

**CITY OF TOLEDO, IOWA
ENTERPRISE FUND -
WATER UTILITY
Toledo, Iowa**

**FINANCIAL STATEMENTS
June 30, 2004**

TABLE OF CONTENTS

		<u>Page</u>
OFFICIALS		3
INDEPENDENT AUDITOR’S REPORT		4
BASIC FINANCIAL STATEMENTS:		
	<u>Exhibit</u>	
Enterprise-wide Financial Statements:		
Statement of Net Assets	A	7-8
Statement of Activities	B	9
Enterprise Fund Financial Statements:		
Balance Sheet	C	10-11
Statement of Revenues, Expenditures and Changes in Fund Balances	D	12
Statement of Cash Flows	E	13-14
Budget to Actual:		
Water Fund	F	15
Notes to Financial Statements		16-22
 SUPPLEMENTAL INFORMATION		 23-27
 INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AUDIT OF FINANCIAL STATEMENT		 28
 SCHEDULE OF FINDINGS		 30
 AUDIT STAFF		 33

**CITY OF TOLEDO
ENTERPRISE FUND - WATER UTILITY**

City Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
William Christensen	Mayor	December 31, 2005
Pete Zmolek	Council Member	December 31, 2005
Dan Ferris	Council Member	December 31, 2007
Donna Princehouse	Council Member	December 31, 2007
Elmer (Skip) Wilson	Council Member	December 31, 2005
Harry Gardner, Jr.	Council Member	December 31, 2005
Carolyn Brownfield	Clerk/Treasurer	Indefinite
Steve Kenkel	Attorney	Indefinite

Independent Auditor's Report

The Honorable Mayor and
Members of the City Council

We have audited the Enterprise Fund - Water Utility financial statements of the City of Toledo, Iowa as of and for the year ended June 30, 2004, as listed in the accompanying table of contents. These financial statements are the responsibility of the City of Toledo's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

As discussed in Note 1, these financial statements present only the Enterprise Fund - Water Utility and are not intended to present fairly the financial position of the City of Toledo and the results of its operations and changes in financial position of its proprietary and similar trust fund types in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the aforementioned financial statements present fairly, in all material respects, the financial position of the City of Toledo Enterprise Fund - Water Utility at June 30, 2004, and the results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

As described in Note 11 to the financial statements, during the year ended June 30, 2004, the City of Toledo 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*; Statement No. 41, *Budgetary Comparison Schedule - Perspective Differences*; and Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Government Fund Financial Statements*.

In accordance with *Government Auditing Standards*, we have also issued a report dated August 5, 2004 on our consideration of the Enterprise Fund - Water Utility of the City of Toledo'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.

The budgetary comparison information on page 15 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

City management has elected to omit the Management's Discussion and Analysis which, while not a required part of the basic financial statements, is supplementary information required by the Government Auditing Standards Board. Omission of this required supplemental information should be considered in reviewing the cash basis financial position and the results of activities of the Enterprise Fund - Water Utility of the City of Toledo as of June 30, 2004 and for the year then ended.

Our audit was performed for the purpose of forming an opinion on the aforementioned financial statements taken as a whole. The supplemental information 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 the audits of the aforementioned financial statements and, in our opinion, is fairly stated in all material respects in relation to the aforementioned financial statements taken as a whole.

Clifton Gunderson LLP

Cedar Rapids, Iowa
August 5, 2004

FINANCIAL STATEMENTS

**CITY OF TOLEDO
ENTERPRISE FUND - WATER UTILITY
STATEMENT OF NET ASSETS
For the Year Ended June 30, 2004**

ASSETS	<u>Business-type Activities</u>
Current assets:	
Cash	\$ 158,050
Temporary investments	48,446
Accounts receivable	20,136
Unbilled revenue receivable	4,867
Inventories	<u>15,792</u>
Total current assets	<u>247,291</u>
Noncurrent assets:	
Land	5,442
Water towers and plant facility	569,949
Wells	662,936
Water main	874,492
Hydrants, meters and equipment	<u>251,991</u>
Total, at cost	2,364,810
Less accumulated depreciation	<u>1,260,078</u>
Total noncurrent assets	<u>1,104,732</u>
 TOTAL ASSETS	 <u>\$ 1,352,023</u>

