cash and Cash Equivalents	\$ -	\$ 6,000	\$ 18,185	\$ 41,660	\$ 419,304	\$ -	\$ 12,596
Property Tax Receivable	-	299	-	-	732	-	-
Property Tax Receivable--Succeeding Year	371,873	68,114	-	-	104,421	-	-
Interest Receivable	-	-	-	119	1,215	-	-
Due From Other Governments	-	-	19,851	7,952	-	-	-
Prepaid Insurance	-	-	-	-	-	-	-
Total Assets	<u>371,873</u>	<u>74,413</u>	<u>38,036</u>	<u>49,731</u>	<u>525,672</u>	<u>-</u>	<u>12,596</u>
Liabilities							
Accounts Payable	-	-	17,432	-	-	-	2,254
Deferred Revenue - Property Taxes Succeeding Year	371,873	68,114	-	-	104,421	-	-
Total Liabilities	<u>371,873</u>	<u>68,114</u>	<u>17,432</u>	<u>-</u>	<u>104,421</u>	<u>-</u>	<u>2,254</u>
Fund Balance							
Reserves	-	-	-	-	-	-	-
Unreserved - Undesignated	-	6,299	20,604	49,731	421,251	-	10,342
Total Fund Balance	<u>-</u>	<u>6,299</u>	<u>20,604</u>	<u>49,731</u>	<u>421,251</u>	<u>-</u>	<u>10,342</u>
Total Liabilities and Fund Balance	<u>\$ 371,873</u>	<u>\$ 74,413</u>	<u>\$ 38,036</u>	<u>\$ 49,731</u>	<u>\$ 525,672</u>	<u>\$ -</u>	<u>\$ 12,596</u>

Police Special Proceeds	Fire Pension Accumulation	Federal and State Retirement	Workers' Compensation Insurance	Trees Forever	Unemployment Insurance Claims	Group Medical/Life Insurance	Total
\$ 11,169	\$ 99,624	\$ 50,503	\$ 105,692	\$ 17,248	\$ 7,749	\$ 88,591	\$ 878,321
-	273	778	-	-	150	2,100	4,332
-	28,011	102,463	-	-	19,838	276,786	971,506
-	287	-	-	49	-	-	1,670
-	-	-	-	-	-	-	27,803
-	-	-	26,860	-	-	-	26,860
<u>11,169</u>	<u>128,195</u>	<u>153,744</u>	<u>132,552</u>	<u>17,297</u>	<u>27,737</u>	<u>367,477</u>	<u>1,910,492</u>
-	-	-	4,114	-	-	130	23,930
-	28,011	102,463	-	-	19,838	276,786	971,506
-	28,011	102,463	4,114	-	19,838	276,916	995,436
-	-	-	26,860	-	-	-	26,860
11,169	100,184	51,281	101,578	17,297	7,899	90,561	888,196
<u>11,169</u>	<u>100,184</u>	<u>51,281</u>	<u>128,438</u>	<u>17,297</u>	<u>7,899</u>	<u>90,561</u>	<u>915,056</u>
<u>\$ 11,169</u>	<u>\$ 128,195</u>	<u>\$ 153,744</u>	<u>\$ 132,552</u>	<u>\$ 17,297</u>	<u>\$ 27,737</u>	<u>\$ 367,477</u>	<u>\$ 1,910,492</u>

See Accompanying Notes to Financial Statements

CITY OF SPENCER, IOWA
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL NONMAJOR FUNDS - SPECIAL REVENUE FUNDS
JUNE 30, 2004

	T.I.F. District #1	SSMID	Hotel Motel Tax - Event Center	Hotel Motel Tax - Soccer	Police Retirement Systems	Passenger Facility Charges	Civil Service Expenses
Revenues							
Taxes	\$ 534,991	\$ 71,992	\$ 72,400	\$ 39,758	\$ 72,602	\$ -	\$ 7,744
Interest	-	-	452	315	16,521	-	-
Contributions	-	-	-	-	-	-	-
Miscellaneous	-	-	-	-	-	3	-
Total Revenues	<u>534,991</u>	<u>71,992</u>	<u>72,852</u>	<u>40,073</u>	<u>89,123</u>	<u>3</u>	<u>7,744</u>
Expenditures							
Public Safety	-	-	-	-	180,438	-	4,428
Public Works	-	-	-	-	-	-	-
Culture and Recreation	-	-	-	-	-	-	-
Community and Economic Development	-	70,466	79,405	-	-	-	-
General Government	-	-	-	-	-	-	-
Total Expenditures	<u>-</u>	<u>70,466</u>	<u>79,405</u>	<u>-</u>	<u>180,438</u>	<u>-</u>	<u>4,428</u>
Excess (Deficiency) of Revenues Over Expenditures	534,991	1,526	(6,553)	40,073	(91,315)	3	3,316
Other Financing Sources (Uses)							
Operating Transfers From Other Funds	-	-	-	18,658	-	-	-
Operating Transfers To Other Funds	(534,991)	-	(18,658)	(9,000)	-	(3)	-
Total Other Financing Sources (Uses)	<u>(534,991)</u>	<u>-</u>	<u>(18,658)</u>	<u>9,658</u>	<u>-</u>	<u>(3)</u>	<u>-</u>
Net Change in Fund Balance	-	1,526	(25,211)	49,731	(91,315)	-	3,316
Fund Balance at Beginning of Year	-	4,773	45,815	-	512,566	-	7,026
Fund Balance at End of Year	<u>\$ -</u>	<u>\$ 6,299</u>	<u>\$ 20,604</u>	<u>\$ 49,731</u>	<u>\$ 421,251</u>	<u>\$ -</u>	<u>\$ 10,342</u>

