

**CITY OF SPIRIT LAKE  
INDEPENDENT AUDITORS' REPORTS  
BASIC FINANCIAL STATEMENTS AND  
SUPPLEMENTAL INFORMATION  
JUNE 30, 2004**

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CITY OF SPIRIT LAKE  
OFFICIALS

<u>NAME</u>	<u>TITLE</u>	<u>TERM EXPIRES</u>
Eric Nielsen	Mayor	December 31, 2005
Barb Ricke	Council Member	December 31, 2005
Duane Yager	Council Member	December 31, 2005
Robert Cosens	Council Member to 12-31-2003	
Patric R. McNorton	Council Member to 12-31-2003	
Terry Yarns	Council Member to 12-31-2003	
Jerry Harbst	Council Member from 1-1-2004	December 31, 2007
Jeff Thee	Council Member from 1-1-2004	December 31, 2007
Kevin Bice	Council Member from 1-1-2004	December 31, 2007
Peter Hegeman	Clerk/Administrator/Treasurer	December 31, 2005
Earl Maahs	Attorney	December 31, 2005

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INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and  
Members of the City Council  
City of Spirit Lake  
Spirit Lake, IA 51360

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

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

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

As discussed in Note 18 to the financial statements, during the year ended June 30, 2004, the City of Spirit Lake adopted Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*; Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus*; Statement No. 38, *Certain Financial Statement Note Disclosures*; Statement No. 41, *Budgetary Comparison Schedule - Perspective Differences*; and Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 22, 2005 on our consideration of the City of Spirit Lake's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. This 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.

Management's discussion and analysis and budgetary comparison information on pages 4 through 11 and 52 through 56 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Spirit Lake's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2003 (not presented herein) and expressed a qualified opinion on those financial statements due to the omission of the general fixed asset account group. Other supplementary information included in Schedules 1 through 4, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Wintner, Stone & Co. LLP*

March 22, 2005

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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

### 2004 Financial Highlights

- Revenues of the City's governmental activities increased 4.10%, or approximately \$196,000 from fiscal 2003 to fiscal 2004. Property tax increased approximately \$22,000.
- Program expenses increased by 21.34% or approximately \$1,520,000, in fiscal 2004 from fiscal 2003. Public safety, community and economic development, debt service, and capital projects increased by approximately \$158,000, \$302,000, \$149,000, and \$1,051,000, respectively.
- The City's net assets increased 8.17%, or approximately \$1,483,000, from June 30, 2003 to June 30, 2004. Of this amount, the net assets of the governmental funds increased by approximately \$1,069,000 and the net assets of the business type activities increased by approximately \$414,000.

### Using This Annual Report

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

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

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

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

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

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

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

## **Basis of Accounting**

The City financial statements are prepared in accordance with U.S. generally accepted accounting principles (GAAP). The City prepares its budget and maintains its financial records on the cash basis.

## **Reporting The City's Financial Activities**

### Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities reports information which helps answer this question.

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

The Statement of Activities presents information showing how the City's net assets changed during the most recent fiscal year.

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

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

### Fund Financial Statements

The City has two kinds of funds:

1. **Governmental funds** account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: (a) the General Fund, (b) the Special Revenue Funds, such as Local Option Sales Tax and Urban Renewal Tax Increment, (c) the Debt Service Fund, and (d) the Capital Projects Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

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

2. **Proprietary funds** account for the City's Enterprise and Internal Service Funds. Enterprise Funds are used to report business type activities. The City maintains three Enterprise Funds to provide separate information for the water, sewer, and solid waste funds, considered to be major funds of the City. The City has two Internal Service Funds which are used to account for the City's self-insurance and to account for reserves accumulated to fund future equipment purchases.

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

**Government-Wide Financial Analysis**

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

Net Assets as of June 30, 2004

	Governmental Activities	Business Type Activities	Total
Current and other assets .....	\$ 4,196,781	\$ 2,069,621	\$ 6,266,402
Capital assets .....	<u>21,675,101</u>	<u>9,835,113</u>	<u>31,510,214</u>
Total assets	<u>25,871,882</u>	<u>11,904,734</u>	<u>37,776,616</u>
Long-term liabilities .....	11,380,186	2,894,682	14,274,868
Other liabilities .....	<u>3,488,561</u>	<u>367,323</u>	<u>3,855,884</u>
Total liabilities	<u>14,868,747</u>	<u>3,262,005</u>	<u>18,130,752</u>
Net assets:			
Invested in capital assets - net of related debt .....	10,345,101	6,982,501	17,327,602
Restricted .....	645,770		645,770
Unrestricted .....	<u>12,264</u>	<u>1,660,228</u>	<u>1,672,492</u>
Total net assets	<u>\$11,003,135</u>	<u>\$ 8,642,729</u>	<u>\$19,645,864</u>

Changes in Net Assets for the Year Ended June 30, 2004

	Governmental Activities	Business Type Activities	Total
Revenues:			
Charges for services .....	\$ 194,459	\$1,906,425	\$ 2,100,884
Operating grants, contributions, and restricted interest .....	1,013,092	30,027	1,043,119
Capital grants, contributions, and restricted interest .....	313,272		313,272
General revenues:			
Property and other city .....	1,322,617		1,322,617
Tax increment financing .....	1,391,242		1,391,242
Local option sales tax .....	628,307		628,307
Unrestricted grants and contributions .....	17,573		17,573
Unrestricted investment earnings .....	31,827	11,170	42,997
Unrestricted miscellaneous .....	30,198		30,198
Operating transfers .....	4,300	(4,300)	
Fixed asset transfers .....	(214,000)	214,000	
Total revenues .....	<u>4,732,887</u>	<u>2,157,322</u>	<u>6,890,209</u>
Program expenses:			
Public safety .....	726,786		726,786
Public works .....	1,071,794		1,071,794
Culture and recreation .....	412,786		412,786
Community and economic development .....	649,057		649,057
General government .....	313,662		313,662
Debt service .....	489,488		489,488
Water .....		1,074,520	1,074,520
Sewer .....		157,979	157,979
Solid waste .....		510,692	510,692
Total expenses .....	<u>3,663,573</u>	<u>1,743,191</u>	<u>5,406,764</u>
Change in net assets	1,069,314	414,131	1,483,445
Net assets - beginning of year, as restated .....	<u>9,933,821</u>	<u>8,228,598</u>	<u>18,162,419</u>
Net assets - end of year	<u>\$11,003,135</u>	<u>\$8,642,729</u>	<u>\$19,645,864</u>

Net assets of governmental activities increased from FY03 by approximately \$1,069,000 or 10.76%. Net assets of business type activities increased from FY03 by approximately \$414,000 or 5.03%. The largest portion of the City's net assets is the invested in capital assets (e.g. land, infrastructure, buildings, and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets. Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. Other restricted net assets are economic development loans.

**Individual Major Governmental Fund Analysis**

Changes in Fund Balances - Governmental Funds  
For the Year Ended June 30, 2004

	<u>All Funds</u>
Revenues .....	\$4,967,403
Expenditures .....	<u>8,644,079</u>
Net	(3,676,676)
Other financing sources and changes in inventories and prepaids .....	<u>56,818</u>
Increase (decrease) in fund balances .....	(3,619,858)
Fund balance - beginning of year, as restated .....	<u>4,226,966</u>
Fund balance - end of year	<u>\$ 607,108</u>

Governmental funds reported a combined fund balance of \$607,108 at June 30, 2004 which was \$3,619,858 less than the fund balance at June 30, 2003.

The general fund showed a decrease in fund balance of \$156,445. The general fund had budgeted receipts of an additional \$360,000 of local option sales tax fund transfers which needed to be transferred to the capital projects fund instead.

The tax increment financing fund showed a decrease in fund balance of \$944,775 due to transfers to the capital projects fund.

The debt service fund showed a decrease in fund balance of \$473,440. This decrease was budgeted since the debt service had an excess fund balance at June 30, 2003.

The capital projects fund showed a decrease in fund balance of \$2,131,663. Major projects in the capital projects fund included the Hill Avenue South Phase III Project, the extension of Southern Hills, infrastructure improvements of 41<sup>st</sup> Street just south of the new YMCA, and Pointe of Pines 1<sup>st</sup> Addition.

**Individual Major Business Type Fund Analysis**

**Changes in Net Assets - Proprietary Funds  
For the Year Ended June 30, 2004**

	<u>Enterprise Funds</u>
Revenues .....	\$1,947,393
Expenses .....	<u>1,750,311</u>
Net	197,082
Net transfers .....	<u>204,994</u>
Increase in net assets	402,076
Net assets - beginning of year, as restated .....	<u>8,189,545</u>
Net assets - end of year	<u>\$8,591,621</u>

Proprietary funds reported combined net assets of \$8,591,621 at June 30, 2004 which was an increase of \$402,076 over the net assets at June 30, 2003.

The water fund showed a decrease in net assets of \$16,748 due to \$127,790 of depreciation and \$62,443 of interest on the water revenue note. The sewer and solid waste funds showed increases in net assets of \$159,255 and \$259,569, respectively.

**Budgetary Highlights**

Over the course of the year, the City amended the budget once. The amendment was approved on May 11, 2004.

Even with this amendment, the City exceeded the budgeted amount in the public safety, debt service, and community and economic development functions. Public safety disbursements in the police department were higher than anticipated. The general fund cash balance covered the shortfall. Debt service disbursements were higher than the budgeted amounts. Those additional disbursements were covered by transfers from the tax increment financing and local option sales tax funds. The economic development fund had higher than expected funding for local industry.

## Capital Assets and Debt Administration

### Capital Assets Administration

The City's capital assets include land, buildings, and improvements, equipment, streets, water and sewer systems, lighting, systems, traffic signals, and other infrastructure. Capital assets for governmental activities totaled \$21,675,101 (net of accumulated depreciation) at June 30, 2004. Capital assets for business type activities totaled \$9,835,113 (net of accumulated depreciation) at June 30, 2004. See Note 4 to the financial statements for more information about the City's capital assets.

Major capital asset additions for governmental activities, in addition to the capital projects discussed earlier, included a new building and related furniture and equipment for the police department. Major capital asset additions for the business type activities included water plant improvements.

### Debt Administration

At June 30, 2004, the City had \$14,182,612 in bonds and other long-term debt, compared to \$12,422,269 last year as shown below.

#### Outstanding Debt at Year-End

	June 30,	
	<u>2004</u>	<u>2003</u>
General obligation bonds .....	\$11,330,000	\$12,400,000
Water revenue capital loan notes .....	2,852,612	
Capital lease .....		<u>22,269</u>
Total	<u>\$14,182,612</u>	<u>\$12,422,269</u>

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$11,330,000 is within its constitutional debt limit of \$12,533,697. The water revenue capital loan notes used to finance the water plant improvement project do not count toward the City's legal 5% debt limitations.

