CITY OF MONONA

FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION

June 30, 2004

HAGEN & KALLEVANG, P.C.
Certified Public Accountants

CITY OF MONONA

FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION

June 30, 2004

CITY OF MONONA

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CITY OF MONONA

OFFICIALS

Name	Title (Before January 2004)	Term Expires
Patrick Malanaphy	Mayor	December 31, 2003
Eugene Nevermann	Mayor Pro Tem	December 31, 2005
Bernard Bromelkamp	Council Member	December 31, 2003
Paul Foxwell	Council Member	December 31, 2003
Bonnie Heins	Council Member	December 31, 2003
Mark Willems	Council Member	December 31, 2005
Loyce Dumke	Administrator/Clerk/Treasurer	January 2004
Gregory Schiller	Attorney	January 2004

(After January 2004)

Patrick Malanaphy	Mayor	December 31, 2005
Eugene Nevermann	Mayor Pro Tem	December 31, 2005
Mark Willems	Council Member	December 31, 2005
Bernard Bromelkamp	Council Member	December 31, 2007
Paul Foxwell	Council Member	December 31, 2007
Bonnie Heins	Council Member	December 31, 2003
Loyce Dumke	Administrator/Clerk/Treasurer	January 2005
Gregory Schiller	Attorney	January 2005

Subsequent to June 30, 2004

Patrick Malanaphy	Resigned	August 31, 2004	as Mayor
Eugene Nevermann	Resigned	September 7, 2004	as Mayor Pro Tem
Eugene Nevermann	Appointed	September 7, 2004	Mayor
Bernard Bromelkamp	Appointed	September 7, 2004	Mayor Pro Tem
Wayne McGlaughlin	Appointed	September 20, 2004	Council Member
Steven T. Diers	Appointed	September 1, 2004	City Administrator/ Clerk
Loyce J. Dumke	Appointed	September 1, 2004	Deputy Clerk

Hagen & Kallevang PC
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Members of the City Council
City of Monona, Iowa

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

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

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 U.S. 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 are unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2003.

In our opinion, except for the effects 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 preceding 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 aggregate remaining fund information of the City of Monona 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 11, 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; and Statement No. 38, Certain Financial Statement Note Disclosures, and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences.

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In accordance with Government Auditing Standards, we have also issued our report dated December 17, 2004 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 9 and 22 through 23 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 opinions on the financial statements that collectively comprise the City'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, except for the effects 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, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Hagen + Kallevang, P.C.

December 17, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Monona 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 30.8%, or approximately $482,000, from fiscal 2003 to fiscal 2004. Property tax increased approximately $9,100, intergovernmental increased about $115,000 and miscellaneous increased $329,000 mostly from contributions received for construction of an aquatic center and an assisted living facility.

- Disbursements decreased 16.9%, or approximately $374,000, in fiscal 2004 from fiscal 2003. Public safety, public works, debt service, culture and recreation, and community and economic development disbursements increased approximately $48,000, $65,500, $125,500, $49,000, and $40,700 respectively. While general government and capital projects decreased approximately $29,000 and $674,000 respectively.

- The City's total cash basis net assets increased 23.8%, or approximately $288,000 from June 30, 2003 to June 30, 2004. Of this amount, the assets of the governmental activities increased approximately $219,000 and the assets of the business-type activities increased by approximately $69,000.

USING THIS ANNUAL REPORT

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

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

The Government-wide Financial 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 as well as its outstanding debt.

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

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 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, health and social service, 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 and the sanitary sewer systems, solid waste, and airport. 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 water, sewer, and solid waste considered to be major funds and airport fund, considered to be a nonmajor fund of the City.

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

Reconciliations between the government-wide statement and the fund financial statements follow the fund financial statements.