Exhibit A

	<u>Business-type Activities</u>
LIABILITIES	
Current liabilities:	
Accounts payable	\$ 2,955
Current maturities of revenue bonds payable	14,564
Other accrued expenses	<u>39,177</u>
Total current liabilities	56,696
Noncurrent liabilities:	
Revenue bonds payable, less current maturities above	<u>351,181</u>
Total liabilities	<u>407,877</u>
NET ASSETS	
Contributed capital	421,200
Reserved - 1983 revenue bond	34,851
Unreserved	<u>488,095</u>
TOTAL NET ASSETS	<u>\$ 944,146</u>

This financial statement should be read only in connection with the accompanying summary of significant accounting policies, notes to financial statements, and independent auditor's report.

CITY OF TOLEDO
ENTERPRISE FUND - WATER UTILITY
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2004

Exhibit B

	<u>Business- type Activities</u>
Operating revenues:	
Charges for services	\$ <u>197,576</u>
Operating expenses:	
Salaries and benefits	35,130
Electricity	17,242
Repairs and maintenance	76,445
Gas and oil	909
General	6,375
Travel expenses	1,348
Supplies	19,010
Depreciation	<u>47,906</u>
Total operating expenses	<u>204,365</u>
Operating loss	<u>(6,789)</u>
Nonoperating revenue (expenses):	
Interest income	4,632
Interest expense	(20,982)
Easement - highway relocation	157
Miscellaneous revenue	<u>3,825</u>
Total nonoperating revenue (expense)	<u>(12,368)</u>
Loss before transfers	(19,157)
Transfers in	75,472
Transfers out	<u>(20,792)</u>
Change in net assets	35,586
Beginning net assets	<u>908,560</u>
Ending net assets	<u>\$ 944,146</u>

This financial statement should be read only in connection with the accompanying summary of significant accounting policies, notes to financial statements, and independent auditor's report.

CITY OF TOLEDO
ENTERPRISE FUND - WATER UTILITY
BALANCE SHEET
June 30, 2004

	<u>Water Fund</u>	<u>Water Sinking Fund</u>	<u>Total</u>
Assets:			
Current assets:			
Cash	\$ 112,494	\$ 45,556	\$ 158,050
Temporary investments	48,446	-	48,446
Accounts receivable	20,136	-	20,136
Unbilled revenue receivable	4,867	-	4,867
Inventories	<u>15,792</u>	<u>-</u>	<u>15,792</u>
Total current assets	<u>201,735</u>	<u>45,556</u>	<u>247,291</u>
Noncurrent assets:			
Land	5,442	-	5,442
Water towers and plant facility	569,949	-	569,949
Wells	662,936	-	662,936
Water main	874,492	-	874,492
Hydrants, meters, and equipment	<u>251,991</u>	<u>-</u>	<u>251,991</u>
Total	2,364,810	-	2,364,810
Less accumulated depreciation	<u>1,260,078</u>	<u>-</u>	<u>1,260,078</u>
Total noncurrent assets	<u>1,104,732</u>	<u>-</u>	<u>1,104,732</u>
Total assets	<u>\$1,306,467</u>	<u>\$ 45,556</u>	<u>\$ 1,352,023</u>
Liabilities:			
Current liabilities:			
Accounts payable	\$ 2,955	\$ -	\$ 2,955
Current maturities of revenue bonds payable	14,564	-	14,564
Other accrued expenses	<u>39,177</u>	<u>-</u>	<u>39,177</u>
Total current liabilities	<u>56,696</u>	<u>-</u>	<u>56,696</u>
Noncurrent liabilities:			
Revenue bonds payable, less current maturities above	<u>573,235</u>	<u>(222,054)</u>	<u>351,181</u>
Total liabilities	<u>629,931</u>	<u>(222,054)</u>	<u>407,877</u>

Exhibit C

	<u>Water Fund</u>	<u>Water Sinking Fund</u>	<u>Total</u>
Fund Balance:			
Contributed capital	421,200	-	421,200
Reserved - 1983 revenue bond	-	34,851	34,851
Unreserved	<u>255,336</u>	<u>232,759</u>	<u>488,095</u>
Total fund balance	<u>676,536</u>	<u>267,610</u>	<u>944,146</u>
Total liabilities and fund balance	<u>\$1,306,467</u>	<u>\$ 45,556</u>	<u>\$ 1,352,023</u>

This financial statement should be read only in connection with the accompanying summary of significant accounting policies, notes to financial statements, and independent auditor's report.

