

**CITY OF McGREGOR  
McGREGOR, IOWA**

**INDEPENDENT AUDITOR'S REPORTS  
BASIC FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION  
SCHEDULE OF FINDINGS**

**JUNE 30, 2004**

**CITY OF McGREGOR  
McGREGOR, IOWA**

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**CITY OF McGREGOR  
McGREGOR, IOWA**

**OFFICIALS**

Name -----	Title -----	Term Expires -----
<b>(Before January, 2004 Election)</b>		
Harold Brooks	Mayor	December 31, 2003
Cathy Corpian	Mayor Pro Tem	December 31, 2003
Bobbie Henkes	Council Member	December 31, 2003
Roger Knott	Council Member	December 31, 2005
Keith Hering	Council Member	December 31, 2005
Gaylinda Hallberg	Council Member	December 31, 2005
Norman Lincoln	City Clerk	December 31, 2003
Beverly Towle	Treasurer	December 31, 2003
Michael Schuster	Attorney	December 31, 2003
<b>(After January, 2004 Election)</b>		
Harold Brooks	Mayor	December 31, 2005
Keith Hering	Mayor Pro Tem	December 31, 2005
Roger Knott	Council Member	December 31, 2005
Gaylinda Hallberg	Council Member	December 31, 2005
Margaret Flanscha	Council Member	December 31, 2007
Joe Muehbauer	Council Member	December 31, 2007
Norman Lincoln	City Clerk	December 31, 2005
Beverly Towle	Treasurer	December 31, 2005
Michael Schuster	Attorney	December 31, 2005

**CITY  
OF  
McGREGOR**

## INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and  
Members of the City Council:

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

Except as discussed in the following paragraphs, we conducted our audit in accordance with United States of America 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.

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 United States of America generally accepted accounting principles. Also, as permitted by the Code of Iowa, the accounting records of the City have not been audited for all prior years. Accordingly, we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2003.

The financial statements referred to above do not include financial data of the McGregor Municipal Utilities (Electric and Water Funds), which should be included in order to conform with U.S. generally accepted accounting principles. The omitted funds have assets, liabilities, revenues, and expenditures of \$737,472; \$44,205; \$591,601; and \$574,752, respectively.

In our opinion, except for the effects on the financial statements of the omission described in the preceding paragraph and except for the effect of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2003, as discussed in the third paragraph, 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 remaining aggregate fund information of the City of McGregor 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 15, 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; Statement 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 reports dated January 6, 2005, on our consideration of the City of McGregor's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. Those reports are an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information 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 management 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 McGregor's basic financial statements. Other supplementary information included in Schedules 1 through 4, 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.

O'CONNOR, BROOKS & CO., P.C.

Dubuque, Iowa  
January 6, 2005

**CITY OF MCGREGOR  
MCGREGOR, IOWA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

The City of McGregor, Iowa, provides this Management's Discussion and Analysis of its financial statements except for McGregor Municipal Utilities, which has issued separate financial statements as allowed by the Code of Iowa. 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**

- Two issues should be understood in studying financial activity for the fiscal years 2003 and 2004. First, an error in property tax payments from the Clayton County Treasurer occurred in both 2003 and 2004. The correction of these errors is reflected only in the fiscal year 2004 figures. Secondly, a prior period adjustment was recorded in 2004 to include additional information regarding cash balances from city boards.
- Revenues in the City's governmental funds for fiscal 2004 were \$904,925 compared to \$1,686,461 in fiscal 2003 representing a decrease of \$781,536 or 46%. Property tax revenue reported in fiscal 2004 was \$335,152 while fiscal 2003 reported \$423,691 for a decrease of \$88,539. The decrease in property tax is entirely attributable to the error in payments received from the Clayton County Treasurer. Budgeted figures showed an increase of approximately \$10,000 should have occurred. These financial statements present tax payments for fiscal 2004 as corrected. The large decrease in all governmental funds relates to loans and grants received in fiscal 2003.
- Disbursements in the governmental funds decreased from fiscal 2003 to fiscal 2004 by 41% from \$1,620,425 to \$957,904. The decrease is due to the "Main Street Improvement" capital project being completed in fiscal 2003, which expended nearly \$570,000 that year.
- The City's total cash basis net assets decreased about 9 %, or \$99,037 from June 30, 2003 to June 30, 2004. Of this amount, the assets of the governmental activities decreased \$52,979 and the assets of the business type activities decreased \$46,058.

## **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 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 U.S. generally accepted accounting principles. 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 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 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 or decreases in the City's net assets may serve as a useful indication 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 solid waster and the sanitary sewer system. 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 and Urban Renewal Tax Increment, 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 four Enterprise Funds to provide separate information for the sewer, storm sewer, solid waste, and docks funds, of which the sewer fund is considered to be a major fund of the City.

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

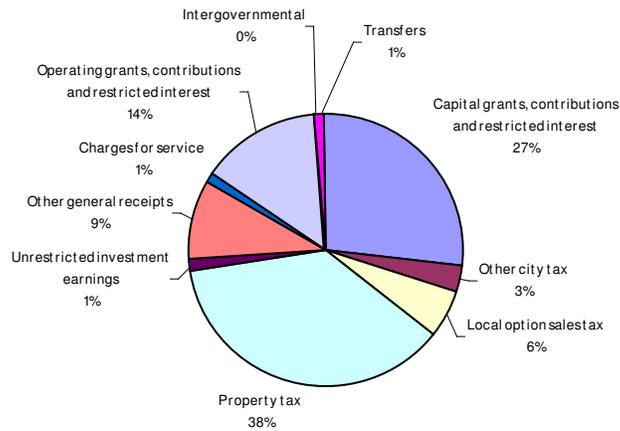
### **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from \$599,188 to \$809,234. The analysis that follows focuses on the changes in cash balances for governmental activities.

