

CITY OF CALMAR
FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION

June 30, 2004

CITY OF CALMAR

TABLE OF CONTENTS

		<u>Page No.</u>
OFFICIALS		1
INDEPENDENT AUDITOR'S REPORT		2-3
MANAGEMENT'S DISCUSSION AND ANALYSIS		4-10
BASIC FINANCIAL STATEMENTS	<u>Exhibit</u>	
Government-wide Financial Statement: Statement of Activities and Net Assets – Cash Basis	A	11
Governmental Fund Financial Statements: Statement of Cash Receipts, Disbursements and Changes in Cash Balances	B	12
Reconciliation of the Statement of Cash Receipts, Disbursements and Changes in Cash Balances to the Statement of Activities and Net Assets	C	13
Proprietary Fund Financial Statements: Statement of Cash Receipts, Disbursements and Changes in Cash Balances	D	14
Reconciliation of the Statement of Cash Receipts, Disbursements and Changes in Cash Balances to the Statement of Activities and Net Assets	E	15
Notes to Financial Statements		16-21
REQUIRED SUPPLEMENTARY INFORMATION		
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances – Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Funds		22
Notes to Required Supplementary Information – Budgetary Reporting		23
OTHER SUPPLEMENTARY INFORMATION	<u>Schedule</u>	
Statement of Cash Receipts, Disbursements and Changes in Cash Balances – Nonmajor Governmental Funds	1	24
Schedule of Indebtedness	2	25
Bond and Note Maturities	3	26
Schedule of Receipts by Source and Disbursements by Function - All Governmental Funds	4	27
Schedule of Expenditures of Federal Awards	5	28
INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING		29-30
INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE		31-32
SCHEDULE OF FINDINGS AND QUESTIONED COSTS		33-38

CITY OF CALMAR

OFFICIALS

Name	Title (Before January 2004)	Term Expires
Joe McCasland	Mayor	January 2004
Mike Kuboushek	Council Member	January 2004
Tim Vondersitt	Council Member	January 2004
Karen Kleve	Council Member	January 2004
John Patrick	Council Member	January 2006
David Zweibahmer	Council Member	January 2006
Michele Elsbernd	Clerk	Indefinite
Andrew Nelson	Attorney	Indefinite
(After January 2004)		
Joe McCasland	Mayor	January 2006
John Patrick	Council Member	January 2006
David Zweibahmer	Council Member	January 2006
Karen Kleve	Council Member	January 2008
Alan Shindelar	Council Member	January 2008
Tim Vondersitt	Council Member	January 2008
Michele Elsbernd	Clerk	Indefinite
Richard Zahasky	Attorney	Indefinite

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Members of the City Council
City of Calmar, 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 Calmar, 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 Calmar's management. Our responsibility is to express opinions on these financial statements based on our audit.

Except as discussed in the following paragraph, 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 were 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 Calmar 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 discussed in Note 14, 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.

In accordance with Government Auditing Standards, we have also issued our report dated June 3, 2005 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 10 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 of Calmar's basic financial statements. Other supplementary information included in Schedules 1 through 5, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, is presented for purposes of additional analysis and is not a required part of the basic financial statements 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 & Kallivang, P.C.

June 3, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Calmar 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 18.7%, or approximately \$117,800 from fiscal 2003 to fiscal 2004. The revenue sources with major changes from the prior year are as follows:

	Increase (Decrease)
Charges for service	\$ 83,000
Grants and contributions	17,000
Taxes	25,000
Investment earnings	(1,300)
All others, net	(5,900)
	<u>\$ 117,800</u>

Disbursements increased 19.11%, or approximately \$98,000, in fiscal 2004 from fiscal 2003. The disbursements with major changes from the prior year are as follows:

Public safety	\$ 61,000
Public works	21,000
Culture and recreation	14,000
General government	1,000
Debt service	1,000
All others, net	-
	<u>\$ 98,000</u>

The City's total cash basis net assets increased 27.3% or approximately \$154,000 from June 30, 2003 to June 30, 2004. Of this amount, the assets of the governmental activities increased approximately \$24,000 and the assets of the business type activities increased by approximately \$130,000.

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 non-major governmental funds and the indebtedness of the City. In addition, the Schedule of Expenditures of Federal Awards provides details of various federal programs benefiting the City.

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 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 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. Currently the City does not have a governmental type capital project in process or have funds to be classified as permanent.

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 two Enterprise Funds to provide separate information for the water and sewer funds, considered to be major funds of the City. The City combines the operating and enterprise type capital projects funds into their respective categories of water or sewer.

