

CITY OF STORM LAKE

INDEPENDENT AUDITORS' REPORTS

BASIC FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 2005

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City of Storm Lake

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Jon Kruse	Mayor	January 2006
Wally Burns	Mayor Pro Tem	January 2008
James Treat	Council Member	January 2006
Dennis Vaudt	Council Member	January 2006
Julie Eglund	Council Member	January 2008
Sara Monroy-Huddleston	Council Member	January 2008
John M. Call	City Administrator	Indefinite
Patti Moore	City Clerk	Indefinite
Paul Havens	Attorney	Indefinite

August 23, 2005

Independent Auditors' Report

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Storm Lake, Iowa, as of and for the year ended June 30, 2005, 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 Storm Lake's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards 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 our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Storm Lake at June 30, 2005, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our reports dated August 23, 2005 on our consideration of the City of Storm Lake's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of testing, and not to provide an opinion on the internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Continued...

Independent Auditor's Report
City of Storm Lake

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 12 and 58 through 62 are not required parts of the basic financial statements, but are 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. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Storm Lake's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2004 (none of which are presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 7, 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. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Storm Lake 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, 2005. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2005 FINANCIAL HIGHLIGHTS

- Total revenues for the City increased 12%, or approximately \$1,161,004, from FY04 to FY05. Property tax increased approximately \$220,254.
- Program expenses increased 8%, or approximately \$693,340, in FY05 from FY04. Public works expenses decreased approximately \$152,038, while public safety and culture and recreation expenses increased approximately \$85,918, and \$298,307, respectively.
- The City's net assets increased 6.5%, or approximately \$1,791,757, from June 30, 2004 to June 30, 2005. Of this amount, the net assets of the governmental activities increased approximately \$615,532 and the net assets of the business type activities increased by approximately \$1,176,225.

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.

Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of the City as a whole and present 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 statements 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 Special Revenue Funds. In addition, the Schedule of Expenditures of Federal Awards provides details of various federal programs benefiting the City.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

One of the most important questions asked about the City's finances is, "Is the City as a whole better or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information which helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting and the economic resources measurement focus, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account, regardless of when cash is received or paid.

The Statement of Net Assets presents all of the City's assets and liabilities, with the difference between the two reported as "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 presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods.

The Statement of Net Assets and the Statement of Activities report two kinds of activities:

- Governmental activities include public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business type activities include the waterworks, the sanitary sewer system and the City's sanitation department. 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. Governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Tax Increment Financing Revenues, Local Option Sales Tax and Payroll Tax Levy, 3) the Debt Service Fund and 4) the Capital Projects Fund. These funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund financial statements provide a detailed, short-term view of the City's general governmental operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statements for governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

2) Proprietary funds account for the City's Enterprise Funds. These funds report services for which the City charges customers for the service it provides. Proprietary funds are reported in the same way all activities are reported in the Statement of Net Assets and the Statement of Activities. The major difference between the proprietary funds and the business type activities included in the government-wide statements is the detail and additional information, such as cash flows, provided in the proprietary fund statements. The Enterprise Funds include the Water, Wastewater and Sanitation Funds, each considered to be a major fund of the City. The City is responsible for ensuring the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong.

The financial statements required for proprietary funds include a statement of net assets, a statement of revenues, expenses and changes in fund net assets and a statement of cash flows.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of financial position. The analysis that follows focuses on the changes in the net assets for governmental and business type activities.

Statement of Net Assets						
	2004	2005	2004	2005	2004	2005
	Governmental	Governmental	Business Type	Business Type	2004	2005
	Activities	Activities	Activities	Activities	Total	Total
Current and other assets	\$ 8,309,029	14,814,600	5,087,760	6,456,774	13,396,789	21,271,374
Capital assets	9,194,694	10,556,659	16,304,233	16,199,082	25,498,927	26,755,741
Total assets	<u>17,503,723</u>	<u>25,371,259</u>	<u>21,391,993</u>	<u>22,655,856</u>	<u>38,895,716</u>	<u>48,027,115</u>
Long-term liabilities	896,015	6,173,755	7,238,664	7,353,117	8,134,679	13,526,872
Other liabilities	2,670,609	4,644,873	384,076	357,261	3,054,685	5,002,134
Total liabilities	<u>3,566,624</u>	<u>10,818,628</u>	<u>7,622,740</u>	<u>7,710,378</u>	<u>11,189,364</u>	<u>18,529,006</u>
Net assets:						
Invested in capital assets, net of related debt	8,532,131	9,858,530	9,237,306	9,051,792	17,769,437	18,910,322
Restricted	3,855,410	3,242,724	2,471,961	3,459,013	6,327,371	6,701,737
Unrestricted	<u>1,549,558</u>	<u>1,451,377</u>	<u>2,059,986</u>	<u>2,434,673</u>	<u>3,609,544</u>	<u>3,886,050</u>
Total net assets	<u>\$ 13,937,099</u>	<u>14,552,631</u>	<u>13,769,253</u>	<u>14,945,478</u>	<u>27,706,352</u>	<u>29,498,109</u>

Total net assets increased from FY04 by approximately \$1,791,757, or 6.5%. The largest portion of the City's net assets is invested in capital assets (e.g., land, infrastructure, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets. Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. Unrestricted net assets, the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, legislation or other legal requirements, is approximately \$3,886,050 at the end of this year.