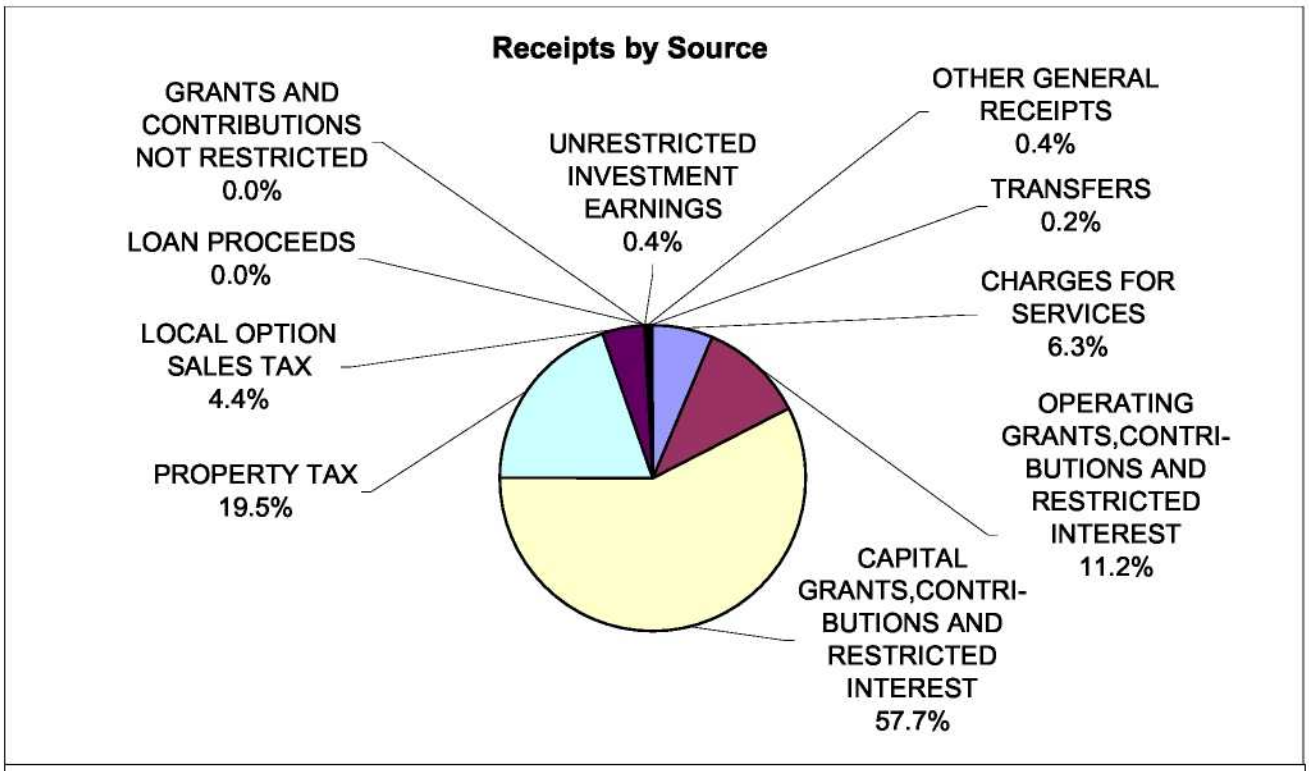
GOVERNMENT-WIDE FINANCIAL ANALYSIS

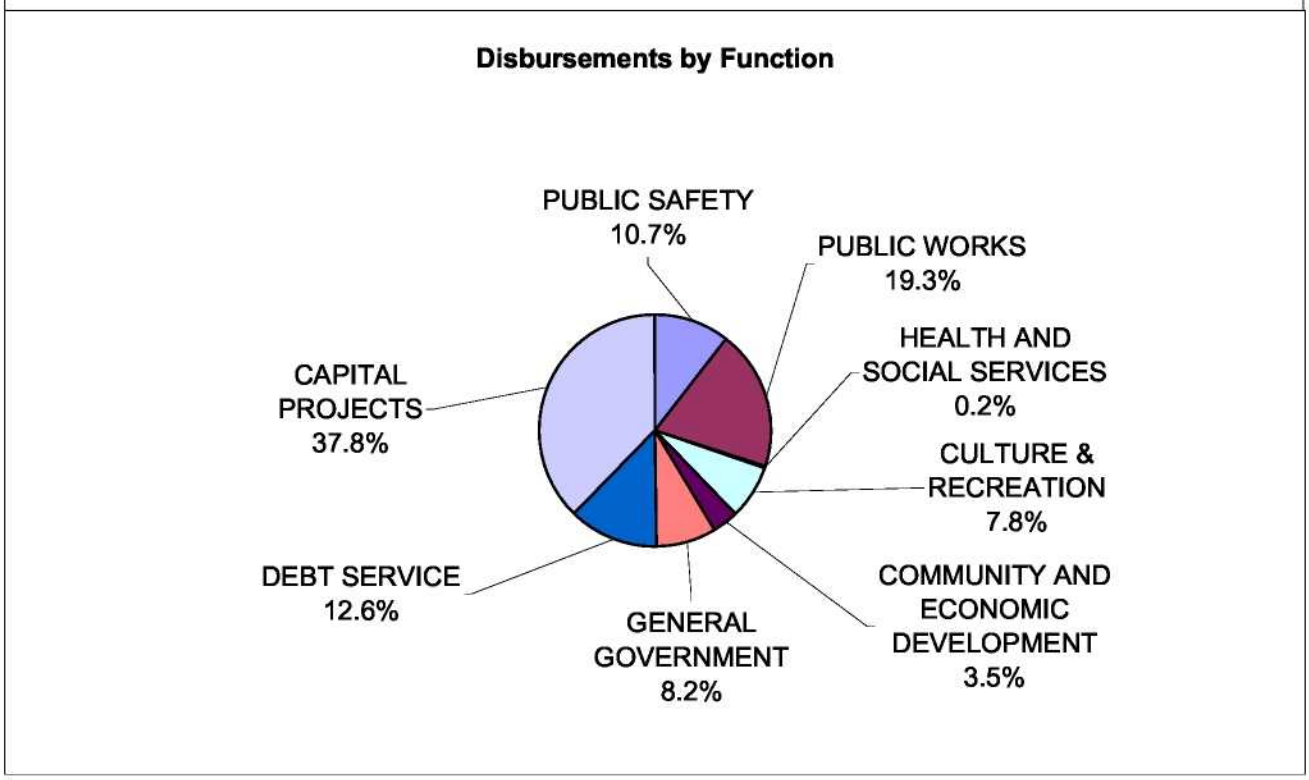
Governmental Activities

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, increasing from $766,962 to $943,438. The analysis that follows focuses on the changes in cash balances for governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities
(Expressed in Thousands)

	Year ended June 30, 2004	2003
Receipts and transfers:		
Program receipts:		(Unaudited)
Charges for service	$ 128	$ 32
Operating grants, contributions and restricted interest	229	236
Capital grants, contributions and restricted interest	1,181	807
General receipts:		
Property tax	400	381
Local option sales tax	91	82
Grants and contributions not restricted to specific purposes	-	-
Unrestricted investment earnings	8	24
Loan proceeds	-	551
Other general receipts	7	1
Transfers, net	4	4
Total receipts and transfers	2,048	2,118
Disbursements:		
Public safety	195	147
Public works	353	288
Health and social services	3	3
Culture and recreation	142	93
Community and economic development	65	24
General government	150	179
Debt service	230	105
Capital projects	691	1,365
Total disbursements	1,829	2,204
Increase (decrease) in cash basis net assets	219	(86)
Cash basis net assets beginning of year	767	853
Cash basis net assets end of year	$ 986	$ 767


Receipts by Source
GRANTS AND CONTRIBUTIONS NOT RESTRICTED 0.0%
UNRESTRICTED INVESTMENT EARNINGS 0.4%
OTHER GENERAL RECEIPTS 0.4%
TRANSFERS 0.2%
LOAN PROCEEDS 0.0%
CHARGES FOR SERVICES 6.3%
LOCAL OPTION SALES TAX 4.4%
OPERATING GRANTS,CONTRI-BUTIONS AND RESTRICTED INTEREST 11.2%
PROPERTY TAX 19.5%
CAPITAL GRANTS,CONTRI-BUTIONS AND RESTRICTED INTEREST 57.7%