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

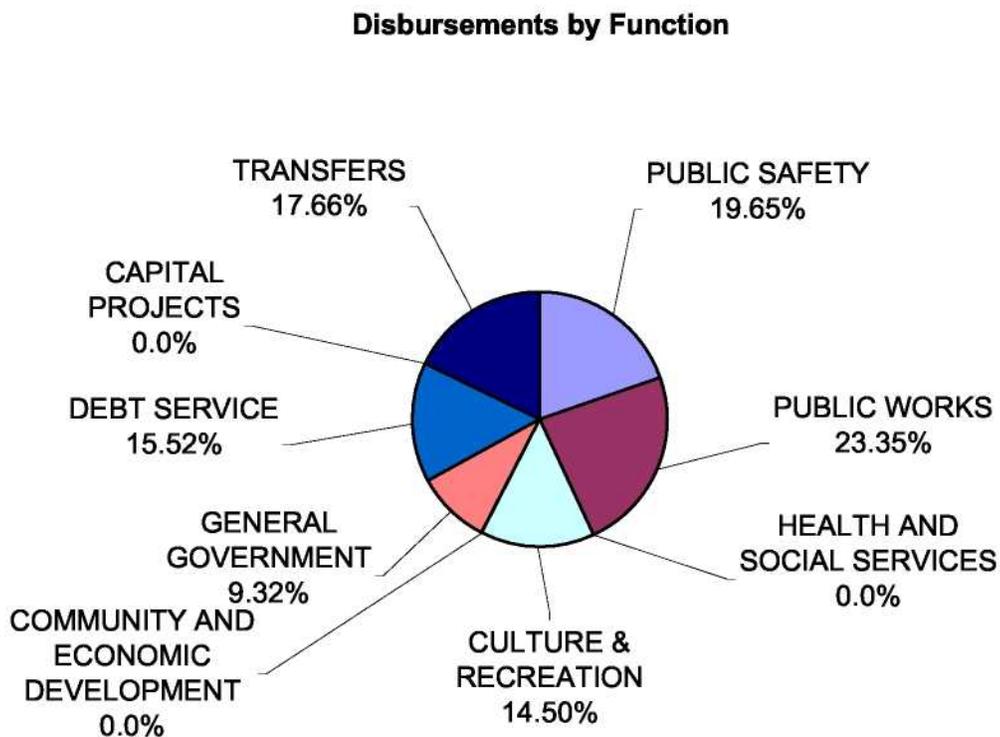
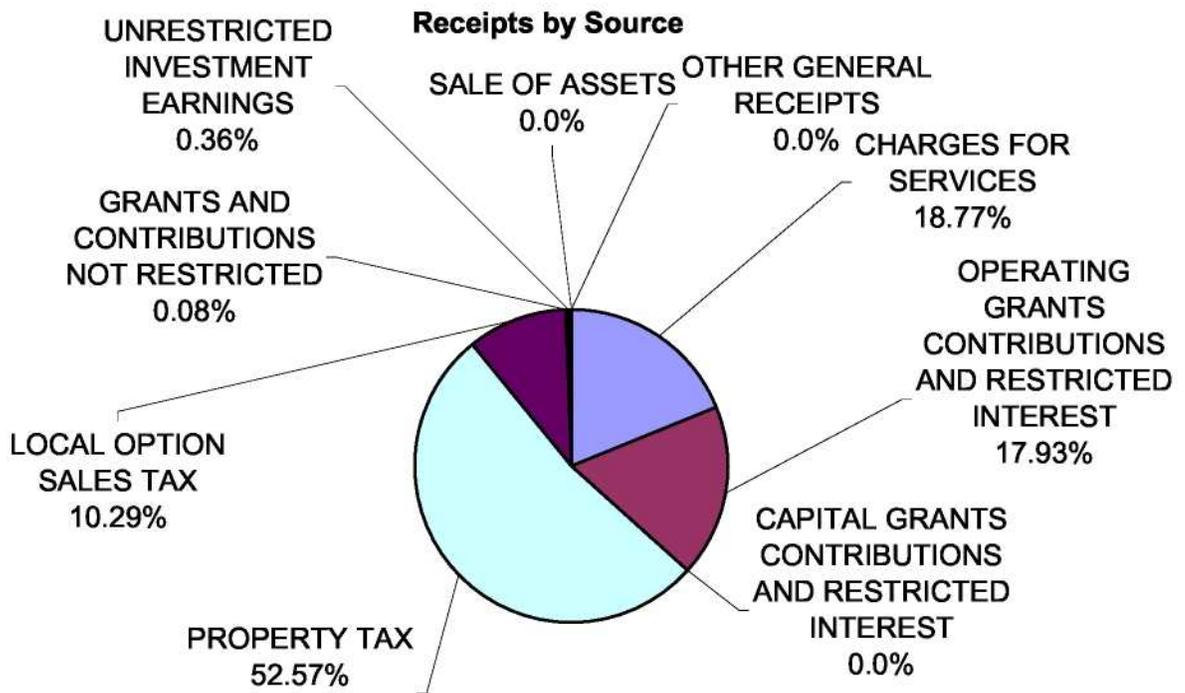
Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from a year ago, increasing from \$255,227 to \$279,306. The analysis that follows focuses on the changes in cash balances for governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities

	Year ended June 30,	
	<u>2004</u>	<u>2003</u>
Receipts and transfers:		
Program receipts:		
Charges for service	\$ 143,797	\$ 60,548
Operating grants, contributions and restricted interest	137,347	119,970
Capital grants, contributions and restricted interest	-	-
General receipts:		
Property tax	402,682	377,078
Local option sales tax	78,847	79,453
Grants and contributions not restricted to specific purposes	636	7,135
Unrestricted investment earnings	2,726	4,040
Sale of assets	-	-
Other general receipts	-	-
Transfers, net	-	-
Total receipts and transfers	<u>766,035</u>	<u>648,224</u>
Disbursements and transfers:		
Public safety	145,779	84,586
Public works	173,283	152,505
Health and social services	-	-
Culture and recreation	107,604	93,516
Community and economic development	-	-
General government	69,153	68,130
Debt service	115,137	114,178
Capital projects	-	-
Transfers, net	131,000	98,495
Total disbursements and transfers	<u>741,956</u>	<u>611,410</u>
Increase (decrease) in cash basis net assets	24,079	36,814
Cash basis net assets beginning of year	<u>255,227</u>	<u>218,413</u>
Cash basis net assets end of year	<u>\$ 279,306</u>	<u>\$ 255,227</u>

The City's total receipts for governmental activities increased by 18.17 % or approximately \$117,800. The total cost of all programs and services increased by approximately \$98,000 or 19.11% with no new programs added this year. The significant increase in receipts is a result of the city collecting for garbage service, grants awarded to the fire department and a 28E agreement for police protection with a neighboring city.

The cost of all governmental activities this year was \$610,956 compared to \$512,915 last year. However, as shown in the Statement of Activities and Net Assets, the amount taxpayers ultimately financed for these activities was only \$329,812 because some of the cost was paid by those directly benefited from the programs or by other governments and organizations that subsidized certain programs with grants, contributions and charges for services.



