

CITY OF LAKE CITY

Independent Auditors' Reports
Basic Financial Statements and Supplementary Information
Schedule of Findings

June 30, 2004

CITY OF LAKE CITY

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CITY OF LAKE CITY

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January 2004)		
Merle Chamberlain	Mayor	Jan 2004
Vince Collison	Mayor Pro Tem	Jan 2004
Craig Rock	Council Member	Jan 2004
Tony Macke	Council Member	Jan 2006
Tamela Green	Council Member	Jan 2006
Scott Hicks	Council Member	Jan 2006
Judy Hungate	Administrator/Clerk	Jan 2004
Lois Smith	Treasurer	Jan 2004
David Willis	Attorney	Jan 2004
(After January 2004)		
Merle Chamberlain	Mayor	Jan 2006
Tony Macke	Mayor Pro Tem	Jan 2006
Tamela Green	Council Member	Jan 2006
Scott Hicks	Council Member	Jan 2006
Gary Fahan	Council Member	Jan 2008
Richard Lamberty	Council Member	Jan 2008
Judy Hungate	Administrator/Clerk	Jan 2005
Lois Smith	Treasurer	Jan 2005
David Willis	Attorney	Jan 2005

Independent Auditors' Report

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Lake City, 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 City of Lake City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, 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 opinion.

As described in note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Lake City, as of June 30, 2004, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

As described in Note 9, during the year ended June 30, 2004, the City adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus; Statements No. 38, Certain Financial Statement Note Disclosures; and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences.

In accordance with Government Auditing Standards, we have also issued our report dated October 4, 2004 on our consideration of the City of Lake City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations and contracts. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 8 and 20 through 22 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We applied 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 an opinion on the financial statements that collectively comprise the City of Lake City's basic financial statements. The financial statements for the three years ended June 30, 2003 (none of which are presented herein) were audited by other auditors who expressed qualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 5 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 on 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.

Bowman and Miller, P.C.

Marshalltown, Iowa
October 4, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

Because the City 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 5.5%, or approximately \$63,700, from fiscal 2003 to fiscal 2004. Bond proceeds increased \$48,500, miscellaneous receipts increased approximately \$40,500 and intergovernmental receipts decreased approximately \$22,000.
- Disbursements increased 17.5%, or approximately \$175,000 in fiscal 2004 from fiscal 2003. Capital Projects and General Government increased approximately \$193,000 and \$13,000, respectively, while Public Safety and Debt Service decreased approximately \$38,000 and \$19,000, respectively.
- The City's total cash basis net assets increased 2.3%, or approximately \$10,500 from June 30, 2003 to June 30, 2004. Of this amount, the assets of the governmental activities increased approximately \$44,000 and the assets of the business type activities decreased by approximately \$33,500.

USING THIS ANNUAL REPORT

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

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

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

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

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

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

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

Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with accounting principles generally accepted in the United States of America. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

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

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

The Statement of Activities and Net Assets is divided into two kinds of activities:

- Governmental Activities include public safety, public works, 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, sanitary sewer system and solid waste. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

- 1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1.) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax, 3) the Debt Service Fund, 4) the Capital Projects Fund, and 5) the Permanent 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 statement of cash receipts, disbursements and changes in cash balances.

- 2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains three Enterprise Funds to provide separate information for the water, sewer and solid waste funds.