### **Economic Factors Bearing on the City's Future**

Both the water and sewer funds are in the process of completing a rate study which should be implemented by August 2005. The debt service requirements for water improvements will be in excess of \$300,000. This additional debt service will need to be incorporated in the new rates.

The City will experience a decrease in State funding for the general fund by approximately 4%. Much of this decrease in funding will be covered by eliminating some transfers to the equipment revolving fund.

The tax levy rate for fiscal year 2005 is for the general fund only and is \$8.10 per \$1,000 of taxable valuation, a decrease from the \$9.44 per \$1,000 of taxable valuation in fiscal year 2004. The decrease is due to the elimination of the debt service levy. The general fund is expected to breakeven in fiscal year 2005.

### **Contacting the City's Financial Management**

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Pete Hegeman, City Clerk/Administrator/Treasurer, 1803 Hill Avenue, Spirit Lake, Iowa.

CITY OF SPIRIT LAKE  
STATEMENT OF NET ASSETS  
JUNE 30, 2004

	<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
<b>ASSETS</b>			
Cash and pooled investments .....	\$ 934,740	\$ 1,744,424	\$ 2,679,164
Receivables - net, where applicable, of allowances for uncollectibles:			
Property tax:			
Delinquent .....	11,275		11,275
Succeeding year .....	906,548		906,548
Tax increment financing:			
Delinquent .....	3,526		3,526
Succeeding year .....	1,690,919		1,690,919
Accounts and unbilled usage .....	4,732	197,370	202,102
Special assessments - current portion .....		2,680	2,680
Accrued interest .....	1,967	612	2,579
Economic development loans .....	337,641		337,641
Due from other governments .....	239,452		239,452
Inventories .....	30,968	35,394	66,362
Prepaid expenses .....	35,013	17,381	52,394
Restricted assets:			
Cash .....		19,285	19,285
Special assessments - net of current portion .....		16,090	16,090
Loan fees - net of accumulated amortization .....		36,385	36,385
Capital assets - net of accumulated depreciation ....	<u>21,675,101</u>	<u>9,835,113</u>	<u>31,510,214</u>
<b>TOTAL ASSETS</b>	<u>25,871,882</u>	<u>11,904,734</u>	<u>37,776,616</u>

CITY OF SPIRIT LAKE  
STATEMENT OF NET ASSETS - Continued  
JUNE 30, 2004

	Governmental Activities	Business Type Activities	Total
<b>LIABILITIES</b>			
Accounts payable .....	\$ 652,008	\$ 190,840	\$ 842,848
Medical claims payable .....	772	620	1,392
Retainages payable .....	150,981	151,899	302,880
Due to other governments .....	40,398	12,037	52,435
Salaries payable .....	10,046	4,796	14,842
Accrued interest payable .....	36,889	7,131	44,020
Deferred revenues:			
Succeeding year property tax .....	906,548		906,548
Succeeding year tax increment financing .....	1,690,919		1,690,919
Long-term liabilities:			
Portion due within one year:			
Customer deposits .....		19,285	19,285
Compensated absences .....	50,186	22,785	72,971
General obligation bonds .....	1,085,000		1,085,000
Revenue notes .....		144,000	144,000
Portion due after one year:			
General obligation bonds .....	10,245,000		10,245,000
Revenue notes .....		<u>2,708,612</u>	<u>2,708,612</u>
<b>TOTAL LIABILITIES</b>	<u>14,868,747</u>	<u>3,262,005</u>	<u>18,130,752</u>
<b>NET ASSETS</b>			
Invested in capital assets - net of related debt .....	10,345,101	6,982,501	17,327,602
Restricted for:			
Debt service .....	21,829		21,829
Economic development loans .....	337,641		337,641
Special revenue purposes .....	286,300		286,300
Unrestricted .....	<u>12,264</u>	<u>1,660,228</u>	<u>1,672,492</u>
<b>TOTAL NET ASSETS</b>	<u>\$11,003,135</u>	<u>\$ 8,642,729</u>	<u>\$19,645,864</u>

CITY OF SPIRIT LAKE  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2004

		Program Revenues		
	Expenses	Charges for Services	Operating Grants, Contributions, and Restricted Interest	Capital Grants, Contributions, and Restricted Interest
<b>FUNCTIONS/PROGRAMS:</b>				
<b>GOVERNMENTAL ACTIVITIES:</b>				
Public safety .....	\$ 726,786	\$ 192,049	\$ 14,610	
Public works .....	1,071,794		358,040	\$313,272
Culture and recreation .....	412,786	2,410	50,617	
Community and economic development ...	649,057		557,287	
General government .....	313,662			
Interest and fees on long-term debt .....	<u>489,488</u>		<u>32,538</u>	
<b>TOTAL GOVERNMENTAL     ACTIVITIES</b>	<u><b>3,663,573</b></u>	<u><b>194,459</b></u>	<u><b>1,013,092</b></u>	<u><b>313,272</b></u>
<b>BUSINESS TYPE ACTIVITIES:</b>				
Water .....	1,074,520	966,720	4,833	
Sewer .....	157,979	178,532	25,194	
Solid waste .....	<u>510,692</u>	<u>761,173</u>		
<b>TOTAL BUSINESS TYPE ACTIVITIES</b>	<u><b>1,743,191</b></u>	<u><b>1,906,425</b></u>	<u><b>30,027</b></u>	
 <b>TOTAL</b>	 <u><b>\$5,406,764</b></u>	 <u><b>\$2,100,884</b></u>	 <u><b>\$1,043,119</b></u>	 <u><b>\$313,272</b></u>

**GENERAL REVENUES:**

Property and other city taxes levied for:

General purposes .....	
Debt service .....	
Tax increment financing .....	
Local option sales tax .....	
Unrestricted grants and contributions .....	
Unrestricted investment earnings .....	
Unrestricted miscellaneous .....	
Operating transfers .....	
Fixed asset transfers .....	
<b>TOTAL GENERAL REVENUES</b>	

CHANGE IN NET ASSETS .....

NET ASSETS - BEGINNING OF YEAR -  
as restated .....

NET ASSETS - END OF YEAR

Exhibit B

Net (Expense) Revenue and Changes in Net Assets

<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
\$ (520,127)		\$ (520,127)
(400,482)		(400,482)
(359,759)		(359,759)
(91,770)		(91,770)
(313,662)		(313,662)
<u>(456,950)</u>		<u>(456,950)</u>
<u>(2,142,750)</u>		<u>(2,142,750)</u>
	\$ (102,967)	(102,967)
	45,747	45,747
	<u>250,481</u>	<u>250,481</u>
	<u>193,261</u>	<u>193,261</u>
<u>(2,142,750)</u>	<u>193,261</u>	<u>(1,949,489)</u>
1,081,167		1,081,167
241,450		241,450
1,391,242		1,391,242
628,307		628,307
17,573		17,573
31,827	11,170	42,997
30,198		30,198
4,300	(4,300)	
<u>(214,000)</u>	<u>214,000</u>	
<u>3,212,064</u>	<u>220,870</u>	<u>3,432,934</u>
1,069,314	414,131	1,483,445
<u>9,933,821</u>	<u>8,228,598</u>	<u>18,162,419</u>
<u>\$11,003,135</u>	<u>\$8,642,729</u>	<u>\$19,645,864</u>

See Notes to Financial Statements

CITY OF SPIRIT LAKE  
BALANCE SHEET - GOVERNMENTAL FUNDS  
JUNE 30, 2004

ASSETS

	<u>General</u>	<u>Local Option Sales Tax</u>	<u>Tax Increment Financing</u>	<u>Economic Development Loans</u>
<b>ASSETS:</b>				
Cash and pooled investments .....	\$ 28,396	\$ 7,457		\$102,255
Receivables - net, where applicable, of allowance for uncollectibles:				
Property tax:				
Delinquent .....	10,258			
Succeeding year .....	906,548			
Tax increment financing:				
Delinquent .....			\$ 3,526	
Succeeding year .....			1,690,919	
Accounts .....	4,732			
Accrued interest .....	320		118	408
Economic development loans .....				337,641
Due from other governments .....	63,153	107,644		
Inventories .....	30,968			
Prepaid expenses .....	<u>35,013</u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>TOTAL ASSETS</b>	<b><u>\$1,079,388</u></b>	<b><u>\$115,101</u></b>	<b><u>\$1,694,563</u></b>	<b><u>\$440,304</u></b>

LIABILITIES AND FUND EQUITY

<b>LIABILITIES:</b>				
Accounts payable .....	\$ 95,743			
Retainages payable .....				
Due to other governments .....				\$ 40,398
Salaries payable .....	7,428			
Deferred revenue:				
Succeeding year property tax .....	906,548			
Succeeding year tax increment financing .			\$1,690,919	
Other .....	<u>24,051</u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>TOTAL LIABILITIES</b>	<b><u>1,033,770</u></b>	<b><u>          </u></b>	<b><u>1,690,919</u></b>	<b><u>40,398</u></b>
<b>FUND BALANCES:</b>				
Reserved for debt service .....				
Reserved for economic development loans .				337,641
Undesignated:				
Reported in:				
General fund .....	45,618			
Special revenue funds .....		\$115,101	3,644	62,265
Capital projects funds .....	<u>45,618</u>	<u>115,101</u>	<u>3,644</u>	<u>399,906</u>
<b>TOTAL FUND BALANCES</b>	<b><u>45,618</u></b>	<b><u>115,101</u></b>	<b><u>3,644</u></b>	<b><u>399,906</u></b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b><u>\$1,079,388</u></b>	<b><u>\$115,101</u></b>	<b><u>\$1,694,563</u></b>	<b><u>\$440,304</u></b>

EXHIBIT C

<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total Nonmajor Governmental Funds</u>	<u>Total</u>
\$ 20,811	\$553,119	\$108,020	\$ 820,058
1,017			11,275
			906,548
			3,526
			1,690,919
			4,732
1	1,047	33	1,927
			337,641
	40,340	28,315	239,452
			30,968
			35,013
<u>\$ 21,829</u>	<u>\$594,506</u>	<u>\$136,368</u>	<u>\$4,082,059</u>
	\$527,805	\$ 28,460	\$ 652,008
	150,981		150,981
			40,398
		2,618	10,046
			906,548
			1,690,919
			24,051
	<u>678,786</u>	<u>31,078</u>	<u>3,474,951</u>
\$ 21,829			21,829
			337,641
			45,618
		105,290	286,300
	(84,280)		(84,280)
<u>21,829</u>	<u>(84,280)</u>	<u>105,290</u>	<u>607,108</u>
<u>\$ 21,829</u>	<u>\$594,506</u>	<u>\$136,368</u>	<u>\$4,082,059</u>

See Notes to Financial Statements

CITY OF SPIRIT LAKE  
 RECONCILIATION OF THE BALANCE SHEET -  
 GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS  
 JUNE 30, 2004