The analysis that follows focuses on the changes in cash balances for business type activities:

Changes in Cash Basis Net Assets of Business Type Activities

	Year ended June 30,	
	<u>2004</u>	<u>2003</u>
Receipts and transfers:		
Program receipts:		
Charges for service		
Water	\$ 119,411	\$ 99,227
Sewer	177,490	138,226
Capital grants, contributions, and restricted interest	1,844,569	31,237
General receipts:		
Unrestricted investment earnings	678	-
Interim construction loan proceeds	789,487	509,154
Transfers	131,000	98,495
Total receipts and transfers	<u>3,062,635</u>	<u>876,339</u>
Disbursements and transfers:		
Water	318,948	377,006
Sewer	1,622,611	421,062
Interim construction loan payment	990,871	-
Total disbursements and transfers	<u>2,932,430</u>	<u>798,068</u>
Increase (decrease) in cash balance	130,205	78,271
Cash basis net assets beginning of year	<u>309,299</u>	<u>231,028</u>
Cash basis net assets end of year	<u>\$ 439,504</u>	<u>\$ 309,299</u>

Total business type activities receipts for the fiscal year were \$3,062,635 compared to \$876,339 last year. This increase was primarily due to capital grants, interim financing and loan receipts along with utility rate increases. The cash balance increased by approximately \$130,000 from the prior year because of rate increases in anticipation of a loan payment. Total disbursements and transfers for the fiscal year increased by 267% to a total of \$2,134,362.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Calmar completed the year, its governmental funds reported a combined fund balance of \$279,306 an increase of more than \$24,079 above last year's total of \$104,390. 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 increased by more than \$26,420. This is mostly due to a 28E agreement for \$24,000.
- The Urban Renewal Tax Increment Fund was established for Economic Development projects. The balance decreased by \$1,939 to \$ 6,494. The fund is used to collect incremental taxes and fund tax increment projects. The reserve balance in the fund will be used to finance the well and water treatment project.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance increased by \$20,450 to \$85,341, due primarily to the normal repair and maintenance being curtailed due to work on the capital project. Also, there was no principal payment made on capital project interim financing.
- The Sewer Fund cash balance increased by \$109,755 to \$354,163, due primarily to many improvements funded as part of the sewer capital project and rate increases in anticipation of a sewer debt payment.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget one time. The amendments increased budgeted disbursements by \$1,027,000. The City used some cash balance and additional interim loan proceeds to absorb these costs. Disbursements exceeded the amounts budgeted in the public safety and cultural & recreation functions.

DEBT ADMINISTRATION

At June 30, 2004, the City had approximately \$668,530 in bonds and other long-term debt, compared to approximately \$970,935 last year, as shown below.

Outstanding Debt at Year-End

	Year ended June 30,	
	<u>2004</u>	<u>2003</u>
General obligation bonds/notes	\$ 164,500	\$ 259,601
Special assessment bonds	17,760	23,680
Revenue notes (construction loans)	<u>486,270</u>	<u>687,654</u>
Total	<u>\$ 668,530</u>	<u>\$ 970,935</u>

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$164,500 is significantly below its constitutional debt limit of \$1,640,542.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City of Calmar's elected and appointed officials and citizens considered many factors when setting the fiscal year 2005 budget, tax rates, and fees that will be charged for various City activities. One of those factors is the economy. Unemployment in the County now stands at 4.2 percent, versus 3.5 percent a year ago. This compares with the State's unemployment rate of 4.8 percent.

Inflation was also considered when setting the fiscal year 2005 budget.

The elimination of State funding, decrease in interest income due to low interest rates and the raise in the sewer rates as a result of the mandated sewer capital project, were also a consideration. The City has added no major new programs or initiatives to the 2005 budget.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Michele Elsbernd, City Clerk at 563-562-3154.

BASIC FINANCIAL STATEMENTS

CITY OF CALMAR

STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS

As of and for the year ended June 30, 2004

Functions/Programs	Disbursements	Program Receipts		Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
		Charges for Services	Operating Grants, Contributions, and Restricted Interest	Capital Grants, Contributions, and Restricted Interest	Governmental Activities	Business Type Activities
Governmental activities						
Public safety	\$ (145,779)	\$ 25,138	\$ 42,671	\$ -	\$ -	\$ (77,970)
Public works	(173,283)	69,073	88,118	-	-	(16,092)
Health and social services	-	-	-	-	-	-
Culture and recreation	(107,604)	29,571	6,558	-	-	(71,475)
Community and economic development	-	-	-	-	-	-
General government	(69,153)	12,609	-	-	-	(56,544)
Debt service	(115,137)	7,406	-	-	-	(107,731)
Capital projects	-	-	-	-	-	-
Total governmental activities	<u>(610,956)</u>	<u>143,797</u>	<u>137,347</u>	<u>(329,812)</u>	<u>-</u>	<u>(329,812)</u>
Business type activities						
Water	(318,948)	119,411	-	-	(199,537)	(199,537)
Sewer	(1,622,611)	177,490	-	1,844,569	399,448	399,448
Total business type activities	<u>(1,941,559)</u>	<u>296,901</u>	<u>-</u>	<u>-</u>	<u>199,911</u>	<u>199,911</u>
Total	<u>\$ (2,552,515)</u>	<u>\$ 440,698</u>	<u>\$ 137,347</u>	<u>\$ 1,844,569</u>	<u>(329,812)</u>	<u>199,911</u>
				<u>(329,812)</u>	<u>199,911</u>	<u>(129,901)</u>
General Receipts						
Property tax levied for						
General purposes				178,887	-	178,887
Tax increment financing				189,061	-	189,061
Debt service				34,734	-	34,734
Local option sales tax				78,847	-	78,847
Grants and contributions not restricted to specific purpose				636	-	636
Unrestricted interest on investments				2,726	678	3,404
Bond proceeds				-	-	-
Interim construction loan proceeds				-	789,487	789,487
Interim construction loan payments				-	(990,871)	(990,871)
Transfers				(131,000)	131,000	-
Total general receipts and transfers				<u>353,891</u>	<u>(69,706)</u>	<u>284,185</u>
Change in cash basis net assets				24,079	130,205	154,284
Cash basis net assets beginning of year				<u>255,227</u>	<u>309,299</u>	<u>564,526</u>
Cash basis net assets end of year				<u>\$ 279,306</u>	<u>\$ 439,504</u>	<u>\$ 718,810</u>
Cash Basis Net Assets						
Restricted						
Streets				\$ 72,680	\$ -	\$ 72,680
Urban renewal purposes				6,494	-	6,494
Debt service				5,780	-	5,780
Other purposes				63,542	128,903	192,445
Unrestricted				<u>130,810</u>	<u>310,601</u>	<u>441,411</u>
Total cash basis net assets				<u>\$ 279,306</u>	<u>\$ 439,504</u>	<u>\$ 718,810</u>

See notes to financial statements.