Statement of Activities

	2004	2005	2004	2005	2004	2005
	Governmental	Governmental	Business Type	Business Type	2004	2005
	Activities	Activities	Activities	Activities	Total	Total
Revenues:						
Program revenues:						
Charges for service	648,016	650,058	3,656,083	3,746,488	4,304,099	4,396,546
Operating grants, contributions and restricted interest	1,493,889	1,389,963	61,526	76,687	1,555,415	1,466,650
Capital grants, contributions and restricted interest	407,556	1,410,861	-	-	407,556	1,410,861
General revenues:						
Property tax levied for:						
General purposes	1,851,200	1,913,223	-	-	1,851,200	1,913,223
Employee Benefits	567,999	720,445	-	-	567,999	720,445
Debt Service	41,684	47,469	-	-	41,684	47,469
Tax increment financing	33,264	36,460	-	-	33,264	36,460
Local option sales tax	836,884	793,992	-	-	836,884	793,992
Grants and contributions not restricted to specific purpose	46,848	-	-	-	46,848	-
Unrestricted investment earnings	63,945	42,633	82,483	125,638	146,428	168,271
Miscellaneous	1,823	287	-	-	1,823	287
Transfers	(5,337)	(1,465,961)	5,337	1,465,961	-	-
Total Revenues	5,987,771	5,539,430	3,805,429	5,414,774	9,793,200	10,954,204
Program expenses:						
Public Safety	1,871,380	1,957,298	-	-	1,871,380	1,957,298
Public Works	975,207	823,169	-	-	975,207	823,169
Health and Social Services	15,700	9,034	-	-	15,700	9,034
Culture and Recreation	1,040,891	1,339,198	-	-	1,040,891	1,339,198
Community and Economic Development	410,277	469,857	-	-	410,277	469,857
General Government	307,976	334,061	-	-	307,976	334,061
Interest on long-term debt	50,569	47,455	-	-	50,569	47,455
Water	-	-	1,981,267	2,291,259	1,981,267	2,291,259
Wastewater	-	-	1,547,086	1,574,704	1,547,086	1,574,704
Sanitation	-	-	324,928	345,756	324,928	345,756
Storm Water	-	-	-	26,766	-	26,766
Lodge	-	-	-	64	-	64
Total Expenses	4,672,000	4,980,072	3,853,281	4,238,549	8,525,281	9,218,621
Change in net assets	1,315,771	559,358	(47,852)	1,176,225	1,267,919	1,735,583
Net assets beginning of year	12,621,328	13,993,273	13,817,105	13,769,253	26,438,433	27,762,526
Net assets end of year	13,937,099	14,552,631	13,769,253	14,945,478	27,706,352	29,498,109

INDIVIDUAL MAJOR FUND ANALYSIS

Governmental Fund Highlights

As the City of Storm Lake completed the year, its governmental funds reported a combined fund balance of \$9,440,001, which is more than the \$5,114,075 total fund balance at June 30, 2004. The following are the major reasons for the changes in fund balances of the major governmental funds from the prior year.

The General Fund showed a decrease of \$305,750 from the prior year to \$951,237. The decrease is a result of a transfer of \$350,000 from the General Fund to the Capital Project Fund for the Capital Improvement Plan

The Road Use Tax Fund accounts for revenue received from the State of Iowa for road improvements. This fund decreased by \$82,366 from the prior year to \$387,584.

The Special Levy Fund is used to account for the property tax levied to finance the payment of employee benefits. This fund increased by \$86,772 from the prior year to \$203,962.

The Local Option Sales Tax Fund accounts for revenue from the tax authorized by referendum and used for capital improvements. This fund increased by \$6,675 from the prior year to \$438,988. Local Option Sales Tax revenue decreased by \$42,892 in fiscal year 2005.

The Tax Increment Financing Revenues Fund is used to account for revenues from the tax authorized by ordinance in the urban renewal district, and used to pay the principal and interest on the general obligation loan notes and other indebtedness incurred for urban renewal redevelopment projects. This fund increased by \$36,460 from the prior year to \$155,617.

The Debt Service Fund decreased by \$46,474 from the prior year to \$156,200.

The Capital Projects Fund increased by \$4,679,353 from the prior year to \$6,529,268. The sale of \$5,600,000 in GO Bonds for Project AWAYSIS is the reason for the large increase in fund balance.

Proprietary Fund Highlights

The Water Fund, which accounts for the operation and maintenance of the City's water system, ended FY05 with a \$6,432,538 net asset balance compared to the prior year ending net asset balance of \$6,314,055.

The Wastewater Fund, which accounts for the operation and maintenance of the City's wastewater treatment and sanitary sewer system, ended FY05 with a \$6,555,878 net asset balance compared to the prior year ending net asset balance of \$7,035,966.

The Landfill Fund has been combined with the Storm Water and Lodge funds, and is listed as Other Nonmajor Enterprise. The combination of these funds ended FY05 with a \$1,743,340 net asset balance compared to the prior year ending net asset balance of \$269,687.

The Internal Service Funds are used by management to charge the cost of employee health benefits and fleet purchases to the individual funds. The change in net assets of the Internal Service Fund totaled \$259,701. Of this amount \$64,177 is reported with business type activities and \$195,524 is reported with governmental activities in the Statement of Activities.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City of Storm Lake amended its budget once in May 2005. This amendment was needed to cover unplanned disbursements, including disbursements associated with projects carried over from the prior fiscal year.

The combined tax levy for the City of Storm Lake increased \$0.69 to \$12.02 per thousand. The Special Levy increased \$0.68 to cover the increased costs of 411 pension, health insurance and worker's compensation insurance. The combined effect of the City's increased tax levy and the increased residential rollback on a \$100,000 home was \$0.00.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The City’s capital assets include land, buildings and improvements, equipment, streets, sewer systems, lighting systems, traffic signals and other infrastructure. Capital assets for governmental activities totaled \$10,556,659 (net of accumulated depreciation) at June 30, 2005. Capital assets for business type activities totaled \$16,199,082 (net of accumulated depreciation) at June 30, 2005. See Note 3 to the financial statements for more information about the City’s capital assets.