TOTAL GOVERNMENTAL FUND BALANCES PER EXHIBIT C .....	\$ 607,108
AMOUNTS REPORTED FOR GOVERNMENTAL ACTIVITIES IN THE STATEMENT OF NET ASSETS ARE DIFFERENT BECAUSE:	
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the funds. The cost of the assets is \$25,409,666 and the accumulated depreciation is \$3,734,565. ....	21,675,101
Certain other receivables are not available to pay current period expenses and, therefore, are deferred in the funds. ....	24,051
The internal service funds are used by the City to charge the cost of partial self funding the City's health insurance benefit plan to the individual funds and to fund future equipment purchases. A portion of the assets and liabilities of the internal service funds is included in governmental activities in the Statement of Net Assets. ....	113,950
Long-term liabilities, including bonds, compensated absences, and accrued interest payable, are not due and payable within the current period and, therefore, are not reported as liabilities in the funds. ....	<u>(11,417,075)</u>
NET ASSETS OF GOVERNMENTAL ACTIVITIES PER EXHIBIT A	<u>\$11,003,135</u>

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

	<u>General</u>	<u>Local Option Sales Tax</u>	<u>Tax Increment Financing</u>	<u>Economic Development Loans</u>
<b>REVENUES:</b>				
Property tax .....	\$ 910,769			
Tax increment financing .....			\$1,391,242	
Other city taxes .....	167,624	\$628,307		
Licenses and permits .....	97,195			
Use of money and property .....	2,516		7,397	\$ 1,794
Intergovernmental .....	61,449			557,287
Charges for services .....	17,015			
Miscellaneous .....	<u>105,742</u>			
<b>TOTAL REVENUES</b>	<u>1,362,310</u>	<u>628,307</u>	<u>1,398,639</u>	<u>559,081</u>
<b>EXPENDITURES:</b>				
Public safety .....	905,311			
Public works .....	349,485			
Culture and recreation .....	328,581			
Community and economic development ...	104,439	4,823		539,795
General government .....	317,372			
Debt service .....				
Capital projects .....				
<b>TOTAL EXPENDITURES</b>	<u>2,005,188</u>	<u>4,823</u>	<u>          </u>	<u>539,795</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>(642,878)</u>	<u>623,484</u>	<u>1,398,639</u>	<u>19,286</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Operating transfers in .....	444,433			
Operating transfers out .....		(637,058)	(2,343,414)	
Proceeds from sale of fixed assets .....	<u>42,000</u>			
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>486,433</u>	<u>(637,058)</u>	<u>(2,343,414)</u>	
<b>NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS</b>	(156,445)	(13,574)	(944,775)	19,286
<b>FUND BALANCES - BEGINNING OF YEAR - as restated</b> .....	192,545	128,675	948,419	380,620
<b>NET INCREASE IN RESERVES FOR PREPAID EXPENSES AND INVENTORY OF SUPPLIES</b> .....	<u>9,518</u>			
<b>FUND BALANCES - END OF YEAR</b>	<u>\$ 45,618</u>	<u>\$115,101</u>	<u>\$ 3,644</u>	<u>\$399,906</u>

EXHIBIT E

<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total Nonmajor Governmental Funds</u>	<u>Total</u>
\$ 232,082			\$1,142,851
9,368			1,391,242
2,801	\$ 16,589	\$ 468	805,299
32,538	202,656	369,899	97,195
			31,565
	<u>143,573</u>	<u>9,092</u>	1,223,829
<u>276,789</u>	<u>362,818</u>	<u>379,459</u>	17,015
			<u>258,407</u>
			<u>4,967,403</u>
			905,311
		307,474	656,959
		11,427	340,008
			649,057
1,562,485			317,372
	<u>4,212,887</u>		1,562,485
<u>1,562,485</u>	<u>4,212,887</u>	<u>318,901</u>	<u>4,212,887</u>
			<u>8,644,079</u>
<u>(1,285,696)</u>	<u>(3,850,069)</u>	<u>60,558</u>	<u>(3,676,676)</u>
863,277	1,729,083	10,677	3,047,470
(51,021)	(10,677)		(3,042,170)
			42,000
<u>812,256</u>	<u>1,718,406</u>	<u>10,677</u>	<u>47,300</u>
(473,440)	(2,131,663)	71,235	(3,629,376)
495,269	2,047,383	34,055	4,226,966
			9,518
<u>\$ 21,829</u>	<u>\$ (84,280)</u>	<u>\$105,290</u>	<u>\$ 607,108</u>

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

NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS PER EXHIBIT E .....	\$(3,629,376)
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AMOUNTS REPORTED FOR GOVERNMENTAL ACTIVITIES IN  
 THE STATEMENT OF ACTIVITIES ARE DIFFERENT BECAUSE:

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

Expenditures for capital assets .....	\$4,401,302	
Transferred to water and sewer .....	(214,000)	
Cost of asset disposed of - net of depreciation .....	(37,500)	
Depreciation expense .....	(544,106)	3,605,696

Prepaid expenses and inventory are not available to pay current period expenses and, therefore, are deferred in the funds. The change in prepaid expenses and inventory results in differences between the statements, as follows:

Inventories - end of year .....	30,968	
Prepaid expenses - end of year .....	35,013	
Inventories - beginning of year .....	(30,632)	
Prepaid expenses - beginning of year .....	(25,831)	9,518

Certain other receivables are not available to pay current period expenses and, therefore, are deferred in the funds. The change in these deferred amounts results in differences between the statements, as follows:

Hotel/motel tax deferred - end of year .....	23,446	
Other receivables deferred - end of year .....	605	
Hotel/motel tax deferred - beginning of year .....	(20,672)	
Other receivables deferred - beginning of year .....	-	3,379

Proceeds from issuing long-term liabilities provide current financial resources to the governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. Current year repayments exceeded new issues, as follows:

Repayments .....	1,070,000	
New issues .....	-	1,070,000

CITY OF SPIRIT LAKE  
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,  
 AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS TO  
 THE STATEMENT OF ACTIVITIES - Continued  
 FOR THE YEAR ENDED JUNE 30, 2004

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditure in governmental funds. The change in these accrued expenses results in differences between the statements, as follows:

Compensated absences - end of year .....	\$ (50,186)	
Accrued interest payable - end of year .....	(36,889)	
Compensated absences - beginning of year .....	49,231	
Accrued interest payable - beginning of year .....	<u>39,886</u>	\$ 2,042

The internal service funds are used by the City to charge the cost of partial self funding the City's health insurance benefit plan to the individual funds and to fund future equipment purchases. A portion of the change in net assets of the internal services funds is reported with governmental activities. ....

8,055

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES  
 PER EXHIBIT B

\$1,069,314

CITY OF SPIRIT LAKE  
STATEMENT OF NET ASSETS - PROPRIETARY FUNDS  
JUNE 30, 2004

	Enterprise Funds			
	Water	Sewer	Solid Waste	Total
<b>ASSETS</b>				
Cash and pooled investments .....	\$ 763,582	\$ 489,099	\$440,015	\$ 1,692,696
Receivables - net of allowance for uncollectibles:				
Accounts and unbilled usage .....	140,847	24,248	32,275	197,370
Special assessments - current portion .....		2,680		2,680
Accrued interest .....	435	100	77	612
Inventories .....	26,380		9,014	35,394
Prepaid expenses .....	11,019	1,042	5,320	17,381
Restricted assets:				
Customer deposits - cash .....	19,285			19,285
Special assessments - net of current portion		16,090		16,090
Loan fees - net of accumulated amortization	36,385			36,385
Capital assets - net of accumulated depreciation .....	<u>7,398,128</u>	<u>2,077,863</u>	<u>359,122</u>	<u>9,835,113</u>
<b>TOTAL ASSETS</b>	<b><u>8,396,061</u></b>	<b><u>2,611,122</u></b>	<b><u>845,823</u></b>	<b><u>11,853,006</u></b>
<b>LIABILITIES:</b>				
Accounts payable .....	151,956	12,267	26,617	190,840
Medical claims payable .....				
Retainages payable .....	151,899			151,899
Due to other governments .....	12,037			12,037
Salaries payable .....	3,382	345	1,069	4,796
Accrued interest payable .....	7,131			7,131
Payable from restricted assets:				
Customer deposits .....	19,285			19,285
Compensated absences .....	18,956		3,829	22,785
Revenue notes payable .....	<u>2,852,612</u>			<u>2,852,612</u>
<b>TOTAL LIABILITIES</b>	<b><u>3,217,258</u></b>	<b><u>12,612</u></b>	<b><u>31,515</u></b>	<b><u>3,261,385</u></b>
<b>NET ASSETS:</b>				
Invested in capital assets - net of related debt .....	4,545,516	2,077,863	359,122	6,982,501
Unrestricted .....	<u>633,287</u>	<u>520,647</u>	<u>455,186</u>	<u>1,609,120</u>
<b>TOTAL NET ASSETS</b>	<b><u>\$5,178,803</u></b>	<b><u>\$2,598,510</u></b>	<b><u>\$814,308</u></b>	<b><u>\$ 8,591,621</u></b>

See Notes to Financial Statements

EXHIBIT G

<u>Internal Service Funds</u>		
<u>Self-Insurance</u>	<u>Equipment Revolving</u>	<u>Total</u>
\$48,750	\$117,660	\$166,410
	40	40
<u>48,750</u>	<u>117,700</u>	<u>166,450</u>
1,392		1,392
<u>1,392</u>	<u>      </u>	<u>1,392</u>
<u>47,358</u>	<u>117,700</u>	<u>165,058</u>
<u>\$47,358</u>	<u>\$117,700</u>	<u>\$165,058</u>

CITY OF SPIRIT LAKE  
RECONCILIATION OF STATEMENT OF NET ASSETS - PROPRIETARY FUNDS TO  
THE STATEMENT OF NET ASSETS  
JUNE 30, 2004

TOTAL NET ASSETS - ENTERPRISE FUNDS PER EXHIBIT G ..... \$8,591,621

AMOUNTS REPORTED FOR BUSINESS TYPE ACTIVITIES IN THE  
STATEMENT OF NET ASSETS ARE DIFFERENT BECAUSE:

The internal service funds are used by the City to charge the cost of partial self funding the City's health insurance benefit plan to the individual funds and to fund future equipment purchases. A portion of the assets and liabilities of the internal service funds is included in business type activities in the Statement of Net Assets. 51,108

TOTAL NET ASSETS - BUSINESS TYPE ACTIVITIES PER EXHIBIT A \$8,642,729

CITY OF SPIRIT LAKE  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS -  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2004