Police Special Proceeds	Fire Pension Accumulation	Federal and State Retirement	Workers' Compensation Insurance	Trees Forever	Unemployment Insurance Claims	Group Medical/Life Insurance	Total
\$ -	\$ 22,384	\$ -	\$ 72,721	\$ -	\$ 19,698	\$ 275,092	\$ 1,189,382
6,071	3,692	1,392	-	648	-	-	29,091
-	-	-	-	9,627	-	-	9,627
-	-	-	-	-	-	14,016	14,019
6,071	26,076	1,392	72,721	10,275	19,698	289,108	1,242,119
-	38,331	19,070	-	-	-	-	242,267
-	-	2,464	-	-	-	-	2,464
-	-	66,889	-	4,842	-	-	71,731
-	-	-	-	-	-	-	149,871
-	-	38,174	54,876	-	22,976	256,302	372,328
-	38,331	126,597	54,876	4,842	22,976	256,302	838,661
6,071	(12,255)	(125,205)	17,845	5,433	(3,278)	32,806	403,458
-	-	95,096	-	-	10,000	33,348	157,102
-	-	-	-	-	-	-	(562,652)
-	-	95,096	-	-	10,000	33,348	(405,550)
6,071	(12,255)	(30,109)	17,845	5,433	6,722	66,154	(2,092)
5,098	112,439	81,390	110,593	11,864	1,177	24,407	917,148
<u>\$ 11,169</u>	<u>\$ 100,184</u>	<u>\$ 51,281</u>	<u>\$ 128,438</u>	<u>\$ 17,297</u>	<u>\$ 7,899</u>	<u>\$ 90,561</u>	<u>\$ 915,056</u>

See Accompanying Notes to Financial Statements

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CAPITAL PROJECT FUNDS

CITY OF SPENCER, IOWA

CAPITAL PROJECT FUNDS

MAJOR

2003 DOWNTOWN RENOVATIONS

To account for costs of the Downtown Renovation including new street lights, sidewalks, curbs, and amenities.

NONMAJOR

2004 CORN BELT SEWER/WATER EXTENSION

To account for costs associated with extending water and sewer services to Corn Belt 3rd Addition.

2004 PCC PAVING #1

To account for costs associated with paving Deerfield 5th Addition, Morris Addition and Haro Drive.

2004 PCC PAVING #2

To account for costs associated with resurfacing 10th Avenue SE and a Downtown Alley.

2004 ACC OVERLAY #1

To account for costs of asphalt overlay on various Downtown streets.

LIBRARY ROOF REPLACEMENT

To account for costs to replace the library roof.

2003 CSVI HANGAR PAINTING PROJECT

To account for costs associated with painting airport hangar.

2003 ACC OVERLAY #1

To account for costs of asphalt overlay on 4th Avenue East and various other city streets.

2003 HOSPITAL UTILITY RELOCATION PROJECT

To account for costs to construct utilities in East 12th Street to serve Spencer Municipal Hospital.

2003 PEDERSON PARK TRAIL EXTENSION

To account for the costs of constructing a trail between East 9th and East 14th Street.

2002 TREE ENHANCEMENT PROJECT

To account for costs of trees planted along East Highway 18.

2003 STIP PCC PAVING PROJECT

To account costs or resurfacing 11th Ave West and West 8th Street.

2002 FAA REH APRON/TAXILANE

To account for costs to construct a hanger, apron and taxi lane at the Spencer Airport.

2002 RISE – 37TH AVE W PAVING

To accounts for costs of paving 37th Avenue West in the new industrial park.

2002 PCC PAVING #3

To account for costs associated with paving in the Deerfield 4th Addition.

2002 T-21 LEACH PARK

To account for costs of parking lot and trail end in East Leach Park.

2002 PCC PAVING #1

To account for costs associated with paving in the Deerfield 3rd Addition.

2001 EASTSIDE STORM SEWER

To account for costs of constructing storm sewer in the downtown area of the City.

H.O.M.E. REHABILITATION

To account for costs associated with the housing/rehabilitation program through the H.O.M.E. grant.

SOCCER FACILITY

To account for expenses associated with new soccer facility being constructed in Spencer.

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2001 CONCESSION BUILDING

To account for costs of constructing concession stand/shelter at Pederson Park.

2000 E 10TH/PEDERSON PARK TRAIL

To account for costs of constructing the trail on East Tenth Street to Pederson Park.

1995 PARK IMPROVEMENT

To account for acquisition and improvements to Southeast Leach Park. Financed by bond proceeds and contributions by Spencer Municipal Utilities.

CITY OF SPENCER, IOWA
COMBINING BALANCE SHEET
GOVERNMENTAL NONMAJOR FUNDS - CAPITAL PROJECT FUNDS
JUNE 30, 2004

	2004 Corn Belt Sewer/Water Extension	2004 PCC Paving Project #1	2004 PCC Paving Project #2	2004 ACC Overlay Project #1	Library Roof Replacement Project
Assets					
Cash and Cash Equivalents	\$ 8,682	\$ 142,519	\$ 1,297	\$ 7,097	\$ 7,435
Grants Receivable	-	-	-	-	-
Total Assets	<u>8,682</u>	<u>142,519</u>	<u>1,297</u>	<u>7,097</u>	<u>7,435</u>
Liabilities					
Accounts Payable	-	21,739	-	-	3,024
Total Liabilities	-	21,739	-	-	3,024
Fund Balance					
Unreserved - Undesignated	8,682	120,780	1,297	7,097	4,411
Total Fund Balance	<u>8,682</u>	<u>120,780</u>	<u>1,297</u>	<u>7,097</u>	<u>4,411</u>
Total Liabilities and Fund Balance	<u>\$ 8,682</u>	<u>\$ 142,519</u>	<u>\$ 1,297</u>	<u>\$ 7,097</u>	<u>\$ 7,435</u>

2003 CSVI Hangar Paint Project	2003 ACC Overlay Project #1	2003 Hospital Utility Relocation	2003 Pederson Park Trail Extension	2002 Tree Enhancement Project	2003 STIP PCC Paving Project	2002 FAA Reh Apron/ Taxi lane
\$ -	\$ 3,375	\$ -	\$ 29,696	\$ -	\$ 2,693	\$ -
-	-	-	-	-	-	-
-	<u>3,375</u>	-	<u>29,696</u>	-	<u>2,693</u>	-
-	2,539	-	-	-	-	-
-	2,539	-	-	-	-	-
-	836	-	29,696	-	2,693	-
-	<u>836</u>	-	<u>29,696</u>	-	<u>2,693</u>	-
<u>\$ -</u>	<u>\$ 3,375</u>	<u>\$ -</u>	<u>\$ 29,696</u>	<u>\$ -</u>	<u>\$ 2,693</u>	<u>\$ -</u>