The required financial statements for proprietary funds include a statement of cash receipts, disbursements and changes in cash balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from a year ago, decreasing from \$55,898 to \$99,767. The analysis that follows focuses on the changes in cash balances for governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities		
	Year ended June 30,	
	2004	2003
Receipts:		
Program receipts:		
Charges for service	\$ 15,873	19,603
Operating grants, contributions and restricted interest	179,138	201,028
Contributions and restricted interest	26,894	16,504
General receipts:		
Property tax	615,975	613,131
Unrestricted investment earnings	5,922	10,280
Bond proceeds	341,500	293,000
Other general receipts	45,546	28,642
Total receipts	<u>1,230,848</u>	<u>1,182,188</u>
Disbursements:		
Public safety	180,490	218,242
Public works	126,072	143,805
Health and social services	-	-
Culture and recreation	124,553	127,450
Community and economic development	-	-
General government	116,052	103,158
Debt service	259,465	278,387
Capital projects	380,347	141,144
Total disbursements	<u>1,186,979</u>	<u>1,012,186</u>
Increase in cash basis net assets	43,869	170,002
Cash basis net assets beginning of year	<u>55,898</u>	<u>(114,104)</u>
Cash basis net assets end of year	\$ <u>99,767</u>	<u>55,898</u>

The City's total receipts for governmental activities increased by 4.12% or \$48,700. The total cost of all programs and services increased by approximately \$175,000, or 17.3%, with no new programs added. The significant increase in receipts was primarily the result of proceeds received from the issuance of general obligation bonds for street construction.

The City increased property tax receipts for 2004 by an average of 0.4 percent.

Changes in Cash Basis Net Assets of Business Type Activities			
		Year ended June 30,	
		2004	2003
Receipts:			
Program receipts:			
Charges for service:			
Water	\$	139,342	137,311
Sewer		128,494	126,410
Solid waste		105,193	104,627
General receipts:			
Unrestricted interest on investments		140	-
Other general receipts		<u>7,649</u>	<u>3,870</u>
Total receipts		<u>380,818</u>	<u>372,218</u>
Disbursements:			
Water		158,900	145,227
Sewer		154,294	119,444
Solid waste		<u>100,867</u>	<u>99,755</u>
Total disbursements		<u>414,061</u>	<u>364,426</u>
Increase (decrease) in cash balance		(33,243)	7,792
Cash basis net assets beginning of year		<u>407,721</u>	<u>399,929</u>
Cash basis net assets end of year		\$ <u>374,478</u>	<u>407,721</u>

Total business type activities receipts for the fiscal year were \$380,000 compared to \$372,000 last year. The cash balance decreased by approximately \$33,000 due primarily to improvements to the water and sewer plants.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As Lake City completed the year, its governmental funds reported a combined fund balance of \$99,767, an increase of \$44,000 above last year's total of \$55,898. The following are the major reasons for the changes in fund balance of the major funds from the prior year.

- The General Fund cash balance increased \$20,096 from the prior year to \$106,049. The increase is primarily attributable to reduced expenditures of approximately \$10,000 each for police and library operations.
- The Road Use Tax Fund cash balance increased by \$26,094 from the prior year to \$103,359. The increase is primarily attributable to reduced expenditures for equipment.
- The Employee Retirement Fund cash balance increased \$14,950 from the prior year to \$21,381. The increase is due to an increase in property tax receipts of approximately \$5,500 and a decrease in FICA and IPERS expenditures of approximately \$5,800.
- The deficit Debt Service Fund cash balance increased by \$2,222 to \$47,373 during the fiscal year. This change in the deficit is due to a decrease in property tax receipts of approximately \$6,300 and a reduction of bond and interest payments of approximately \$1,711.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance decreased by \$17,009 to \$149,488, due primarily to increased expenditures for improvements to the water plant.
- The Sewer Fund cash balance decreased by \$20,560 to \$166,802, due primarily to increased expenditures for improvements to the sewer plant.
- The Solid Waste Fund cash balance increased by \$4,326 to \$58,188. Both receipts and expenditures were approximately the same as the prior year.

BUDGETARY HIGHLIGHTS

Actual receipts exceeded the amount budgeted by \$37,515 and actual expenditures were \$43,091 less than the budgeted amount, resulting in \$80,606 available for use in future years.

DEBT ADMINISTRATION

At June 30, 2004, the City had \$1,189,341 in bonds and other long-term debt, compared to \$1,064,409 last year, as shown below.