The major capital outlays for governmental activities during the year included ADA compliance of restrooms at the Fire Station, Airport Runway, Apron and Terminal improvements, and 2004 and 2005 Street Improvement projects. For business type activities, major capital outlays included Well Service for 3 and 14, Ground Water Study, Fire Hydrant Painting, 13th Street Lift Station Generator, Memorial Generator Transfer Switch, and Flindt-Lakeshore Storm Water.

Construction in progress at June 30, 2005 for governmental activities consists primarily of street projects. Construction in progress at June 30, 2005 for business type activities consists of the Water Plant Expansion and well construction of 16 and 18.

Long-Term Debt

At June 30, 2005, the City had \$6,173,755 in total long-term debt outstanding for governmental activities. The City issued \$5,600,000 in GO Bonds for Project AWAYSIS in FY05. The GO Bonds mature in varying annual amounts ranging from \$115,000 to \$435,000 and have an interest rate of 3.75% to 4.25% with the final maturity due in the year ending June 30, 2025. Total long-term debt outstanding for business type activities was \$7,308,917 at June 30, 2005. The City drew down proceeds of \$355,613 of its water revenue capital loan note in FY05. The note bears interest at 3% and matures in varying annual amounts ranging from \$279,000 to \$490,000, with the final maturity due in the year ending June 30, 2024.

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5 percent of the assessed value of all taxable property within the City’s corporate limits. The City’s outstanding general obligation debt of \$5,736,031 is significantly below its constitutional debt limit of \$16,119,254. Other obligations include accrued vacation pay and sick leave. Additional information about the City’s long-term debt is presented in Note 6 to the financial statements.

ECONOMIC FACTORS BEARING ON THE CITY’S FUTURE

Several economic factors affected decisions made by the City in setting its FY06 budget. The residential rollback increased for FY06 to 47.96% from 48.5% which has a negative effect on property tax revenue. Police and Fire Pension costs increased \$15,817, and the City continued to see higher costs for health insurance and worker’s compensation insurance.

The tax levy rates per \$1,000 of taxable valuation for FY06 are provided below:

<i>General Levy</i>	\$	8.10000
<i>Tort Levy</i>		0.23886
<i>Emergency Levy</i>		0.27000
<i>Debt Service Levy</i>		1.85385
<i>Special Levy</i>		<u>2.86627</u>
<i>Total</i>	\$	13.32898

CONTACTING THE CITY’S FINANCIAL MANAGEMENT

This financial report is designed to present our citizens, taxpayers, customers, investors and creditors with a general overview of the City’s finances and operating activities. If you have any questions or require additional information please contact the Finance Director, 620 Erie Street, City of Storm Lake, Iowa

Basic Financial Statements

City of Storm Lake
Statement of Net Assets
June 30, 2005

	Governmental Activities	Business Type Activities	Total
Assets			
Cash and cash equivalents	\$ 6,040,192	6,178	6,046,370
Investments	3,497,138	2,025,173	5,522,311
Receivables:			
Property tax:			
Delinquent	58,087	-	58,087
Succeeding year	2,795,124	-	2,795,124
Tax increment financing:			
Succeeding year	672,102	-	672,102
Pledges	1,067,437	-	1,067,437
Customer accounts and unbilled usage	-	398,337	398,337
Accounts	8,035	-	8,035
Accrued interest	31,632	56,575	88,207
Due from other governments	495,462	-	495,462
Inventories	50,120	33,672	83,792
Prepaid expenses	99,271	78,901	178,172
Restricted assets:			
Investments	-	3,787,000	3,787,000
Capital assets (net of accumulated depreciation)	10,556,659	16,199,082	26,755,741
Other assets:			
Loan fees, net of accumulated amortization	-	70,938	70,938
Total assets	25,371,259	22,655,856	48,027,115
Liabilities			
Cash due bank	4,891	230,345	235,236
Accounts payable	24,341	5,789	30,130
Accrued interest payable	20,673	17,798	38,471
Salaries and benefits payable	72,310	18,079	90,389
Incurred and unpaid claims	5,380	1,457	6,837
Contracts payable	19,984	83,793	103,777
Matured bonds payable	5,000	-	5,000
Matured interest payable	4,988	-	4,988
Deferred revenue:			
Succeeding year property tax	2,795,124	-	2,795,124
Succeeding year tax increment financing	672,102	-	672,102
Pledges	1,020,080	-	1,020,080
Long-term liabilities:			
Portion due or payable within one year:			
Customer deposits	-	44,200	44,200
General obligation bonds/notes	427,600	-	427,600
Revenue notes payable	-	288,000	288,000
Compensated absences	97,090	36,276	133,366
Portion due or payable after one year:			
General obligation bonds/notes	5,503,431	-	5,503,431
Revenue notes payable	-	6,930,228	6,930,228
Compensated absences	145,634	54,413	200,047
Total liabilities	10,818,628	7,710,378	18,529,006

City of Storm Lake
Statement of Net Assets - Continued
June 30, 2005

	Governmental Activities	Business Type Activities	Total
Net Assets			
Invested in capital assets, net of related debt	\$ 9,858,530	9,051,792	18,910,322
Restricted for:			
Road purposes	387,584	-	387,584
Special levy	210,114	-	210,114
Local option sales tax	438,988	-	438,988
Urban renewal	155,617	-	155,617
Debt service	136,408	-	136,408
Capital projects	1,296,366	-	1,296,366
Revenue note retirement	-	500,000	500,000
Water improvements	-	939,705	939,705
Wastewater improvement	-	901,000	901,000
Storm sewer improvements	-	406,669	406,669
Lodge construction	-	711,639	711,639
Other purposes	617,647	-	617,647
Unrestricted	1,451,377	2,434,673	3,886,050
Total net assets	\$ 14,552,631	14,945,478	29,498,109

See notes to financial statements.