**CITY OF TOLEDO
ENTERPRISE FUND - WATER UTILITY**

Exhibit D

**Statement of Revenues, Expenditures and
Changes in Fund Balances**

For the Year Ended June 30, 2004

	<u>Water Fund</u>	<u>Water Sinking Fund</u>	<u>Total</u>
Operating revenues:			
Charges for services	\$ 197,576	\$ -	\$ 197,576
Operating expense:			
Salaries and benefits	35,130	-	35,130
Electricity	17,242	-	17,242
Repairs and maintenance	76,445	-	76,445
Gas and oil	909	-	909
General	6,375	-	6,375
Travel expenses	1,348	-	1,348
Supplies	19,010	-	19,010
Depreciation	<u>47,906</u>	<u>-</u>	<u>47,906</u>
Total operating expenses	<u>204,365</u>	<u>-</u>	<u>204,365</u>
Operating loss	(6,789)	-	(6,789)
Nonoperating revenue (expense):			
Interest income	1,895	2,737	4,632
Interest expense	-	(20,982)	(20,982)
Easement - highway relocation	157	-	157
Miscellaneous revenue	<u>3,825</u>	<u>-</u>	<u>3,825</u>
Total nonoperating revenue (expense)	<u>5,877</u>	<u>(18,245)</u>	<u>(12,368)</u>
Loss before transfers	(912)	(18,245)	(19,157)
Transfers in	53,303	22,169	75,472
Transfers out	<u>(20,729)</u>	<u>-</u>	<u>(20,729)</u>
Change in net assets	31,662	3,924	35,586
Beginning fund balance	<u>644,874</u>	<u>263,686</u>	<u>908,560</u>
Ending fund balance	<u>\$ 676,536</u>	<u>\$ 267,610</u>	<u>\$ 944,146</u>

This financial statement should be read only in connection with the accompanying summary of significant accounting policies, notes to financial statements, and independent auditor's report.

CITY OF TOLEDO
ENTERPRISE FUND - WATER UTILITY
STATEMENTS OF CASH FLOWS
Year Ended June 30, 2004

	<u>Water Fund</u>	<u>Water Sinking Fund</u>	<u>Total</u>
Cash flows from operating activities:			
Cash received from users	\$ 193,065	\$ -	\$ 193,065
Cash paid to employees	(35,130)	-	(35,130)
Cash paid to suppliers	<u>(113,888)</u>	<u>-</u>	<u>(113,888)</u>
Net cash provided by operating activities	<u>44,047</u>	<u>-</u>	<u>44,047</u>
Cash flows from non-capital financing activities:			
Operating transfers in	<u>32,574</u>	<u>22,169</u>	<u>54,743</u>
Cash flows from capital and related financing activities:			
Payment on long-term debt	-	(53,869)	(53,869)
Interest paid on long-term debt	-	(20,982)	(20,982)
Purchase of property and equipment	(8,793)	-	(8,793)
Easement - highway relocation	157	-	157
Miscellaneous revenues	<u>3,825</u>	<u>-</u>	<u>2,825</u>
Net cash flows from capital and related financing activities	<u>(4,811)</u>	<u>(74,851)</u>	<u>(79,662)</u>
Cash flows from investing activities:			
Interest received	<u>1,895</u>	<u>2,737</u>	<u>4,632</u>
Net increase (decrease) in cash and cash equivalents	73,705	(49,945)	23,760
Cash and cash equivalents, July 1, 2003	<u>38,789</u>	<u>95,501</u>	<u>134,290</u>
Cash and cash equivalents, June 30, 2004	<u>\$ 112,494</u>	<u>\$ 45,556</u>	<u>\$ 158,050</u>