	Outstanding Debt at Year-End	
	June 30,	
	2004	2003
General obligation bonds and notes	\$ 1,165,000	1,025,000
Fire truck lease	24,341	39,409
Total	\$ <u>1,189,341</u>	<u>1,064,409</u>

General obligation debt increased as a result of issuing general obligation street improvement notes for the 2004 street improvement project.

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 \$1,189,341 is below its constitutional debt limit of \$2,283,407.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Lake City's elected and appointed officials and citizens considered many factors when setting the fiscal year 2005 budget, tax rates, and fees that will be charged for various City activities.

Amounts available for appropriation in the operating budget are \$1,273,765, a decrease of 22.5% from the final 2004 budget.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Judy Hungate, City Administrator, 105 North Center Street, Lake City, Iowa.

Basic Financial Statements

CITY OF LAKE CITY
Statement of Activities and Net Assets-Cash Basis
As of and for the year ended June 30, 2004

	<u>Disbursements</u>	<u>Program Receipts</u>	
		<u>Charges for Service</u>	<u>Operating Grants, Contributions and Restricted Interest</u>
Functions/Programs:			
Governmental activities:			
Public safety	\$ 180,490	-	-
Public works	126,072	-	152,166
Health and social services	-	-	-
Culture and recreation	124,553	15,873	81,803
Community and economic developments	-	-	-
General government	116,052	4,138	3,561
Debt service	259,465	-	844
Capital projects	380,347	-	-
Total governmental activities	<u>1,186,979</u>	<u>20,011</u>	<u>238,374</u>
Business type activities:			
Water	158,900	139,342	-
Sewer	154,294	128,494	-
Solid waste	100,867	105,193	-
Total business type activities	<u>414,061</u>	<u>373,029</u>	<u>-</u>
Total	<u>\$ 1,601,040</u>	<u>393,040</u>	<u>238,374</u>

General receipts:

Property tax levied for:
 General purposes
 Debt service
Grants and contributions not restricted to specific purpose
Unrestricted interest
Bond proceeds
Miscellaneous

Total general receipts

Change in cash basis net assets

Cash basis net assets beginning of years

Cash basis net assets end of years

Cash Basis Net Assets

Restricted:
 Streets
 Debt service
Unrestricted

Total cash basis net assets

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
Governmental Activities	Business Type Activities	Total
(180,490)	-	(180,490)
26,094	-	26,094
-	-	-
(26,877)	-	(26,877)
-	-	-
(108,353)	-	(108,353)
(258,621)	-	(258,621)
(380,347)	-	(380,347)
(928,594)	-	(928,594)
-	(19,558)	(19,558)
-	(25,800)	(25,800)
-	4,326	4,326
-	(41,032)	(41,032)
(928,594)	(41,032)	(969,626)
359,576	-	359,576
256,399	-	256,399
1,100	-	1,100
5,782	140	5,922
341,500	-	341,500
8,106	7,649	15,755
972,463	7,789	980,252
43,869	(33,243)	10,626
55,898	407,721	463,619
\$ 99,767	374,478	474,245
\$ 103,359	-	103,359
(47,373)	-	(47,373)
43,781	374,478	418,259
\$ 99,767	374,478	474,245

CITY OF LAKE CITY
Statement of Cash Receipts, Disbursements and
Changes in Cash Balances
Governmental Funds
As of and for the year ended June 30, 2004