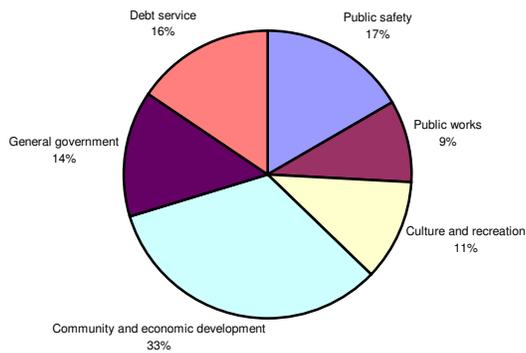
Changes in Cash Basis Net Assets of Governmental Activities

	<u>Year Ended June 30,</u>	
	<u>2004</u>	<u>2003</u>
Receipts and transfers:		
Program receipts:		
Charges for service	10,310	14,444
Operating grants, contributions and restricted interest	130,895	275,194
Capital grants, contributions and restricted interest	244,577	271,879
General receipts:		
Property tax	335,152	423,691
Local option sales tax	50,948	46,172
Other city tax	25,770	11,505
Intergovernmental	658	1,912
Unrestricted investment earnings	12,361	7,770
Bond proceeds	0	542,646
Other general receipts	84,254	91,248
Transfers, net	10,000	-
Total receipts and transfers	<u>904,925</u>	<u>1,686,461</u>
Disbursements:		
Public safety	159,502	79,215
Public works	88,180	162,663
Culture and recreation	108,133	236,485
Community and economic development	316,188	881,533
General government	136,686	128,881
Debt service	149,215	131,648
Total disbursements	<u>957,904</u>	<u>1,620,425</u>
Change in cash basis net assets	<u>(52,979)</u>	<u>66,036</u>
Cash basis net assets beginning of year	599,188	533,152
Prior period adjustment	<u>263,025</u>	<u>-</u>
Cash basis net assets beginning of year, as restated	<u>862,213</u>	<u>533,152</u>
Cash basis net assets end of year	<u>809,234</u>	<u>599,188</u>

### Program Receipts



### Disbursements



A summation of receipts and disbursements for governmental activities for 2004 shows a 46 % decrease of revenue and a 41 % decrease in disbursements occurring from the previous year. This is attributable to ending capital projects in 2003 funded by grants and bond proceeds. Also the property tax payment errors from Clayton County lowered property tax revenue by \$88,539. This did not affect normal expenditures in 2004 from occurring since those tax payments were received in 2003.

Changes in Cash Basis Net Assets of Business Type Activities		
	Year Ended June 30,	
	2004	2003
Receipts:		
Program receipts:		
Charges for service:		
Sanitary sewer	120,504	115,825
Solid waste	40,234	41,643
Storm sewer	14,368	15,143
Docks	3,809	1,185
Capital grants, contributions and restricted interest	17,951	134,977
General receipts:		
Unrestricted interest on investments	2,420	2,357
Loan proceeds	475,300	145,500
Other general receipts	4,867	13,335
Total receipts	<u>679,453</u>	<u>469,965</u>
Disbursements:		
Sanitary sewer	614,307	137,780
Solid waste	43,011	38,016
Storm sewer	41,199	244,551
Docks	16,994	129
Transfers	10,000	---
Total disbursements and transfers	<u>725,511</u>	<u>420,476</u>
Change in cash balance	(46,058)	49,489
Cash basis net assets beginning of year	<u>206,614</u>	<u>157,125</u>
Cash basis net assets end of year	<u><u>160,556</u></u>	<u><u>206,614</u></u>

Business type activities revenue increased about 45% from \$469,965 in 2003 to \$679,453 in 2004. The difference relates to non-fee revenues of loan and grant proceeds variations in the two years. Actual charges for services collected as fees remained relatively stable and increased at a predictable rate. Business type activity disbursements show a dramatic increase of 73% due to refinancing sewer bonds in the amount of \$475,300. A comparison of disbursements over the previous year also fluctuated with capital projects in the storm sewer and docks categories. Cash assets declined 32% during the period due to completion of capital projects and refinancing the sewer bonds.

## **INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS**

As the City of McGregor completed the 2004 fiscal year, its governmental funds showed a balance of \$809,234, which is approximately a \$53,000 decline from 2003. The following are the major reasons for the changes in fund balances of the major funds from the previous year.

- The General Fund declined \$57,174, which was attributable to the purchase of a new fire truck.
- The Road Use Tax Fund increased \$14,955 which is related to the City Council's plan to increase reserves for the purchase of a new truck.
- The Tax Increment Fund after transfers to Debt Service decreased by \$31,401 as a result of scheduled debt payments.
- The Capital Projects category increased by \$12,916 due to sales of lots in the city subdivision.
- The Debt Service Fund increased by \$6,749 resulting in reserves for paying existing debt next year.

## **INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS**

- The Sanitary Sewer Fund cash balance declined by \$16,266 from \$138,790 to \$122,524. This decline relates to refinancing the USDA Loan to Ruan Securities to gain a better interest rate on the remaining principle.
- Declines in the Storm Sewer Fund are related to paying for capital projects; and, a decline in the Solid Waste fund will be corrected by a rate increase in fiscal 2005.

## **AMENDMENTS TO 2004 BUDGET AND BUDGET ANALYSIS**

The fiscal 2004 budget was amended upward by the council by \$155,000 to show an increase in grant funds for the housing program and Main Street Project. Also special assessment revenue increased above expectations. These funds paid for ongoing projects and debt service.

A large difference between budget figures versus actual figures occurred because the planned Trail of Two Cities Project of over \$1,000,000 did not come to fruition.

## **DEBT ADMINISTRATION**

At June 30, 2004, the City of McGregor had \$1,345,000 in bonds and other long-term debt, compared to \$1,468,539 at June 30, 2003, as shown below.

Outstanding Debt at Year-End		
	Year Ended June 30,	
	2004	2003
General obligation notes	880,000	985,000
Revenue notes	465,000	483,539
	<u>1,345,000</u>	<u>1,468,539</u>

Debt decreased on general obligation notes as planned. Revenue debt within the Sewer Fund declined and the note was refinanced to obtain a better interest rate. The city's general obligation debt limit of \$1,871,254 is set at 5% of the assessed value of all taxable property. The City's debt of \$880,000 is well below that limitation.

#### **ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES**

Annually, at the beginning of the calendar year, the city council, board members, and employees set the next fiscal year's budget. Tax levies, service fees and utility rates are scrutinized to fulfill the needs of providing all city services. With the health of the city's financial structure and the desire to improve the community, city officials continue an aggressive path toward progressive growth. Fiscal year 2005 will see a \$600,000 storm sewer renovation with half of the cost funded by Community Development Block Grants funds. Also, with an abundance of revenue in the Urban Renewal Districts, the TIF funds will continue development projects in the Ohmer Property and the downtown area. With McGregor's prosperity relating to housing growth and with low interest rates, the town is charting a path toward sub-division growth. The City generates significant funds through the sale of housing lots, which in turn gives taxable value growth for an expanding budget.

In fiscal 2005, taxes will actually decline from \$13.64 to \$13.43 per \$1000 of taxable valuation. Due to growth of taxable value, the lower levy generates approximately the same dollars as last year. The budget as a whole will not fluctuate greatly from the last two years with only an approximate decrease of 2 % to 3% in both revenues and expenditures.

## **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 City Hall at 416 Main Street, P.O. Box E, McGregor, IA 52157 or by phone at 563-873-3795.