CITY OF CALMAR

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

As of and for the year ended June 30, 2004

	General	Special Revenue Urban Renewal Tax Increment	Other Nonmajor Governmental Funds	Total
Receipts				
Property tax	\$ 136,036	\$ -	\$ 61,315	\$ 197,351
Tax increment financing collections	-	189,061	-	189,061
Other city tax	12,789	-	3,481	16,270
Licenses and permits	2,485	-	-	2,485
Use of money and property	3,626	-	90	3,716
Intergovernmental	39,881	-	193,562	233,443
Charges for service	54,953	-	-	54,953
Special assessments	-	-	16,592	16,592
Miscellaneous	27,242	-	24,922	52,164
Total receipts	<u>277,012</u>	<u>189,061</u>	<u>299,962</u>	<u>766,035</u>
Disbursements				
Operating				
Public safety	80,625	-	65,154	145,779
Public works	85,940	-	87,343	173,283
Health and social services	-	-	-	-
Culture and recreation	90,537	-	17,067	107,604
Community and economic development	-	-	-	-
General government	61,490	-	7,663	69,153
Debt service	-	60,000	55,137	115,137
Capital projects	-	-	-	-
Total disbursements	<u>318,592</u>	<u>60,000</u>	<u>232,364</u>	<u>610,956</u>
Excess of receipts over (under) disbursements	<u>(41,580)</u>	<u>129,061</u>	<u>67,598</u>	<u>155,079</u>
Other financing sources (uses)				
Bond proceeds	-	-	-	-
Sale of capital assets	-	-	-	-
Operating transfers in	68,000	-	12,000	80,000
Operating transfers out	-	(131,000)	(80,000)	(211,000)
Total other financing sources (uses)	<u>68,000</u>	<u>(131,000)</u>	<u>(68,000)</u>	<u>(131,000)</u>
Net change in cash balances	26,420	(1,939)	(402)	24,079
Cash balances beginning of year	104,390	8,433	142,404	255,227
Cash balances end of year	<u>\$ 130,810</u>	<u>\$ 6,494</u>	<u>\$ 142,002</u>	<u>\$ 279,306</u>
Cash Basis Fund Balances				
Reserved				
Debt service	\$ -	\$ -	\$ 5,780	5,780
Unreserved				
General fund	130,810	-	-	130,810
Special revenue funds	-	6,494	136,222	142,716
Total cash basis fund balances	<u>\$ 130,810</u>	<u>\$ 6,494</u>	<u>\$ 142,002</u>	<u>\$ 279,306</u>

See notes to financial statements.

CITY OF CALMAR

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 12)	\$ 279,306
Amounts reported for governmental activities in the Statement of Activities and Net Assets are different because:	
Not applicable	<u> -</u>
Cash basis net assets of governmental activities (page 11)	<u>\$ 279,306</u>
Net change in cash balances (page 12)	\$ 24,079
Amounts reported for governmental activities in the Statement of Activities and Net Assets are different because:	
Not applicable	<u> -</u>
Change in cash balance of governmental activities (page 11)	<u>\$ 24,079</u>

See notes to financial statements.

CITY OF CALMAR

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

As of and for the year ended June 30, 2004

	Enterprise Funds		
	Water	Sewer	Total
Operating receipts:			
Interest on investments	\$ -	\$ -	\$ -
Charges for service	119,411	177,152	296,563
Miscellaneous	-	338	338
Total operating receipts	<u>119,411</u>	<u>177,490</u>	<u>296,901</u>
Operating disbursements:			
Governmental activities:			
Public safety	-	-	-
Public works	-	-	-
Culture and recreation	-	-	-
Business type activities-operating	98,961	96,830	195,791
Business type activities-capital project	219,987	1,525,781	1,745,768
Total operating disbursements	<u>318,948</u>	<u>1,622,611</u>	<u>1,941,559</u>
Excess of operating receipts over (under) operating disbursements	<u>(199,537)</u>	<u>(1,445,121)</u>	<u>(1,644,658)</u>
Non-operating receipts (disbursements):			
Intergovernmental	-	1,844,569	1,844,569
Interest on investments	-	678	678
Miscellaneous	-	-	-
Interim construction loan proceeds	188,987	600,500	789,487
Interim construction loan payments	-	(990,871)	(990,871)
Total non-operating receipts (disbursements)	<u>188,987</u>	<u>1,454,876</u>	<u>1,643,863</u>
Excess of receipts over (under) disbursements	<u>(10,550)</u>	<u>9,755</u>	<u>(795)</u>
Operating transfers in	<u>31,000</u>	<u>100,000</u>	<u>131,000</u>
Net change in cash balances	20,450	109,755	130,205
Cash balances beginning of year	<u>64,891</u>	<u>244,408</u>	<u>309,299</u>
Cash balances end of year	<u>\$ 85,341</u>	<u>\$ 354,163</u>	<u>\$ 439,504</u>
Cash Basis Fund Balance			
Reserved for capital project	\$ -	\$ 128,903	\$ 128,903
Unreserved	<u>85,341</u>	<u>225,260</u>	<u>310,601</u>
Total cash basis fund balances	<u>\$ 85,341</u>	<u>\$ 354,163</u>	<u>\$ 439,504</u>

See notes to financial statements.