	General	Special Revenue		Debt Service
		Road Use Tax	Employee Retirement	
Receipts:				
Property tax	\$ 280,278	-	79,298	256,399
Other city tax	-	-	-	-
Licenses and permits	4,138	-	-	-
Use of money and property	5,546	-	-	844
Intergovernmental	26,972	152,166	-	-
Charges for service	15,873	-	-	-
Miscellaneous	38,869	-	-	-
Total receipts	371,676	152,166	79,298	257,243
Disbursements:				
Operating:				
Public safety	180,490	-	-	-
Public works	-	126,072	-	-
Health and social services	-	-	-	-
Culture and recreation	119,386	-	-	-
Community and economic development	-	-	-	-
General government	51,704	-	64,348	-
Debt service	-	-	-	259,465
Capital projects	-	-	-	-
Total disbursements	351,580	126,072	64,348	259,465
Excess (deficiency) of receipts over (under) disbursements	20,096	26,094	14,950	(2,222)
Other financing sources (uses):				
Bond proceeds	-	-	-	-
Net change in cash balances	20,096	26,094	14,950	(2,222)
Cash balances beginning of year	85,953	77,265	6,431	(45,151)
Cash balances end of year	\$ 106,049	103,359	21,381	(47,373)
Cash Basis Fund Balances				
Reserved:				
Debt service	-	-	-	(47,373)
Unreserved:				
General fund	106,049	-	-	-
Special revenue funds	-	103,359	21,381	-
Capital projects fund	-	-	-	-
Permanent fund	-	-	-	-
Total cash basis fund balances	\$ 106,049	103,359	21,381	(47,373)

Capital Projects	Other Nonmajor Governmental Funds	Total
-	-	615,975
-	-	-
-	-	4,138
-	1,025	7,415
-	-	179,138
-	-	15,873
1,725	26,215	66,809
1,725	27,240	889,348
-	-	180,490
-	-	126,072
-	-	-
-	5,167	124,553
-	-	-
-	-	116,052
-	-	259,465
380,347	-	380,347
380,347	5,167	1,186,979
(378,622)	22,073	(297,631)
341,500	-	341,500
(37,122)	22,073	43,869
(101,225)	32,625	55,898
(138,347)	54,698	99,767
-	-	(47,373)
-	-	106,049
-	-	124,740
(138,347)	-	(138,347)
-	54,698	54,698
(138,347)	54,698	99,767

CITY OF LAKE CITY

Exhibit C

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances

Proprietary Funds

As of and for the year ended June 30, 2004

	Enterprise Funds			Total
	Water	Sewer	Solid Waste	
Operating receipts:				
Use of money and property	\$ 140	-	-	140
Charges for service	139,342	128,494	105,193	373,029
Miscellaneous	2,409	5,240	-	7,649
Total operating receipts	141,891	133,734	105,193	380,818
Operating disbursements:				
Business type activities	158,900	154,294	100,867	414,061
Total operating disbursements	158,900	154,294	100,867	414,061
Excess (deficiency) of receipts over (under) disbursements	(17,009)	(20,560)	4,326	(33,243)
Cash balances beginning of year	166,497	187,362	53,862	407,721
Cash balances end of year	\$ 149,488	166,802	58,188	374,478
Cash Basis Fund Balances				
Unreserved	\$ 149,488	166,802	58,188	374,478

CITY OF LAKE CITY
Notes to Financial Statements
June 30, 2004

Note 1 – Summary of Significant Accounting Policies

The City of Lake City is a political subdivision of the State of Iowa located in Calhoun County. It was first incorporated in 1856 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, health and social services, culture and recreation, community and economic development and general government services. The City also provides water and sewer utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Lake City has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the City. The City of Lake City's financial statements include financial information of the Lake City Library Foundation, which is a component unit that meets the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations

The City also participates in a jointly governed organization that provides 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. A City official is a member of the Carroll County Landfill Commission.

B. Basis of Presentation

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

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

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

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

CITY OF LAKE CITY
Notes to Financial Statements (Continued)
June 30, 2004

Note 1 – Summary of Significant Accounting Policies (Continued)

B. Basis of Presentation (Continued)

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

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

The City reports the following major governmental funds:

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

Special Revenue:

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

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

The Debt Service Fund is utilized 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:

The Water Fund accounts for the operation and maintenance of the City's water system.

The Sewer Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system

The Solid Waste Fund accounts for the operation and maintenance of the City's solid waste system.

CITY OF LAKE CITY
Notes to Financial Statements (Continued)
June 30, 2004

C. Measurement Focus and Basis of Accounting

The City of Lake City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with accounting principles generally accepted in the United States of America.