	<u>Enterprise Funds</u>			
	<u>Water</u>	<u>Sewer</u>	<u>Solid Waste</u>	<u>Total</u>
<b>OPERATING REVENUES:</b>				
Charges for services .....	\$ 966,100	\$ 178,532	\$761,128	\$ 1,905,760
Intergovernmental reimbursements .....	4,833	25,194		30,027
Reimbursements from operating funds .....				
Miscellaneous:				
Miscellaneous .....	<u>620</u>		<u>45</u>	<u>665</u>
<b>TOTAL OPERATING REVENUES</b>	<u>971,553</u>	<u>203,726</u>	<u>761,173</u>	<u>1,936,452</u>
<b>OPERATING EXPENSES:</b>				
Business type activities:				
Cost of sales and services .....	878,732	106,320	480,531	1,465,583
Depreciation .....	127,790	52,062	30,658	210,510
Amortization .....	1,255			1,255
Insurance charges and claims .....				
<b>TOTAL OPERATING EXPENSES</b>	<u>1,007,777</u>	<u>158,382</u>	<u>511,189</u>	<u>1,677,348</u>
<b>OPERATING INCOME (LOSS)</b>	<u>(36,224)</u>	<u>45,344</u>	<u>249,984</u>	<u>259,104</u>
<b>NON-OPERATING REVENUES (EXPENSES):</b>				
Interest income .....	6,267	3,361	1,313	10,941
Loan service fees .....	(9,698)			(9,698)
Interest expense:				
Revenue notes .....	(62,443)			(62,443)
Capital lease .....			(822)	(822)
<b>TOTAL NON-OPERATING REVENUES (EXPENSES)</b>	<u>(65,874)</u>	<u>3,361</u>	<u>491</u>	<u>(62,022)</u>
<b>NET INCOME (LOSS) BEFORE TRANSFERS</b>	<u>(102,098)</u>	<u>48,705</u>	<u>250,475</u>	<u>197,082</u>
Operating transfers in .....			17,794	17,794
Operating transfers out .....	(10,650)	(7,450)	(8,700)	(26,800)
Capital assets transferred in .....	<u>96,000</u>	<u>118,000</u>		<u>214,000</u>
<b>TOTAL TRANSFERS - NET</b>	<u>85,350</u>	<u>110,550</u>	<u>9,094</u>	<u>204,994</u>
<b>CHANGE IN NET ASSETS</b>	(16,748)	159,255	259,569	402,076
<b>NET ASSETS - BEGINNING OF YEAR - as restated</b> .....	<u>5,195,551</u>	<u>2,439,255</u>	<u>554,739</u>	<u>8,189,545</u>
<b>NET ASSETS - END OF YEAR</b>	<u>\$5,178,803</u>	<u>\$2,598,510</u>	<u>\$814,308</u>	<u>\$ 8,591,621</u>

See Notes to Financial Statements

EXHIBIT I

<u>Internal Service Funds</u>		
<u>Self-Insurance</u>	<u>Equipment Revolving</u>	<u>Total</u>
\$34,200		\$ 34,200
<u>34,200</u>	_____	<u>34,200</u>
18,290		18,290
<u>18,290</u>	_____	<u>18,290</u>
<u>15,910</u>	_____	<u>15,910</u>
	\$ 494	494
_____	_____	_____
_____	494	494
<u>15,910</u>	<u>494</u>	<u>16,404</u>
	22,500	22,500
	(18,794)	(18,794)
_____	<u>3,706</u>	<u>3,706</u>
15,910	4,200	20,110
<u>31,448</u>	<u>113,500</u>	<u>144,948</u>
<u>\$47,358</u>	<u>\$117,700</u>	<u>\$165,058</u>

CITY OF SPIRIT LAKE  
 RECONCILIATION OF STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN  
 NET ASSETS - PROPRIETARY FUNDS TO THE STATEMENT OF ACTIVITIES  
 FOR THE YEAR ENDED JUNE 30, 2004

TOTAL CHANGE IN NET ASSETS - ENTERPRISE FUNDS PER EXHIBIT I ..... \$402,076

AMOUNTS REPORTED FOR BUSINESS TYPE ACTIVITIES IN THE  
 STATEMENT OF ACTIVITIES ARE DIFFERENT BECAUSE:

The internal service funds are used by the City to charge the cost of partial self  
 funding the City's health insurance benefit plan to the individual funds and to fund  
 future equipment purchases. A portion of the change in net assets of the internal  
 service funds is reported with business type activities..... 12,055

CHANGE IN NET ASSETS OF BUSINESS TYPE ACTIVITIES PER EXHIBIT B \$414,131

CITY OF SPIRIT LAKE  
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2004

	Enterprise Funds			
	<u>Water</u>	<u>Sewer</u>	<u>Solid Waste</u>	<u>Total</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>				
Cash received from customers .....	\$1,038,642	\$ 178,383	\$761,838	\$1,978,863
Other operating receipts .....	5,452	25,194	109	30,755
Cash payments from operating funds .....				
Cash payments to employees for services .....	(378,904)	(39,869)	(132,827)	(551,600)
Cash payments for goods and services ....	(562,629)	(57,520)	(364,760)	(984,909)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>102,561</u>	<u>106,188</u>	<u>264,360</u>	<u>473,109</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>				
Operating transfers in .....			17,794	17,794
Operating transfers out .....	(10,650)	(7,450)	(8,700)	(26,800)
<b>NET CASH PROVIDED BY (USED FOR) NONCAPITAL FINANCING ACTIVITIES</b>	<u>(10,650)</u>	<u>(7,450)</u>	<u>9,094</u>	<u>(9,006)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>				
Acquisition of fixed assets .....	(2,285,995)	(4,843)	(13,394)	(2,304,232)
Revenue notes proceeds .....	2,954,972			2,954,972
Special assessments received .....		2,680		2,680
Principal paid on revenue notes .....	(140,000)			(140,000)
Principal paid on capital lease .....			(22,269)	(22,269)
Interest paid on revenue notes .....	(55,311)			(55,311)
Interest paid on capital lease .....			(1,235)	(1,235)
Loan service fees .....	(9,698)			(9,698)
<b>NET CASH PROVIDED BY (USED FOR) CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<u>463,968</u>	<u>(2,163)</u>	<u>(36,898)</u>	<u>424,907</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>				
Interest on investments .....	6,534	1,319	1,236	9,089
Interest on special assessments .....		1,942		1,942
<b>NET CASH PROVIDED BY INVESTING ACTIVITIES</b>	<u>6,534</u>	<u>3,261</u>	<u>1,236</u>	<u>11,031</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	562,413	99,836	237,792	900,041
<b>CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR</b>	<u>220,454</u>	<u>389,263</u>	<u>202,223</u>	<u>811,940</u>
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<u>\$ 782,867</u>	<u>\$489,099</u>	<u>\$440,015</u>	<u>\$1,711,981</u>

EXHIBIT K

Internal Service Funds		
<u>Self-Insurance</u>	<u>Equipment Revolving</u>	<u>Total</u>
\$34,200		\$ 34,200
<u>(18,401)</u>	_____	<u>(18,401)</u>
<u>15,799</u>	_____	<u>15,799</u>
_____	\$ 22,500	22,500
_____	<u>(18,794)</u>	<u>(18,794)</u>
_____	<u>3,706</u>	<u>3,706</u>
_____	_____	_____
_____	_____	_____
_____	502	502
_____	<u>502</u>	<u>502</u>
15,799	4,208	20,007
<u>32,951</u>	<u>113,452</u>	<u>146,403</u>
<u>\$48,750</u>	<u>\$117,660</u>	<u>\$166,410</u>

CITY OF SPIRIT LAKE  
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS - Continued  
FOR THE YEAR ENDED JUNE 30, 2004

	Enterprise Funds			
	Water	Sewer	Solid Waste	Total
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:				
OPERATING INCOME (LOSS) .....	\$ (36,224)	\$ 45,344	\$249,984	\$ 259,104
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:				
Depreciation .....	127,790	52,062	30,658	210,510
Amortization .....	1,255			1,255
Changes in assets and liabilities:				
(Increase) decrease in accounts receivable and unbilled usage .....	(1,280)	(149)	774	(655)
(Increase) decrease in inventories .....	762		(64)	698
(Increase) decrease in prepaids .....	71	159	(246)	(16)
Increase (decrease) in accounts payable .....	12,150	10,652	(14,845)	7,957
(Decrease) in medical claims payable ...				
Increase in due to other governments ...	862			862
(Decrease) in salaries payable .....	(4,853)	(441)	(1,178)	(6,472)
Increase in customer deposits .....	1,350			1,350
Increase (decrease) in compensated absences .....	678	(1,439)	(723)	(1,484)
<b>TOTAL ADJUSTMENTS</b>	<b>138,785</b>	<b>60,844</b>	<b>14,376</b>	<b>214,005</b>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>\$ 102,561</b>	<b>\$ 106,188</b>	<b>\$264,360</b>	<b>\$ 473,109</b>
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON THE STATEMENT OF NET ASSETS				
Cash and pooled investments .....	\$ 763,582	\$ 489,099	\$440,015	\$1,692,696
Restricted assets - cash:				
Customer deposits .....	19,285			19,285
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<b>\$ 782,867</b>	<b>\$ 489,099</b>	<b>\$440,015</b>	<b>\$1,711,981</b>
NON-CASH CAPITAL AND RELATED FINANCING ACTIVITIES:				
A water and sewer project was paid by a governmental fund type and transferred to the enterprise funds.				
Cost transferred in .....	\$ 96,000	\$ 118,000	\$	\$ 214,000

See Notes to Financial Statements

EXHIBIT K

Internal Service Funds		
<u>Self-Insurance</u>	<u>Equipment Revolving</u>	<u>Total</u>
\$15,910	_____	\$ 15,910
(111)		(111)
<u>(111)</u>	<u>_____</u>	<u>(111)</u>
<u>\$15,799</u>	<u>\$ _____</u>	<u>\$ 15,799</u>
\$48,750	\$117,660	\$166,410
_____	_____	_____
<u>\$48,750</u>	<u>\$117,660</u>	<u>\$166,410</u>
<u>\$ _____</u>	<u>\$ _____</u>	<u>\$ _____</u>

CITY OF SPIRIT LAKE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2004

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The City of Spirit Lake, Iowa is a political subdivision of the State of Iowa located in Dickinson County. It was first incorporated in 1879 and operates under the Home Rule provisions of the constitution of Iowa. The City operates under the Mayor-Council-Clerk/Administrator form of government with the Mayor and Council Members elected on a non-partisan basis. The City of Spirit Lake provides numerous services to citizens, including general government, public safety, streets, sanitation and health, cultural and park facilities and social services. It also operates the water, sewer, and solid waste utilities.

The financial statements of the City of Spirit Lake have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below:

**A. Reporting Entity**

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

Jointly Governed Organizations

The City also participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Drainage District #22, Spirit Lake Community Fire Department, Dickinson County Airport Authority, Dickinson County Emergency Management Commission, Dickinson County E911 Service Board, Dickinson County Assessor's Conference Board, and various other organizations.

**B. Basis of Presentation**

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

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

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

*Restricted net assets* result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation. Additionally, the City has reported economic development loans as restricted net assets.

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

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

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary funds, and fiduciary funds even though the later are excluded from the government-wide statements. Major individual governmental and proprietary funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

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

*Special Revenue:*

*The Tax Increment Financing Revenues Fund* is used to account for revenues from the tax authorized by ordinance in the urban renewal district and used to pay the principal and interest on the general obligation capital loan notes and other indebtedness incurred for urban renewal redevelopment projects.