Disbursements by Function
PUBLIC SAFETY 10.7%
PUBLIC WORKS 19.3%
HEALTH AND SOCIAL SERVICES 0.2%
CULTURE & RECREATION 7.8%
COMMUNITY AND ECONOMIC DEVELOPMENT 3.5%
GENERAL GOVERNMENT 8.2%
DEBT SERVICE 12.6%
CAPITAL PROJECTS 37.8%

For the year ending June 30, 2004, the City's governmental activities were funded as follows:

Revenues of the City's governmental activities decreased by approximately 3.3% from fiscal year 2003 to 2004 or from $2,118,000 to $2,048,000 respectfully. Decrease in financing sources included interest on money and elimination of state shared revenues [405a]. Areas of increase included property tax for debt service to fund bond payments for the Family Aquatic Center. The City received the CAT and Land and Water Conservation Grants for the Family Aquatic Center in fiscal year 2004 in the amount of $95,000 and $75,000 respectfully. The Family Aquatic Center service fees showed an increase from $17,914 in 2003 to $27,735 in 2004. Miscellaneous Revenue increased from $807,084 in 2003 to $1,115,040 in 2004 in a large part due to donations received not only for the Family Aquatic Center but also for the Garden View Assisted Living project.

Disbursements of the City's governmental activities decreased by approximately 17% from fiscal year 2003 to 2004 or from $2,204,000 to $1,829,000. The largest decrease was in the function of capital projects as the Family Aquatic Center was 80% constructed in 2003. Debt Service payment increased from $105,000 in 2003 to $230,000 in 2004.

Business-type Activities:

For the year ending June 30, 2004, the City's business-type receipts and disbursements were as follows:

	Year ended June 30, 2004	2003
Receipts:		
Program receipts:		
Charges for services	$ 449	$ 442
Disbursements and transfers:		
Operations	376	388
Transfers net	4	4
Total disbursements and transfers	380	392
Increase in cash balance	69	50
Cash basis net assets beginning of year	443	393
Cash basis net assets end of year	$ 512	$ 443

Total business-type activities receipts for the fiscal year were $449,000 compared to $441,000 last year. This slight increase of $16,651 was due primarily to increase in usage of the water and wastewater and charging customers for additional bags in the solid waste department. The transfers out are placed in the self-funding health insurance fund and improvement funds in the water, wastewater and solid waste funds to be used for major breakdowns or improvements or replacement.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City completed the year, its governmental funds reported a combined fund balance of $985,602 an increase of more than $216,107 above last year's total of $766,962. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance decreased $14,977 from the prior year to $366,251. Decrease was due to state-shared revenues that were eliminated at the state level.
- The Road Use Tax Fund cash balance decreased by $107,683 to $76,710 during the fiscal year. This decrease was also attributable to using cash balances in the Road Use Tax fund to complete several street projects.

- The Debt Service Fund cash balance decreased by $817. The decrease reflects the repayment of debt associated with the major capital projects.
- The Capital Project Fund – Assisted Living account cash balance increased $375,605. This increase was due to contributions of nearly $584,000 received with initial construction costs being paid of $212,000. The project is expected to be completed by July 2005.
- The Capital Project Fund – Pool Improvement account decreased $14,792. The project to build a Family Aquatic Center is in its final stages of completion.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

The Water Fund cash balance increased by $29,410 to $195,715 due primarily to an increase in the sale of water.

The Sewer Fund cash balance increased by $27,496 to $241,181 due primarily to the increase in usage.

The Solid Waste cash balance increased by $15,915 due to increase of usage.

BUDGETARY HIGHLIGHTS

The City amended its budget. The amendment was approved on May 17, 2004 and resulted in an increase in operating disbursements related to a cost of Family Aquatic Center and street improvement projects. Additional revenues to offset the above costs came from donations, grants and cash balances.

DEBT ADMINISTRATION

At June 30, 2004, the City had approximately $804,000 in bonds and other long-term debt, compared to approximately $700,000 last year, as shown below.

	Year ended June 30, 2004	2003
General obligation notes		
Fire Station	$ 355,000	$ 400,000
Family Aquatic Center	275,000	300,000
City Hall	18,085	35,931
Special Obligation Loan Agreement Anticipation (project) Note	156,159	255,907
Total	$ 804,244	$ 991,838

The Constitution of the State of Iowa limits the amount of general obligation debt city's 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 $804,244 is significantly below its constitutional debt limit of $2,197,046.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Many factors are being considered as we prepare for the next year's budget and setting the rates for property taxes and service rates. We will be adding the Assisted Living fund within our budget and at the time of this audit, it has not been determined how it will be set up in the city records. Other factors include the elimination of the state-shared revenues and the type of services the citizens of Monona have been accustomed to. We plan on having the budget finished in mid February of 2005.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Steven T. Diers,City Admin./Clerk, 104 E Center Street, Monona, Iowa.