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

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2004, disbursements exceeded the amounts budgeted in the general government and capital projects functions.

Note 2 – Cash and Pooled Investments

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

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

Note 3 – 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, Iowa, 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 20, 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 contribution to IPERS for the years ended June 30, 2004, 2003 and 2002 were \$19,080, \$20,755 and \$20,487 respectively equal to the required contributions for each year.

CITY OF LAKE CITY
Notes to Financial Statements (Continued)
June 30, 2004

Note 4 – Bonds and Notes Payable

Annual debt service requirements to maturity for general obligation bonds and notes are as follows:

Year Ending June 30,	Principal	Interest	Total
2005	\$ 160,000	52,160	212,160
2006	165,000	44,422	209,422
2007	160,000	36,243	196,243
2008	165,000	29,430	194,430
2009	120,000	22,108	142,108
2010	125,000	16,972	141,972
2011	85,000	11,343	96,343
2012	85,000	7,917	92,917
2013	85,000	4,338	89,338
2014	15,000	645	15,645
Total	\$ 1,165,000	225,578	1,390,578

Note 5 – Lease Purchase Obligation

The City has entered into a capital lease with Ed M. Field Equipment Company, Inc. for the purchase of a fire truck body. Annual payments totaling \$17,211 are required for the lease term. The following is the information relating to the lease:

Leased From	Interest Rate	Date		Principal Balance June 30, 2004	Item Leased
		Issued	Due		
Ed M. Field Equipment Company, Inc.	6.005%	10-12-1995	10-12-2005	\$24,341	Fire truck body

The following is a schedule by years of future minimum lease payments under this lease:

Year Ending June 30	
2005	\$ 17,211
2006	<u>17,211</u>
Total minimum lease payments	34,422
Less: Amount representing interest	<u>10,081</u>
Present value of net minimum payments	\$ 24,341

CITY OF LAKE CITY
Notes to Financial Statements (Continued)
June 30, 2004

Note 6 – Compensated Absences

City employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation and sick leave termination payments payable to employees at June 30, 2004, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Vacation	\$ 12,568
Sick leave	<u>17,893</u>
Total	<u>\$ 90,461</u>

Note 7 – Risk Management

The City of Lake City is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Note 8 – Deficit Fund Balance

The Debt Service Fund had a deficit fund balance of \$47,373 at June 30, 2004. The deficit balance is a result of omission of a bond issue in the budget of a prior year. The deficit should be eliminated by increasing the debt service levy. Also, the Capital Projects Fund had a deficit balance of \$138,348 at June 30, 2004. The deficit balance was a result of not funding the construction of the fire station in a prior year and excess costs over bond proceeds on street construction in prior years.

Note 9 – Accounting Change

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

The government-wide financial statement report the City's governmental and business type activities.

Note 10 – Commitments

At June 30, 2004 the City owed \$58,888 on the 2004 street improvement project.

Required Supplementary Information

CITY OF LAKE CITY
Budgetary Comparison Schedule of Receipts, Disbursements,
and Changes in Balances-Budget and Actual (Cash Basis)
All Governmental Funds and Proprietary Funds
Required Supplementary Information
Year Ended June 30, 2004

	Governmental Funds Actual	Proprietary Funds Actual
Receipts:		
Property tax	\$ 615,975	-
Other city tax	-	-
Licenses and permits	4,138	-
Use of money and property	7,415	140
Intergovernmental	179,138	-
Charges for services	15,873	373,029
Miscellaneous	66,809	7,649
Total receipts	889,348	380,818
Disbursements:		
Public safety	180,490	-
Public works	126,072	-
Health and social services	-	-
Culture and recreation	124,553	-
Community and economic development	-	-
General government	116,052	-
Debt service	259,465	-
Capital projects	380,347	-
Business type activities	-	414,061
Total disbursements	1,186,979	414,061
Excess (deficiency) of receipts over (under) disbursements	(297,631)	(33,243)
Other financing sources (uses), net	341,500	-
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	43,869	(33,243)
Balances beginning of year	55,898	407,721
Balances end of year	\$ 99,767	374,478