*The Local Option Sales Tax Fund* - is used to account for the revenues from the tax authorized by referendum and used for property tax relief and capital improvements.

*The Economic Development Loans Fund* is used to account for monies loaned to businesses for economic development purposes.

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

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

The City reports the following major proprietary funds:

*Enterprise:*

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

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

*The Solid Waste Fund* is used to account for the operation and maintenance of the City's solid waste collection activities.

Additionally, the City reports the following funds:

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

**C. Measurement Focus and Basis of Accounting**

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

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

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

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

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

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

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

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

#### **D. Assets, Liabilities and Fund Equity**

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

Cash, Pooled Investments, and Cash Equivalents - The cash balances of most City funds are pooled and invested. Interest earned on investments is recorded in the General Fund unless otherwise provided by law. Investments consist of interest-bearing cash accounts and certificates of deposit.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid (including restricted assets) are considered to be cash equivalents.

Property Tax Receivable, Including Tax Increment Financing - Property tax, including tax increment financing, in governmental funds is accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date the tax asking is certified by the City to the County Board of Supervisors. Current year property tax receivable represent taxes collected by the County but not remitted to the City at June 30, 2004 and unpaid taxes. The succeeding year property tax receivable represent taxes certified by the City to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the City is required to certify its budget to the County Auditor by March 15 of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable have been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenues recognized in these funds become due and collectible in September and March of the current fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2002 assessed property valuations; is for the tax accrual period July 1, 2003 through June 30, 2004 and reflects tax asking contained in the budget certified to the County Board of Supervisors in March 2003.

Accounts and Unbilled Usage Receivable - Accounts receivable are recorded in the enterprise funds at the time the service is billed. Unbilled usage for service consumed between periodic scheduled billing dates is estimated and is recognized as revenue in the period in which the service is provided.

Special Assessments Receivable - Special assessments receivable represents the amounts due from individuals for work done which benefits their property. These assessments are payable by individuals in not less than ten nor more than twenty annual installments. Each annual installment with interest on the unpaid balance is due on September 30 and is subject to the same interest and penalties as other tax.

Due From Other Governments - Due from other governments represents various shared revenues, grants, and reimbursements due from other governments. Shared revenues are recognized during the period received by the collecting authority, the State of Iowa.

Inventories - Proprietary Fund inventories of materials and supplies are valued at cost, using the first-in, first-out (FIFO) method. Inventories in the governmental funds are stated at cost and are recorded as an expenditure at the time of purchase. Reported inventories in the governmental funds are equally offset by a fund balance reserve, which indicates they are unavailable for appropriation.

Prepaid Expenses - Prepaid expenses have been recorded for governmental and proprietary funds. Prepaid expenses in the governmental funds have been offset by a fund balance reserve to indicate they are unavailable for appropriation.

Restricted Assets - Restricted assets include customer deposits restricted for application to unpaid customer accounts or for refund to customers.

Capital Assets - Capital assets, which include property, equipment and vehicles and infrastructure assets (e.g. roads, bridges, curbs, gutters, sidewalks, and similar items which are immovable and of value only to the government) are reported in the applicable governmental or business type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair not adding to the value of the asset or materially extend asset lives are not capitalized. Reportable capital assets are defined by the City as assets with initial, individual costs in excess of \$5,000 and estimated useful lives in excess of four years.

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

<u>Asset Class</u>	<u>Estimated Useful Lives (In Years)</u>
Buildings	40 - 60 years
Improvements other than buildings	10 - 40 years
Vehicles	5 - 10 years
Equipment	5 - 20 years
Infrastructure	15 - 40 years

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

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

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

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

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

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

## **2. CASH AND INVESTMENTS**

The City's demand deposits, savings accounts, and certificates of deposit at June 30, 2004 were entirely covered by Federal depository insurance or by a multiple financial institution collateral pool in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the members of the pool to insure there will be no loss of public funds.

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

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

### 3. ALLOWANCES FOR COLLECTION LOSSES

Allowances have been made for estimated collection losses on the following receivable amounts:

	<u>Gross Receivables</u>	<u>Allowance for Collection Losses</u>	<u>Net Receivables</u>
Accounts and unbilled usage:			
General Fund .....	\$ 4,732		\$ 4,732
Enterprise Funds:			
Water .....	142,047	\$ 1,200	140,847
Sewer .....	24,248		24,248
Solid waste .....	<u>34,275</u>	<u>2,000</u>	<u>32,275</u>
	<u>\$205,302</u>	<u>\$ 3,200</u>	<u>\$202,102</u>

### 4. CAPITAL ASSETS

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

	<u>Balance Beginning of Year As rested (Note 18)</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfers In (Out)</u>	<u>Balance End of Year</u>
GOVERNMENTAL ACTIVITIES:					
COST OF CAPITAL ASSETS:					
Capital assets not being depreciated:					
Construction in progress .....	\$ 1,330,728	\$1,962,579			\$ 3,293,307
Land .....	<u>339,681</u>		\$(37,500)		<u>302,181</u>
Total capital assets not being depreciated	<u>1,670,409</u>	<u>1,962,579</u>	<u>(37,500)</u>		<u>3,595,488</u>
Capital assets being depreciated					
Buildings .....	1,159,158	151,129			1,310,287
Improvements .....	404,218				404,218
Equipment and vehicles .....	2,072,312	329,365			2,401,677
Infrastructure .....	<u>15,953,767</u>	<u>1,958,229</u>		\$(214,000)	<u>17,697,996</u>
Total capital assets being depreciated	<u>19,589,455</u>	<u>2,438,723</u>		<u>(214,000)</u>	<u>21,814,178</u>
TOTAL COST OF CAPITAL ASSETS	<u>21,259,864</u>	<u>4,401,302</u>	<u>(37,500)</u>	<u>(214,000)</u>	<u>25,409,666</u>
ACCUMULATED DEPRECIATION:					
Buildings .....	315,184	24,067			339,251
Improvements .....	236,903	9,974			246,877
Equipment and vehicles .....	717,188	181,536			898,724
Infrastructure .....	<u>1,921,184</u>	<u>328,529</u>			<u>2,249,713</u>
TOTAL ACCUMULATED DEPRECIATION	<u>3,190,459</u>	<u>544,106</u>			<u>3,734,565</u>
GOVERNMENTAL ACTIVITIES CAPITAL ASSETS - NET	<u>\$18,069,405</u>	<u>\$3,857,196</u>	<u>\$(37,500)</u>	<u>\$(214,000)</u>	<u>\$21,675,101</u>

	Balance Beginning of Year As rested (Note 18)	Additions	Deletions	Transfers In (Out)	Balance End of Year
<b>BUSINESS TYPE ACTIVITIES:</b>					
<b>COST OF CAPITAL ASSETS:</b>					
Capital assets not being depreciated:					
Construction in progress ....	\$ 1,446,853	\$2,188,830			\$ 3,635,683
Land .....	96,859				96,859
Total capital assets not being depreciated	<u>1,543,712</u>	<u>2,188,830</u>			<u>3,732,542</u>
Capital assets being depreciated:					
Buildings .....	1,968,248				1,968,248
Improvements .....	113,651				113,651
Water towers .....	891,356				891,356
Equipment and vehicles .....	1,071,352				1,071,352
Infrastructure .....	4,438,384			\$ 214,000	4,652,384
Total capital assets being depreciated	<u>8,482,991</u>			<u>214,000</u>	<u>8,696,991</u>
<b>TOTAL COST OF CAPITAL ASSETS</b>	<u>10,026,703</u>	<u>2,188,830</u>		<u>214,000</u>	<u>12,429,533</u>
<b>ACCUMULATED DEPRECIATION:</b>					
Buildings .....	951,283	36,880			988,163
Improvements .....	89,838	2,344			92,182
Water towers .....	287,036	17,828			304,864
Equipment and vehicles .....	430,822	63,427			494,249
Infrastructure .....	624,931	90,031			714,962
<b>TOTAL ACCUMULATED DEPRECIATION</b>	<u>2,383,910</u>	<u>210,510</u>			<u>2,594,420</u>
<b>BUSINESS TYPE CAPITAL ASSETS - NET</b>	<u>\$ 7,642,793</u>	<u>\$1,978,320</u>		<u>\$ 214,000</u>	<u>\$ 9,835,113</u>
<b>COST OF LOAN FEES .....</b>		\$ 37,640			\$ 37,640
<b>LESS: Accumulated amortization</b>		<u>1,255</u>			<u>1,255</u>
<b>LOAN FEES - NET</b>		<u>\$ 36,385</u>			<u>\$ 36,385</u>

Depreciation was charged to functions of the government as follows:

**Governmental Activities:**

Public safety .....	\$ 29,686
Public works .....	412,447
Culture and recreation .....	96,777
General government .....	<u>5,196</u>
Total Governmental Activities	<u>\$544,106</u>

**Business Type Activities:**

Water .....	\$127,790
Sewer .....	52,062
Solid waste .....	<u>30,658</u>
Total Business Type Activities	<u>\$210,510</u>

**5. ECONOMIC DEVELOPMENT LOANS**

The City has loaned money for economic development purposes. Following is a summary of these loans:

Forgivable loan to a local business. The loan is interest free and is forgivable ratably over 10 years if certain conditions are met. During the year ended June 30, 2003, the City forgave \$40,000 of this loan. ....	\$200,000
Loan to a local business, annual payments of \$5,000 plus interest at 3%, due July 1, 2004. ....	5,000
Iowa Nonentitlement Community Development Block Grant. Economic Development set-aside loan to a local business. Quarterly payments of \$625, no interest, due April 1, 2006. ....	5,000
Iowa Nonentitlement Community Development Block Grant. Economic Development set-aside loan to a local business. Quarterly payments of \$5,139 including interest at 2%, due April 1, 2006. The City must repay the State of Iowa \$40,197 under the same terms. ....	40,197
Forgivable loan to a local business. The loan is interest-free and forgivable ratably over five years if certain conditions are met. During the year, the City forgave \$5,000 of this loan. ....	25,000
Iowa Nonentitlement Community Development Block Grant. Economic Development set aside loan to a local business. Final payment terms are not finalized as of June 30, 2004. ....	<u>62,444</u>
	<u>\$337,641</u>

**6. LONG-TERM LIABILITIES**

A summary of changes in long-term liabilities for the year ended June 30, 2004 is as follows:

	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount Originally Issued</u>	<u>Final Due Date</u>
<b>GOVERNMENTAL ACTIVITIES:</b>				
<b>GENERAL OBLIGATION BONDS/NOTES:</b>				
Fire station building .....	10-1-95	4.90 - 5.00%	\$ 400,000	6-1-2006
Essential corporate purpose .....	6-1-98	4.50 - 4.95%	2,190,000	6-1-2012
Taxable issue .....	9-1-99	7.00 - 7.50%	400,000	6-1-2011
General obligation urban renewal Series 2001A .....	10-1-01	3.50 - 4.00%	4,000,000	6-1-2012
General obligation bonds, Series 2001B	10-1-01	3.25 - 4.40%	470,000	6-1-2012
General obligation refunding bonds ...	6-1-02	3.05 - 4.35%	3,060,000	6-1-2012
Essential corporate purpose .....	6-1-03	3.55 - 4.00%	4,200,000	6-1-2023
TOTAL				
COMPENSATED ABSENCES .....				
TOTAL GOVERNMENTAL ACTIVITIES				
 <b>BUSINESS TYPE ACTIVITIES:</b>				
<b>REVENUE NOTES:</b>				
Water revenue capital loan notes, Series 2003 .....	5-20-03	3.00%	2,992,612	6-1-2023
<b>CAPITAL LEASE:</b>				
Payable from enterprise fund: Garbage truck .....	2-28-00	5.546%	105,802	2-27-2004
COMPENSATED ABSENCES .....				
TOTAL BUSINESS TYPE ACTIVITIES				

Balance Beginning of Year As restated, (Note 18)	<u>Increases</u>	<u>Decreases</u>	Balance End of Year	Due Within One Year
\$ 90,000		\$ 30,000	\$ 60,000	\$ 30,000
1,440,000		160,000	1,280,000	160,000
335,000		35,000	300,000	35,000
3,425,000		325,000	3,100,000	350,000
335,000		35,000	300,000	35,000
2,575,000		485,000	2,090,000	475,000
4,200,000			4,200,000	
<u>12,400,000</u>		<u>1,070,000</u>	<u>11,330,000</u>	<u>1,085,000</u>
<u>49,231</u>	\$ 955		50,186	50,186
<u>\$12,449,231</u>	<u>\$ 955</u>	<u>\$1,070,000</u>	<u>\$11,380,186</u>	<u>\$1,135,186</u>
	\$2,992,612	\$ 140,000	\$ 2,852,612	\$ 144,000
\$ 22,269		22,269		
<u>24,269</u>		<u>1,484</u>	<u>22,785</u>	<u>22,785</u>
<u>\$ 46,538</u>	<u>\$2,992,612</u>	<u>\$ 163,753</u>	<u>\$ 2,875,397</u>	<u>\$ 166,785</u>

**General Obligation Bonds/Notes**

General obligation bonds/notes to be serviced by the Debt Service Fund totaled \$11,330,000 at June 30, 2004.

A majority of the general obligation bonds are anticipated to be repaid from township reimbursements, tax increment financing revenues, and local option sales tax funds. In compliance with statutory requirements, any payments from other funds are recorded as reimbursements to the Debt Service Fund in the City's accounting records. General obligation bonds/notes bear interest with rates ranging from 3.05% to 7.5%.

**Revenue Notes**

The City has water revenue capital loan notes issued under a loan agreement between the City of Spirit Lake, the Iowa Finance Authority, the Iowa Department of Natural Resources, and Wells Fargo Bank Iowa, N.A. The notes bear interest at 3%.

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

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

During the year ended June 30, 2004, the City did not establish the sinking fund and the net revenues of the water fund did not meet the 110% test as required by the resolution.

A summary of the City's long-term debt maturities is as follows:

Governmental Activities

Year Ending June 30,	General Obligation Bonds/Notes		
	Principal	Interest	Total
2005	\$ 1,085,000	\$ 442,670	\$ 1,527,670
2006	1,115,000	403,675	1,518,675
2007	1,135,000	360,945	1,495,945
2008	990,000	317,018	1,307,018
2009	975,000	277,262	1,252,262
2010	1,000,000	237,378	1,237,378
2011	1,005,000	195,772	1,200,772
2012	945,000	153,073	1,098,073
2013	280,000	114,100	394,100
2014	280,000	104,160	384,160
2015	280,000	94,220	374,220
2016	280,000	84,280	364,280
2017	280,000	74,340	354,340
2018	280,000	64,400	344,400
2019	280,000	54,180	334,180
2020	280,000	43,820	323,820
2021	280,000	33,180	313,180
2022	280,000	22,260	302,260
2023	<u>280,000</u>	<u>11,200</u>	<u>291,200</u>
Total	<u>\$11,330,000</u>	<u>\$3,087,933</u>	<u>\$14,417,933</u>

Business Type Activities

Year Ending June 30,	Water Revenue Capital Loan Notes		
	Principal	Interest	Total
2005	\$ 144,000	\$ 85,578	\$ 229,578
2006	149,000	81,258	230,258
2007	153,000	76,789	229,789
2008	158,000	72,198	230,198
2009	162,000	67,458	229,458
2010	167,000	62,599	229,599
2011	172,000	57,588	229,588
2012	177,000	52,428	229,428
2013	183,000	47,119	230,119
2014	188,000	41,628	229,628
2015	194,000	35,988	229,988
2016	200,000	30,169	230,169
2017	206,000	24,168	230,168
2018	212,000	17,988	229,988
2019	218,000	11,629	229,629
2020	<u>169,612</u>	<u>5,089</u>	<u>174,701</u>
Total	<u>\$ 2,852,612</u>	<u>\$ 769,674</u>	<u>\$ 3,622,286</u>

## 7. INTERFUND TRANSFERS

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

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Special Revenue:	
	Local option sales tax	\$ 264,004
	Tax increment financing	175,129
	Proprietary:	
	Enterprise:	
	Water	2,150
	Sewer	950
	Solid waste	1,200
	Internal service:	
	Equipment revolving	<u>1,000</u>
		<u>444,433</u>
Debt Service	Special Revenue:	
	Local option sales tax	13,054
	Tax increment financing	<u>850,223</u>
		<u>863,277</u>
Capital Projects	Special Revenue:	
	Local option sales tax	360,000
	Tax increment financing	1,318,062
	Debt service	<u>51,021</u>
		<u>1,729,083</u>
Special Revenue:		
Road use tax	Capital projects	<u>10,677</u>
Proprietary:		
Enterprise:		
Solid waste	Proprietary:	
	Internal service:	
	Equipment revolving	<u>17,794</u>
Proprietary:		
Internal service:		
Equipment revolving	Proprietary:	
	Enterprise:	
	Water	8,500
	Sewer	6,500
	Solid waste	<u>7,500</u>
		<u>22,500</u>
<b>TOTAL OPERATING TRANSFERS</b>		<b><u>\$3,087,764</u></b>

**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 5.93% and 8.90%, respectively. For the year ended June 30, 2003, the contribution rates for police employees and the City were 6.04% and 9.07%, respectively, and for the year ended June 30, 2002, the contribution rates for police employees and the City were 6.20% and 9.29%, 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 \$95,005, \$87,179, and \$80,875, respectively, equal to the required contributions for each year.

**9. OTHER EMPLOYEE BENEFITS**

All full-time City employees accumulate sick leave hours for subsequent use. Except for a portion that is paid annually, the accumulation of sick leave hours did not vest as of June 30, 2004, and therefore is not recognized as a liability until used by the employee or upon retirement or death. The City's approximate contingent liability for the unvested sick leave as of June 30, 2004 is as follows:

Governmental activities .....	\$197,719
Business type activities .....	<u>105,075</u>
<b>TOTAL</b>	<b><u>\$302,794</u></b>

**10. INDUSTRIAL DEVELOPMENT REVENUE BONDS**

The City has issued a total of \$1,000,000 of industrial development revenue bonds, of which \$842,500 is outstanding at June 30, 2004. The bonds and related interest are payable solely from the rents payable by tenants of the properties constructed, and the bond principal and interest do not constitute liabilities of the City.

**11. DEFICIT BALANCES**

At June 30, 2004, the capital projects fund had a deficit balance of \$84,280 as the result of project costs in excess of available funds. The deficit will be eliminated by transfers from other funds, primarily tax increment financing.

**12. RELATED PARTY TRANSACTIONS**

The City has business transactions between the City and City officials, totaling \$6,215 during the year ended June 30, 2004. See item IV-E-04 in the Schedule of Findings and Questioned Costs.

**13. COMMITMENTS**

The City has entered into several contracts for water plant improvements, street lighting projects, and other infrastructure projects. A summary of the uncompleted projects is as follows:

Contract total .....	\$5,978,265
Completed at June 30, 2004 .....	<u>3,859,188</u>
Uncompleted	<u>\$2,119,077</u>

The City has committed funds to several nonprofit organizations, including \$100,000 per year for ten years for a new YMCA. No contracts have been signed. The City will report the expenditures in the year payments are made.

**14. SUBSEQUENT EVENTS**

Subsequent to June 30, 2004, the City entered into material only contracts for utility improvements totaling \$132,597. The City issued \$2,280,000 of General Obligation Capital Loan Notes to pay off a drainage district assessment of \$2,239,963. The assessment was not assessed until after year end. The City also issued \$1,145,000 in General Obligation Refunding Bonds.

**15. SIGNIFICANT GROUP CONCENTRATION OF CREDIT RISK**

In the course of selling water and sewer services, the City grants credit to customers, all of whom are local residents.

**16. RISK MANAGEMENT**

The City is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 490 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

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

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

The City's property and casualty contributions to the risk pool are recorded as expenditures from its operating funds at the time of payment to the risk pool. The City's annual contributions to the Pool for the year ended June 30, 2004 were \$69,120.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$250,000 per claim. Claims exceeding \$250,000 are reinsured in an amount not to exceed \$1,750,000 per claim and \$5,000,000 in aggregate per year. For members requiring specific coverage from \$2,000,000 to \$15,000,000, such excess coverage is also reinsured. All property risks, including automobile physical damage, are also reinsured on an individual-member basis.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event that a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. As of June 30, 2004, settled claims have not exceeded the risk pool or reinsurance company coverage since the pool's inception.

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

The City has established a partial self-insurance health insurance fund (an internal service fund) to account for group insurance risks. The City has agreed to pay a portion of the employees' deductible.

The claims liability of \$1,392 reported in the fund at June 30, 2004 is based on claims reported but unpaid and estimated claims incurred but not reported as of June 30, 2004. Changes in the balances of claims liability during the year are as follows:

Unpaid claims - June 30, 2003 .....	\$ 1,503
Incurred claims .....	18,290
Less claims paid .....	<u>(18,401)</u>
Unpaid claims - June 30, 2004 .....	<u>\$ 1,392</u>

The City has workmen's compensation coverage through the Iowa Municipalities Workers' Compensation Association. In addition, the City purchases employee blanket bond coverage from other insurers. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

#### **17. USE OF ESTIMATES**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

#### **18. ACCOUNTING CHANGE AND RESTATEMENTS**

Governmental Accounting Standards Board Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*, was implemented for the year ended June 30, 2004. The interpretation modifies when compensated absence liabilities are recorded under the modified accrual basis of accounting.

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

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

Other changes to beginning net assets for governmental and business type activities were restated to reflect a change in capitalization policy and other restatements.