Exhibit E

	<u>Water Fund</u>	<u>Water Sinking Fund</u>	<u>Total</u>
Operating loss	\$ (6,789)	\$ -	\$ (6,789)
Adjustments to reconcile operating income (loss) to net cash flows from operating activities:			
Depreciation expense	47,906	-	47,906
Changes in assets and liabilities:			
Receivables	(4,511)	-	(4,511)
Inventories	4,240	-	4,240
Accounts payable	119	-	119
Other accrued expenses	<u>3,082</u>	<u>-</u>	<u>3,082</u>
Net cash provided by operating activities	<u>\$ 44,047</u>	<u>\$ -</u>	<u>\$ 44,047</u>

This financial statement should be read only in connection with the accompanying summary of significant accounting policies, notes to financial statements, and independent auditor's report.

**CITY OF TOLEDO
ENTERPRISE FUND - WATER UTILITY**

Exhibit F

**Statement of Revenues, Expenditures and
Changes in Fund Balance -
Budget to Actual (Cash Basis)**

For the Year Ended June 30, 2004

	Budgeted Amounts		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues:				
Charges for services	\$ 239,900	\$ 239,900	\$ 193,065	\$ (46,835)
Expenditures:				
Business activities:				
Water	<u>273,460</u>	<u>273,460</u>	<u>149,018</u>	<u>124,442</u>
Excess of revenues over expenditures	(33,560)	(33,560)	44,047	77,607
Other financing sources:				
Transfers in	<u>-</u>	<u>-</u>	<u>54,743</u>	<u>54,743</u>
Net change in fund balances	(33,560)	(33,560)	98,790	132,350
Beginning fund balance	<u>161,899</u>	<u>161,899</u>	<u>182,854</u>	<u>20,955</u>
Ending fund balance	<u>\$ 128,339</u>	<u>\$ 128,339</u>	<u>\$ 281,644</u>	<u>\$ 153,305</u>

This financial statement should be read only in connection with the accompanying summary of significant accounting policies, notes to financial statements, and independent auditor's report.

**CITY OF TOLEDO
ENTERPRISE FUND - WATER UTILITY**

Notes to Financial Statements

June 30, 2004

(1) Summary of Significant Accounting Policies

A. Reporting Entity

The financial statements reflect only those enterprise funds directly related to the operation of the City of Toledo's water system and are not intended to reflect the financial status of the entire municipality. The enterprise funds which relate to the operation of the City of Toledo's water system that are in these financial statements are:

Water Utility Fund
Water Sinking Fund

B. Enterprise-wide and Fund Financial Statements

The enterprise unit-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the activities of the Water Utility Fund and the Water Sinking Fund. For the most part, the effect of interfund activity has been removed from these statements.

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

Major individual enterprise funds are reported as separate columns in the fund financial statements. Non-major funds are consolidated into a single column within each financial section of the basic financial statements and are detailed in the supplemental information.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The Enterprise Fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

The Water Utility Enterprise Fund reports the following major enterprise fund:

The Water Fund - The Water Fund accounts for the operation and maintenance of the water distribution system.

**CITY OF TOLEDO
ENTERPRISE FUND - WATER UTILITY**

Notes to Financial Statements

June 30, 2004

(1) Summary of Significant Accounting Policies (continued)

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation (continued)

Other enterprise funds account for operations and activities that are financed and operated in a manner similar to a private business enterprise, and where the costs of providing goods or services to the general public on a continuing basis are expected to be financed or recovered primarily through user charges, or where the component unit has decided that periodic determination of revenues earned, expenses incurred and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Enterprise Fund unit has elected to follow subsequent private-sector guidance.

Transactions among Enterprise Fund funds that would be treated as revenues and expenditures or expenses if they involved organizations external to Enterprise Fund government are accounted for as revenues and expenditures or expenses in the funds involved.

Transactions which constitute reimbursements to a fund for expenditures initially made from it which are properly applicable to another fund are recorded as expenditures in the reimbursing fund and as reductions of expenditures in the reimbursed fund.