City of Storm Lake
Statement of Activities
Year ended June 30, 2005

	<u>Expenses</u>	<u>Program</u> Charges for Service
Functions / Programs:		
Governmental activities:		
Public safety	\$ 1,957,298	103,325
Public works	823,169	233,773
Health and social services	9,034	-
Culture and recreation	1,339,198	294,344
Community and economic development	469,857	1,675
General government	334,061	16,941
Interest on long-term debt	47,455	-
Total governmental activities	4,980,072	650,058
Business type activities:		
Water	2,291,259	2,292,156
Wastewater	1,574,704	1,083,916
Landfill	345,756	370,416
Storm sewer	26,766	-
Lodge	64	-
Total business type activities	4,238,549	3,746,488
Total	\$ 9,218,621	4,396,546

General Revenues:

Property and other city tax levied for:
 General purposes
 Employee benefits
 Debt service
Tax increment financing
Local option sales tax
Grants and contributions not restricted to specific purpose
Unrestricted interest on investment
Miscellaneous
Transfers
 Total general revenues

Change in net assets

Net assets, beginning of year as restated

Net assets, end of year

See notes to financial statements

Revenues		Net (Expense) Revenue and Changes in Net Assets		
Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	Total
101,352	118,007	(1,634,614)	-	(1,634,614)
1,203,551	766,309	1,380,464	-	1,380,464
-	-	(9,034)	-	(9,034)
54,018	412,495	(578,341)	-	(578,341)
5,003	101,655	(361,524)	-	(361,524)
24,766	12,395	(279,959)	-	(279,959)
1,273	0	(46,182)	-	(46,182)
<u>85,060</u>	<u>526,545</u>	<u>(1,529,190)</u>	-	<u>(1,529,190)</u>
76,687	-	-	77,584	77,584
-	-	-	(490,788)	(490,788)
-	-	-	24,660	24,660
-	-	-	(26,766)	(26,766)
-	-	-	(64)	(64)
<u>76,687</u>	<u>-</u>	<u>-</u>	<u>(415,374)</u>	<u>(415,374)</u>
<u>1,466,650</u>	<u>1,410,861</u>	<u>(1,529,190)</u>	<u>(415,374)</u>	<u>(1,944,564)</u>
		\$ 1,913,223	-	1,913,223
		720,445	-	720,445
		47,469	-	47,469
		36,460	-	36,460
		793,992	-	793,992
		42,633	125,638	168,271
		287	-	287
		(1,465,961)	1,465,961	-
		<u>2,088,548</u>	<u>1,591,599</u>	<u>3,680,147</u>
		559,358	1,176,225	1,735,583
		<u>13,993,273</u>	<u>13,769,253</u>	<u>27,762,526</u>
		\$ <u>14,552,631</u>	<u>14,945,478</u>	<u>29,498,109</u>

City of Storm Lake

Balance Sheet
Governmental Funds
June 30, 2005

		Special	
	General	Road Use	Special Levy
Assets			
Cash and cash equivalents	\$ 776,722	326,663	-
Investments	124,826	-	147,340
Receivables:			
Property tax:			
Delinquent	42,237	-	13,419
Succeeding year	1,746,254	-	600,000
Tax increment financing:			
Succeeding year	-	-	-
Accounts	8,035	-	-
Accrued interest	1,546	-	-
Pledges	-	-	-
Due from other governments	31,420	66,439	-
Inventories	42,476	2,009	-
Prepaid expenditures	2,487	-	54,724
	<u>2,776,003</u>	<u>395,111</u>	<u>815,483</u>
Total assets	\$ <u>2,776,003</u>	<u>395,111</u>	<u>815,483</u>
Liabilities and Fund Balances			
Liabilities:			
Accounts payable	\$ 2,250	-	-
Salaries and benefits payable	51,201	7,527	5,369
Contracts payable	-	-	-
Matured bonds payable	-	-	-
Matured interest payable	-	-	-
Deferred revenue:			
Succeeding year property tax	1,746,254	-	600,000
Succeeding year tax increment financing	-	-	-
Other	25,061	-	6,152
Total liabilities	<u>1,824,766</u>	<u>7,527</u>	<u>611,521</u>
Fund Balances:			
Reserved for debt service	-	-	-
Unreserved:			
Designated for:			
Cash flow/operating	785,000	-	-
Capital improvements plan	-	-	-
Undesignated:			
Reported in:			
General fund	166,237	-	-
Special revenue funds	-	387,584	203,962
Capital projects fund	-	-	-
Permanent fund	-	-	-
Total fund balances	<u>951,237</u>	<u>387,584</u>	<u>203,962</u>
Total liabilities and fund balances	\$ <u>2,776,003</u>	<u>395,111</u>	<u>815,483</u>

Exhibit C

Revenue					
Local Option Sales Tax	Tax Increment Financing Revenues	Debt Service	Capital Projects	Other Nonmajor Governmental	Total
-	-	-	4,914,300	2,630	6,020,315
373,656	155,617	165,472	1,257,710	578,424	2,803,045
-	-	1,356	-	1,075	58,087
-	-	392,351	-	56,519	2,795,124
-	672,102	-	-	-	672,102
-	-	-	-	-	8,035
4,629	-	241	15,194	1,553	23,163
-	-	-	1,067,437	-	1,067,437
60703	-	-	336,900	-	495,462
-	-	-	-	-	44,485
-	-	-	180	41,880	99,271
<u>438,988</u>	<u>827,719</u>	<u>559,420</u>	<u>7,591,721</u>	<u>682,081</u>	<u>14,086,526</u>
-	-	-	22,091	-	24,341
-	-	-	298	7,915	72,310
-	-	-	19,984	-	19,984
-	-	5,000	-	-	5,000
-	-	4,988	-	-	4,988
-	-	392,351	-	56,519	2,795,124
-	672,102	-	-	-	672,102
-	-	881	1,020,080	502	1,052,676
-	672,102	403,220	1,062,453	64,936	4,646,525
-	-	156,200	-	-	156,200
-	-	-	-	-	785,000
-	-	-	-	-	-
-	-	-	-	-	166,237
438,988	155,617	-	-	614,515	1,800,666
-	-	-	6,529,268	-	6,529,268
-	-	-	-	2,630	2,630
<u>438,988</u>	<u>155,617</u>	<u>156,200</u>	<u>6,529,268</u>	<u>617,145</u>	<u>9,440,001</u>
<u>438,988</u>	<u>827,719</u>	<u>559,420</u>	<u>7,591,721</u>	<u>682,081</u>	<u>14,086,526</u>