BASIC FINANCIAL STATEMENTS

CITY OF MONONA

STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS

As of and for the year ended June 30, 2004

Functions/Programs	Disbursements	Program Receipts: Charges for Services	Program Receipts: Operating Grants, Contributions, and Restricted Interest	Program Receipts: Capital Grants, Contributions, and Restricted Interest	Net (Disbursements) Receipts and Changes in Cash Basis Net Assets: Governmental Activities	Net (Disbursements) Receipts and Changes in Cash Basis Net Assets: Business-Type Activities	Net (Disbursements) Receipts and Changes in Cash Basis Net Assets: Total
Governmental activities							
Public safety	$ (194,939)	$ 14,378	$ 51,222	$ -	$ (129,339)	$ -	$ (129,339)
Public works	(353,285)	3,712	129,106	-	(220,467)	-	(220,467)
Health and social services	(3,285)	-	-	-	(3,285)	-	(3,285)
Culture and recreation	(141,883)	44,498	37,953	-	(59,432)	-	(59,432)
Community and economic development	(64,376)	42,576	10,239	-	(11,561)	-	(11,561)
General government	(150,343)	23,824	-	-	(126,519)	-	(126,519)
Debt service	(230,150)	-	-	-	(230,150)	-	(230,150)
Capital projects	(691,367)	-	-	1,181,017	489,650	-	489,650
Total governmental activities	(1,829,628)	128,988	228,520	1,181,017	(291,103)	-	(291,103)
Business type activities							
Water	(92,909)	123,324	-	-	-	30,415	30,415
Sewer	(154,682)	183,802	-	-	-	29,120	29,120
Solid waste	(118,387)	135,307	-	-	-	16,920	16,920
Airport	(10,151)	7,067	10	-	-	(3,074)	(3,074)
Total business-type activities	(376,129)	449,500	10	-	-	73,381	73,381
Total	$ (2,205,757)	$ 578,488	$ 228,530	$ 1,181,017	(291,103)	73,381	(217,722)
General Receipts							
Property tax levied for							
General purposes					301,043	-	301,043
Tax increment financing					-	-	-
Debt service					98,472	-	98,472
Local option sales tax					91,066	-	91,066
Grants and contributions not restricted to specific purpose					-	-	-
Unrestricted interest on investments					7,974	-	7,974
Bond proceeds					-	-	-
Miscellaneous					7,554	-	7,554
Sale of assets					-	-	-
Transfers					3,634	(3,634)	-
Total general receipts and transfers					509,743	(3,634)	506,109
Change in cash basis net assets					218,640	69,747	288,387
Cash basis net assets beginning of year					766,962	442,861	1,209,823
Cash basis net assets end of year					$ 985,602	$ 512,608	$ 1,498,210
Cash Basis Net Assets							
Restricted							
Streets					$ 76,710	$ -	$ 76,710
Urban renewal purposes					12,234	-	12,234
Debt service					375,178	15,345	390,523
Other purposes					145,211	-	145,211
Unrestricted					376,269	497,263	873,532
Total cash basis net assets					$ 985,602	$ 512,608	$ 1,498,210

See notes to financial statements.

CITY OF MONONA

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
GOVERNMENT FUNDS

As of and for the year ended June 30, 2004

		Special Revenue		Capital Projects		Other Nonmajor Governmental	
	General	Road Use Tax	Debt Service	Assisted Living	Pool Improvement	Funds	Total
Receipts							
Property tax	$ 236,238	$ -	$ 96,239	$ -	$ -	$ 58,026	$ 390,503
Tax increment financing collections	-	-	-	-	-	-	-
Other city tax	5,436	-	2,233	-	-	92,409	100,078
Licenses and permits	3,063	-	-	-	-	-	3,063
Use of money and property	14,144	-	11	3,985	819	3,296	22,255
Intergovernmental	24,080	129,096	-	-	170,000	27,508	350,684
Charges for service	42,116	-	-	-	-	-	42,116
Special assessments	-	-	-	-	-	-	-
Miscellaneous	93,094	-	-	583,163	368,268	91,410	1,135,935
Total receipts	418,171	129,096	98,483	587,148	539,087	272,649	2,044,634
Disbursements							
Operating							
Public safety	124,409	-	-	-	-	70,530	194,939
Public works	113,755	236,179	-	-	-	3,351	353,285
Health and social services	3,285	-	-	-	-	-	3,285
Culture and recreation	131,062	-	-	-	-	10,821	141,883
Community and economic development	3,094	-	-	-	-	61,282	64,376
General government	118,959	-	-	-	-	31,384	150,343
Debt service	-	-	230,150	-	-	-	230,150
Capital projects	-	-	-	211,543	446,679	33,145	691,367
Total disbursements	494,564	236,179	230,150	211,543	446,679	210,513	1,829,628
Excess of receipts over (under) disbursements	(76,393)	(107,083)	(131,667)	375,605	92,408	62,136	215,006
Other financing sources (uses)							
Bond proceeds	-	-	-	-	-	-	-
Sale of capital assets	-	-	-	-	-	-	-
Operating transfers in	131,663	-	130,850	-	4,000	16,638	283,151
Operating transfers out	(70,247)	-	-	-	(111,200)	(98,070)	(279,517)
Total other financing sources (uses)	61,416	-	130,850	-	(107,200)	(81,432)	3,634
Net change in cash balances	(14,977)	(107,083)	(817)	375,605	(14,792)	(19,296)	218,640
Cash balances beginning of year	381,228	183,793	13,051	(427)	24,810	164,507	766,962
Cash balances end of year	$ 366,251	$ 76,710	$ 12,234	$ 375,178	$ 10,018	$ 145,211	$ 985,602
Cash Basis Fund Balances							
Reserved							
Debt service	$ -	$ -	$ 12,234	$ -	$ -	$ -	$ 12,234
Unreserved							
General fund	366,251	-	-	-	-	-	366,251
Special revenue funds	-	76,710	-	-	-	89,963	166,673
Capital projects fund	-	-	-	375,178	10,018	(44,752)	340,444
Permanent fund	-	-	-	-	-	100,000	100,000
Total cash basis fund balances	$ 366,251	$ 76,710	$ 12,234	$ 375,178	$ 10,018	$ 145,211	$ 985,602

See notes to financial statements.

CITY OF MONONA

RECONCILIATION OF THE STATEMENT OF CASH
RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES
TO THE STATEMENT OF ACTIVITIES AND NET ASSETS -
GOVERNMENTAL FUNDS

As of and for the year ended June 30, 2004

Total governmental funds cash balances (page 11)	$ 985,602
Amounts reported for governmental activities in the Statement of Activities and Net Assets are different because:	
None	-
Cash basis net assets of governmental activities (page 10)	$ 985,602
Net change in cash balances (page 11)	$ 218,640
Amounts reported for governmental activities in the Statement of Activities and Net Assets are different because:	
None	-
Change in cash balance of governmental activities (page 10)	$ 218,640

See notes to financial statements.