CITY OF CALMAR

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 14)	\$ 439,504
Amounts reported for business type activities in the Statement of Activities and Net Assets are different because:	
Not applicable	<u> -</u>
Cash basis net assets of business type activities (page(11)	<u>\$ 439,504</u>
Net change in cash balances (page 14)	\$ 130,205
Amounts reported for business type activities in the Statement of Activities and Net Assets are different because:	
Not applicable	<u> -</u>
Change in cash balance of business type activities (page 11)	<u>\$ 130,205</u>

CITY OF CALMAR

NOTES TO FINANCIAL STATEMENTS

Year ended June 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Calmar is a political subdivision of the State of Iowa located in Winneshiek County. It was first incorporated in 1867 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, health and social services, culture and recreation, community and economic development, and general government services. The City also provides water and sewer utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, City of Calmar has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the City. The City has no component units which meet the 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: Winneshiek County Economic Development Board, Winneshiek County Emergency Management Commission, Winneshiek County Joint E911 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. 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.

CITY OF CALMAR

NOTES TO FINANCIAL STATEMENTS

Year ended June 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (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.

Special Revenue:

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

The City reports the following major proprietary funds:

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

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

CITY OF CALMAR
NOTES TO FINANCIAL STATEMENTS

Year ended June 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 and culture and recreation functions.

NOTE 2 - CASH AND POOLED INVESTMENTS

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

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

The City had no investments at June 30, 2004 subject to risk of loss.

CITY OF CALMAR
 NOTES TO FINANCIAL STATEMENTS

Year ended June 30, 2004

NOTE 3 - BONDS AND NOTES PAYABLE

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

Year Ending June 30,	General Obligation Bonds and Notes		Special Assessment Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2005	\$ 96,500	\$ 8,298	\$ 5,920	\$ 1,122	\$ 102,420	\$ 9,420
2006	33,500	3,202	5,920	752	39,420	3,954
2007	34,500	1,404	5,920	379	40,420	1,783
	<u>\$ 164,500</u>	<u>\$ 12,904</u>	<u>\$ 17,760</u>	<u>\$ 2,253</u>	<u>\$ 182,260</u>	<u>\$ 15,157</u>

The City has acquired a sewer revenue anticipation note (construction loan) at the local bank for a waste water treatment improvement project. The loan is not to exceed one million dollars. When the project is complete, permanent financing will be arranged.

The Code of Iowa requires principal and interest on general obligation bonds be paid from the Debt Service Fund. However, during the year the final payment on a note for the purchase of a police car was made from the general fund.

NOTE 4 - LEASES

The City leases antenna space on its water tower, a base station and transmission lines for communication and internet services by outside parties. The lease income is \$800 per year and will continue until either party gives sixty day written notice.

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 CALMAR
NOTES TO FINANCIAL STATEMENTS

Year ended June 30, 2004

NOTE 5 - PENSION AND RETIREMENT BENEFITS (continued)

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 \$13,267, \$12,568, and \$11,515, respectively, equal to the required contributions for each year.

NOTE 6 - COMPENSATED ABSENCES

There is no compensated absence because the City does not carry over any vacation/sick time.

NOTE 7 - INTERFUND TRANSFERS

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

<u>Transfer to</u>	<u>Amount</u>	<u>Transfer from</u>	<u>Amount</u>
General	\$ 68,000		
Special Revenue			
Employees benefit	<u>12,000</u>	Special Revenue:	
	<u>\$ 80,000</u>	Local Option Sales Tax	<u>\$ 80,000</u>
		Special Revenue:	
Sewer	<u>\$ 131,000</u>	Urban Renewal Tax Increment	<u>\$ 131,000</u>

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

NOTE 8 - RELATED PARTY TRANSACTIONS

The City had no business transactions between the City and City officials during the year ended June 30, 2004.

CITY OF CALMAR

NOTES TO FINANCIAL STATEMENTS

Year ended June 30, 2004

NOTE 9 – INDUSTRIAL DEVELOPMENT REVENUE BONDS

The City has issued a total of \$2,880,000 of industrial development revenue bonds under the provisions of Chapter 419 of the Code of Iowa, of which \$2,580,000 is outstanding at June 30, 2004. The bonds and related interest are payable solely by the parties for which the bonds were issued. The bond principal and interest do not constitute liability of the City.

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 any of the past three fiscal years.

NOTE 11 – DEFICIT FUND BALANCE

The Special Revenue, Local Option Sales Tax had a deficit balance of \$1,153 at June 30, 2004. The deficit balance was a result of costs incurred prior to availability of funds. The deficit will be eliminated upon receipt of funds.

NOTE 12 – CONSTRUCTION IN PROGRESS

The City has engaged in a \$2.7 million dollar wastewater improvement project. The project's costs to date are \$1,913,059. The project is to be funded by a \$400,000 Community Development Block Grant and the balance with a loan funded by the State of Iowa and the Federal government.

NOTE 13 – CONTINGENCIES

The City participates in state and federal assisted grant programs. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreement and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the City at June 30, 2004.