See notes to financial statements

City of Storm Lake

Reconciliation of the Balance Sheet –
Governmental Funds to the Statement of Net Assets

June 30, 2005

Total governmental fund balances \$ 9,440,001

Amounts reported for governmental activities in the Statement of Net Assets are different because:

Capital assets used in governmental activities are not current financial resources, and therefore, are not reported in the funds. The costs of assets is \$16,729,555, and the accumulated depreciation is \$6,172,896. 10,556,659

Other long-term assets are not available to pay current period expenditures, and therefore, are deferred in the funds. 32,596

The Internal Service Funds are used by management to charge the cost of employee health benefits and fleet purchases to the Individual funds. The assets of the Internal Service Fund are included in governmental activities in the Statement of Net Assets. 717,803

Long-term liabilities, including bonds payable, compensated absences and accrued interest payable, are not due and payable in the current period, and therefore, are not reported as liabilities in the funds. (6,194,428)

Net assets of governmental activities \$ 14,552,631

City of Storm Lake

Statement of Revenues, Expenditures
and Changes in Fund Balances
Governmental Funds

Year ended June 30, 2005

	General	Road Use	Special Levy
<u>Special</u>			
Revenues:			
Property tax	\$ 1,596,708	-	675,372
Tax increment financing	-	-	-
Other tax	94,094	-	39,816
Licenses and permits	100,288	-	-
Use of money and property	226,108	-	-
Intergovernmental	156,324	837,601	-
Charges for services	472,177	-	-
Special assessments	1,343	-	-
Miscellaneous	61,258	8,191	287
Total revenues	<u>2,708,300</u>	<u>845,792</u>	<u>715,475</u>
Expenditures:			
Current operating:			
Public safety	1,413,556	-	298,981
Public works	390,170	457,158	100,112
Health and social services	9,034	-	-
Culture and recreation	722,608	-	98,969
Community and economic development	54,656	-	-
General government	201,033	-	28,342
Debt service	-	-	-
Capital projects	-	-	-
Total expenditures	<u>2,791,057</u>	<u>457,158</u>	<u>526,404</u>
Excess (deficiency) of revenues over (under) expenditures	(82,757)	388,634	189,071
Other financing sources (uses):			
Bond and note proceeds	-	-	-
Operating transfers in	151,895	-	-
Operating transfers out	(374,888)	(471,000)	(102,299)
	<u>(222,993)</u>	<u>(82,366)</u>	<u>86,772</u>
Net change in fund balances	(305,750)	(82,366)	86,772
Fund balances, beginning of year	<u>1,256,987</u>	<u>469,950</u>	<u>117,190</u>
Fund balances, end of year	<u>\$ 951,237</u>	<u>387,584</u>	<u>203,962</u>

See notes to financial statement

Exhibit E

Revenue					
Local Option Sales Tax	Tax Increment Financing Revenues	Debt Service	Capital Projects	Other Nonmajor Governmental	Total
-	-	44,297	-	53,201	2,369,578
-	36,460	-	-	-	36,460
793,992	-	2,598	-	146,383	1,076,883
-	-	-	-	-	100,288
16,772	-	1,273	51,179	3,445	298,777
-	-	-	924,213	140,870	2,059,008
-	-	-	-	-	472,177
-	-	-	-	-	1,343
-	-	-	435,469	58,110	563,315
<u>810,764</u>	<u>36,460</u>	<u>48,168</u>	<u>1,410,861</u>	<u>402,009</u>	<u>6,977,829</u>
-	-	-	-	28,945	1,741,482
-	-	-	-	-	947,440
-	-	-	-	-	9,034
-	-	-	-	8,294	829,871
-	-	-	-	310,488	365,144
-	-	-	-	49,559	278,934
-	-	361,282	-	-	361,282
-	-	-	2,150,456	-	2,150,456
-	-	<u>361,282</u>	<u>2,150,456</u>	<u>397,286</u>	<u>6,683,643</u>
810,764	36,460	(313,114)	(739,595)	4,723	294,186
-	-	-	5,600,000	-	5,600,000
-	-	285,191	1,174,742	2,700	1,614,528
(804,089)	-	(18,551)	(1,355,794)	(56,167)	(3,182,788)
<u>6,675</u>	<u>-</u>	<u>266,640</u>	<u>5,418,948</u>	<u>(53,467)</u>	<u>4,031,740</u>
6,675	36,460	(46,474)	4,679,353	(48,744)	4,325,926
<u>432,313</u>	<u>119,157</u>	<u>202,674</u>	<u>1,849,915</u>	<u>665,889</u>	<u>5,114,075</u>
<u>438,988</u>	<u>155,617</u>	<u>156,200</u>	<u>6,529,268</u>	<u>617,145</u>	<u>9,440,001</u>

City of Storm Lake

Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances -
Governmental Funds to the Statement of Activities

Year ended June 30, 2005

Net change in fund balances – Total government funds \$ 4,325,926

*Amounts reported for governmental activities in the
Statement of Activities are different because:*

Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets. Capital outlay expenditures exceeded depreciation expense in the current year, as follows:

Expenditure for capital assets	\$ 1,943,273	
Depreciation expense	(503,836)	
Loss on disposal of capital assets	<u>(133,646)</u>	
		1,305,791

Because some revenues will not be collected for several months after the City's year end, they are not considered available revenues and are deferred in the governmental funds, as follows:

Property tax	28,668	
Other	<u>(1,106)</u>	
		27,562

The Internal Service Fund is used by management to charge the cost of employee health benefits and fleet purchases to the Individual funds. The change in net assets of the Internal Service Fund are included in governmental activities. 195,524

Bond proceeds is an other financing source in the governmental funds, but the proceeds increase liabilities in the Statement of Net Assets (5,600,000)

Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. 331,532

Some expenses reported in the Statement of Activities do not require the use of current financial resources, and therefore, are not reported as expenditures in governmental funds, as follows:

Compensated absences	(9,272)	
Interest on long-term debt	<u>(17,705)</u>	
		<u>(26,977)</u>

Change in net assets of governmental activities \$ 559,358

See notes to financial statements

City of Storm Lake
Statement of Net Assets
Proprietary Funds

June 30, 2005

	Enterprise	
	Water	Wastewater
Assets		
Cash and cash equivalents	\$ -	-
Investments	1,035,453	479,688
Receivables:		
Customer accounts and unbilled usage	228,986	123,366
Accrued interest	27,918	16,968
Inventories	31,719	225
Prepaid expenses	38,180	39,602
Restricted assets:		
Cash and cash equivalents	-	-
Investments	1,762,291	889,975
Capital assets, net of accumulated depreciation	10,872,087	5,052,492
Other assets:		
Loan fees, net of accumulated amortization	70,938	-
	\$ 14,067,572	6,602,316
Liabilities and Net Assets		
Liabilities:		
Cash due bank	\$ 209,683	-
Accounts payable	3,114	-
Incurred but not reported claims	-	-
Salaries and benefits payable	9,723	7,657
Payable from restricted assets:		
Contracts payable	83,793	-
Customer deposits	44,200	-
Revenue notes payable	288,000	-
Accrued interest payable	17,798	-
Compensated absences	19,398	15,513
Long-term liabilities:		
Revenue notes payable	6,930,228	-
Compensated absences	29,097	23,268
Total liabilities	7,635,034	46,438
Net Assets:		
Invested in capital assets, net of related debt	3,724,797	5,052,492
Restricted for:		
Revenue note retirement	500,000	-
Water improvement	939,705	-
Wastewater improvement	-	901,000
Storm sewer improvement	-	-
Lodge construction	-	-
Unrestricted	1,268,036	602,386
Total net assets	6,432,538	6,555,878
	\$ 14,067,572	6,602,316

See notes to financial statements

Funds		Internal Service Funds
Other Nonmajor	Total	Total
-	-	26,055
303,837	1,818,978	900,288
45,985	398,337	-
9,005	53,891	11,153
-	31,944	7,363
1,119	78,901	-
-	-	-
1,134,734	3,787,000	-
274,503	16,199,082	-
-	70,938	-
<u>1,769,183</u>	<u>22,439,071</u>	<u>944,859</u>
19,056	228,739	6,497
2,675	5,789	-
-	-	6,837
699	18,079	-
-	83,793	-
-	44,200	-
-	288,000	-
-	17,798	-
1,365	36,276	-
-	6,930,228	-
2,048	54,413	-
<u>25,843</u>	<u>7,707,315</u>	<u>13,334</u>
274,503	9,051,792	-
-	500,000	-
-	939,705	-
-	901,000	-
406,669	406,669	-
711,639	711,639	-
350,529	2,220,951	931,525
<u>1,743,340</u>	<u>14,731,756</u>	<u>931,525</u>
<u>1,769,183</u>	<u>22,439,071</u>	<u>944,859</u>

City of Storm Lake

Reconciliation of the Statement of Net Assets –
Enterprise Funds to the Statement of Net Assets

June 30, 2005

Total enterprise fund net assets \$ 14,731,756

Amounts reported for business type activities in the Statement of Net Assets are different because:

The Internal Service Funds are used by management to charge the cost of partial self funding on the City's health insurance benefit plan to individual funds and the cost of fleet purchases to the individual funds. The assets of the Internal Service Fund are included in governmental activities in the Statement of Net Assets.

213,722

Net assets of business type activities \$ 14,945,478

See notes to financial statement

City of Storm Lake

Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds

Year ended June 30, 2005

	<u>Enterprise</u>	
	<u>Water</u>	<u>Wastewater</u>
Operating revenues:		
Charges for services	\$ 2,292,156	1,083,916
Miscellaneous	76,687	0
Total operating revenues	<u>2,368,843</u>	<u>1,083,916</u>
Operating expenses:		
Governmental activities:		
Public safety	-	-
Public works	-	-
Culture and recreation	-	-
Community and economic development	-	-
General government	-	-
Business type activities		
Cost of sales and service	1,568,084	1,145,992
Depreciation and amortization	619,143	460,797
Total operating expenses	<u>2,187,227</u>	<u>1,606,789</u>
Operating income (loss)	181,616	(522,873)
Nonoperating income:		
Interest income	66,869	42,785
Loss on disposal of equipment	(130,002)	-
	<u>(63,133)</u>	<u>42,785</u>
Income (loss) before operating transfers	118,483	(480,088)
Transfers from other funds	-	-
Change in net assets	118,483	(480,088)
Net assets, beginning of year	<u>6,314,055</u>	<u>7,035,966</u>
Net assets, end of year	<u>\$ 6,432,538</u>	<u>6,555,878</u>