Total	Budgeted Amounts		Final to Net Variance
	Original	Final	
615,975	623,615	623,615	(7,640)
-	34,123	34,123	(34,123)
4,138	4,110	4,110	28
7,555	10,650	10,650	(3,095)
179,138	197,153	197,153	(18,015)
388,902	397,850	397,850	(8,948)
74,458	6,650	6,650	67,808
<u>1,270,166</u>	<u>1,274,151</u>	<u>1,274,151</u>	<u>(3,985)</u>
180,490	236,361	236,361	55,871
126,072	160,150	160,150	34,078
-	-	-	-
124,553	142,355	142,355	17,802
-	-	-	-
116,052	108,950	108,950	(7,102)
259,465	259,465	259,465	-
380,347	300,000	300,000	(80,347)
414,061	436,850	436,850	22,789
<u>1,601,040</u>	<u>1,644,131</u>	<u>1,644,131</u>	<u>(43,091)</u>
(330,874)	(369,980)	(369,980)	39,106
341,500	300,000	300,000	41,500
10,626	(69,980)	(69,980)	80,606
463,619	146,225	146,225	317,394
<u>474,245</u>	<u>76,245</u>	<u>76,245</u>	<u>398,000</u>

CITY OF LAKE CITY

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

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds and Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund.

During the year ended June 30, 2004, disbursements exceeded the amounts budgeted in the general government functions and capital projects functions.

CITY OF LAKE CITY
Statement of Cash Receipts, Disbursements and
Changes in Cash Balances
Nonmajor Governmental Funds
As of and for the year ended June 30, 2004

	Permanent		Total
	Cemetery Perpetual Care	Lake City Library Foundation	
Receipts:			
Use of money and property	\$ 236	789	1,025
Miscellaneous	110	26,105	26,215
Total receipts	346	26,894	27,240
Disbursements:			
Operating:			
Culture and recreation	-	5,167	5,167
Total disbursements	-	5,167	5,167
Net change in cash balances	346	21,727	22,073
Cash balances beginning of year	16,120	16,505	32,625
Cash balances end of year	\$ 16,466	38,232	54,698
Cash Basis Fund Balances			
Unreserved:			
Permanent fund	\$ 16,466	38,232	54,698
Total cash basis fund balances	\$ 16,466	38,232	54,698

CITY OF LAKE CITY
Statement of Cash Receipts, Disbursements and
Changes in Cash Balances
Capital Projects Fund
As of and for the year ended June 30, 2004

	Fire Station	Street Construction	Remodel City Hall	Demolition of Old City Hall	Total
Receipts:					
Use of money and property	\$ -	-	-	-	-
Miscellaneous	-	-	1,725	-	1,725
Total receipts	-	-	1,725	-	1,725
Disbursements:					
Operating:					
Culture and recreation	-	-	-	-	-
Capital projects	-	287,181	7,219	85,947	380,347
Total disbursements	-	287,181	7,219	85,947	380,347
Excess (deficiency) of receipts over (under) disbursements	-	(287,181)	(5,494)	(85,947)	(378,622)
Other financing uses:					
Bond proceeds	-	341,500	-	-	341,500
Net change in cash balances	-	54,319	(5,494)	(85,947)	(37,122)
Cash balances beginning of year	(102,010)	(90,656)	5,494	85,947	(101,225)
Cash balances end of year	\$ (102,010)	(36,337)	-	-	(138,347)
Cash Basis Fund Balances					
Unreserved:					
Capital projects fund	\$ (102,010)	(36,337)	-	-	(138,347)
Permanent fund	-	-	-	-	-
Total cash basis fund balances	\$ (102,010)	(36,337)	-	-	(138,347)