Transactions which constitute the transfer of resources from a fund receiving revenues to a fund through which the revenues are to be expended are separately reported in the respective funds' operating statements.

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

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

**CITY OF TOLEDO
ENTERPRISE FUND - WATER UTILITY**

Notes to Financial Statements

June 30, 2004

(1) Summary of Significant Accounting Policies (continued)

D. Use of estimates in preparing financial statements

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses and other changes in net assets during the reporting period. Actual results could vary from those estimates.

E. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the combined balance sheet:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most component unit funds are pooled and invested. Interest earned on investments is recorded in the General Fund, unless otherwise provided by law. Investments are stated at fair value except for the investment in certificates of deposit, which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Capital Assets - Capital assets, which include property, equipment and vehicles and infrastructure assets (e.g., buildings, wells, towers, pipes and hydrants which are immovable and of value only to the component unit), are reported in the business-type activities column in the component unit-wide statement of net assets. Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Reportable capital assets are defined by the component unit as assets with initial, individual costs in excess of \$5,000.

Property and equipment of the City is depreciated using the straight line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives (In Years)</u>
Equipment	5-7
Hydrants, meters, mains, towers and wells	5-99

**CITY OF TOLEDO
ENTERPRISE FUND - WATER UTILITY**

Notes to Financial Statements

June 30, 2004

(1) Summary of Significant Accounting Policies (continued)

E. Assets, Liabilities and Fund Equity (continued)

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

Net Assets - Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets invested in capital assets, net of related debt excludes unspent debt proceeds. Net assets are reported as restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Restricted resources are used first to fund appropriation. The component unit first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

F. Budgets and Budgetary Accounting

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 and appropriates the amount deemed necessary for each of the different Enterprise Fund offices and departments. The budget may be amended during the year utilizing similar statutorily prescribed procedures. Encumbrances are not recognized on the cash basis budget and appropriations lapse at year end.

Formal and legal budgetary control for the Enterprise Fund is based upon one major class of expenditures known as the business-type activities, not by fund or fund type. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not at the fund or fund type level. Legal budgetary control is also based upon the appropriation to each office or department.

The following is a comparison of expenditures to budget:

	<u>Actual</u>	<u>Amended Budget</u>	<u>Variance with Final - Budget Positive (Negative)</u>	<u>Actual % of Amended Budget</u>
Expenditures:				
Business-type activities	\$ 149,018	\$ 273,460	\$ 124,442	54%

**CITY OF TOLEDO
ENTERPRISE FUND - WATER UTILITY**

Notes to Financial Statements

June 30, 2004

(2) Deposits and Investments

The City of Toledo's deposits 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 of Toledo 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 which are approved by the City Council and the Treasurer of the State of Iowa. The City is also authorized to invest in 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 has no investments as of June 30, 2004, as all cash balances are in checking, money market accounts, or certificates of deposit.

(3) Revenue Bonds Payable

Revenue bonds payable consist of the following at June 30, 2004:

Water revenue bonds payable to finance corporation in annual installments of \$34,851 including interest at 5% per year, with final payment due in July 2022, secured by substantially all assets	\$ 365,745
Less current portion	<u>16,564</u>
Long-term portion	<u>\$ 349,181</u>

The annual debt service requirements of this indebtedness are as follows:

	<u>Principal</u>	<u>Interest</u>
2005	\$ 16,564	\$ 18,287
2006	17,392	17,459
2007	18,261	16,590
2008	19,175	15,676
2009	20,133	14,718
2010	21,140	13,711
2011	22,197	12,654
2012	23,307	11,544
2013	24,472	10,379

**CITY OF TOLEDO
ENTERPRISE FUND - WATER UTILITY**

Notes to Financial Statements

June 30, 2004

(3) Revenue Bonds Payable (continued)

	<u>Principal</u>	<u>Interest</u>
2014	25,696	9,155
2015	26,981	7,870
2016	28,330	6,521
2017	29,746	5,105
2018	31,233	3,618
2019	32,795	2,056
2020	<u>8,323</u>	<u>416</u>
	<u>\$ 365,745</u>	<u>\$ 165,759</u>