See notes to financial statement

Funds		Internal Service Funds
Other Nonmajor Enterprise	Total	Total
370,416	3,746,488	646,986
-	76,687	35,804
<u>370,416</u>	<u>3,823,175</u>	<u>682,790</u>
-	-	187,639
-	-	86,442
-	-	48,180
-	-	-
-	-	14,043
378,477	3,092,553	110,388
231	1,080,171	-
<u>378,708</u>	<u>4,172,724</u>	<u>446,692</u>
(8,292)	(349,549)	236,098
15,984	125,638	23,603
-	(130,002)	-
<u>15,984</u>	<u>(4,364)</u>	<u>23,603</u>
7,692	(353,913)	259,701
<u>1,465,961</u>	<u>1,465,961</u>	<u>-</u>
1,473,653	1,112,048	259,701
269,687	13,619,708	671,824
<u>1,743,340</u>	<u>14,731,756</u>	<u>931,525</u>

City of Storm Lake

Reconciliation of the Statement of Revenues, Expenses and
Changes in Fund Balances -
Enterprise Funds to the Statement of Activities

Year ended June 30, 2005

Net change in net assets – Total enterprise funds	\$ 1,112,048
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Amounts reported for business type activities in the Statement of Activities are different because:

The Internal Service Fund is used by management to charge the cost of employee health benefits and fleet purchases to the individual funds. The change in net assets of the Internal Service Fund is reported with business type activities.

<u>64,177</u>

Change in net assets of business type activities	\$ <u>1,176,225</u>
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See notes to financial statements

City of Storm Lake
Statement of Cash Flows
Proprietary Funds
Year ended June 30, 2005

	Enterprise	
	Water	Wastewater
Cash flows from operating activities:		
Cash received from customers and users	\$ 2,392,245	1,085,949
Cash received from operating funds	-	-
Cash received from other revenues	-	-
Cash paid for personal services	(332,212)	(262,955)
Cash paid to employees for claims	-	-
Cash paid to suppliers	(1,224,003)	(870,688)
Net cash provided (used) by operating activities	836,030	(47,694)
Cash flows from noncapital financing activities:		
Advances from other funds	-	-
Cash flows from capital and related financing activities:		
Acquisition of capital assets	(881,433)	(94,223)
Loan proceeds	355,613	-
Loan payments	(279,000)	-
Interest payments	(112,204)	-
Net cash used by capital and related financing activities	(917,024)	(94,223)
Cash flows from investing activities:		
Proceeds from sale of investments	2,828,852	1,227,866
Purchase of investments	(3,381,240)	(1,118,247)
Interest on investments	48,643	32,298
Net cash provided (used) by investing activities	(503,745)	141,917
Net increase (decrease) in cash and cash equivalents	(584,739)	-
Cash and cash equivalents, beginning of year	375,056	-
Cash and cash equivalents, end of year	\$ (209,683)	-

See notes to financial statements

Funds		Internal Service Funds
Other Nonmajor Enterprise	Total	Total
371,292	3,849,486	-
-	-	646,986
-	-	35,804
(30,223)	(625,390)	-
-	-	(353,739)
<u>(346,275)</u>	<u>(2,440,966)</u>	<u>(99,271)</u>
(5,206)	783,130	229,780
1,465,961	1,465,961	-
(273,578)	(1,249,234)	-
-	355,613	-
-	(279,000)	-
<u>-</u>	<u>(112,204)</u>	<u>-</u>
(273,578)	(1,284,825)	-
326,967	4,383,685	424,644
(1,541,162)	(6,040,649)	(660,944)
7,962	88,903	15,406
<u>(1,206,233)</u>	<u>(1,568,061)</u>	<u>(220,894)</u>
(19,056)	(603,795)	8,886
-	375,056	10,672
<u>(19,056)</u>	<u>(228,739)</u>	<u>19,558</u>

City of Storm Lake
Statement of Cash Flows
Proprietary Funds - Continued

Year ended June 30, 2005

	Enterprise	
	Water	Wastewater
Reconciliation of operating income to net cash provided by operating activities:		
Operating income (loss)	\$ 181,616	(522,873)
Adjustment to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	619,143	460,797
(Increase) decrease in operating assets:		
Customer accounts receivable and unbilled usage	12,482	2,033
Inventories	(5,462)	3,848
Prepaid expenses	2,113	(3,833)
Increase (decrease) in operating liabilities:		
Accounts payable	(3,396)	-
Salaries and benefits payable	3,523	484
Incurred and unpaid claims	-	-
Customer deposits	10,920	-
Compensated absences	15,091	11,850
Net cash provided (used) by operating activities	\$ 836,030	(47,694)
 Reconciliation of cash and cash equivalents at year to specific assets included on the Statement of Net Assets:		
Cash and cash equivalents	\$ -	-
Restricted assets:		
Cash due bank	(209,683)	-
	652,358	-

See notes to financial statements

Funds		Internal Service Funds
Other Nonmajor Enterprise	Total	Total
(8,292)	(349,549)	236,098
231	1,080,171	-
876	15,391	-
-	(1,614)	(3,651)
(1,054)	(2,774)	-
2,675	(721)	-
379	4,386	-
-	-	(2,667)
-	10,920	-
(21)	26,920	-
<u>(5,206)</u>	<u>783,130</u>	<u>229,780</u>
-	-	26,055
<u>(19,056)</u>	<u>(228,739)</u>	<u>(6,497)</u>
<u>(19,056)</u>	<u>(228,739)</u>	<u>19,558</u>

City of Storm Lake
 Statement of Fiduciary Net Assets
 Fiduciary Funds
 Year ended June 30, 2005

	Pension Trust	Agency Lake Improvement Commission
	Police/Fire	
Assets:		
Cash and cash equivalents	\$ -	2,026
Investments	6,771	-
Accrued interest receivable	-	25
Due from other governments	-	39,157
Prepaid expenses	-	13,080
Total assets	\$ 6,771	54,288
Liabilities:		
Accounts payable	\$ -	229
Salaries and benefits payable	3,507	-
Contracts payable	-	-
Due to other governments	-	54,059
	3,507	54,288
Net assets:		
Reserved for pensions	\$ 3,264	-