CITY OF LAKE CITY
Schedule of Indebtedness
Year Ended June 30, 2004

Obligation	Date of Issue	Interest Rates		Amount Originally Issued
General obligation bonds and notes:				
Street improvement	04-01-94	3.25 - 4.80	% \$	615,000
Street improvement	07-01-96	4.90 - 5.50		300,000
Street improvement	05-01-98	4.15 - 4.70		330,000
Street improvement	05-01-00	5.00 - 5.70		350,000
Municipal building	09-01-02	2.25 - 4.70		300,000
Street improvement	05-01-04	2.70 - 4.30		350,000
Total				
Fire truck lease	10-12-95	6.005	\$	128,000

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
75,000	-	75,000	-	3,600	-
180,000	-	55,000	125,000	9,815	-
235,000	-	25,000	210,000	10,850	-
260,000	-	30,000	230,000	14,265	-
275,000	-	25,000	250,000	10,935	-
-	350,000	-	350,000	-	-
\$ 1,025,000	350,000	210,000	1,165,000	49,465	-
\$ 39,409	-	15,068	24,341	2,144	-

CITY OF LAKE CITY
Bond and Note Maturities
June 30, 2004

<u>Year</u> <u>Ending</u> <u>June 30,</u>	General Obligation Bonds and Notes			
	Street Improvement		Street Improvement	
	Issued July 1, 1996		Issued May 1, 1998	
	Interest		Interest	
Rates	Amount	Rates	Amount	
2005	5.45%	\$ 60,000	4.55%	\$ 40,000
2006	5.50%	65,000	4.60%	40,000
2007	-	-	4.65%	65,000
2008	-	-	4.70%	65,000
2009	-	-	-	-
2010	-	-	-	-
2011	-	-	-	-
2012	-	-	-	-
2013	-	-	-	-
2014	-	-	-	-
Total		\$ 125,000		\$ 210,000

Street Improvement Issued May 1, 2000		Municipal Building Issued Sep 1, 2002		Street Improvement Issued May 1, 2004		Total
Interest Rate	Amount	Interest Rate	Amount	Interest Rate	Amount	
5.35%	\$ 35,000	3.10%	\$ 25,000	-	\$ -	160,000
5.40%	35,000	3.50%	25,000	-	-	165,000
5.45%	35,000	3.75%	25,000	2.70%	35,000	160,000
5.50%	40,000	4.00%	25,000	3.05%	35,000	165,000
5.60%	40,000	4.15%	30,000	3.30%	50,000	120,000
5.70%	45,000	4.30%	30,000	3.55%	50,000	125,000
-	-	4.45%	30,000	3.80%	55,000	85,000
-	-	4.60%	30,000	4.00%	55,000	85,000
-	-	4.70%	30,000	4.15%	55,000	85,000
-	-	-	-	4.30%	15,000	15,000
	<u>\$ 230,000</u>		<u>\$ 250,000</u>		<u>\$ 350,000</u>	<u>1,165,000</u>

CITY OF LAKE CITY
Schedule of Receipts By Source and Disbursements by Function-
All Governmental Funds
For the Last Two Years

	2004	2003
Receipts:		
Property tax	\$ 615,975	613,131
Intergovernmental	179,138	201,028
Licenses and permits	4,138	3,772
Use of money and property	7,555	10,280
Charges for services	388,902	389,886
Miscellaneous	74,458	26,312
	<u>\$ 1,270,166</u>	<u>1,244,409</u>
Disbursements:		
Operating:		
Public safety	\$ 180,490	218,242
Public works	126,072	132,233
Health and social services	-	-
Culture and recreation	124,553	127,450
Community and economic development	-	-
General government	116,052	103,158
Debt service	259,465	278,387
Capital projects	380,347	141,144
	<u>\$ 1,186,979</u>	<u>1,000,614</u>

Information for years 2001 and 2002 is unavailable.