The 1983 Water Revenue Bond Resolution provides that the revenue bond principal and interest must be paid solely out of the net earnings of the municipal waterworks plant and system. A sum equal to 100% of the principal and interest due the succeeding July 1 must be deposited in twelve monthly installments prior to such July 1. In addition, the resolution establishes a reserve requirement to the extent an amount equal to the maximum amount of principal and interest coming due in the succeeding fiscal year must be deposited in twelve monthly installments equal to 10% of the aforementioned required sinking fund deposit. As of June 30, 2003, the City of Toledo has established the depository funds required by the bond resolution. The reserved retained earnings amounts at June 30, 2003 are equity amounts reserved to comply with this bond resolution.

The 1983 Revenue Bond Resolution includes certain provisions regarding establishment of specific funds, allocation of revenue to funds, and construction, purchase or disposition of water utility plant.

(4) Contributed Capital

\$419,200 of the \$421,200 of contributed capital represents a grant received from the Farmers Home Administration in conjunction with the 1983 Revenue Bonds and related water system construction project.

(5) Retirement System

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 TOLEDO
ENTERPRISE FUND - WATER UTILITY**

Notes to Financial Statements

June 30, 2004

(5) Retirement System (continued)

Plan members are required to contribute 3.70% of their annual salary and the City is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by State statute. The City's contribution to IPERS for the year ended June 30, 2004, 2003 and 2002 were \$2,020, \$1,973 and \$3,493, equal to the required contributions for each year.

(6) Risk Management

The City of Toledo 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. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(7) Accounting Change

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

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

This information is an integral part of the accompanying financial statements.

SUPPLEMENTAL INFORMATION

**CITY OF TOLEDO
 ENTERPRISE FUND - WATER UTILITY
 INSURANCE IN FORCE
 June 30, 2004**

<u>Insurance Company</u>	<u>Policy Number</u>	<u>Policy Period</u>	<u>Description</u>
Employers Mutual Companies	9A45919	9-1-03 to 9-1-04	Property
Employers Mutual Companies	9D45919	9-1-03 to 9-1-04	General Liability
<u>Liability</u>			
Employers Mutual Companies	9C45919	9-1-03 to 9-1-04	Inland Marine
Employers Mutual Companies	9C45919	9-1-03 to 9-1-04	Auto Liability Uninsured Motorist Collision, Physical Damage
<u>Damage</u>			
Employers Mutual Companies	9H45919	9-1-03 to 9-1-04	Workmen's Compensation
Employers Mutual Companies	9N45919	9-1-03 to 9-1-04	Volunteer Fire Department Accident Policy
Employers Mutual Companies	9J45919	9-1-03 to 9-1-04	Umbrella Liability
Employers Mutual Companies	9K45919	9-1-03 to 9-1-04	Linebacker

<u>Amount of Coverage</u>	<u>Premium</u>
\$ 2,763,435	\$ 4,223
\$ 1,000,000	\$ 6,281
\$ 1,536,002	\$ 12,134
\$ 1,000,000	\$ 22,749
Statutory	\$ 10,749
\$ 15,000 Principal Sum	\$ 355
\$ 1,000,000	\$ 5,000
\$ 1,000,000	\$ 2,475

**CITY OF TOLEDO
ENTERPRISE FUND - WATER UTILITY
WATER BILLING RATES
As of June 30, 2004**

<u>Gallons Used</u>	<u>Rate Schedule</u>
1 - 12,000	\$1.94 per 1,000 gallons
Over 12,000	\$1.24 per 1,000 gallons

**CITY OF TOLEDO
ENTERPRISE FUND - WATER UTILITY
AGED ACCOUNTS RECEIVABLE
June 30, 2004**

<u>Less Than 30 Days</u>	<u>30 - 60 Days</u>	<u>60 - 90 Days</u>	<u>Over 90 Days</u>	<u>Total</u>
<u>\$ 18,172</u>	<u>\$ 1,407</u>	<u>\$ 490</u>	<u>\$ 67</u>	<u>\$ 20,136</u>

Independent Auditor's Report on Compliance and on Internal Control Over Financial Reporting

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

We have audited the financial statements of the Enterprise Fund - Water Utility of the City of Toledo as of and for the year ended June 30, 2004, and have issued our report thereon dated August 5, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

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

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

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Enterprise Fund - Water Utility of the City of Toledo'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 a certain matter 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 the City of Toledo's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in 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, we believe that the absence of adequate segregation of duties, described at item I-A-04, is a material weakness.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Toledo and other parties to whom the City of Toledo may report. This report is not intended to be and should not be used by anyone other than these specified users.