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

	<u>Total</u>
<b>GOVERNMENTAL ACTIVITIES:</b>	
Net assets June 30, 2003, as previously reported .....	\$ 4,177,735
GASB Interpretation 6 adjustments .....	<u>49,231</u>
Net assets July 1, 2003, as restated, per Exhibit E	4,226,966
GASB 34 adjustments:	
Capital assets, net of accumulated depreciation .....	18,069,405
Long-term debt .....	(12,400,000)
Deferred long-term assets .....	20,672
Accrued interest payable .....	(39,886)
Compensated absences not previously reported .....	(49,231)
Beginning assets of internal service funds .....	<u>105,895</u>
Net assets July 1, 2003, as restated, per Exhibit B	<u>\$ 9,933,821</u>
 <b>BUSINESS TYPE ACTIVITIES:</b>	
	<b>ENTERPRISE</b>
Net assets June 30, 2003, as previously reported .....	\$ 7,473,706
Adjustments to beginning capital assets, net of accumulated depreciation ...	<u>715,839</u>
Net assets July 1, 2003, as restated, per Exhibit I	8,189,545
GASB 34 adjustments:	
Beginning assets of internal service funds .....	<u>39,053</u>
Net assets July 1, 2003, as restated, per Exhibit B	<u>\$ 8,228,598</u>

**REQUIRED SUPPLEMENTARY INFORMATION**

CITY OF SPIRIT LAKE  
 BUDGETARY COMPARISON SCHEDULE OF RECEIPTS, DISBURSEMENTS  
 AND CHANGES IN BALANCES - BUDGET AND ACTUAL (CASH BASIS) -  
 GOVERNMENTAL AND PROPRIETARY FUNDS  
 REQUIRED SUPPLEMENTARY INFORMATION  
 FOR THE YEAR ENDED JUNE 30, 2004

	Governmental Funds <u>Actual</u>	Proprietary Funds <u>Actual</u>	Total <u>Actual</u>
<b>RECEIPTS:</b>			
Property taxes .....	\$1,141,619		\$1,141,619
Other city taxes .....	802,630		802,630
Tax increment financing revenues .....	1,392,873		1,392,873
Licenses and permits .....	99,064		99,064
Use of money and property .....	58,497	\$ 9,591	68,088
Intergovernmental .....	1,231,609	4,833	1,236,442
Charges for services .....	17,015	2,009,127	2,026,142
Special assessments .....		4,622	4,622
Miscellaneous .....	<u>240,584</u>	<u>29,858</u>	<u>270,442</u>
TOTAL RECEIPTS	<u>4,983,891</u>	<u>2,058,031</u>	<u>7,041,922</u>
<b>DISBURSEMENTS:</b>			
Program:			
Public safety .....	972,576		972,576
Public works .....	694,669		694,669
Culture and recreation .....	355,924		355,924
Community and economic development .....	611,664		611,664
General government .....	416,553		416,553
Debt service .....	1,570,466		1,570,466
Capital projects .....	4,156,452		4,156,452
Business type .....		4,069,254	4,069,254
Non-program .....		<u>18,401</u>	<u>18,401</u>
TOTAL DISBURSEMENTS	<u>8,778,304</u>	<u>4,087,655</u>	<u>12,865,959</u>
EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS	<u>(3,794,413)</u>	<u>(2,029,624)</u>	<u>(5,824,037)</u>
<b>OTHER FINANCING SOURCES (USES):</b>			
Operating transfer in .....	3,036,794	40,294	3,077,088
Operating transfer out .....	(3,031,494)	(45,594)	(3,077,088)
Proceeds - sale of assets .....	42,000		42,000
Loan proceeds .....		<u>2,954,972</u>	<u>2,954,972</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>47,300</u>	<u>2,949,672</u>	<u>2,996,972</u>
EXCESS (DEFICIENCY) OF RECEIPTS AND OTHER FINANCING SOURCES (USES) OVER (UNDER) DISBURSEMENTS	(3,747,113)	920,048	(2,827,065)
BALANCE - BEGINNING OF YEAR .....	<u>4,567,171</u>	<u>958,343</u>	<u>5,525,514</u>
BALANCE - END OF YEAR	<u>\$ 820,058</u>	<u>\$1,878,391</u>	<u>\$ 2,698,449</u>

See Accompanying Independent Auditors' Report

Less Funds Not Required to be <u>Budgeted</u>	<u>Net Actual</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Final to Actual Variance</u>
	\$ 1,141,619	\$ 1,136,756	\$ 1,136,756	\$ 4,863
	802,630	761,341	786,341	16,289
	1,392,873	1,200,000	1,350,000	42,873
	99,064	108,800	108,800	(9,736)
\$ 502	67,586	67,000	67,000	586
	1,236,442	4,397,047	4,447,047	(3,210,605)
34,200	1,991,942	1,765,400	1,765,400	226,542
	4,622	22,000	22,000	(17,378)
	<u>270,442</u>	<u>548,136</u>	<u>583,136</u>	<u>(312,694)</u>
<u>34,702</u>	<u>7,007,220</u>	<u>10,006,480</u>	<u>10,266,480</u>	<u>(3,259,260)</u>
	972,576	710,665	907,666	(64,910)
	694,669	671,971	734,030	39,361
	355,924	431,862	451,673	95,749
	611,664	400,000	400,000	(211,664)
	416,553	444,420	464,342	47,789
	1,570,466	1,397,332	1,397,332	(173,134)
	4,156,452	3,533,500	5,082,137	925,685
	4,069,254	4,777,740	4,777,740	708,486
<u>18,401</u>	<u>12,847,558</u>	<u>12,367,490</u>	<u>14,214,920</u>	<u>1,367,362</u>
<u>18,401</u>	<u>(5,840,338)</u>	<u>(2,361,010)</u>	<u>(3,948,440)</u>	<u>(1,891,898)</u>
22,500	3,054,588	4,111,658	4,111,658	(1,057,070)
(18,794)	(3,058,294)	(4,111,658)	(4,111,658)	1,053,364
	42,000			42,000
	<u>2,954,972</u>			<u>2,954,972</u>
<u>3,706</u>	<u>2,993,266</u>			<u>2,993,266</u>
20,007	(2,847,072)	(2,361,010)	(3,948,440)	1,101,368
<u>146,403</u>	<u>5,379,111</u>	<u>2,514,480</u>	<u>2,514,480</u>	<u>2,864,631</u>
<u>\$166,410</u>	<u>\$ 2,532,039</u>	<u>\$ 153,470</u>	<u>\$ (1,433,960)</u>	<u>\$3,965,999</u>

See Accompanying Independent Auditors' Report

CITY OF SPIRIT LAKE  
 BUDGET TO GAAP RECONCILIATION  
 REQUIRED SUPPLEMENTARY INFORMATION  
 FOR THE YEAR ENDED JUNE 30, 2004

	<u>Governmental Funds</u>		
	<u>Cash Basis</u>	<u>Accrual Adjustments</u>	<u>Modified Accrual Basis</u>
REVENUES .....	\$4,983,891	\$ (16,488)	\$4,967,403
EXPENDITURES/EXPENSES .....	<u>8,778,304</u>	<u>(134,225)</u>	<u>8,644,079</u>
NET	(3,794,413)	117,737	(3,676,676)
OTHER FINANCING SOURCES (USES) - NET .....	47,300		47,300
BEGINNING FUND BALANCES/NET ASSETS - as restated .....	4,567,171	(340,205)	4,226,966
NET INCREASE IN RESERVES FOR PREPAID EXPENSES AND INVENTORIES .....	<u>          </u>	<u>9,518</u>	<u>9,518</u>
ENDING FUND BALANCES/NET ASSETS	<u>\$ 820,058</u>	<u>\$(212,950)</u>	<u>\$ 607,108</u>

Proprietary Funds

<u>Cash Basis</u>	<u>Accrual Adjustments</u>	<u>Accrual Basis</u>
\$2,058,031	\$ (75,944)	\$1,982,087
<u>4,087,655</u>	<u>(2,319,054)</u>	<u>1,768,601</u>
(2,029,624)	2,243,110	213,486
2,949,672	(2,740,972)	208,700
958,343	7,376,150	8,334,493
<u>\$1,878,391</u>	<u>\$6,878,288</u>	<u>\$8,756,679</u>

CITY OF SPIRIT LAKE  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING  
FOR THE YEAR ENDED JUNE 30, 2004

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures. Encumbrances are not recognized on the cash basis budget and appropriations lapse at year end.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund or fund type. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, and business-type activities. Function disbursements required to be budgeted include disbursements for the general fund, special revenue funds, debt service fund, capital projects funds, and enterprise funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$1,847,430. This budget amendment is reflected in the final budgeted amounts.

During the year, disbursements in the public safety, community and economic development, and debt service exceeded budgeted amounts.

OTHER SUPPLEMENTAL INFORMATION

CITY OF SPIRIT LAKE  
 COMBINING BALANCE SHEET  
 ALL NONMAJOR SPECIAL REVENUE FUNDS  
 JUNE 30, 2004

	<u>Road Use Tax</u>	<u>Employee Benefits</u>	<u>Friends of the Library</u>	<u>Total</u>
<b>ASSETS:</b>				
Cash and pooled investments .....	\$ 52,027	\$ 7,294	\$ 48,699	\$108,020
Receivables:				
Accrued interest .....			33	33
Due from other governments .....	<u>28,315</u>	<u>          </u>	<u>          </u>	<u>28,315</u>
<b>TOTAL ASSETS</b>	<u>\$ 80,342</u>	<u>\$ 7,294</u>	<u>\$ 48,732</u>	<u>\$136,368</u>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>LIABILITIES:</b>				
Accounts payable .....	\$ 26,693		\$ 1,767	\$ 28,460
Salaries payable .....	<u>2,618</u>	<u>          </u>	<u>          </u>	<u>2,618</u>
<b>TOTAL LIABILITIES</b>	<u>29,311</u>	<u>          </u>	<u>1,767</u>	<u>31,078</u>
<b>FUND BALANCES:</b>				
Undesignated:				
Reported in special revenue funds .....	<u>51,031</u>	<u>\$ 7,294</u>	<u>46,965</u>	<u>105,290</u>
<b>TOTAL FUND BALANCES</b>	<u>51,031</u>	<u>7,294</u>	<u>46,965</u>	<u>105,290</u>
<b>TOTAL LIABILITIES AND FUND EQUITY</b>	<u>\$ 80,342</u>	<u>\$ 7,294</u>	<u>\$ 48,732</u>	<u>\$136,368</u>

CITY OF SPIRIT LAKE  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND  
 CHANGES IN FUND BALANCES  
 ALL NONMAJOR SPECIAL REVENUE FUNDS  
 FOR THE YEAR ENDED JUNE 30, 2004