Independent Auditors' Report on Compliance
and on Internal Control over Financial Reporting

To the Honorable Mayor and
Members of the City Council:

We have audited the financial statements of the City of Lake City, Iowa as of and for the year ended June 30, 2004, and have issued our report thereon dated October 4, 2004. Our report expressed an unqualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Governmental Auditing Standards, issued by the Comptroller General of the United States.

Compliance

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

Comments involving statutory and other legal matters about the City's operation 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 items III-I-04.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Lake 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 operations that we consider to be reportable conditions. Reportable conditions involve matters

coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of Lake 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.

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 the employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe Items II-A-04 is a material weakness. Prior year reportable conditions have been resolved except for Item II-A-04.

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

Bowman and Miller, P.C.

Marshalltown, Iowa
October 4, 2004

CITY OF LAKE CITY
Schedule of Findings
Year Ended June 30, 2004

Part I: Summary of the Independent Auditors' Results:

- (a) An unqualified opinion was issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.
- (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.

CITY OF LAKE CITY
Schedule of Findings (Continued)
Year Ended June 30, 2004

Part II: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

II-A-04 Segregation of Duties – One important aspect of internal accounting control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted one person has control over each of the following areas:

- (1) Cash receipts - collecting, depositing, journalizing, and posting
- (2) Payroll preparation and distribution.

Recommendation – We realize that with a limited number of office employees, segregation of duties is difficult. However, the City should review its operating procedures to obtain the maximum internal control possible under the circumstances. In instances where it is not possible to segregate duties the City should utilize administrative personnel to provide additional internal control through review of financial transactions and report.

Response – The noted areas will be reviewed to identify duties that could be handled by other personnel or council members.

Conclusion – Response accepted.

Part III: Other Findings Related to Statutory Reporting:

III-A-04 Official Depositories – A resolution naming official depositories has been approved by the City. The maximum deposit amounts stated in the resolution were not exceeded during the year.

III-B-04 Certified Budget – Disbursements during the year ended June 30, 2004, exceeded the amounts budgeted in the general government and capital projects functions. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

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

Response – Improvements to fund balance reports are being made to help the City monitor balances in a more timely and accurate manner.

Conclusion – Response accepted.

III-C-04 Questionable Disbursements – We noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 24, 1979.

CITY OF LAKE CITY
Schedule of Findings (Continued)
Year Ended June 30, 2004

III-D-04 Travel Expense -- No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

III-E-04 Business Transactions -- During the year ended June 30, 2004, there were no business transactions between the City and City officials or employees were noted.

III-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.

III-G-04 Council Minutes -- No transactions were found that we believe should have been approved in the council minutes but were not.

III-H-04 Deposits and Investments -- We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy.

III-I-04 Financial Condition -- The City had deficit balances in the Debt Service and Capital Projects Funds.

Recommendation -- The City should investigate alternatives to eliminate these deficits in order to return these accounts and/or funds to a sound financial position.

Response -- We will seek solutions to these deficits.

Conclusion -- Response accepted.

CITY OF LAKE CITY

Staff

This audit was performed by:

Bowman & Miller, P.C.
Certified Public Accountants
Marshalltown, IA 50158

Personnel:

James R. Bowman, CPA, Manager
Elizabeth A. Miller, CPA, Senior Auditor
Debra J. Osborn, CPA, Assistant Auditor

Lowen K. Poock, PC

NEWS RELEASE

FOR RELEASE _____

Bowman and Miller, P.C. today released an audit report on the City of Lake City, Iowa.

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

The City's receipts totaled \$1,611,666 for the year ended June 30, 2004, a 4.8 percent increase from 2003. The receipts included \$615,975 in property tax, \$388,902 from charges for services, \$7,555 from unrestricted investment earnings, and \$74,458 from other general receipts.

Disbursements for the year totaled \$1,601,040 a 16.3 percent increase from the prior year, and included \$180,490 for public safety, \$259,465 for debt service and \$380,347 for capital projects. Also, disbursements for business type activities totaled \$414,061.

The significant increase in disbursements is due to capital projects disbursements of \$380,347.

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