**EXHIBIT "A"**

**CITY OF MCGREGOR  
McGREGOR, IOWA**

**STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2004**

	Disbursements	Program Receipts			Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
		Charges for Services	Operating Grants, Contributions & Restricted Interest	Capital Grants, Contributions & Restricted Interest	Governmental Activities	Business Type Activities	Total
<b>Functions/Programs:</b>							
<b>Primary Government:</b>							
Governmental Activities:							
Public safety	\$ 159,502	\$ 2,521	\$ 16,475	\$ ---	\$ (140,506)	\$ ---	\$ (140,506)
Public works	88,180	---	75,306	---	(12,874)	---	(12,874)
Culture and recreation	108,133	4,156	39,114	---	(64,863)	---	(64,863)
Community and economic development	316,188	---	---	224,910	(91,278)	---	(91,278)
General government	136,686	3,633	---	---	(133,053)	---	(133,053)
Debt service	149,215	---	---	19,667	(129,548)	---	(129,548)
<b>Total Governmental Activities</b>	<b>\$ 957,904</b>	<b>\$ 10,310</b>	<b>\$ 130,895</b>	<b>\$ 244,577</b>	<b>\$ (572,122)</b>	<b>\$ ---</b>	<b>\$ (572,122)</b>
Business Type Activities:							
Sanitary sewer	\$ 614,307	\$ 120,504	\$ ---	\$ ---	\$ ---	\$ (493,803)	\$ (493,803)
Solid waste	43,011	40,234	---	---	---	(2,777)	(2,777)
Storm sewer	41,199	14,368	---	17,951	---	(8,880)	(8,880)
Docks	16,994	3,809	---	---	---	(13,185)	(13,185)
<b>Total Business Type Activities</b>	<b>\$ 715,511</b>	<b>\$ 178,915</b>	<b>\$ ---</b>	<b>\$ 17,951</b>	<b>\$ ---</b>	<b>\$ (518,645)</b>	<b>\$ (518,645)</b>
<b>Total</b>	<b>\$ 1,673,415</b>	<b>\$ 189,225</b>	<b>\$ 130,895</b>	<b>\$ 262,528</b>	<b>\$ (572,122)</b>	<b>\$ (518,645)</b>	<b>\$ (1,090,767)</b>

**CITY OF MCGREGOR  
McGREGOR, IOWA**

**EXHIBIT "A" (continued)**

**STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2004**

	Program Receipts				Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
		Operating Grants, Contributions & Restricted Interest	Capital Grants, Contributions & Restricted Interest		Governmental Activities	Business Type Activities	Total
<b>General Receipts:</b>	Disbursements	Charges for Services	& Restricted Interest	& Restricted Interest	Activities	Activities	Total
Property tax levied for:							
General purposes					\$ 230,256	\$ ---	\$ 230,256
Tax increment financing					75,732	---	75,732
Debt service					29,164	---	29,164
Local option sales tax					50,948	---	50,948
Other city tax					25,770	---	25,770
Intergovernmental					658	---	658
Unrestricted earnings on investments					12,361	2,420	14,781
Loan proceeds					---	475,300	475,300
Miscellaneous					84,254	4,867	89,121
Transfers					10,000	(10,000)	---
					\$ 519,143	\$ 472,587	\$ 991,730
Change in Cash Basis Net Assets					\$ (52,979)	\$ (46,058)	\$ (99,037)
Cash Basis Net Assets Beginning of Year					\$ 599,188	\$ 206,614	\$ 805,802
Prior period adjustment					263,025	---	263,025
Cash Basis Net Assets Beginning of Year, as restated					\$ 862,213	\$ 206,614	\$ 1,068,827
Cash Basis Net Assets End of Year					\$ 809,234	\$ 160,556	\$ 969,790
<b>Cash Basis Net Assets:</b>							
Restricted:							
Streets					\$ 67,869	\$ ---	\$ 67,869
Urban renewal purposes					8,334	---	8,334
Library					236,165	---	236,165
Debt service					14,935	46,415	61,350
Other purposes					18,497	---	18,497
Unrestricted					463,434	114,141	577,575
Total Cash Basis Net Assets					\$ 809,234	\$ 160,556	\$ 969,790

See notes to financial statements.

**EXHIBIT "B"**

**CITY OF MCGREGOR  
MCGREGOR, IOWA**

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES  
GOVERNMENTAL FUNDS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2004**

	General	Road Use Tax	Tax Increment	Capital Projects	Debt Service	Other Nonmajor Special Revenue Funds	Total
<b>Receipts:</b>							
Property tax	\$ 167,439	\$ ---	\$ ---	\$ ---	\$ 29,164	\$ 62,817	\$ 259,420
Tax increment financing collections	---	---	75,732	---	---	---	75,732
Other city tax	76,718	---	---	---	---	---	76,718
Licenses and permits	3,632	---	---	---	---	---	3,632
Use of money and property	26,153	---	---	740	---	---	26,893
Intergovernmental	276,468	72,543	---	---	---	---	349,011
Special assessments	---	---	---	---	19,667	---	19,667
Miscellaneous	29,364	---	---	54,488	---	---	83,852
<b>Total Receipts</b>	<b>\$ 579,774</b>	<b>\$ 72,543</b>	<b>\$ 75,732</b>	<b>\$ 55,228</b>	<b>\$ 48,831</b>	<b>\$ 62,817</b>	<b>\$ 894,925</b>
<b>Disbursements:</b>							
<b>Operating:</b>							
Public safety	\$ 134,887	\$ ---	\$ ---	\$ ---	\$ ---	\$ 24,615	\$ 159,502
Public works	30,592	57,588	---	---	---	---	88,180
Culture and recreation	108,133	---	---	---	---	---	108,133
Community and economic development	263,876	---	10,000	42,312	---	---	316,188
General government	99,460	---	---	---	---	37,226	136,686
Debt service	---	---	---	---	149,215	---	149,215
<b>Total Disbursements</b>	<b>\$ 636,948</b>	<b>\$ 57,588</b>	<b>\$ 10,000</b>	<b>\$ 42,312</b>	<b>\$ 149,215</b>	<b>\$ 61,841</b>	<b>\$ 957,904</b>
<b>Excess (Deficiency) of Receipts Over (Under) Disbursements</b>	<b>\$ (57,174)</b>	<b>\$ 14,955</b>	<b>\$ 65,732</b>	<b>\$ 12,916</b>	<b>\$ (100,384)</b>	<b>\$ 976</b>	<b>\$ (62,979)</b>

CITY OF MCGREGOR  
MCGREGOR, IOWA

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES  
GOVERNMENTAL FUNDS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2004