CITY OF MONONA

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES
PROPRIETARY FUNDS

As of and for the year ended June 30, 2004

	Enterprise Funds				
	Major			Non-Major	
	Water	Sewer	Solid Waste	Airport	Total
Operating receipts:					
Use of money and property	$ -	$ 1,425	$ 79	$ 4,425	$ 5,929
Charges for service	117,227	182,277	128,043	-	427,547
Miscellaneous	6,097	100	7,185	2,652	16,034
Total operating receipts	123,324	183,802	135,307	7,077	449,510
Operating disbursements:					
Business-type activities	92,909	154,682	118,387	10,151	376,129
Total operating disbursements	92,909	154,682	118,387	10,151	376,129
Excess of operating receipts over (under) operating disbursements	30,415	29,120	16,920	(3,074)	73,381
Non-operating receipts (disbursements):					
None	-	-	-	-	-
Total non-operating receipts (disbursements)	-	-	-	-	-
Excess of receipts over (under) disbursements	30,415	29,120	16,920	(3,074)	73,381
Other financing sources (uses)					
Operating transfers out	(1,005)	(1,624)	(1,005)	-	(3,634)
Net change in cash balances	29,410	27,496	15,915	(3,074)	69,747
Cash balances beginning of year	169,305	213,685	55,179	4,692	442,861
Cash balances end of year	$ 198,715	$ 241,181	$ 71,094	$ 1,618	$ 512,608
Cash Basis Fund Balance					
Reserved for debt service	$ 64,440	$ -	$ -	$ -	$ 64,440
Unreserved	134,275	241,181	71,094	1,618	448,168
Total cash basis fund balances	$ 198,715	$ 241,181	$ 71,094	$ 1,618	$ 512,608

See notes to financial statements.

CITY OF MONONA

RECONCILIATION OF THE STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
TO THE STATEMENT OF ACTIVITIES AND NET ASSETS -
PROPRIETARY FUNDS

As of and for the year ended June 30, 2004

Total enterprise funds cash balances (page 13)	$ 512,608
Amounts reported for business-type activities in the Statement of Activities and Net Assets are different because:	
None	-
Cash basis net assets of business-type activities (page 10)	$ 512,608
Net change in cash balances (page 13)	$ 69,747
Amounts reported for business type activities in the Statement of Activities and Net Assets are different because:	
None	-
Change in cash balance of business type activities (page 10)	$ 69,747

See notes to financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Monona is a political subdivision of the State of Iowa located in Clayton County. It was first incorporated in 1897 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 service, culture and recreation, community and economic development and general government. The City also provides water, sewer, and solid waste utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, City of Monona 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.

Jointly Governed Organizations

The City also participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Clayton County Solid Waste 28E Commission, Clayton County Emergency Management Commission, Clayton County Joint E911 Service Board, Upper Explorerland Regional Housing Authority, Clayton County Tourism and Economic Development Commission, Clayton County Elected Officials.

These financial statements present the City of Monona (the primary government) and the following component unit: the Monona Fire Department. The component unit is included in the City's reporting entity because of the significance of its operational or financial relationship with the City.

The Monona Fire Department is legally separate from the City but is so intertwined with the City that it is, in substance, the same as the City. It is reported as part of the City and blended into the Special Revenue Funds. The Monona Fire Department has been established pursuant to local ordinance to prevent and extinguish fires and to protect lives and property against fires, to promote fire prevention and fire safety and to answer all emergency calls for which there is no other established agency. Although the Monona Fire Department is legally separate from the City, its purpose is to benefit the City of Monona (the primary government) by providing the above services and by soliciting contributions and managing those funds.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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. Government 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.

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

Capital Projects

The Assisted Living Fund accounts for the financing and construction of an assisted living facility to which will provide housing and service to those citizens needing such service.

The Pool Improvement Fund accounts for the financing and construction of a new aquatic center.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Basis of Presentation (continued)

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 wastewater treatment and solid waste sewer system.

The Solid Waste Fund accounts for the operation of solid waste collections and disposal services.

C. Measurement Focus and 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.

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 public safety, public works, culture and recreation, community and economic development, and debt service functions.

E. Estimates
The preparation of financial statements requires management to make estimates and assumptions that affect the reported amount and the disclosure of other financial information. Actual results could differ from those estimates.

NOTE 2 - CASH AND POOLED INVESTMENTS

The City's deposits in banks at June 30, 2004 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.
The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City had no investments as of June 30, 2004.

NOTE 3 - BONDS AND NOTES PAYABLE

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

Year Ending June 30,	General Obligation Bonds and Notes Principal	Interest
2005	$ 244,244	$ 34,227
2006	75,000	24,012
2007	80,000	21,163
2008	80,000	17,992
2009	85,000	14,658
2010 - 2014	240,000	22,688
	$ 804,244	$ 134,740

The Code of Iowa requires principal and interest on general obligation debt be paid from the Debt Service Fund.

NOTE 4 - 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.

Plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of annual covered payroll, except for police employees, in which case the percentages are 5.93% and 8.90%, respectively. For the year ended June 30, 2003, the contribution rates for police employees and the City were 6.04% and 9.07%, respectively, and for the year ended June 30, 2002, the contribution rates for police employees and the City were 6.20% and 9.29%, respectively. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2004, 2003 and 2002 were $17,586, $17,771 and $16,984, respectively, equal to the required contributions for each year.

NOTE 5 - COMPENSATED ABSENCES

City employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, 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:

Vacation	$ 13,402
Sick leave	68,228
Total	$ 81,630

This liability has been computed based on rates of pay in effect at June 30, 2004.

Sick leave is forfeited if not used by the employee before termination, retirement, or death except those reaching age 65 or 25 years of service.