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CITY OF SPENCER, IOWA
 COMBINING BALANCE SHEET (CONTINUED)
 GOVERNMENTAL NONMAJOR FUNDS - CAPITAL PROJECT FUNDS
 JUNE 30, 2004

	2002 RISE 37th Ave W Paving	2002 PCC Paving Project #3	2002 T-21 Leach Park	2002 PCC Paving Project #1	2001 Eastside Storm Sewer
Assets					
Cash and Cash Equivalents	\$ -	\$ -	\$ -	\$ -	\$ -
Grants Receivable	-	-	-	-	-
Total Assets	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Liabilities					
Accounts Payable	-	-	-	-	-
Total Liabilities	-	-	-	-	-
Fund Balance					
Unreserved - Undesignated	-	-	-	-	-
Total Fund Balance	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Liabilities and Fund Balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

H.O.M.E. Rehabilitation	Soccer Facility	2001 Concession Building	2000 East 10th/Pederson Park Trail	1995 Park Improvement	Total
\$ 19,632	\$ -	\$ -	\$ 21,312	\$ -	\$ 243,738
27,239	-	-	-	-	27,239
<u>46,871</u>	<u>-</u>	<u>-</u>	<u>21,312</u>	<u>-</u>	<u>270,977</u>
15,629	-	-	-	-	42,931
15,629	-	-	-	-	42,931
31,242	-	-	21,312	-	228,046
<u>31,242</u>	<u>-</u>	<u>-</u>	<u>21,312</u>	<u>-</u>	<u>228,046</u>
<u>\$ 46,871</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 21,312</u>	<u>\$ -</u>	<u>\$ 270,977</u>

CITY OF SPENCER, IOWA
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL NONMAJOR FUNDS - CAPITAL PROJECTS FUNDS
FOR THE YEAR ENDED JUNE 30, 2004

	2004 Corn Belt Sewer/Water Extension	2004 PCC Paving Project #1	2004 PCC Paving Project #2	2004 ACC Overlay Project #1	Library Roof Replacement Project
Revenues					
Intergovernmental Revenue	\$ -	\$ -	\$ -	\$ -	\$ -
Special Assessments	-	-	-	-	-
Interest	-	-	-	-	-
Contributions	-	-	-	-	-
Miscellaneous	100	-	-	-	-
Total Revenues	<u>100</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Expenditures					
Engineering Fees	2,161	29,088	8,575	8,845	3,797
Construction Costs	-	100,026	-	-	31,748
Miscellaneous	257	106	128	58	44
Total Expenditures	<u>2,418</u>	<u>129,220</u>	<u>8,703</u>	<u>8,903</u>	<u>35,589</u>
Excess (Deficiency) of Revenues					
Over Expenditures	(2,318)	(129,220)	(8,703)	(8,903)	(35,589)
Other Financing Sources (Uses)					
Operating Transfers From Other Funds	11,000	250,000	10,000	16,000	40,000
Operating Transfers To Other Funds	-	-	-	-	-
Proceeds From the Issuance of Bonds	-	-	-	-	-
Payment For the Retirement of Bonds	-	-	-	-	-
Total Other Financing Sources (Uses)	<u>11,000</u>	<u>250,000</u>	<u>10,000</u>	<u>16,000</u>	<u>40,000</u>
Net Change in Fund Balance	8,682	120,780	1,297	7,097	4,411
Fund Balance at Beginning of Year	-	-	-	-	-
Fund Balance at End of Year	<u>\$ 8,682</u>	<u>\$ 120,780</u>	<u>\$ 1,297</u>	<u>\$ 7,097</u>	<u>\$ 4,411</u>

2003 CSVI Hangar Paint Project	2003 ACC Overlay Project #1	2003 Hospital Utility Relocation	2003 Pederson Park Trail Extension	2002 Tree Enhancement Project	2003 STIP PCC Paving Project	2002 FAA Reh Apron/ Taxi lane
\$ 37,265	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 80,384
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	2,320
37,265	-	-	-	-	-	82,704
-	3,309	538	1,383	-	10,240	3,338
37,314	50,784	11,012	-	-	-	75,109
-	71	-	21	-	224	-
37,314	54,164	11,550	1,404	-	10,464	78,447
(49)	(54,164)	(11,550)	(1,404)	-	(10,464)	4,257
93	55,000	-	20,000	3,159	10,040	15,686
-	-	(9,502)	-	(110,000)	(31)	(160,000)
-	-	-	-	-	-	-
-	-	-	-	-	-	-
93	55,000	(9,502)	20,000	(106,841)	10,009	(144,314)
44	836	(21,052)	18,596	(106,841)	(455)	(140,057)
(44)	-	21,052	11,100	106,841	3,148	140,057
\$ -	\$ 836	\$ -	\$ 29,696	\$ -	\$ 2,693	\$ -

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CITY OF SPENCER, IOWA
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE (CONTINUED)
GOVERNMENTAL NONMAJOR FUNDS - CAPITAL PROJECTS FUNDS
FOR THE YEAR ENDED JUNE 30, 2004

	2002 RISE 37th Ave W Paving	2002 PCC Paving Project #3	2002 T-21 Leach Park	2002 PCC Paving Project #1	2001 Eastside Storm Sewer
Revenues					
Intergovernmental Revenue	\$ 40,665	\$ -	\$ 1,599	\$ -	\$ -
Special Assessments	-	18,166	-	13,608	68,594
Interest	-	-	-	-	2,322
Contributions	52,455	-	-	-	-
Miscellaneous	3,490	1,669	-	-	24,057
Total Revenues	<u>96,610</u>	<u>19,835</u>	<u>1,599</u>	<u>13,608</u>	<u>94,973</u>
Expenditures					
Engineering Fees	1,298	1,982	2,566	-	11,762
Construction Costs	7,829	94,078	22,827	6,222	44,251
Miscellaneous	1,778	30	6,132	87	10,719
Total Expenditures	<u>10,905</u>	<u>96,090</u>	<u>31,525</u>	<u>6,309</u>	<u>66,732</u>
Excess (Deficiency) of Revenues Over Expenditures	85,705	(76,255)	(29,926)	7,299	28,241
Other Financing Sources (Uses)					
Operating Transfers From Other Funds	-	78,109	-	37	11,667
Operating Transfers To Other Funds	(106,158)	(267)	(21,954)	(31,497)	(91,440)
Proceeds From the Issuance of Bonds	-	-	-	-	482,722
Payment For the Retirement of Bonds	-	-	-	-	(800,000)
Total Other Financing Sources (Uses)	<u>(106,158)</u>	<u>77,842</u>	<u>(21,954)</u>	<u>(31,460)</u>	<u>(397,051)</u>
Net Change in Fund Balance	(20,453)	1,587	(51,880)	-	(24,161)
Fund Balance at Beginning of Year	<u>20,453</u>	<u>(1,587)</u>	<u>51,880</u>	<u>24,161</u>	<u>368,810</u>
Fund Balance at End of Year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