NOTE 14 - ACCOUNTING CHANGE

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

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF CALMAR

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

For the year ended June 30, 2004

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds Not Required to be Budgeted	Net	Budgeted Amounts		Final to Net Variance
					Original	Final	
Receipts							
Property tax	\$ 197,351	\$ -	\$ -	\$ 197,351	\$ 205,283	\$ 205,283	\$ (7,932)
Tax increment financing collections	189,061	-	-	189,061	191,000	191,000	(1,939)
Other city tax	95,117	-	-	95,117	89,105	90,971	4,146
Licenses and permits	2,485	-	-	2,485	2,200	2,200	285
Use of money and property	3,716	678	-	4,394	5,000	2,400	1,994
Intergovernmental	154,596	1,844,569	-	1,999,165	441,923	424,523	1,574,642
Charges for service	54,953	296,563	-	351,516	241,000	303,000	48,516
Special assessments	16,592	-	-	16,592	7,406	7,406	9,186
Miscellaneous	52,164	789,825	-	841,989	15,000	59,000	782,989
Total receipts	<u>766,035</u>	<u>2,931,635</u>	<u>-</u>	<u>3,697,670</u>	<u>1,197,917</u>	<u>1,285,783</u>	<u>2,411,887</u>
Disbursements							
Public safety	145,779	-	-	145,779	87,583	113,543	32,236
Public works	173,283	-	-	173,283	161,796	192,296	(19,013)
Health and social services	-	-	-	-	-	-	-
Culture and recreation	107,604	-	-	107,604	101,281	102,321	5,283
Community and economic development	-	-	-	-	-	-	-
General government	69,153	-	-	69,153	82,867	82,367	(13,214)
Debt service	115,137	-	-	115,137	115,137	115,137	-
Capital projects	-	-	-	-	-	-	-
Business type activities	-	2,932,430	-	2,932,430	2,797,053	3,706,053	(773,623)
Total disbursements	<u>610,956</u>	<u>2,932,430</u>	<u>-</u>	<u>3,543,386</u>	<u>3,345,717</u>	<u>4,311,717</u>	<u>(768,331)</u>
Excess of receipts over (under) disbursements	155,079	(795)	-	154,284	(2,147,800)	(3,025,934)	3,180,218
Other financing sources, net	<u>(131,000)</u>	<u>131,000</u>	<u>-</u>	<u>-</u>	<u>2,126,077</u>	<u>3,054,077</u>	<u>(3,054,077)</u>
Excess of receipts and other financing sources over (under) disbursements and other financing uses	24,079	130,205	-	154,284	(21,723)	28,143	126,141
Balances beginning of year	<u>255,227</u>	<u>309,299</u>	<u>-</u>	<u>564,526</u>	<u>511,826</u>	<u>522,744</u>	<u>41,782</u>
Balances end of year	<u>\$ 279,306</u>	<u>\$ 439,504</u>	<u>\$ -</u>	<u>\$ 718,810</u>	<u>\$ 490,103</u>	<u>\$ 550,887</u>	<u>\$ 167,923</u>

See accompanying independent auditor's report.

CITY OF CALMAR

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, the budget was amended once to increase budgeted disbursements by \$1,027,000. 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 and culture and recreation functions.

OTHER SUPPLEMENTARY INFORMATION

CITY OF CALMAR

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		Special Assessment Bonds	Library Trust	Debt Service	Total
	Road Use Tax	Employee Benefits	Local Option Sales Tax	Calmar Volunteer Fire Department					
Receipts									
Property tax	\$ -	\$ 28,220	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 33,095	\$ 61,315
Tax increment financing collections	-	-	-	-	-	-	-	-	-
Other city tax	-	1,842	78,847	-	-	-	-	1,639	82,328
Use of money and property	-	-	-	64	-	-	26	-	90
Intergovernmental	88,118	-	-	26,437	-	-	160	-	114,715
Special assessments	-	-	-	-	16,592	-	-	-	16,592
Miscellaneous	-	-	-	16,170	-	8,752	-	-	24,922
Total receipts	<u>88,118</u>	<u>30,062</u>	<u>78,847</u>	<u>42,671</u>	<u>16,592</u>	<u>8,938</u>	<u>34,734</u>	<u>299,962</u>	
Disbursements									
Operating									
Public safety	-	19,641	-	45,513	-	-	-	-	65,154
Public works	76,875	10,468	-	-	-	-	-	-	87,343
Health and social services	-	-	-	-	-	-	-	-	-
Culture and recreation	-	5,117	-	-	-	11,950	-	-	17,067
Community and economic development	-	-	-	-	-	-	-	-	-
General government	-	7,663	-	-	-	-	-	-	7,663
Debt service	-	-	-	-	7,406	-	-	47,731	55,137
Capital projects	-	-	-	-	-	-	-	-	-
Total disbursements	<u>76,875</u>	<u>42,889</u>	<u>-</u>	<u>45,513</u>	<u>7,406</u>	<u>11,950</u>	<u>47,731</u>	<u>232,364</u>	
Excess of receipts over (under) disbursements	<u>11,243</u>	<u>(12,827)</u>	<u>78,847</u>	<u>(2,842)</u>	<u>9,186</u>	<u>(3,012)</u>	<u>(12,997)</u>	<u>67,598</u>	
Other financing sources (uses)									
Operating transfers in	-	12,000	-	-	-	-	-	-	12,000
Operating transfers out	-	-	(80,000)	-	-	-	-	-	(80,000)
Total other financing sources (uses)	<u>-</u>	<u>12,000</u>	<u>(80,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(68,000)</u>
Net change in cash balances	11,243	(827)	(1,153)	(2,842)	9,186	(3,012)	(12,997)	(402)	
Cash balances beginning of year	61,437	7,365	-	14,567	26,589	13,669	18,777	142,404	
Cash balances end of year	<u>\$ 72,680</u>	<u>\$ 6,538</u>	<u>\$ (1,153)</u>	<u>\$ 11,725</u>	<u>\$ 35,775</u>	<u>\$ 10,657</u>	<u>\$ 5,780</u>	<u>\$ 142,002</u>	
Cash Basis Fund Balances									
Reserved									
Debt service	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,780	\$ 5,780	
Unreserved									
Special revenue funds	72,680	6,538	(1,153)	11,725	35,775	10,657	-	136,222	
Total cash basis fund balances	<u>\$ 72,680</u>	<u>\$ 6,538</u>	<u>\$ (1,153)</u>	<u>\$ 11,725</u>	<u>\$ 35,775</u>	<u>\$ 10,657</u>	<u>\$ 5,780</u>	<u>\$ 142,002</u>	

See accompanying independent auditor's report.