NOTE 6 – INTERFUND TRANSFERS

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

Transfer to		Transfer from	
General		Special Revenue	
General account	$ 91,066	Local Option Sales Tax	$ 91,066
		General	
Police Equipment Replacement account	12,000	General account	$ 12,000
Fire Equipment Replacement account	10,000	General account	10,000
Library account	18,597	General account	18,597
	40,597		40,597
	$ 131,663		
Debt service	$ 19,650	General account	19,650
Debt service	111,200	General account	10,000
	$ 130,850		$ 70,247
Capital Project		Capital Project	
Monroe	$ 10,000	Pool Improvement	$ 111,200
Capital Project		Permanent	
Pool Improvement	$ 4,000	Reusser Improvement	$ 4,000
Special Revenue		Special Revenue	
Health	$ 3,004	Employee benefit	$ 3,004
		Enterprise	
Health	1,005	Water	1,005
Health	1,624	Sewer	1,624
Health	1,005	Solid waste	1,005
	$ 6,638		$ 6,638

NOTE 7 - RELATED PARTY TRANSACTIONS

The City had business transactions between the City and City employees and officials totaling $12,234 during the year ended June 30, 2004.

NOTE 8 - 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 any of the past three fiscal years.

NOTE 9 - DEFICIT FUND BALANCE

The City had the following accounts with deficit balances at June 30, 2004:

Special Revenue	
Employee benefits	$ 6,815
Capital Projects	
Gordon subdivision	25,908
Monroe Street	23,150

The deficits are expected in the near future to be eliminated upon receipt of monies from various sources.

NOTE 10 - SUBSEQUENT EVENTS

In August 2004, the City issued $500,000 of general obligation bonds and entered into construction contracts totaling $468,520 for a water project. The City also entered into a construction contract for $186,500 for a street project to be financed from road use tax funds.

NOTE 11 - 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.

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

NOTE 12 – GENERAL FUND BALANCE

The City has designated $76,548 of the $366,251 General Fund cash balance for future library operations and equipment replacement.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF MONONA

BUDGET COMPARISON SCHEDULE
OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN BALANCES -
BUDGET AND ACTUAL (CASH BASIS) -
ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUNDS

REQUIRED SUPPLEMENTARY INFORMATION

As of and for the year ended June 30, 2004

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds Not Required to be Budgeted	Net	Budgeted Amounts Original	Budgeted Amounts Final	Final to Net Variance
Receipts							
Property tax	$ 390,503	$ -	$ -	$ 390,503	$ 391,091	$ 391,091	$ (588)
Tax increment financing collections	-	-	-	-	-	-	-
Other city tax	100,078	-	-	100,078	80,921	80,921	19,157
Licenses and permits	3,063	-	-	3,063	2,450	2,450	613
Use of money and property	22,255	5,929	877	27,307	12,079	12,079	15,228
Intergovernmental	350,684	-	17,269	333,415	174,470	298,170	35,245
Charges for service	42,116	427,547	-	469,663	483,175	483,175	(13,512)
Special assessments	-	-	-	-	-	-	-
Miscellaneous	1,135,935	16,034	28,051	1,123,918	318,950	933,950	189,968
Total receipts	2,044,634	449,510	46,197	2,447,947	1,463,136	2,201,836	246,111
Disbursements							
Public safety	194,939	-	43,614	151,325	146,985	146,985	4,340
Public works	353,285	-	-	353,285	247,215	337,215	16,070
Health and social services	3,285	-	-	3,285	3,520	3,520	(235)
Culture and recreation	141,883	-	-	141,883	135,080	135,080	6,803
Community and economic development	64,376	-	-	64,376	12,600	12,600	51,776
General government	150,343	-	-	150,343	135,811	135,811	14,532
Debt service	230,150	-	-	230,150	118,950	118,950	111,200
Capital projects	691,367	-	-	691,367	310,000	792,000	(100,633)
Business-type activities	-	376,129	-	376,129	442,548	442,548	(66,419)
Total disbursements	1,829,628	376,129	43,614	2,162,143	1,552,709	2,124,709	37,434
Excess of receipts over (under) disbursements	215,006	73,381	2,583	285,804	(89,573)	77,127	208,677
Other financing sources, net	3,634	(3,634)	-	-	-	-	-
Excess of receipts and other financing sources over (under) disbursements and other financing uses	218,640	69,747	2,583	285,804	(89,573)	77,127	208,677
Balances beginning of year	766,962	442,861	39,581	1,170,242	1,299,071	1,259,818	(89,576)
Balances end of year	$ 985,602	$ 512,608	$ 42,164	$ 1,456,046	$ 1,209,498	$ 1,336,945	$ 119,101

See accompanying independent auditor's report.

CITY OF MONONA

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 blended component units, 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, the budget was amended once to increase disbursements by $572,000. The budget amendment is reflected in the final budgeted amounts.

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

OTHER SUPPLEMENTARY INFORMATION

CITY OF MONONA

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
NONMAJOR GOVERNMENTAL FUNDS