H.O.M.E. Rehabilitation	Soccer Facility	2001 Concession Building	2000 East 10th/Pederson Park Trail	1995 Park Improvement	Total
\$ 96,288	\$ -	\$ -	\$ -	\$ -	\$ 256,201
-	-	-	-	-	100,368
-	-	-	-	1,391	3,713
-	-	-	-	-	52,455
22,842	-	-	-	3,500	57,978
119,130	-	-	-	4,891	470,715
-	-	-	4,463	-	93,345
122,529	-	-	-	-	603,729
12,004	-	-	2,086	140	33,885
134,533	-	-	6,549	140	730,959
(15,403)	-	-	(6,549)	4,751	(260,244)
-	-	-	25,000	19,979	565,770
(1,778)	(7,426)	(19,979)	-	(82,926)	(642,958)
-	-	-	-	-	482,722
-	-	-	-	-	(800,000)
(1,778)	(7,426)	(19,979)	25,000	(62,947)	(394,466)
(17,181)	(7,426)	(19,979)	18,451	(58,196)	(654,710)
48,423	7,426	19,979	2,861	58,196	882,756
\$ 31,242	\$ -	\$ -	\$ 21,312	\$ -	\$ 228,046

See Accompanying Notes to Financial Statements

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PERMANENT FUNDS

CITY OF SPENCER, IOWA

PERMANENT FUNDS

NONMAJOR

CEMETERY PERPETUAL CARE FUND

To account for the portion of the cemetery plot sales restricted for perpetual care upon the closing of the cemetery.

RIVERSIDE CEMETERY MEMORIAL TRUST

To account for donations and related maintenance of the Riverside Cemetery.

COLUMBARIUM VAULT FUND

To account for donations and related maintenance of the Columbarium Vault.

NORTHLAWN PERPETUAL CARE FUND

During 1995, Warner Funeral Home gave the Northlawn Cemetery to the City. This fund was created to account for and hold the principal as directed by the agreement between the City and the Warner Funeral Home.

GRIFFIN TRUST FUND

To account for and hold the principal as directed by the will of M. E. Griffin, who died in 1925. The income of the investment is to be used for holiday gifts for worthy and deserving poor of Spencer at Christmas time.

LEACH PARK TRUST FUND

To account for and hold the principal as directed by the will of Charles E. Leach, who died in 1916, for the maintenance of Leach Park.

**CITY OF SPENCER, IOWA
 COMBINING BALANCE SHEET
 GOVERNMENTAL NONMAJOR FUNDS - PERMANENT FUNDS
 JUNE 30, 2004**

	Cemetery Perpetual Care Fund	Riverside Cemetery Memorial Trust	Columbarium Vault Fund	Northlawn Perpetual Care Fund	Griffin Trust Fund	Leach Park Trust Fund	Total
Assets							
Cash and Cash Equivalents	\$ 216,965	\$ 7,537	\$ 300	\$ 46,168	\$ 64,669	\$ 14,618	\$ 350,257
Interest Receivable	-	-	-	133	186	41	360
Total Assets	<u>216,965</u>	<u>7,537</u>	<u>300</u>	<u>46,301</u>	<u>64,855</u>	<u>14,659</u>	<u>350,617</u>
Liabilities							
Accounts Payable	-	-	-	-	-	-	-
Total Liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balance - Reserved	<u>216,965</u>	<u>7,537</u>	<u>300</u>	<u>46,301</u>	<u>64,855</u>	<u>14,659</u>	<u>350,617</u>
Total Liabilities and Fund Balance	<u>\$ 216,965</u>	<u>\$ 7,537</u>	<u>\$ 300</u>	<u>\$ 46,301</u>	<u>\$ 64,855</u>	<u>\$ 14,659</u>	<u>\$ 350,617</u>

See Accompanying Notes to Financial Statements

CITY OF SPENCER, IOWA
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL NONMAJOR FUNDS - PERMANENT FUNDS
FOR THE YEAR ENDED JUNE 30, 2004

	Cemetery Perpetual Care Fund	Riverside Cemetery Memorial Trust	Columbarium Vault Fund	Northlawn Perpetual Care Fund	Griffin Trust Fund	Leach Park Trust Fund	Total
Revenues							
Interest	\$ -	\$ 238	\$ -	\$ 1,576	\$ 2,245	\$ 499	\$ 4,558
Contributions	3,900	-	300	500	-	-	4,700
Total Revenues	<u>3,900</u>	<u>238</u>	<u>300</u>	<u>2,076</u>	<u>2,245</u>	<u>499</u>	<u>9,258</u>
Expenditures							
Culture and Recreation	75	50	-	-	-	-	125
Community and Economic Development	-	-	-	-	2,380	-	2,380
Total Expenditures	<u>75</u>	<u>50</u>	<u>-</u>	<u>-</u>	<u>2,380</u>	<u>-</u>	<u>2,505</u>
Excess (Deficiency) of Revenues Over Expenditures	3,825	188	300	2,076	(135)	499	6,753
Other Financing (Uses)							
Operating Transfers to Other Funds	-	(6,655)	-	-	-	-	(6,655)
Total Other Financing (Uses)	<u>-</u>	<u>(6,655)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(6,655)</u>
Net Change in Fund Balance	<u>3,825</u>	<u>(6,467)</u>	<u>300</u>	<u>2,076</u>	<u>(135)</u>	<u>499</u>	<u>98</u>
Fund Balance at Beginning of Year	<u>213,140</u>	<u>14,004</u>	<u>-</u>	<u>44,225</u>	<u>64,990</u>	<u>14,160</u>	<u>350,519</u>
Fund Balance at End of Year	<u>\$ 216,965</u>	<u>\$ 7,537</u>	<u>\$ 300</u>	<u>\$ 46,301</u>	<u>\$ 64,855</u>	<u>\$ 14,659</u>	<u>\$ 350,617</u>

See Accompanying Notes to Financial Statements

FIDUCIARY FUNDS

CITY OF SPENCER, IOWA

FIDUCIARY FUNDS

AGENCY FUNDS:

FUEL EQUIPMENT TRUST FUND

To account for a joint funding with Spencer Community School for fueling equipment located at central garage.