	<u>Road Use Tax</u>	<u>Employee Benefits</u>	<u>Friends of the Library</u>	<u>Total</u>
<b>REVENUES:</b>				
Use of money and property .....			\$ 468	\$ 468
Intergovernmental .....	\$358,040		11,859	369,899
Miscellaneous .....			<u>9,092</u>	<u>9,092</u>
<b>TOTAL REVENUES</b>	<u>358,040</u>	<u>          </u>	<u>21,419</u>	<u>379,459</u>
<b>EXPENDITURES:</b>				
Public works .....	307,474			307,474
Culture and recreation .....			<u>11,427</u>	<u>11,427</u>
<b>TOTAL EXPENDITURES</b>	<u>307,474</u>	<u>          </u>	<u>11,427</u>	<u>318,901</u>
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	50,566		9,992	60,558
<b>OTHER FINANCING SOURCES:</b>				
Operating transfers in .....	<u>10,677</u>	<u>          </u>	<u>          </u>	<u>10,677</u>
<b>EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES</b>	61,243		9,992	71,235
<b>FUND BALANCES - BEGINNING OF YEAR, as restated .....</b>	<u>(10,212)</u>	<u>\$ 7,294</u>	<u>36,973</u>	<u>34,055</u>
<b>FUND BALANCES - END OF YEAR</b>	<u>\$ 51,031</u>	<u>\$ 7,294</u>	<u>\$ 46,965</u>	<u>\$105,290</u>

CITY OF SPIRIT LAKE  
 SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION -  
 ALL GOVERNMENTAL FUNDS  
 FOR THE LAST FOUR YEARS

	Modified Accrual Basis			
	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
<b>REVENUES:</b>				
Property tax .....	\$1,142,851	\$1,121,172	\$1,072,877	\$1,022,120
Tax increment financing .....	1,391,242	1,263,945	1,064,061	816,999
Other city taxes .....	805,299	832,532	750,916	723,183
Licenses and permits .....	97,195	96,478	46,013	25,008
Use of money and property .....	31,565	34,047	97,054	115,211
Intergovernmental .....	1,223,829	1,243,783	564,604	703,588
Charges for services .....	17,015	9,877	5,811	4,770
Miscellaneous .....	<u>258,407</u>	<u>169,736</u>	<u>276,667</u>	<u>203,372</u>
<b>TOTAL REVENUES</b>	<b><u>\$4,967,403</u></b>	<b><u>\$4,771,570</u></b>	<b><u>\$3,878,003</u></b>	<b><u>\$3,614,251</u></b>
<b>EXPENDITURES:</b>				
Public safety .....	\$ 905,311	\$ 746,943	\$ 607,871	\$ 504,244
Public works .....	656,959	803,296	938,642	1,216,498
Culture and recreation .....	340,008	383,586	369,972	321,085
Community and economic development .....	649,057	347,419	384,695	148,615
General government .....	317,372	268,030	294,003	208,411
Debt service .....	1,562,485	1,413,144	1,618,858	1,065,210
Capital projects .....	<u>4,212,867</u>	<u>3,161,707</u>	<u>2,418,022</u>	<u>1,873,621</u>
<b>TOTAL EXPENDITURES</b>	<b><u>\$8,644,079</u></b>	<b><u>\$7,124,125</u></b>	<b><u>\$6,632,063</u></b>	<b><u>\$5,337,684</u></b>

CITY OF SPIRIT LAKE  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 FOR THE YEAR ENDED JUNE 30, 2004

<u>GRANTOR/PROGRAM</u>	<u>CFDA Number</u>	<u>Pass-through Number</u>	<u>Program Expenditures</u>
Indirect:			
Environment Protection Agency:			
Iowa Department of Natural Resources:			
Drinking Water State Revolving Fund Program	66.468	FS-30-02-DWSRF-055	\$1,427,273
U.S. Department of Housing and Urban Development:			
Iowa Department of Economic Development:			
Community Development Block Grant	14.228	99-ED-001	1,000
Community Development Block Grant	14.228	99-ED-006	121,287
Community Development Block Grant	14.228	02-ED-019	<u>75,000</u>
			<u>\$1,624,560</u>

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

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

The Honorable Mayor and  
Members of the City Council  
City of Spirit Lake  
Spirit Lake, IA 51201

We have audited the financial statements of the City of Spirit Lake, Iowa as of and for the year ended June 30, 2004, and have issued our report thereon dated March 22, 2005. 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 misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance 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 except for IV-G-04.

### **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. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part II of the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item II-A-04 is a material weakness. Prior year reportable conditions have been resolved except for items II-A-04.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Spirit Lake, 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.



March 22, 2005

**WINTHER, STAVE & Co., LLP**  
*Certified Public Accountants*

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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  
City of Spirit Lake  
Spirit Lake, IA 51201

**Compliance**

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

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

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

### **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 on internal control over compliance in accordance with OMB Circular A-133.

We noted a matter involving the internal control over compliance and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the City's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. The reportable condition is described as item III-A-04 in the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that non-compliance with applicable requirements of laws, regulations, contracts and grants that would be material in related to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item III-A-04 is a material weakness.

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

A handwritten signature in black ink that reads "Wintner, Steve H. RHT". The signature is written in a cursive style with a large initial 'W' and 'S'.

March 22, 2005

CITY OF SPIRIT LAKE  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2004

**Part I: Summary of the Independent Auditors' Results**

- a. Unqualified opinions were issued on the financial statements.
- b. Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements including material weaknesses.
- c. The audit did not disclose any non-compliance which is material to the financial statements.
- d. A reportable condition in internal control over the major program was disclosed by the audit of the financial statements including a material weakness.
- e. An unqualified opinion was issued on compliance with requirements applicable to the major program.
- f. The audit disclosed audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- g. The major program was CFDA Number 66.468 - Drinking Water State Revolving Fund Program.
- h. The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- i. The City of Spirit Lake did not qualify as a low-risk auditee.

CITY OF SPIRIT LAKE  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - Continued  
FOR THE YEAR ENDED JUNE 30, 2004

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

II-A-04 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted, because of the limited number of employees, there are times when employees are performing duties which are not compatible.

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

Response - The City will continue to review its control procedures.

Conclusion - Response accepted.

II-B-04 Fire Department - We noted that the City is a member of the Spirit Lake Community Fire Department which is Chapter 28E organization. It appears that the Fire Department has not been audited in accordance with Chapter 11.6 of the code of Iowa for the last two fiscal years.

Recommendation - We recommend the City insure that the required audits of the Spirit Lake Community Fire Department be completed in accordance with Chapter 11.6 of the Code of Iowa.

Response - The City will follow this recommendation.

Conclusion - Response accepted.

II-C-04 IRC Section 457 Plans - The City has three 457 plans. It appears that the plan documents have not been updated for recent Internal Revenue Code changes.

Recommendation - We recommend the City hire a consultant familiar with 457 plans to review and update the plan documents, if required.

Response - The City will follow this recommendation.

Conclusion - Response accepted.

CITY OF SPIRIT LAKE  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - Continued  
FOR THE YEAR ENDED JUNE 30, 2004

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

**Instances on Non-Compliance:**

No matters were noted.

**Reportable Conditions:**

CFDA Number 66.468  
Pass-through Number - FS-30-02-DWSRF-055  
Environmental Protection Agency  
Passed through the Iowa Department of Natural Resources

III-A-04 Segregation of Duties over Federal Receipts - The city did not properly segregate duties, including those related to federal programs. See Item II-A-04.

CITY OF SPIRIT LAKE  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - Continued  
FOR THE YEAR ENDED JUNE 30, 2004

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

IV-A-04 **Official Depositories** - A resolution naming official depositories has been adopted by the Council. The maximum deposit amount for Central Bank was exceeded during October 2003 and April 2004. In addition, the City has a small certificate of deposit with Northwest Federal Savings Bank, but the depository is not listed on the resolution.

**Recommendation** - We recommend the City monitor balances to insure that the maximum deposit amounts are not exceeded and that all depositories in which the City has deposits be listed on the depository resolution.

**Response** - We will follow this recommendation.

**Conclusion** - Response accepted.

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

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

**Response** - We will amend the budget in the future, if applicable.

**Conclusion** - Response accepted.

IV-C-04 **Questionable Expenditures** - We noted no expenditures that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

IV-D-04 **Travel Expense** - No expenditures of City money for travel expenses of spouses of City officials or employees were noted.

CITY OF SPIRIT LAKE  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS - Continued  
 FOR THE YEAR ENDED JUNE 30, 2004

**Part IV: Other Findings Related to Required Statutory Reporting** - Continued

IV-E-04 Business Transactions - Business transactions between the City and city officials or employees are detailed as follows:

<u>Name, Title, and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Patric McNorton, Council Member, owner of Home TV & Appliance	Supplies	\$ 539
Jeff Thee, Council Member, part-owner of Vision Broadcasting	Supplies	\$ 947
Jerry Harbst, Council Member, owner of Communication Innovators	Telephone System	\$4,729

The transactions with Mr. McNorton and Mr. Thee do not appear to represent a conflict of interest since the total paid was less than \$1,500. The transaction with Mr. Harbst does not appear to represent a conflict of interest since it was entered into through competitive bidding.

IV-F-04 Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

IV-G-04 Council Minutes - We noted numerous unbudgeted transfers were not approved by the council and that a summary of receipts and disbursements by fund was not always included when the monthly financial reports are approved.

Recommendation - We recommend that all transfers be approved or budgeted and that minutes include a summary of receipts and disbursements by fund, if applicable.

Response – The City will follow this recommendation.

Conclusion - Response accepted.

CITY OF SPIRIT LAKE  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - Continued  
FOR THE YEAR ENDED JUNE 30, 2004

**Part IV: Other Findings Related to Required Statutory Reporting - Continued**

IV-H-04 Revenue Bonds/Notes - The City has not established the sinking fund and the net revenues of the water fund were less than 110% of the principal and interest due in the year as required by the water revenue note resolution.

Recommendation - We recommend the City establish the sinking fund and make the required transfers. In addition, the City should make changes in rates or expenditures to insure that the net revenues meet the 110% test required by the resolution.

Response - The City will establish and fund the sinking fund as required. The City is in the process of completing a water rate study. The study will consider the debt service requirements of the revenue note.

Conclusion - Response accepted.

IV-I-04 Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.

IV-J-04 Budgeted Transfers - We noted that several budgeted transfers were not made by June 30, 2004. This resulted in a negative cash balance in the general fund and capital projects fund.

Recommendation - We recommend the City establish procedures to insure that budgeted transfers required to be made are transferred timely.

Response - The City has recorded these transfers as of June 30, 2004. In the future, the City will make these transfers timely.

Conclusion - Response accepted.

IV-K-04 Other Statutory Items - In the Auditor of State's Report on Reaudit for the period July 1, 2002 through June 30, 2003, there were recommendations made regarding statutory items.

Recommendation - We recommend that the City continue to address and resolve the issues raised by the Office of Auditor of State.

Response - As of March 22, 2005, the City has adopted revised policies and procedures to address the issues raised by the Office of Auditor of State.

Conclusion - Response accepted.