As of and for the year ended June 30, 2004

	Special Revenue									Capital Projects	Permanent	
	Employee Benefits	Local Option Sales Tax	CDBG Housing	1998 CDBG Housing	2003 CDBG Housing	Monona Fire Department	Community Center	Library Trust	Health	Other	Reusser Improvement	Total
Receipts												
Property tax	$ 58,026	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 58,026
Other city tax	1,343	91,066	-	-	-	-	-	-	-	-	-	92,409
Use of money and property	-	-	-	-	-	877	7	28	-	20	2,364	3,296
Intergovernmental	-	-	-	-	10,239	17,269	-	-	-	-	-	27,508
Special assessments	-	-	-	-	-	-	-	-	-	-	-	-
Miscellaneous	1,202	-	-	23,387	19,189	28,051	174	9,983	660	8,763	1	91,410
Total receipts	60,571	91,066	-	23,387	29,428	46,197	181	10,011	660	8,783	2,365	272,649
Disbursements												
Operating												
Public safety	26,916	-	-	-	-	43,614	-	-	-	-	-	70,530
Public works	3,351	-	-	-	-	-	-	-	-	-	-	3,351
Health and social services	-	-	-	-	-	-	-	-	-	-	-	-
Culture and recreation	2,931	-	-	-	-	-	-	7,890	-	-	-	10,821
Community and economic development	-	-	-	-	44,345	-	-	-	-	-	16,937	61,282
General government	21,602	-	-	-	-	-	-	-	9,782	-	-	31,384
Debt service	-	-	-	-	-	-	-	-	-	-	-	-
Capital projects	-	-	-	-	-	-	-	-	-	33,145	-	33,145
Total disbursements	54,800	-	-	-	44,345	43,614	-	7,890	9,782	33,145	16,937	210,513
Excess of receipts over (under) disbursements	5,771	91,066	-	23,387	(14,917)	2,583	181	2,121	(9,122)	(24,362)	(14,572)	62,136
Other financing uses												
Operating transfers in		-	-	-	-	-	-	-	6,638	10,000	-	16,638
Operating transfers out	(3,004)	(91,066)	-	-	-	-	-	-	-	-	(4,000)	(98,070)
Total other financing sources (uses)	(3,004)	(91,066)	-	-	-	-	-	-	6,638	10,000	(4,000)	(81,432)
Net change in cash balances	2,767	-	-	23,387	(14,917)	2,583	181	2,121	(2,484)	(14,362)	(18,572)	(19,296)
Cash balances beginning of year	(9,582)	-	18,220	1,941	-	39,581	2,138	3,732	20,295	(30,390)	118,572	164,507
Cash balances end of year	$ (6,815)	$ -	$ 18,220	$ 25,328	$ (14,917)	$ 42,164	$ 2,319	$ 5,853	$ 17,811	$ (44,752)	$ 100,000	$ 145,211
Cash Basis Fund Balances												
Unreserved												
Special revenue funds	$ (6,815)	$ -	$ 18,220	$ 25,328	$ (14,917)	$ 42,164	$ 2,319	$ 5,853	$ 17,811	$ -	$ -	$ 89,963
Capital projects fund	-	-	-	-	-	-	-	-	-	(44,752)	-	(44,752)
Permanent fund	-	-	-	-	-	-	-	-	-	-	100,000	100,000
Total cash basis fund balances	$ (6,815)	$ -	$ 18,220	$ 25,328	$ (14,917)	$ 42,164	$ 2,319	$ 5,853	$ 17,811	$ (44,752)	$ 100,000	$ 145,211

See accompanying independent auditor's report.

CITY OF MONONA

STATEMENT 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
General Obligation Notes								
City Hall	Aug. 4,1998	4.90%	$ 115,000	$ 35,931	$ -	$ 17,846	$ 18,085	$ 1,804
Fire Station	Nov. 1,2001	3.50 - 4.90%	400,000	400,000	-	45,000	355,000	17,530
Special Obligation Loan Agreement								
Anticipation (Project) Note	Oct. 7,2002	4.50%	255,907	255,907	-	99,748	156,159	11,453
Family Aquatic Center	Dec. 1,2002	2.30 - 4.50%	300,000	300,000	-	25,000	275,000	11,220
				$ 991,838	$ -	$ 187,594	$ 804,244	$ 42,007

See notes to financial statements.

CITY OF MONONA

BOND AND NOTE MATURITIES

June 30, 2004

	GENERAL OBLIGATION BONDS AND NOTES								
	City Hall		Fire Station		Special Obligation Loan Agreement		Family Aquatic Center		
Year	Issued Aug 4, 1998		Issued Nov 1, 2001		Issued Oct 7, 2002		Issued Dec 1, 2002		
Ending	Interest		Interest		Interest		Interest		
June 30,	Rates	Amount	Rates	Amount	Rates	Amount	Rates	Amount	Total
2005	4.90%	$ 18,085	4.00%	$ 45,000	4.50%	$ 156,159	2.70%	$ 25,000	$244,244
2006		-	4.15	50,000		-	3.10	25,000	75,000
2007		-	4.30	50,000		-	3.40	30,000	80,000
2008		-	4.45	50,000		-	3.70	30,000	80,000
2009		-	4.60	55,000		-	4.00	30,000	85,000
2010		-	4.75	55,000		-	4.15	30,000	85,000
2011		-	4.90	50,000		-	4.30	35,000	85,000
2012		-		-		-	4.40	35,000	35,000
2013		-		-		-	4.50	35,000	35,000
		$ 18,085		$ 355,000		$ 156,159		$ 275,000	$804,244

See accompanying independent auditor's report.

CITY OF MONONA

SCHEDULE OF RECEIPTS BY SOURCE AND DISBURSEMENTS BY FUNCTION -
ALL GOVERNMENTAL FUNDS

Years ended June 30,

	2004	(Unaudited) 2003
Receipts		
Property tax	$ 390,503	$ 381,394
Tax increment financing collections	-	-
Other city tax	100,078	82,534
Licenses and permits	3,063	3,558
Use of money and property	22,255	23,673
Intergovernmental	350,684	236,079
Charges for service	42,116	28,742
Special assessments	-	-
Miscellaneous	1,135,935	807,084
Total	$ 2,044,634	$ 1,563,064
Disbursements		
Operating		
Public safety	$ 194,939	$ 147,000
Public works	353,285	287,714
Health and social services	3,285	3,260
Culture and recreation	141,883	93,339
Community and economic development	64,376	23,679
General government	150,343	179,298
Debt service	230,150	104,634
Capital projects	691,367	1,365,100
Total	$ 1,829,628	$ 2,204,024

See accompanying independent auditor's report.

Hagen & Kallevang PC
CERTIFIED PUBLIC ACCOUNTANTS

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 primary government financial statements of City of Monona, Iowa, as of and for the year ended June 30, 2004, and have issued our report thereon dated December 17, 2004. 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 balances at July 1, 2003. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether City of Monona's primary government financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of noncompliance that are described in 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 primary government 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 statutory comments have been resolved except for items III-B-04, III-G-04, III-H-04, and III-I-04.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered City of Monona'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 a 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 City of Monona'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 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 the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item II-A-04 is a material weakness. Prior audit reportable conditions have been resolved except for item II-A-04 and II-B-04.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Monona and other parties to whom City of Monona 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 Monona during the course of our audit. Should you have questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Hagen + Kallevang, P.C.

December 17, 2004

CITY OF MONONA

SCHEDULE OF FINDINGS

Year ended June 30, 2004

Part I: Summary of the Independent Auditor's Results

a. A qualified opinion was issued on the financial statements since we were unable to satisfy ourselves as to the distribution by fund of the total fund balances at July 1, 2003. The financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

b. Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, including a material weakness.

c. The audit did not disclose any noncompliance which is material to the financial statements.

d. The City expended less than $500,000 in Federal Awards, therefore a Single Audit was not required.