	General	Road Use Tax	Tax Increment	Capital Projects	Debt Service	Other Nonmajor Special Revenue Funds	Total
Other Financing Sources (Uses):							
Operating transfers in	\$ ---	\$ ---	\$ ---	\$ ---	\$ 107,133	\$ ---	\$ 107,133
Operating transfers out	---	---	(97,133)	---	---	---	(97,133)
Total Other Financing Sources (Uses)	\$ ---	\$ ---	\$ (97,133)	\$ ---	\$ 107,133	\$ ---	\$ 10,000
Net Change in Cash Balances	\$ (57,174)	\$ 14,955	\$ (31,401)	\$ 12,916	\$ 6,749	\$ 976	\$ (52,979)
Cash Balances Beginning of Year	\$ 345,171	\$ 52,914	\$ 39,735	\$ 135,662	\$ 8,186	\$ 17,520	\$ 599,188
Prior period adjustment	263,025	---	---	---	---	---	263,025
Cash Balances Beginning of Year, as restated	\$ 608,196	\$ 52,914	\$ 39,735	\$ 135,662	\$ 8,186	\$ 17,520	\$ 862,213
Cash Balances End of Year	\$ 551,022	\$ 67,869	\$ 8,334	\$ 148,578	\$ 14,935	\$ 18,496	\$ 809,234
<b>Cash Basis Fund Balances:</b>							
Reserved:							
Debt Service	\$ ---	\$ ---	\$ ---	\$ ---	\$ 14,935	\$ ---	\$ 14,935
Unreserved:							
General fund	551,022	---	---	---	---	---	551,022
Special revenue funds	---	67,869	8,334	---	---	18,496	94,699
Capital projects fund	---	---	---	148,578	---	---	148,578
Total Cash Basis Fund Balances	\$ 551,022	\$ 67,869	\$ 8,334	\$ 148,578	\$ 14,935	\$ 18,496	\$ 809,234

See notes to financial statements.

**BASIC  
FINANCIAL  
STATEMENTS**

**CITY OF MCGREGOR  
MCGREGOR, IOWA**

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS  
AND CHANGES IN CASH BALANCES  
PROPRIETARY FUNDS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2004**

	Enterprise Funds		
	Sanitary Sewer	Other Nonmajor Proprietary Funds	Total
Operating Receipts:			
Charges for services	\$ 120,504	\$ 58,411	\$ 178,915
Operating Disbursements:			
Business type activities	\$ 78,426	\$ 101,204	\$ 179,630
Excess (Deficiency) of Receipts Over (Under) Operating Disbursements	\$ 42,078	\$ (42,793)	\$ (715)
Non-operating Receipts (Disbursements):			
Intergovernmental	\$ ---	\$ 17,951	\$ 17,951
Interest on investments	2,237	183	2,420
Miscellaneous	---	4,867	4,867
Revenue note proceeds, net of \$9,700 discount	475,300	---	475,300
Debt service	(535,881)	---	(535,881)
Total Non-operating Receipts (Disbursements)	\$ (58,344)	\$ 23,001	\$ (35,343)
Excess (Deficiency) of Receipts Over (Under) Disbursements	\$ (16,266)	\$ (19,792)	\$ (36,058)
Other Financing Sources (Uses):			
Operating transfers out	---	(10,000)	(10,000)
Net Change in Cash Balances	\$ (16,266)	\$ (29,792)	\$ (46,058)
Cash Balances Beginning of Year	138,790	67,824	206,614
Cash Balances End of Year	\$ 122,524	\$ 38,032	\$ 160,556
<b>Cash Basis Fund Balances:</b>			
Reserved for debt service	\$ 46,415	\$ ---	\$ 46,415
Unreserved	76,109	38,032	114,141
Total Cash Basis Fund Balances	\$ 122,524	\$ 38,032	\$ 160,556

See notes to financial statements.

**CITY OF McGREGOR  
McGREGOR, IOWA**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2004**

**Note 1 - Summary of Significant Accounting Policies:**

The City of McGregor is a political subdivision of the State of Iowa located in Clayton County. It was first incorporated in 1846 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, culture and recreation, community and economic development and general government services. The City also provides sewer and sanitation utilities for its citizens.

**A. Reporting Entity**

For financial reporting purposes, the City of McGregor, Iowa has included all funds, organizations, agencies, boards, commissions and authorities except for the Municipal Utilities (Electric and Water Funds). 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 McGregor has no component units which meet these Governmental Accounting Standards Board criteria.

**Jointly Governed Organizations**

The City 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: Police Board, Communications Board, and the 911 Service Board.

**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.

**CITY OF McGREGOR  
McGREGOR, IOWA**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2004**

**Note 1 - Summary of Significant Accounting Policies: (Continued)**

**B. Basis of Presentation (Continued)**

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.

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.

**CITY OF McGREGOR  
McGREGOR IOWA**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2004**

**Note 1 - Summary of Significant Accounting Principles: (Continued)**

**B. Basis of Presentation (Continued)**

Special Revenue:

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

The Tax Increment Fund is used to account for urban renewal projects financed by tax increment financing.

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

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

The City reports the following major proprietary fund:

The Sanitary Sewer Fund accounts for the operation and maintenance of the City's wastewater treatment and sanitary sewer system.

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

The City of McGregor 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 United States of America generally accepted accounting principles.

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.

**CITY OF McGREGOR  
McGREGOR, IOWA**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2004**

**Note 1 - Summary of Significant Accounting Principles: (Continued)**

**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 public safety, culture and recreation, and debt service functions.

**Note 2 - Cash and Pooled Investments:**

At year end, the City's carrying amount of deposits was \$428,913 and the bank balance was \$440,371. The City's deposits in banks at June 30, 2004, were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

The City classifies its investments into categories which present an indication of the level of credit risk in relation to the nature of the investment and the custodial provisions. Category 1 records securities that are insured, registered, held by the City, or held by the City's agent in the City's name. Category 2 denotes uninsured and unregistered securities that are held by a counterparty's trust department or agent in the City's name. Category 3 specifies uninsured and unregistered securities that are held by a counterparty's trust department or agent in other than the City's name.

**CITY OF McGREGOR  
McGREGOR, IOWA**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2004**

**Note 2 - Cash and Pooled Investments: (Continued)**

The City's investments at June 30, 2004, are as follows:

	Categories			Fair Value
	1	2	3	
U.S. Treasury Securities	\$ ---	\$ 56,000	\$ ---	\$ 57,975
Federal Agency Obligations	---	20,170	---	19,913
Corporate Stock	---	155,010	---	157,504
Investment Pools	---	4,985	---	4,985
Certificates of Deposit	304,712	---	---	304,712
	\$ 304,712	\$ 236,165	\$ ---	\$ 545,089
	=====	=====	=====	=====

**Note 3 - Note Receivable:**

The City of McGregor has a note receivable from River Bluff Resort, L.L.C. dated December 31, 2002, in the amount of \$98,250 at 5.00% interest. The note is secured by a third mortgage on development property and a personal guarantee. The note was due January 15, 2004. The City is in the process of collecting this note.

**Note 4 - Notes Payable:**

Following is a summary of the terms and conditions of the notes outstanding as of June 30, 2004.