Clifton Gunderson LLP

Cedar Rapids, Iowa
August 5, 2004

**CITY OF TOLEDO
ENTERPRISE FUND - WATER UTILITY
SCHEDULE OF FINDINGS
Year Ended June 30, 2004**

Part I: Findings Related to the Financial Statements

INSTANCES OF NON-COMPLIANCE:

None noted.

REPORTABLE CONDITIONS:

I-A-04 Segregation of duties

Comment - One important aspect of internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the City Clerk is responsible for receiving and recording cash receipts, making bank deposits, preparing bank reconciliations, making investment transactions, and initiating various non-cash entries to the accounting records. In addition, only one authorized signature is required on warrants issued and there is no rotation of duties or oversight controls in the EDP System.

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

Response - The City will review their present internal control procedures and will consider additional review procedures where practical.

Conclusion - The City should segregate duties, to the extent practical, to maintain good internal control. We realize ideal segregation of duties is not completely possible due to the small size of the administrative staff.

Prior year reportable conditions have been resolved except for the reportable condition described above.

**CITY OF TOLEDO
ENTERPRISE FUND - WATER UTILITY
SCHEDULE OF FINDINGS
Year Ended June 30, 2004**

Part II: Findings Related to Statutory Reporting

- II-A-04 Official Depositories - A resolution naming the official depository bank has been approved by the City. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2004.
- II-B-04 Certified Budget – Disbursements during the year ended June 30, 2004 did not exceed the amounts budgeted.
- II-C-04 Questionable Disbursements - We noted no disbursements that fail to meet the requirements of public purposes as defined in an Attorney General’s opinion dated April 25, 1979.
- II-D-04 Travel Expense - No expenditures of City money for travel expenses of spouses of City officials or employees were noted.
- II-E-04 Business Transactions – We noted no business transactions between the enterprise funds and the enterprise funds officials or employees.
- II-F-04 Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- II-G-04 Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not.
- II-H-04 Revenue Bonds - The 1983 water revenue bond resolution provides that revenue bond principal and interest must be paid solely out of the net earnings of the municipal waterworks plant and system. It also provides that a sum equal to one hundred percent of the principal and interest due the succeeding July 1 be deposited in twelve monthly installments prior to such July 1. In addition, the resolution establishes a reserve requirement in an amount equal to the maximum amount of principal and interest coming due in the succeeding fiscal year, deposited in twelve monthly installments equal to ten percent of the aforementioned required sinking fund deposit. As of June 30, 2004, the City has established the depository accounts required by the bond resolution for the water revenue bonds.

CITY OF TOLEDO
ENTERPRISE FUND - WATER UTILITY
SCHEDULE OF FINDINGS
Year Ended June 30, 2004

Part II: Findings Related to Statutory Reporting (continued)

II-I-04 Compliance with Loan and Grant Agreements

Water Utility System - The City did not comply with the 1983 Water Revenue Bond Resolution requiring the City departments to pay the water utility system for water used at rates established by the City.

Recommendation - The City should comply with Section 14 of the 1983 Water Revenue Bond Resolution which requires the City and City departments to be charged at rates established by the City for water used. The resulting revenues should be accounted for in the same manner as any other revenues derived from the operations of the system.

Response - We will consider this.

Conclusion - Response accepted.

**CITY OF TOLEDO
ENTERPRISE FUND - WATER UTILITY**

Audit Staff

This audit was performed by:

William E. Murray, CPA, Audit Partner

Jared Kramer, CPA, Manager

Andrew J. Johnson, Senior Associate

Justin P. Zimmerman, Associate