DRUG TASK FORCE FUND

To account for disbursement of a state grant to local communities to pay for overtime of officers in the drug task force.

HOEPPNER TRUST FUND

To account for a bequest to hold the principal as directed by the will of Hazel Hoepner. The income of the investment is to be distributed at the direction of an appointed committee.

**CITY OF SPENCER, IOWA
 COMBINING STATEMENT OF FIDUCIARY NET ASSETS
 AGENCY FUNDS
 FOR THE YEAR ENDED JUNE 30, 2004**

	Fuel Equipment Trust Fund	Drug Task Force Fund	Hoepner Trust Fund	Total
Assets				
Cash and Cash Equivalents	\$ 132,863	\$ 428	\$ 435,527	\$ 568,818
Due from Other Government	-	1,930	-	1,930
Interest Receivable	377	-	1,262	1,639
Total Assets	<u>133,240</u>	<u>2,358</u>	<u>436,789</u>	<u>572,387</u>
Liabilities				
Due to Other Governments	<u>133,240</u>	<u>2,358</u>	<u>436,789</u>	<u>572,387</u>
Total Liabilities	<u>133,240</u>	<u>2,358</u>	<u>436,789</u>	<u>572,387</u>
Net Assets				
Unrestricted	-	-	-	-
Total Net Assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See Accompanying Notes to Financial Statements

CITY OF SPENCER, IOWA
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUNDS
JUNE 30, 2004

	Balance July 1, 2003	Additions	Deductions	Balance June 30, 2004
Fuel Equipment Trust Fund				
Assets				
Cash and Cash Equivalents	\$ 115,462	\$ 17,401	\$ -	\$ 132,863
Due from Other Government	-	-	-	-
Interest Receivable	324	53	-	377
Total Assets	<u>115,786</u>	<u>17,454</u>	<u>-</u>	<u>133,240</u>
Liabilities				
Accounts Payable	-	-	-	-
Due to Other Governments	115,786	17,454	-	133,240
Total Liabilities	<u>\$ 115,786</u>	<u>\$ 17,454</u>	<u>\$ -</u>	<u>\$ 133,240</u>
Drug Task Force Fund				
Assets				
Cash and Cash Equivalents	\$ 809	\$ 31,949	\$ 32,330	\$ 428
Due from Other Government	9,327	1,930	9,327	1,930
Interest Receivable	-	-	-	-
Total Assets	<u>10,136</u>	<u>33,879</u>	<u>41,657</u>	<u>2,358</u>
Liabilities				
Accounts Payable	9,170	-	9,170	-
Due to Other Governments	966	33,879	32,487	2,358
Total Liabilities	<u>\$ 10,136</u>	<u>\$ 33,879</u>	<u>\$ 41,657</u>	<u>\$ 2,358</u>
Hoepfner Trust Fund				
Assets				
Cash and Cash Equivalents	\$ 425,166	\$ 18,861	\$ 8,500	\$ 435,527
Due from Other Government	-	-	-	-
Interest Receivable	1,196	66	-	1,262
Total Assets	<u>426,362</u>	<u>18,927</u>	<u>8,500</u>	<u>436,789</u>
Liabilities				
Accounts Payable	-	-	-	-
Due to Other Governments	426,362	18,927	8,500	436,789
Total Liabilities	<u>\$ 426,362</u>	<u>\$ 18,927</u>	<u>\$ 8,500</u>	<u>\$ 436,789</u>
Total - All Agency Funds				
Assets				
Cash and Cash Equivalents	\$ 541,437	\$ 68,211	\$ 40,830	568,818
Due from Other Government	9,327	1,930	9,327	1,930
Interest Receivable	1,520	119	-	1,639
Total Assets	<u>552,284</u>	<u>70,260</u>	<u>50,157</u>	<u>572,387</u>
Liabilities				
Accounts Payable	9,170	-	9,170	-
Due to Other Governments	543,114	70,260	40,987	572,387
Total Liabilities	<u>\$ 552,284</u>	<u>\$ 70,260</u>	<u>\$ 50,157</u>	<u>\$ 572,387</u>

See Accompanying Notes to Financial Statements

STATISTICAL SECTION

TABLE I

**CITY OF SPENCER, IOWA
GENERAL GOVERNMENTAL EXPENDITURES BY FUNCTION
GOVERNMENTAL FUNDS
LAST TEN YEARS**

Fiscal Year	Public Safety/ Community Protection	Public Works/ Home and Community Environment	Culture and Recreation/ Human Development	Community and Economic Development	General Government/ Policy and Administration	Debt Service	Capital Projects	Total
1994-95	\$ 1,360,090	\$ 4,231,520	\$ 798,485	\$ -	\$ 794,449	\$ -	\$ -	\$ 7,184,544
1995-96	1,351,548	4,760,588	743,246	-	793,847	-	-	7,649,229
1996-97	1,520,275	6,335,272	887,640	-	688,361	-	-	9,431,548
1997-98	1,439,106	3,619,870	1,370,625	-	678,401	-	-	7,108,002
1998-99	1,562,455	5,229,008	1,357,515	-	751,432	-	-	8,900,410
1999-00	1,662,904	4,659,407	2,098,182	-	824,894	-	-	9,245,387
2000-01	1,799,146	6,797,639	1,722,370	-	882,719	-	-	11,201,874
2001-02	2,377,524	4,275,878	1,253,442	-	839,641	-	-	8,746,485
2002-03	1,820,298	1,286,453	1,501,855	907,477 ¹	1,055,886	817,401 ¹	2,846,127 ¹	10,235,497
2003-04	\$ 2,026,905	\$ 1,291,125	\$ 1,554,507	\$ 1,466,591 ¹	\$ 1,343,886	\$ 852,275 ¹	\$ 1,934,353 ¹	\$ 10,469,642

¹ New columns are due a change in the chart of accounts. Information is not available for previous years.