*Sewer Revenue Note:*

The sewer revenue notes were issued for the purpose of providing funds to advance refund the Sewer Revenue Bonds issued May 30, 1990. The Notes are payable solely from the future earnings of the Sanitary Sewer Fund. The Notes are not general obligations of the Issuer and the general credit and taxing powers of the Issuer are not pledged to the payment of the principal thereof or interest thereon.

The resolution providing for the issuance of the sewer revenue notes includes the following provisions:

**CITY OF McGREGOR  
McGREGOR, IOWA**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2004**

**Note 4 - Notes Payable: (Continued)**

- a) Interest on the Notes is payable on June 1 and December 1 in each year, beginning December 1, 2003, to the registered owners thereof. The Notes will mature serially on June 1. Notes maturing on or after June 1, 2013 may be called for redemption by the Issuer and paid before maturity on said date or any date thereafter, from any funds regardless of source, in whole or from time to time in part, in any order of maturity and within an annual maturity by lot, at par plus accrued interest to date of call.
- b) The Note Resolution establishes a Sewer Revenue Fund (the "Revenue Fund") into which the gross revenues of the Utility proceeds shall be deposited. Moneys in the Revenue Fund shall be used in maintaining and operating the Utility and after payment of the operating expenses shall be used to pay the principal and interest on the Notes, and to create and maintain the "Sewer Revenue Sinking Fund" and the "Principal and Interest Fund". The Note Resolution requires the Revenue Fund to maintain a balance equal to at least 125% of the average annual debt service on the Notes.
- c) Interest and principal on the Notes (and any Parity Obligations, as defined below) will be paid from the Sewer Revenue Sinking Fund (the "Sinking Fund"). The amount to be deposited in the Sinking Fund shall be equal to the amount of principal and interest coming due on the Notes, and any other obligations payable from the sewer revenues on a parity with the Notes ("Parity Obligations") during the fiscal year and shall be used solely for the purpose of paying debt service on the Notes and any Parity Obligations.
- d) The Notes are secured by the Principal and Interest Reserve (the "Reserve Fund") established under the Note Resolution. So long as any Notes are outstanding, the Issuer is required to maintain an amount on deposit in the Reserve Fund equal to the lesser of (a) the sum of 10% of the principal amount of the Notes; (b) 125% of the average annual debt service on such Notes and (c) the maximum annual debt service on such Notes (the "Reserve Fund Requirement").

The City did comply with all of the provisions during the year ended June 30, 2004. The Sinking Fund and Reserve Fund requirements are accounted for in the Sanitary Sewer Fund.

*General Obligation Notes:*

On November 1, 1993, the City entered into a loan agreement with Bankers Trust and provided for issuance of \$235,000 in General Obligation Corporate Purpose Notes.

**CITY OF McGREGOR  
McGREGOR, IOWA**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2004**

**Note 4 - Notes Payable: (Continued)**

On October 1, 1995, the City entered into a loan agreement with Ruan Securities and provided for issuance of \$130,000 in General Obligation Street Improvement Notes.

On January 1, 2001, the City entered into a loan agreement with Bankers Trust and provided for issuance of \$178,000 in General Obligation Corporate Purpose Notes.

On October 1, 2002, the City entered into a loan agreement with Bankers Trust and provided for issuance of \$700,000 in General Obligation Corporate Purpose Notes.

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

Year Ending June 30	General Obligation Notes		Revenue Notes		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2005	110,000	39,223	20,000	20,197	130,000	59,420
2006	115,000	34,672	20,000	19,757	135,000	54,429
2007	120,000	29,750	20,000	19,247	140,000	48,997
2008	130,000	24,310	20,000	18,668	150,000	42,978
2009	115,000	18,213	25,000	18,028	140,000	36,241
2010-2014	290,000	32,955	130,000	75,813	420,000	108,768
2015-2019	---	---	160,000	43,770	160,000	43,770
2020-2024	---	---	70,000	5,635	70,000	5,635
	880,000	179,123	465,000	221,115	1,345,000	400,238

**Note 5 - 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, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

**CITY OF McGREGOR  
McGREGOR, IOWA**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2004**

**Note 5 - Pension and Retirement Benefits: (Continued)**

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. Contribution requirements are established by state statute. The City's contribution to IPERS for the year ended June 30, 2004 was \$10,025.

**Note 6 - 28 E Agreements:**

The City participates in four different 28E Agreements:

The City has entered into a 28E Agreement with Clayton County and McGregor Municipal Utilities. The Agreement is to erect, maintain and finance a joint maintenance building on real estate presently leased by the City of McGregor from the Iowa Department of Natural Resources.

On December 17, 1997, the City entered into a 28E Agreement with the City of Marquette, Iowa; Mendon Township; Clayton County with McGregor Hook and Ladder Company (MHLC) to provide combined services for emergency protection to the surrounding area.

The 28E Agreement became effective August 1, 1999 between the City of McGregor, Iowa, and the City of Marquette to create the MarMac Unified Law Enforcement District that will provide Law Enforcement Services to both cities.

On July 26, 1996, the City entered into a 28E Agreement with the Iowa Department of Corrections to provide labor services to the City of McGregor.

**Note 7 - Compensated Absences:**

City employees accumulate earned but unused vacation and comp time hours for subsequent use or for payment upon termination, retirement or death. Sick leave accumulates but is not payable 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 comp time leave termination payments payable to employees at June 30, 2004, primarily relating to the General Fund, is as follows:

**CITY OF McGREGOR  
McGREGOR, IOWA**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2004**

**Note 7 - Compensated Absences: (Continued)**

Type of Benefit	Amount
Vacation	\$ 8,535
	8,535

The liability has been computed based on rates of pay as of June 30, 2004.

**Note 8 - Interfund Transfers:**

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

Transfer to	Transfer from	Amount
Debt Service	Special Revenue:	
	Tax Increment	\$ 97,133
	Enterprise:	
	Storm Sewer	10,000
		\$ 107,133
		107,133

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

**Note 9 - Related Party Transactions:**

The City had business transactions between the City and City Officials totaling \$426 during the year ended June 30, 2004.

**Note 10 - Risk Management:**

The 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 the past fiscal year.

**CITY OF McGREGOR  
McGREGOR, IOWA**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2004**

**Note 11 - Lease:**

The City of McGregor has entered into agreements to lease communication tower and building space to businesses. One lease is dated July 1, 2003, and expires June 30, 2008. Rent is due in the amount of \$1,500 to the City on or before July 1 of each year. For the first year of the lease, the rent is reduced to \$1,000 in exchange for capital improvements. The second lease is dated January 1, 2003, and expires December 31, 2007. Rent is due in the amount of \$500 to the City on or before January 1 of each year.

The City has also entered into an agreement to lease portions of the Mississippi riverfront and a riverside parking lot. The lease is dated June 24, 2003, and expires December 31, 2007. Rent is due in the amount of \$2,775 to the City on or before January 1 of each year.