CITY OF CALMAR
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
General Obligation Bonds								
Corporate purpose	Mar 1, 1997	4.75 - 5.40%	\$235,000	\$ 129,000	\$ -	\$ 29,500	\$ 99,500	\$ 6,438
Transportation corporate purpose	Jun 26, 2000	4.90 - 5.25	300,000	130,000	-	65,000	65,000	6,793
				<u>\$ 259,000</u>	<u>\$ -</u>	<u>\$ 94,500</u>	<u>\$ 164,500</u>	<u>\$ 13,231</u>
General Obligation Note								
Equipment - police car	Aug 10, 2000	8.75%	\$ 19,500	\$ 601	\$ -	\$ 601	\$ -	\$ 5
Special Assessment Bond								
Street improvement	Mar 1, 1997	5.50 - 6.40%	\$ 59,200	\$ 23,680	\$ -	\$ 5,920	\$ 17,760	\$ 1,486
Revenue Notes								
Sewer revenue anticipation note	Oct 3, 2001	4.50%	\$ 1,000,000	\$ 390,371	\$ 600,500	\$ 990,871	\$ -	\$ 12,174
Water revenue anticipation note	Dec 2, 2002	3.75%	\$ 1,000,000	297,283	188,987	-	486,270	10,950
				<u>\$ 687,654</u>	<u>\$ 789,487</u>	<u>\$ 990,871</u>	<u>\$ 486,270</u>	<u>\$ 23,124</u>

CITY OF CALMAR
BOND AND NOTE MATURITIES

June 30, 2004

Year Ending June 30,	GENERAL OBLIGATION BONDS AND NOTES					Total
	Corporate Purpose Issued Mar 1, 1997		Corporate Purpose Issued Jun 26, 2000			
	Interest		Interest			
	Rates	Amount	Rates	Amount		
2005	5.25%	\$ 31,500	5.25%	\$ 65,000	\$ 96,500	
2006	5.30	33,500		-	33,500	
2007	5.40	34,500		-	34,500	
		\$ 99,500		\$ 65,000	\$ 164,500	

Year Ending June 30,	Special Assessment Bonds Street Improvement Issued Mar 1, 1997	
	Interest	
	Rates	Amount
	2005	6.25%
2006	6.30	5,920
2007	6.40	5,920
		\$ 17,760

CITY OF CALMAR

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

For the Last Two Years

	(Unaudited)	
	Years ended June 30,	
	<u>2004</u>	<u>2003</u>
Receipts		
Property tax	\$ 197,351	\$ 201,638
Tax increment financing collections	189,061	164,609
Other city tax	95,117	94,339
Licenses and permits	2,485	2,435
Use of money and property	3,716	4,040
Intergovernmental	154,596	127,105
Charges for service	54,953	25,907
Special assessments	16,592	23,064
Miscellaneous	52,164	5,087
Total	<u>\$ 766,035</u>	<u>\$ 648,224</u>
Disbursements		
Operating		
Public safety	145,779	84,586
Public works	173,283	152,505
Health and social services	-	-
Culture and recreation	107,604	93,516
Community and economic development	-	-
General government	69,153	68,130
Debt service	115,137	114,178
Capital projects	-	-
Total	<u>\$ 610,956</u>	<u>\$ 512,915</u>

See accompanying independent auditor's report.

CITY OF CALMAR

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year ended June 30, 2004

Grantor/Program	CFDA Number	Agency or Pass-through Number	Program Expenditure
Direct			
U.S. Federal Emergency Management Agency (FEMA) Fire Operations and Firefighter's Safety	83.554	EMW-2003FG-07125	\$ 22,860
Indirect			
U.S. Department of Housing and Urban Development Iowa Department of Economic Development Community Development Block Grant State's Program	14.228	00-WS-053	293,021
U.S. Environmental Protection Agency Iowa Department of Natural Resources Capitalization Grants for Clean Water State Revolving Funds	66.458	CS-19219401	1,312,123 <u>1,605,144</u>
Total			<u>\$ 1,628,004</u>

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

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 City of Calmar, Iowa, as of and for the year ended June 30, 2004, and have issued our report thereon dated June 3, 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, 2001. Except as noted in the Independent Auditor's Report, 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 Calmar's primary government financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations and contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of noncompliance that are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior audit (June 30, 2002) statutory comments have been resolved except for items IV-A-04, IV-G-04, IV-I-04, IV-J-04 and IV-K-04.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered City of Calmar'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 condition. 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 Calmar's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part II of the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item II-A-04 is a material weakness. Prior audit (June 30, 2002) reportable conditions have been resolved except for items II-A-04, II-B-04, and II-C-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 Calmar and other parties to whom City of Calmar 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 Calmar 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 + Kallewang, P.C.

June 3, 2005

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

To the Honorable Mayor and
Members of the City Council:

Compliance

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

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

In our opinion, the City of Calmar complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2004. However, the results of our auditing procedures disclosed an instance of non-compliance with those requirements that is required to be reported in accordance with OMB Circular A-133 and which is described as item III-A-04 in the accompanying Schedule of Findings and Questioned Costs.

Internal Control Over Compliance

The management of the City of Calmar is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City of Calmar's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

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

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

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

Hagen & Kallvarg, P.C.

June 3, 2005

CITY OF CALMAR

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

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 material weaknesses.
- c. The audit did not disclose any non-compliance which is material to the financial statements.
- d. A reportable condition in internal control over the major program was disclosed by the audit of the financial statements, including a material weakness.
- e. An unqualified opinion was issued on compliance with requirements applicable to the major program.
- f. The audit disclosed audit findings which are required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- g. The major program was CFDA Number 66.458 – Capitalization Grants for Clean Water State Revolving Funds.
- h. The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- i. The City of Calmar did not qualify as a low-risk auditee.

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 – We will review current procedure for possible changes.

Conclusion – Response accepted.

CITY OF CALMAR

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year ended June 30, 2004

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

II-B-04

Reconciliation of Utility Billings, Collections and Delinquencies – Although all information was available, utility billings, collections and delinquent accounts were not reconciled on a regular basis.