**CITY OF SPENCER, IOWA
GENERAL GOVERNMENTAL REVENUES BY SOURCE
GOVERNMENTAL FUNDS
LAST TEN YEARS**

Fiscal Year	Taxes	Inter-Governmental	Charges for Services	Miscellaneous	Total
1994-95	\$ 2,248,831	\$ 3,696,378	\$ 284,714	\$ 779,303	\$ 7,009,226
1995-96	2,521,432	3,402,761	327,525	1,243,474	7,495,192
1996-97	2,929,992	2,089,832	564,638	1,302,201	6,886,663
1997-98	3,063,886	1,943,955	590,252	831,764	6,429,857
1998-99	3,122,377	3,261,565	567,694	1,136,487	8,088,123
1999-00	3,461,293	3,436,135	430,869	1,434,253	8,762,550
2000-01	3,311,031	3,269,724	613,802	1,168,907	8,363,464
2001-02	3,626,340	3,284,360	715,605	1,304,644	8,930,949
2002-03	5,377,766	2,186,001	660,553	1,222,856	9,447,176
2003-04	\$ 5,773,995	\$ 2,149,987	\$ 689,447	\$ 1,698,517	\$ 10,311,946

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

Fiscal Year	Total Tax Levy	Current Tax Collections	Percent of Levy Collected	Delinquent Tax Collections	Total Tax Collections	Collections as Percent of Current Levy
1994-95	\$ 2,375,735	\$ 2,357,793	99.24%	\$ 41,091	\$ 2,398,884	100.97%
1995-96	2,560,522	2,424,223	94.68%	117,329	2,541,552	99.26%
1996-97	2,746,649	2,731,565	99.45%	59,110	2,790,675	101.60%
1997-98	2,796,215	2,795,358	99.97%	40,812	2,836,170	101.43%
1998-99	2,952,422	2,905,189	98.40%	24,038	2,929,227	99.21%
1999-00	3,056,317	3,026,576	99.03%	27,725	3,054,301	99.93%
2000-01	3,215,447	3,225,149	100.30%	28,708	3,253,857	101.19%
2001-02	3,400,880	3,301,854	97.09%	28,778	3,330,632	97.93%
2002-03	3,485,163	3,363,960	96.52%	29,468	3,393,428	97.37%
2003-04	\$ 3,568,016	\$ 3,575,870	100.22%	\$ 26,661	\$ 3,602,531	100.97%

**CITY OF SPENCER, IOWA
TAXABLE AND ASSESSED VALUE OF TAXABLE PROPERTY
LAST TEN YEARS**

Fiscal Year	Real Property		Utilities		Total	
	Taxable Value	Assessed Value	Taxable Value	Assessed Value	Taxable Value	Assessed Value
1994-95	\$213,546,711	\$274,598,833	\$ 6,580,945	\$ 6,580,945	\$ 220,127,656	\$281,179,778
1995-96	219,650,506	282,360,120	6,747,609	6,941,342	226,398,115	289,301,462
1996-97	239,629,693	338,686,682	6,083,475	6,088,078	245,713,168	344,774,760
1997-98	244,176,548	344,047,823	6,106,496	6,106,496	250,283,044	350,154,319
1998-99	260,489,504	385,875,753	6,431,642	6,437,227	266,921,146	392,312,980
1999-00	281,720,411	418,397,846	2,677,192	2,671,192	284,397,603	421,069,038
2000-01	307,073,876	441,480,443	2,585,629	2,585,629	309,659,505	444,066,072
2001-02	309,383,244	477,395,455	2,483,465	2,483,465	311,866,709	479,878,920
2002-03	316,918,800	491,790,397	2,426,076	2,426,076	319,344,876	494,216,473
2003-04	\$317,886,216	\$505,979,346	\$ 2,590,188	\$ 2,452,878	\$ 320,476,404	\$508,432,224

Fiscal Year	Ratio of Total Taxable Value To Total Assessed Value
1994-95	78.3
1995-96	78.3
1996-97	71.3
1997-98	71.5
1998-99	68.0
1999-00	67.5
2000-01	69.7
2001-02	64.7
2002-03	64.6
2003-04	63.0

Note:

(1) Taxable Value does not include the Tax Increment Levy.

**CITY OF SPENCER, IOWA
PROPERTY TAX RATES AND DEBT
DIRECT AND OVERLAPPING GOVERNMENTS
LAST TEN YEARS
PER \$1,000 ASSESSED VALUATION**

Fiscal Year	City	School District	County Consolidated	Vocational School	Total
1994-95	10.93293	13.08212	3.96751	0.60542	28.58798
1995-96	11.57746	12.84578	3.92433	0.63201	28.97958
1996-97	11.43253	11.54961	4.43089	0.58471	27.99774
1997-98	11.43500	11.61300	4.73300	0.60000	28.38100
1998-99	11.17200	11.50900	4.75800	0.61400	28.05300
1999-00	11.15300	11.09500	4.78300	0.59500	27.62600
2000-01	11.16447	11.63238	5.05126	0.68552	28.53363
2001-02	10.80566	11.36772	5.05015	0.68550	27.90903
2002-03	11.03983	12.42898	4.77727	0.77150	29.01758
2003-04	11.02005	12.43699	5.32886	0.73807	29.52397

Name of Governmental Unit	Net Bonded Debt Outstanding	Percentage Applicable to This Governmental Unit
City of Spencer, Iowa	\$ 7,715,579	100%
Clay County	-	N/A
Spencer Community School District	-	N/A
	<u>\$ 7,715,579</u>	