At June 30, 2004, future lease payments due to the City are as follows:

6/30/05	\$ 4,775
6/30/06	4,775
6/30/07	4,775
6/30/08	1,500
6/30/09 and thereafter	---
	-----
	\$ 15,825
	=====

**Note 12 - Contingencies:**

On February 1, 2001, the City entered into a street usage and maintenance agreement with Agri, Inc. Under the terms of the agreement, the City received a one-time maintenance fee of \$250,000. In addition, the City will receive an annual maintenance fee of \$4,000 on July 1 of each year until July 1, 2030. In exchange, the City agrees to not close any portion of B Street, from its intersection with Main Street to the Agri Grain Elevator facility to truck traffic (except temporary closures of 120 days or less, where an alternate truck route is provided), to not impose weight restrictions or turning restrictions on the B Street Improvement Area that would materially interfere with operations at the Agri Grain Elevator Facility.

**CITY OF McGREGOR  
McGREGOR, IOWA**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2004**

**Note 12 - Contingencies: (Continued)**

In the event Agri, Inc. terminates the agreement, the City may retain all payments received under the agreement. If the City fails to meet the terms of the agreement, the City is required to pay a termination fee calculated as follows. If the termination occurs within the first five years, the termination fee shall be \$250,000. Thereafter, the termination fee shall reduce each year by \$10,000. At June 30, 2004, the City is contingently liable for \$250,000.

**Note 13 - Litigation:**

The City is subject to two claims by property owners who incurred property damage from flooding. The property owners allege the damages are a result of the City's negligence. The City's potential exposure to these claims is minimal.

**Note 14 - Deficit Fund Balance:**

The Special Revenue Fund, Emergency Levy had a deficit balance of \$3,077 at June 30, 2004.

**Note 15 - Prior Period Adjustment:**

It was determined that two accounts were omitted from the financial records of the City. As a result of adding these accounts, the fund balance of the general fund increased \$263,025.

**Note 16 - Accounting Change and Restatements:**

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.

**CITY OF MCGREGOR  
MCGREGOR, IOWA**

**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	Proprietary	Net	Budgeted Amounts		Final to Net Variance
	Funds Actual	Funds Actual		Original	Final	
<b>Receipts:</b>						
Property tax	\$ 259,420	\$ ---	\$ 259,420	\$ 268,309	\$ 268,309	\$ (8,889)
Tax increment financing collections	75,732	---	75,732	108,352	108,352	(32,620)
Other city tax	76,718	---	76,718	72,537	72,537	4,181
Licenses and permits	3,632	---	3,632	2,795	2,795	837
Use of money and property	26,893	2,420	29,313	102,300	102,300	(72,987)
Intergovernmental	349,011	17,951	366,962	2,038,569	2,190,151	(1,823,189)
Charges for services	---	178,915	178,915	712,500	712,500	(533,585)
Special assessments	19,667	---	19,667	15,000	18,978	689
Miscellaneous	83,852	4,867	88,719	31,830	31,830	56,889
<b>Total Receipts</b>	<b>\$ 894,925</b>	<b>\$ 204,153</b>	<b>\$ 1,099,078</b>	<b>\$ 3,352,192</b>	<b>\$ 3,507,752</b>	<b>\$(2,408,674)</b>
<b>Disbursements:</b>						
Public safety	\$ 159,502	\$ ---	\$ 159,502	\$ 113,839	\$ 113,839	\$ (45,663)
Public works	88,180	---	88,180	101,151	101,151	12,971
Culture and recreation	108,133	---	108,133	88,100	88,100	(20,033)
Community and economic development	316,188	---	316,188	202,000	322,000	5,812
General government	136,686	---	136,686	143,978	143,978	7,292
Debt service	149,215	535,881	685,096	138,824	138,824	(546,272)
Capital projects	---	---	---	1,830,000	1,865,000	1,865,000
Business type activities	---	179,630	179,630	678,272	678,272	498,642
<b>Total Disbursements</b>	<b>\$ 957,904</b>	<b>\$ 715,511</b>	<b>\$ 1,673,415</b>	<b>\$ 3,296,164</b>	<b>\$ 3,451,164</b>	<b>\$ 1,777,749</b>

See accompanying independent auditor's report.

**CITY OF MCGREGOR  
MCGREGOR, IOWA**

**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	Net	Budgeted Amounts		Final to Net Variance
				Original	Final	
Excess (Deficiency) of Receipts Over (Under) Disbursements	\$ (62,979)	\$ (511,358)	\$ (574,337)	\$ 56,028	\$ 56,588	\$ (630,925)
Other Financing Sources, Net	10,000	465,300	475,300	---	---	475,300
Excess (Deficiency) of Receipts and Other Financing Sources Over (Under) Disbursements and Other Financing Uses	\$ (52,979)	\$ (46,058)	\$ (99,037)	\$ 56,028	\$ 56,588	\$ (155,625)
Balances Beginning of Year	\$ 599,188	\$ 206,614	\$ 805,802	\$ 966,787	\$ 966,787	\$ (160,985)
Prior Period Adjustment	263,025	---	263,025	---	---	263,025
Balances Beginning of Year, as restated	\$ 862,213	\$ 206,614	\$ 1,068,827	\$ 966,787	\$ 966,787	\$ 102,040
Balances End of Year	\$ 809,234	\$ 160,556	\$ 969,790	\$ 1,022,815	\$ 1,023,375	\$ (53,585)

See accompanying independent auditor's report.

**REQUIRED  
SUPPLEMENTARY  
INFORMATION**

**CITY OF McGREGOR  
McGREGOR, IOWA**

**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, one budget amendment increased budgeted receipts by \$155,560 and budgeted disbursements by \$155,000. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2004, disbursements exceeded the amounts budgeted in the public safety, culture and recreation, and debt service functions.

**OTHER  
SUPPLEMENTARY  
INFORMATION**

CITY OF MCGREGOR  
 MCGREGOR, IOWA

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS  
 AND CHANGES IN CASH BALANCES -  
 NONMAJOR SPECIAL REVENUE FUNDS  
 AS OF AND FOR THE YEAR ENDED JUNE 30, 2004

	Employee Benefits	Emergency Levy	Total
	-----	-----	-----
Receipts:			
Property tax	\$ 56,880	\$ 5,937	\$ 62,817
	-----	-----	-----
Disbursements:			
Operating:			
Public safety	\$ 10,953	\$ 13,662	\$ 24,615
General government	37,226	---	37,226
	-----	-----	-----
Total Disbursements	\$ 48,179	\$ 13,662	\$ 61,841
	-----	-----	-----
Net Change in Cash Balances	\$ 8,701	\$ (7,725)	\$ 976
Cash Balances Beginning of Year	12,873	4,647	17,520
	-----	-----	-----
Cash Balances End of Year	\$ 21,574	\$ (3,078)	\$ 18,496
	=====	=====	=====
Cash Basis Fund Balances:			
Unreserved:			
Special revenue funds	\$ 21,574	\$ (3,078)	\$ 18,496
	=====	=====	=====

See accompanying independent auditor's report.