Part II: Findings Related to the Financial Statements

Instances of Non-Compliance
No material matters were noted
Reportable conditions

II-A-04

Segregation of Duties - The City is not large enough to permit an adequate segregation of duties for an effective system of internal control. The concentration of closely related duties and responsibilities such as the handling of cash receipts and disbursements, recording of the cash transactions and preparing various reports by a small staff makes it impossible to establish an adequate system of automatic checks for good internal control.

Recommendation - We realize this condition will be difficult to improve on. However, we do believe it is important that council be aware this condition does exist and make changes when appropriate and cost effective.

Response - It is difficult to improve on. With two and one half persons in the office, it is easier to cross train and segregate a few more duties. We will keep reviewing the situation and try to improve.

Conclusion - Response accepted.

II-B-04

Invoices - Invoices paid by the City do not exhibit directly on the documentation that they have been paid.

Recommendation - We recommend the City attach a statement to the invoice that it has been paid. A printing stamp noted "paid" could be acquired and then affixed to the invoice.

Response - We attach a warrant slip to every invoice that shows the check number, date and account the invoice was paid from. We will purchase a "paid" stamp and take the extra step by stamping the invoice paid.

Conclusion – Response accepted.

CITY OF MONONA

SCHEDULE OF FINDINGS

Year ended June 30, 2004

Part II: Findings Related to the Financial Statements (continued)

II-C-04

Computer System Policies - Upon the review of controls and with increased use of computers by the City, policies and written procedures need updating.

Recommendation - We recommend the City review its policies and procedures related to the use of computers and update where needed. It should preferably be in writing.

Response - We agree with the auditor's recommendation.

Conclusion - Response accepted.

Part III: Other Findings Related to Statutory Reporting

III-A-04

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

III-B-04

Certified Budget - Disbursements during the year ended June 30, 2004 exceeded the amounts budgeted in the Public Safety, public works, culture and recreation, community and economic development, and debt service function. 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 sufficient amounts in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response - The budget was amended in May thinking it would be sufficient to cover the extra expenditures. Expenditures were made that were not anticipated at the time the budget was amended. In the future we will try to process the amendment with sufficient amounts.

Conclusion - Response accepted.

Part III: Other Findings Related to Statutory Reporting (continued)

III-C-04

Questionable Disbursements - Certain disbursements were noted that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 since the public benefits to be derived have not been clearly documented. These disbursements are detailed as follows:

Paid to	Purpose	Amount
Waukon Greenhouse	Flower arrangements for funeral of library assistant's sister	$ 40

According to the opinion, it is possible for such disbursements to meet the test of serving a public purpose under certain circumstances, although such items will certainly be subject to a deserved close scrutiny. The line to be drawn between a proper and an improper purpose is very thin.

Recommendation - The Council should determine and document the public purpose served by these disbursements before authorizing any further payments. If this practice is continued, the City should establish written policies and procedures, including the requirements for proper documentation.

Response - We will inform the Library Board of the disbursement that was considered questionable and give them a copy of the Attorney General's opinion dated April 25, 1979.

Conclusion - Response accepted.

III-D-04

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

Part III: Other Findings Related to Statutory Reporting (continued)

III-E-04

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

Name, Title, and Business Connection	Transaction Description	Amount
Patrick Malanaphy, Mayor		
Owner of Monona Greenhouse	General Landscaping/flowers	$ 335
	Landscaping for Aquatic Center	11,500 *

* The business received a check for the $11,500 for services and materials related to the new Aquatic Center capital project. The business then issued a check back to the City as a donation for $11,500.

William Benda, Employee		
Owner of Benda Concrete	Concrete	400

In accordance with Chapter 362.5(10) of the Code of Iowa, the transactions with the employee do not appear to represent a conflict of interest since total transactions were less than $1,500 during the fiscal year.

Recommendation - The transactions with the Mayor may represent a conflict since the total was over the $1,500 allowed by this code section. The City should consult with its attorney as to this situation and the best way to handle similar situations in the future to make sure the City is in compliance.

Response - For documentation purposes, Monona Greenhouse and the City thought there should be checks exchanged for the transaction to help with IRS reporting. The landscaping for the Aquatic Center was a donation from Monona Greenhouse.

Conclusion - Response accepted

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.

Part III: Other Findings Related to Statutory Reporting (continued)

III-G-04

Council Minutes –

A. We noted the sales tax to be remitted to the State of Iowa for July and August did not get included in the listing of disbursements. We also noted the actual payment of a vehicle was higher than the bid approved by Council. The change order was not presented to the council.

Recommendation - We recommend the City review its procedures to make sure all transactions are recorded in the minutes. Also the documenting of change orders.

Response - The above checks were manual checks. In the future, manual checks will be coordinated with checks in the minutes to make sure all are listed. The additional amount that was paid for the police vehicle was to upgrade the driver seat. The city council was aware the upgrade was going to be completed, but a change order was not formally completed. In the future a formal change order will be processed.

Conclusion - Response accepted.

B. All the minutes did not include signatures of responsible individuals.

Recommendation - The City should make sure all minutes include signatures.

Response - All minutes will be signed in the future.

Conclusion - Response accepted.

III-H-04

Deposits and Investments - The City has been receiving donations in the form of stock securities. The City passed a resolution to accept them but have not updated their investment policy to allow them. The policy also does not reflect current code sections of the Code of Iowa.

Recommendation - We recommend the City update the policy to reflect the above comment. Also the City should consider reviewing the policy at designated times thus enabling new officials and employees to know the limitations of the policy.

Response - The investment policy will be updated.

Conclusion - Response accepted.

III-I-04

Financial Conditions - Several accounts had deficit balances at June 30, 2004.

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

Response - The City Council is aware of the deficits in several of the accounts and they are in the process of returning them to a sound financial position.

Conclusion - Response accepted.