**CITY OF SPENCER, IOWA
PRINCIPAL TAXPAYERS
JUNE 30, 2004**

Taxpayer	Type of Business	2004 Assessed Valuation	Percentage of Total Assessed Valuation
Sequoia Investments, Inc. LLC	Mall	\$ 6,321,040	1.24%
Wal-Mart	Retail	6,180,140	1.22
Lake Mills Investors, Ltd.	Doctor's Office	3,874,850	0.76
St Luke Lutheran Home, Inc.	Assisted Living	3,848,180	0.76
GF Land Partnership	Commercial Property	3,771,340	0.74
Jacobsen Homes Corporation	Rental Property	3,758,831	0.74
The Highlands Independent Living	Apartments & Dwelling	2,843,650	0.56
Pine Tree Spencer, LLC	Staples/Mall	2,675,030	0.53
Spencer Municipal Hospital	Hospital	2,638,750	0.52
Shine Brothers Corporation	Scrap Metal Processor	<u>2,498,850</u>	<u>0.49</u>
		<u><u>\$ 38,410,661</u></u>	<u><u>7.56%</u></u>

Source:

Clay County Assessor

**CITY OF SPENCER, IOWA
COMPUTATION OF LEGAL DEBT MARGIN
JUNE 30, 2004**

Total Assessed Value		<u>\$ 508,432,224</u>
Debt Limit (5% of Total Assessed Value)		25,421,611
Amount of Debt Applicable to Debt Limit	8,330,000	
Less Assets in Debt Service Fund Available for Payment of Principal	<u>614,421</u>	
Total Debt Applicable to Debt Limit		<u>7,715,579</u>
 LEGAL DEBT MARGIN		 <u>\$ 17,706,032</u>

**CITY OF SPENCER, IOWA
RATIO OF NET GENERAL BONDED DEBT
TO ASSESSED VALUE AND NET BONDED DEBT PER CAPITA
LAST TEN YEARS**

Fiscal Year	Population	Assessed Value	Gross Bonded Debt	Less Debt Service Funds	Net Bonded Debt	Ratio of Net Bonded Debt to Assessed Value	Net Bonded Debt Per Capita
1994-95	11,066	\$ 281,179,778	\$ 1,980,000	\$ 9,385	\$ 1,970,615	0.70	178
1995-96	11,066	289,301,462	3,775,000	34,985	3,740,015	1.29	338
1996-97	11,066	344,774,760	3,225,000	67,523	3,157,477	0.92	285
1997-98	11,066	350,154,319	2,775,000	138,760	2,636,240	0.75	238
1998-99	11,066	392,312,980	3,920,000	192,195	3,727,805	0.95	337
1999-00	11,066	421,075,038	3,475,000	206,042	3,268,958	0.77	295
2000-01	11,317	444,066,072	4,350,000	225,112	4,124,888	0.93	365
2001-02	11,317	479,878,920	6,275,000	311,427	5,963,573	1.24	527
2002-03	11,317	494,216,473	9,385,000	294,397	9,090,603	1.84	803
2003-04	11,317	\$ 508,432,224	\$ 8,330,000	\$ 614,421	\$ 7,715,579	1.52	682

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

Fiscal Year	Principal	Interest	Total Debt Services	Total General Expenditures	Ratio of Debt Service to General Expenditures
1994-95	\$ 575,000	\$ 150,290	\$ 725,290	\$ 7,385,532 ¹	9.8
1995-96	625,000	227,984	852,984	4,889,543 ¹	10.8
1996-97	550,000	199,860	749,860	9,431,548 ¹	8.0
1997-98	450,000	166,570	616,570	7,108,002 ¹	8.7
1998-99	340,000	141,155	481,155	8,900,410 ¹	5.4
1999-00	445,000	208,558	653,558	9,245,387 ¹	7.1
2000-01	295,000	164,393	459,393	11,201,874 ¹	4.1
2001-02	300,000	207,513	507,513	8,759,736 ¹	5.8
2002-03	410,000	292,796	702,796	7,386,427 ²	9.5
2003-04	\$ 435,000	\$ 321,727	\$ 756,727	\$ 8,532,484 ²	8.9

¹ Includes General, Special Revenue, Debt Service, Capital Projects, and Expendable Trust Funds

² Includes General, Special Revenue and Debt Service Funds.

**CITY OF SPENCER, IOWA
PROPERTY VALUE, CONSTRUCTION, AND BANK DEPOSITS
LAST TEN YEARS**

Fiscal Year	Commercial Construction ¹		Residential Construction ¹		Bank Deposits ²	Assessed Property Value ³
	Units	Value	Units	Value		
1994-95	59	\$ 3,026,031	187	\$ 4,059,549	\$ 261,200,000	\$ 220,127,656
1995-96	43	2,760,826	198	2,836,061	266,850,000	226,398,115
1996-97	50	2,903,438	208	3,672,703	268,250,000	245,713,169
1997-98	37	6,358,175	219	6,732,790	275,000,000	250,283,044
1998-99	52	11,677,601	208	5,505,246	295,000,000	266,921,143
1999-00	34	1,417,498	155	9,848,122	316,000,000	421,075,038
2000-01	49	4,398,229	139	6,275,140	336,000,000	444,066,072
2001-02	29	3,287,602	190	4,994,002	332,700,000	479,878,920
2002-03	29	27,572,359	193	5,330,054	348,962,000	494,216,473
2003-04	38	\$ 4,786,168	168	\$ 6,172,450	\$ 360,831,000	\$ 508,432,224

Source:

¹ City Building Inspector

² FDIC

³ Clay County Auditor

**CITY OF SPENCER, IOWA
MISCELLANEOUS STATISTICS
JUNE 30, 2004**

Date of Incorporation	1880
Form of Government	Mayor/Council
Total Number of Employees (all departments)	135
Area in Square Miles	10.15
City of Spencer, Iowa, Facilities and Services:	
Miles of Streets	98
Culture and Recreation:	
City Parks	14
Golf Courses	2
Swimming Pools	1
Fire Protection:	
Number of Stations	1
Number of Fire Personnel and Officers	38
Police Protection:	
Number of Stations	1
Number of Police Personnel and Officers	27
Number of Law Violations:	
Physical Arrests	955
Citations	2,532
Sewerage System:	
Number of Treatment Plants	1
Daily Average Treatment in Gallons	2,000,000
Maximum Daily Capacity of Treatment Plant in Gallons	10,000,000
Water System	
Elevated Storage Capacity	1,500,000
Capacity of Water Plant	3,000,000
Daily Average Consumption in Gallons	1,700,000
Hospitals:	
Number of Hospitals	1
Number of Patient Beds	99
Number of Medical Personnel in County (M.D., D.O., D.C., D.D.S.)	60