CITY OF MCGREGOR  
MCGREGOR, IOWA

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS  
AND CHANGES IN CASH BALANCES -  
NONMAJOR PROPRIETARY FUNDS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2004

	Solid Waste	Storm Sewer	Docks	Total
	-----	-----	-----	-----
Operating Receipts:				
Charges for service	\$ 40,234	\$ 14,368	\$ 3,809	\$ 58,411
	-----	-----	-----	-----
Operating Disbursements:				
Business type activities	\$ 43,011	\$ 41,199	\$ 16,994	\$ 101,204
	-----	-----	-----	-----
Excess (Deficiency) of Operating Receipts Over (Under) Operating Disbursements	\$ (2,777)	\$ (26,831)	\$ (13,185)	\$ (42,793)
	-----	-----	-----	-----
Non-operating Receipts (Disbursements):				
Intergovernmental	\$ ---	\$ 17,951	\$ ---	\$ 17,951
Interest on investments	---	---	183	183
Miscellaneous	---	4,867	---	4,867
	-----	-----	-----	-----
Total Non-operating Receipts (Disbursements)	\$ ---	\$ 22,818	\$ 183	\$ 23,001
	-----	-----	-----	-----
Excess (Deficiency) of Receipts Over (Under) Disbursements	\$ (2,777)	\$ (4,013)	\$ (13,002)	\$ (19,792)
	-----	-----	-----	-----
Other Financing Sources (Uses):				
Operating transfers out	---	(10,000)	---	(10,000)
	-----	-----	-----	-----
Net Change in Cash Balances	\$ (2,777)	\$ (14,013)	\$ (13,002)	\$ (29,792)
	-----	-----	-----	-----
Cash Balances Beginning of Year	7,697	41,073	19,054	67,824
	-----	-----	-----	-----
Cash Balances End of Year	\$ 4,920	\$ 27,060	\$ 6,052	\$ 38,032
	=====	=====	=====	=====
<b>Cash Basis Fund Balances</b>				
Unreserved cash basis fund balances	\$ 4,920	\$ 27,060	\$ 6,052	\$ 38,032
	=====	=====	=====	=====

See accompanying independent auditor's report.

**SCHEDULE "3"**

**CITY OF MCGREGOR  
MCGREGOR, IOWA**

**SCHEDULE OF INDEBTEDNESS  
YEAR ENDED JUNE 30, 2004**

Obligation	Date of Issue	Interest Rates	Amount Originally Issued	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
<b>General Obligation Notes:</b>									
Corporate Purpose Notes	November 1, 1993	3.25%-5.75%	\$ 235,000	\$ 115,000	\$ ---	\$ 15,000	\$ 100,000	\$ 6,255	\$ ---
Street Improvement	October 1, 1995	4.75-5.80%	130,000	60,000	---	10,000	50,000	3,375	---
Corporate Purpose Note	January 1, 2001	5.00-5.40%	178,000	160,000	---	25,000	135,000	8,438	---
Corporate Purpose Note	October 1, 2002	2.50-4.60%	700,000	650,000	---	55,000	595,000	25,248	---
<b>Total</b>				<b>\$ 985,000</b>	<b>\$ ---</b>	<b>\$ 105,000</b>	<b>\$ 880,000</b>	<b>\$ 43,316</b>	<b>\$ ---</b>
<b>Revenue Notes:</b>									
Sewer	May 30, 1990	5.00%	\$ 586,100	\$ 483,539	\$ ---	\$ 483,539	\$ ---	\$ 14,837	\$ ---
Sewer Refunding	August 1, 2003	1.90-5.40%	485,000	---	485,000	20,000	465,000	17,148	---
<b>Total</b>				<b>\$ 483,539</b>	<b>\$ 485,000</b>	<b>\$ 503,539</b>	<b>\$ 465,000</b>	<b>\$ 31,985</b>	<b>\$ ---</b>

See accompanying independent auditor's report.

**SCHEDULE "4"**

**CITY OF McGREGOR  
McGREGOR, IOWA**

**BOND AND NOTE MATURITIES  
JUNE 30, 2004**

Year Ending June 30	General Obligation Notes								Revenue Note		
	Corporate Purpose		Street Improvement		Corporate Purpose		Corporate Purpose		Sewer Refunding		
	Issued November 1, 1993		Issued October 1, 1995		Issued January 1, 2001		Issued October 1, 2002		Issued August 1, 2003		
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Total	Interest Rates	Amount
2005	5.25%	\$ 20,000	5.50%	\$ 10,000	5.20%	\$ 25,000	3.00%	\$ 55,000	\$ 110,000	2.20%	\$ 20,000
2006	5.35	20,000	5.60	10,000	5.25	25,000	3.30	60,000	115,000	2.55	20,000
2007	5.50	20,000	5.70	15,000	5.30	25,000	3.60	60,000	120,000	2.90	20,000
2008	5.60	20,000	5.80	15,000	5.35	30,000	3.85	65,000	130,000	3.20	20,000
2009	5.75	20,000		---	5.40	30,000	4.05	65,000	115,000	3.50	25,000
2010		---		---		---	4.20	70,000	70,000	3.75	25,000
2011		---		---		---	4.35	70,000	70,000	4.00	25,000
2012		---		---		---	4.50	75,000	75,000	4.20	25,000
2013		---		---		---	4.60	75,000	75,000	4.40	25,000
2014		---		---		---		---	---	4.55	30,000
2015		---		---		---		---	---	4.65	30,000
2016		---		---		---		---	---	4.85	30,000
2017		---		---		---		---	---	5.00	30,000
2018		---		---		---		---	---	5.10	35,000
2019		---		---		---		---	---	5.20	35,000
2020		---		---		---		---	---	5.30	35,000
2021		---		---		---		---	---	5.40	35,000
Total		\$ 100,000		\$ 50,000		\$ 135,000		\$ 595,000	\$ 880,000		\$ 465,000

See accompanying independent auditor's report.

**INDEPENDENT AUDITOR'S 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 McGregor, Iowa as of and for the year ended June 30, 2004, and have issued our report thereon dated January 6, 2005. Our report on the financial statements, which were prepared in conformity with an other comprehensive basis of accounting, expressed a qualified opinion since we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2003 and due to the omission of the municipal utilities funds. Except as noted in the Independent Auditor's Report, 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. Our report included an explanatory paragraph on the implementation of GASB Statements No. 34, 37, 38 and 41 and a disclaimer of opinion on the required supplementary information including Management's Discussion and Analysis.