Recommendation – Procedures should be established to reconcile utility billings, collections and delinquencies for each billing period.

Response – We currently have a new water program that includes regular reconciliation of accounts.

Conclusion – Response accepted.

II-C-04

Separately Maintained Records – The bookkeeping and custody of the Trust Fund, Library Trust Account were under the control of the Treasurer of the Library Board as well as the fire departments in a location separate from the Clerk's office. This account is not reflected in the City's accounting system, monthly fund balances or annual budget.

Recommendation – We recommend at a minimum, if the custody stays with the Library Board and fire department that the transactions and balances be submitted to the City Clerk for inclusion in the various reports. Otherwise, custody and the bookkeeping should be handled by the Clerk's office.

Response – We will discuss with the various boards.

Conclusion – Response accepted.

II-D-04

Pool Receipts – Bank deposits from pool admission receipts were not done on a regular basis.

Recommendation – We recommend pool admission receipts be deposited daily or no later than weekly.

Response – The pool manager currently deposits several times weekly.

Conclusion – Response accepted.

Part III: Findings and Questioned Costs For Federal Awards

Instance of Non-Compliance

CFDA Number 14.228: Community Development Block Grant State's Program
Pass-through Agency Number: 00-WS-053
Federal Award Year: 1999
Department of Housing and Urban Development
Passed through the Iowa Department of Economic Development.

CITY OF CALMAR

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year ended June 30, 2004

Part III: Findings and Questioned Costs For Federal Awards (continued)

III-A-04

Program Income – The City received on October 20, 2003 a sales tax refund of \$1,963.90 on construction costs that were also paid by grant proceeds. The grant period was extended to October 31, 2004. The program income was not applied against later reimbursement requests.

Recommendation – We recommend the City contact the Iowa Department of Economic Development to resolve the situation in light of the grant period has now expired.

Response – Will have grant administrator contact Iowa Department of Economic Development.

Conclusion – Response accepted.

CFDA Number 66.458: Capitalization Grants for Clean Water State Revolving Funds
Pass-through Agency Number: CS-19219401
Federal Award Year: 2002
Environmental Protection Agency
Passed through the Iowa Department of Natural Resources

III-B-04

Filing of Report – As noted in the Independent Auditor's Report the City by Iowa law is not required to have an annual audit. In January 2005 the City was notified that funds totaling \$1,312,123 out of \$1,574,548 received during the year from the Clean Water State Revolving Fund were Federal funds. Therefore the Single Audit came into effect which meant an audit report was to be filed within 9 months after the City's year end. The report will be filed during the 12th month.

Recommendation – The City, in years in which an audit is not required for state purposes, should check with grantors shortly after the year end to determine if any grant requirements are applicable for reporting purposes.

Response – Should we apply for any grants or state loans in future we will check to see if audit is required.

Conclusion – Response accepted.

Reportable condition
All Federal Programs

III-C-04

Segregation of Duties – See item II-A-04

CITY OF CALMAR
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year ended June 30, 2004

Part IV: Other Findings Related to Required Statutory Reporting

IV-A-04

Official Depositories – A resolution naming an official depository has been approved by the City. The maximum deposit amount stated in the resolution was exceeded during the year and at June 30, 2004.

Recommendation – Chapter 12C.2 of the Code of Iowa requires the City, by written resolution, to name each depository approved for depositing City funds and to specify the maximum dollar amount which may be kept on deposit at each depository. The City should increase the maximum dollar amount and monitor deposit amounts to ensure that deposits do not exceed stipulated maximum amounts.

Response – New depository resolution will be prepared raising the limit.

Conclusion – Response accepted.

IV-B-04

Certified Budget – Disbursements during the year ended June 30, 2004 exceeded the amounts budgeted in the public safety and culture and recreation functions. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

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

Response – Library and Fire funds will be monitored by Clerk and appropriate fund treasurers.

Conclusion – Response accepted.

IV-C-04

Questionable Expenditures – No expenditures that we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.

IV-D-04

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

IV-E-04

Business Transactions – No business transactions between the City and City officials or employees were noted

IV-F-04

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

CITY OF CALMAR
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year ended June 30, 2004

Part IV: Other Findings Related to Required Statutory Reporting (continued)

IV-G-04

Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.

We noted some instances of the minutes were either not signed by an official, published timely, or included purpose of disbursement.

Recommendation – The City should make sure all minutes are signed, published timely and include a brief description of the disbursement.

Response – Will check to see all minutes are signed. All minutes always have been and will continue to be delivered to the newspaper in a timely manner.

Conclusion – Response accepted.

IV-H-04

Deposits and Investments – The City has a written investment policy as required by Chapter 12B.10B of the Code of Iowa. Did not note any non-compliance.

IV-I-04

Payment of Long-term Debt – Certain long-term debt was paid from the General Fund instead of the Debt Service Fund.

Recommendation – We recommend transfers sufficient to meet the debt obligation including interest should be made from the General Fund to the Debt Service Fund. Payments to the note holders should then be disbursed from the Debt Service Fund.

Response – Should this come up again it will be handled properly in the future.

Conclusion – Response accepted.

IV-J-04

Annual Financial Report – Although the Annual Financial Report was filed as required by the Code of Iowa, certain cash receipt and disbursement transactions were omitted that are separately maintained as noted in Part II.

Recommendation – We recommend the omitted transactions be included in the report.

Response – Will include funds in next annual report.

Conclusion – Response accepted.

CITY OF CALMAR
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year ended June 30, 2004

Part IV: Other Findings Related to Required Statutory Reporting (continued)

IV-K-04

Information Returns – The City has not issued various 1099 forms as required by the Internal Revenue Service.

Recommendation – The City should issue 1099's when required.

Response – Will be issued as needed in the future.

Conclusion – Response accepted.

IV-L-04

Special Assessment – The City appears to have collected enough special assessments to pay off the related debt early.

Recommendation – We recommend the City pay off the debt early.

Response – Will look into and do so if possible.

Conclusion – Response accepted.