**CITY OF SPENCER, IOWA
DEMOGRAPHIC STATISTICS
LAST TEN YEARS**

Fiscal Year	Net Bonded Population	School Enrollment	Unemployment Rate %
1994-95	11,066	2,458	2.9
1995-96	11,066	2,526	2.7
1996-97	11,066	2,388	2.6
1997-98	11,066	2,384	2.8
1998-99	11,066	2,303	2.3
1999-00	11,066	2,208	2.0
2000-01	11,317	2,165	2.2
2001-02	11,317	2,138	3.2
2002-03	11,317	2,119	3.6
2003-04	11,317	2,005	3.1

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**SINGLE AUDIT
SECTION**

**CITY OF SPENCER, IOWA
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE
FOR THE YEAR ENDED JUNE 30, 2004**

Grantor/Program	CFDA Number	Agency Pass-through Number	Program Expenditures
DIRECT:			
U.S. Department of Transportation:			
Airport Signage and Apron Rehab	20.106	DTFA-09-00-A-40030	\$ 80,384
U.S. Department of Justice:			
Cops in Shops	16.710	N/A	1,100
Cops in Schools	16.710		<u>46,421</u>
Total Direct			127,905
INDIRECT:			
U.S. Department of Housing and Urban Development:			
Iowa Department of Economic Development:			
Community Development Block Grant Program	14.228	00-ED-009	351,288
U.S. Department of Transportation:			
Iowa Department of Transportation:			
Highway Planning and Construction	20.205	STP-E-7170	31,647
U.S. Department of Transportation			
Iowa Department of Public Safety:			
State and Community Highway Safety	20.604	N/A	<u>4,057</u>
Total Indirect			<u>386,992</u>
TOTAL			<u><u>\$ 514,897</u></u>

Basis of Presentation - The Schedule of Expenditures of Federal Awards includes the federal grant activity of the City and is presented on the 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*.

See Accompanying Independent Auditors' Report

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND INTERNAL CONTROL OVER FINANCIAL REPORTING

The Honorable Mayor and Members of the City Council
The City of Spencer
Spencer, Iowa 51301

We have audited the financial statements of the City of Spencer, (City) as of and for the year ended June 30, 2004, and have issued our report thereon dated August 27, 2004. We did not audit the financial statements of Spencer Municipal Hospital (a discretely presented component unit). Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our report on these financial statements, insofar as it relates to the amounts included for Spencer Municipal Hospital, was based solely on reports of other auditors. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

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

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

Internal Control Over Financial Reporting

In planning and performing our audit we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a

timely period by employees is the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable material weaknesses. We noted no matters involving the internal control over financial reporting 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 and other parties to whom the City may report. This report is not intended to be and should not be used by anyone other than these specified parties.

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

Certified Public Accountants

Spencer, Iowa
August 27, 2004

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE

The Honorable Mayor and Members of the City Council
The City of Spencer
Spencer, Iowa 51301

Compliance

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

We conducted our audit 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, and Local Governments and Non-Profit Organizations*. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance 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's compliance with those requirements and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

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

Internal Control Over Compliance

The management of the City 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'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 internal control over compliance in accordance with OMB Circular A-133.

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

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

August 27, 2004
Spencer, Iowa

Certified Public Accountants

**CITY OF SPENCER
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2004**

Part I: Summary of the Independent Auditors' Results

- (a) An unqualified opinion was issued on the financial statements.
- (b) No reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any noncompliance, which is material to the financial statements.
- (d) No reportable conditions in internal control over major programs were disclosed by the audit of the financial statements.
- (e) An unqualified opinion was issued on compliance with requirements applicable the major program.
- (f) The audit disclosed no audit findings which were required to be reported in accordance with the Office of Management and Budget Circular A-133, Section .510(a).
- (g) The major program was as follows:
 - CFDA Number 14.228 – Department of Housing and Urban Development– Community Development Block Grants
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) The City of Spencer did qualify as a low-risk auditee.

Part II: Findings Related to the Financial Statements Reported in Accordance with *Government Auditing Standards*

No matters were reported.

Part III: Findings and Questioned Costs for Federal Awards

No matters were reported.

Part IV: Other Findings Related to Required Statutory Reporting

04-IV-A: Official Depositories – A resolution naming official depositories has been adopted by the Board. The maximum deposit amounts stated in the resolution were not exceeded during the year.

04-IV-B: Certified Budget – Disbursements during the year ended June 30, 2004, exceeded the amount budgeted in the Public Works Program. This was due to an unanticipated storm sewer capital project.

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

Response – The budget will be amended in the future, if applicable.

Conclusion – Response accepted.

- 04-IV-C: Questionable Expenditures – No expenditures that did not meet the requirement of public purpose as defined in an Attorney General’s opinion dated April 25, 1979, were noted.
- 04-IV-D: Travel Expense – No expenditures of the City were for travel expenses of spouses of the City officials or employees.
- 04-IV-E: Business Transactions – No business transactions between the City officials or employees were noted.
- 04-IV-F: Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operation.
- 04-IV-G: Council Minutes – No transactions were found that we believe should have been approved by the Board minutes but were not.
- 04-IV-H: Deposits and Investments – No instances of noncompliance with the deposit and investment provisions of Chapter 128 and 12C of the Code of Iowa and the City’s investment policy were noted.
- 04-IV-I: Revenue Notes – The City had no revenue notes at June 30, 2004.
- 04-IV-K: Financial Assurance – The City has demonstrated financial assurance for closure and postclosure care costs of the landfill as required by Chapter 111.6(8) of the Iowa Administrative Code.

**CITY OF SPENCER
SCHEDULE OF PRIOR YEAR FINDINGS
JUNE 30, 2004**

There were no prior year findings related to Federal Financial Assistance.