Compliance

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

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 items II-B-04, II-G-04, and II-J-04.

## Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of McGregor'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 of McGregor'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 I 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 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 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 I-A-04, I-B-04, and I-C-04 are material weaknesses. Prior year reportable conditions have been resolved except for item I-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 McGregor and other parties to whom the City of McGregor 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 McGregor 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.

O'CONNOR, BROOKS & CO., P.C.

Dubuque, Iowa  
January 6, 2005

**CITY OF McGREGOR  
McGREGOR, IOWA**

**SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2004**

**Part I: Findings Related to the Financial Statements:**

**INSTANCES OF NON-COMPLIANCE:**

No matters were reported.

**REPORTABLE CONDITIONS:**

- I-A-04 Segregation of Duties - One important aspect of the internal control over financial reporting is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the individual who reconciles the City's checking account is also authorized to sign checks.

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 maximum internal control possible under the circumstances. We recommend that the bank statements be delivered directly to a City Council member for review before being given to the individual responsible for the account reconciliations.

Response - We will investigate this.

Conclusion - Response accepted.

- I-B-04 Credit Cards - The City has credit cards for use by various employees while on City business. The City has not adopted a formal policy to regulate the use of credit cards and to establish procedures for the proper accounting of credit card charges.

Recommendation - The City should adopt a formal written policy regulating the use of City credit cards. The policy, at a minimum, should address who controls credit cards, who is authorized to use credit cards and for what purposes, as well as the types of supporting documentation required to substantiate charges.

Response - We presently have unwritten guidelines. However, we have not established a formal written policy detailing specifics on the use of City credit cards. We will review procedures and guidelines and establish a written policy.

Conclusion - Response accepted.

**CITY OF McGREGOR  
McGREGOR, IOWA**

**SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2004**

**Part I: Findings Related to the Financial Statements: (Continued)**

I-C-04 Separately Maintained Records – The financial records of the library, dock, and park funds are maintained separately from the remainder of the City’s records. In reviewing the information provided by these separate boards, we determined there were two accounts omitted from the Annual Financial Report filed with the State of Iowa.

Recommendation – All funds and accounts of the City should be maintained and accounted for by the Clerk and Treasurer of the City of McGregor. This would provide for better internal control over City funds.

Response – We will investigate this.

Conclusion – Response accepted.

**Part II: Other Findings Related to Statutory Reporting:**

II-A-04 Official Depositories - A resolution naming official depositories has been adopted by the City Council. The maximum deposit amounts stated in the resolution were not exceeded during the year, except for deposits at Central State Bank. The maximum authorized deposit of \$500,000 was exceeded in August 2003 and March 2004 by approximately \$295,000 and \$65,000, respectively.

Recommendation - A new resolution in amounts sufficient to cover anticipated balances at all approved depositories should be adopted by the Board.

Response - We will adopt a new depository resolution.

Conclusion - Response accepted.

II-B-04 Certified Budget - Disbursements during the year ended June 30, 2004, exceeded the amounts budgeted in the public safety, culture and recreation, and debt service 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.

**CITY OF McGREGOR  
McGREGOR, IOWA**

**SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2004**

**Part II: Other Findings Related to Statutory Reporting: (Continued)**

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

Conclusion - Response accepted.

II-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 25, 1979.

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

II-E-04 Business Transactions - Business transactions between the City and City officials or employees were detailed as follows:

Name, Title, and Business Connection	Transaction Description	Amount
Joe Muehlbauer, Council Member, Owner of CarQuest	Purchase of parts and supplies for City equipment	\$ 426

According to Chapter 362.5(10) of the Code of Iowa, the transactions do not appear to represent a conflict of interest since the total transactions were less than \$1500 during the fiscal year.

II-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.

II-G-04 Council Minutes - No transactions were found that we believe should have been approved in the council minutes but were not. However, we noted that none of the minutes were properly signed in accordance with Chapter 380.7 of the Code of Iowa. In addition, wages, total disbursements, lists of claims allowed and a summary of all receipts for the library, dock, and park funds were not published in accordance with Chapter 372.13(6) of the Code of Iowa.

**CITY OF McGREGOR  
McGREGOR, IOWA**

**SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2004**

**Part II: Other Findings Related to Statutory Reporting: (Continued)**

Recommendation - The City should comply with Chapter 380.7 of the Code of Iowa and require all minutes of the City Council to be signed by the City Clerk. Chapter 372.13(6) of the Code of Iowa should also be followed and all required information should be published.

Response - We will comply with these requirements.

Conclusion - Response accepted.

II-H-04 Revenue Note - The provisions of the revenue note appear to have been met.

II-I-04 Deposits and Investments - The City has funds held by a custodial bank located outside of the State of Iowa with a custodial agreement dated 1990. In addition, these investments include common stocks. Chapter 12C of the Code of Iowa requires that city deposits be held in depositories located in the county in which the City is located or in an adjoining county, but if there is no depository in the county in which the city is located or in an adjoining county then any other depository located in this state shall be selected as a depository by the city council. Chapter 12B of the Code of Iowa prohibits Cities from investing in common stocks and requires Cities to enter into a custodial agreement to prevent loss of public funds. The City also purchased several certificates of deposit at rates below the minimum rates set by the State of Iowa.

Recommendation - The City should only deposit funds in allowable depositories. The City should also liquidate all prohibited investments. However, the City should exercise discretion in the timing of the liquidation so as to minimize any loss on liquidation. The City should review its custodial agreements to ensure they are current. In addition, the City should ensure the interest rates on all certificates of deposit purchased meet or exceed the minimum rates set by the State of Iowa.

Response - We will review and revise our policies and deposit only in allowable depositories. We will also liquidate all prohibited investments. We will review all custodial agreements. In the future we will only purchase certificates of deposit with interest rates at or exceeding the minimum rates.

Conclusion - Response accepted.

**CITY OF McGREGOR  
McGREGOR, IOWA**

**SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2004**

**Part II: Other Findings Related to Statutory Reporting: (Continued)**

II-J-04 Financial Condition - The Emergency Levy Fund has a deficit balance at June 30, 2004 in the amount of \$3,078.

Recommendation - The City should investigate alternatives to eliminate the deficit in this fund in order to return the fund to a sound financial position.

Response - We will investigate alternatives to eliminate the deficit balance.

Conclusion - Response accepted.

II-K-04 Annual Financial Report - We noted variances in the amounts reported to the Auditor of State on the Annual Financial Report. The City did not include an investment account and a savings account.

Recommendation - The City should ensure all funds are included on the Annual Financial Report. The City should also contact the Auditor of State to correct the report.

Response - In the future, we will be more diligent in our preparation of the Annual Financial Report. We will contact the Auditor of State to correct the report.

Conclusion - Response accepted.