See notes to financial statements

City of Storm Lake
 Statement of Changes in Fiduciary Net Assets
 Fiduciary Funds

Year ended June 30, 2005

	<u>Pension Trust</u> <u>Police/Fire</u>
Additions: Transfer from general fund	\$ 102,299
Deductions: Public safety	<u>166,917</u>
Change in net assets	(64,618)
Net assets, beginning of year	<u>67,882</u>
Net assets, end of year	\$ <u>3,264</u>

See notes to financial statements

City of Storm Lake

Notes to Financial Statements

June 30, 2005

NOTE (1) Summary of Significant Accounting Policies

City of Storm Lake is a political subdivision of the State of Iowa located in Buena Vista County. It was first incorporated in 1873 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council-Manager form of government with the Mayor and Council Members elected on a non-partisan basis. The City of Storm Lake 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. It also provides water, sewer and landfill utilities.

The financial statements of the City of Storm Lake have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, the City of Storm Lake 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. Using the criteria above, the City has determined that no component units are to be reported in these financial statements.

B. Basis of Presentation

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

The Statement of Net Assets presents the City's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories.

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.

City of Storm Lake

Notes to Financial Statements

June 30, 2005

NOTE (1) Summary of Significant Accounting Policies - Continued

B. Basis of Presentation - Continued

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 not meeting the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those clearly identifiable with a specific function. 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 and 2) grants, contributions and interest restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements – Separate financial statements are provided for governmental and proprietary funds. Major individual governmental and proprietary 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 revenues and other revenues 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 expenditures, the fixed charges and the capital improvement costs not paid from other funds.

Special Revenue:

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

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

The Local Option Sales Tax Fund is used to account for the revenues from the tax authorized by referendum and used for capital improvements, equipment and retirement of related debt.

City of Storm Lake

Notes to Financial Statements

June 30, 2005

NOTE (1) Summary of Significant Accounting Policies - Continued

B. Basis of Presentation - Continued

The Tax Increment Financing Revenues Fund is used to account for revenues from the tax authorized by ordinance in the urban renewal district, and used to pay the principal and interest on the general obligation loan notes and other indebtedness incurred for urban renewal redevelopment projects.

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

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

The City reports the following major proprietary funds:

Enterprise:

The Water Fund is used to account for the operation and maintenance of the City's water system.

The Wastewater Fund is used to account for the operation and maintenance of the City's wastewater treatment and sanitary sewer system.

The City also reports the following additional proprietary funds:

Internal Service Funds are utilized to account for the financing of goods and services purchased by one department of the City, and provided to other departments or agencies on a cost reimbursement basis.

C. Measurement Focus and Basis of Accounting

The government-wide and proprietary 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. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days after year end.

City of Storm Lake

Notes to Financial Statements

June 30, 2005

NOTE (1) Summary of Significant Accounting Policies - Continued

C. Measurement Focus and Basis of Accounting - Continued

Property tax, local option sales tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest are considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the City.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt are reported as other financing sources.

Under terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general revenues.

The proprietary funds of the City apply all applicable GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary 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 a proprietary fund's principal ongoing operations. The principal operating revenues of the City's Enterprise Funds are 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 City maintains its financial records on the cash basis. The financial statements of the City are prepared by making memorandum adjusting entries to the cash basis financial records.

City of Storm Lake

Notes to Financial Statements

June 30, 2005

NOTE (1) Summary of Significant Accounting Policies - Continued

D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the financial statements:

Cash and Cash Equivalents – The City pools cash resources of its various funds in order to facilitate the management of cash. Cash applicable to a particular fund is readily identifiable. The balance in the pooled cash account is available to meet current operating requirements. Cash in excess of current requirements is invested in various interest-bearing securities and disclosed as part of the City's investments.

Cash and cash equivalents at June 30, 2005 consist of cash in bank and temporary cash investments invested with original maturities of three months or less.

Property Tax Receivable, Including Tax Increment Financing – Property tax, including tax increment financing, in governmental funds is accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date the tax asking is certified by the City to the County Board of Supervisors. Current year property tax receivable represents taxes collected by the County but not remitted to the City at June 30, 2005 and unpaid taxes. The succeeding year property tax receivable represents taxes certified by the City to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the City is required to certify its budget to the County Auditor by March 15 of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenues recognized in these funds become due and collectible in September and March of the current fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2003 assessed property valuations; is for the tax accrual period July 1, 2004 through June 30, 2005 and reflects tax asking contained in the budget certified to the County Board of Supervisors in March, 2004.

City of Storm Lake

Notes to Financial Statements

June 30, 2005

NOTE (1) Summary of Significant Accounting Policies - Continued

D. Assets, Liabilities and Fund Equity - Continued

Customer Accounts and Unbilled Usage – Accounts receivable are recorded in the Enterprise Funds at the time the service is billed. Unbilled usage for service consumed between periodic scheduled billing dates is estimated and is recognized as revenue in the period in which the service is provided.

Due From Other Governments – Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories – Inventories are valued at cost using the first-in/first-out method. Inventories in the Enterprise Funds consist of materials and supplies. Inventories are recorded as expenses when consumed rather than when purchased.

Restricted Assets – Funds set aside for payment of Enterprise Fund revenue notes are classified as restricted assets since their use is restricted by applicable note indentures. Other restricted assets include customer deposits restricted for application to unpaid customer accounts or for refund to customers.

Capital Assets – Capital assets, which include property, equipment and vehicles and infrastructure assets (e.g. roads, bridges, curbs, gutters, sidewalks and similar items which are immovable and of value only to the government) are reported in the applicable governmental or business type activities columns in the government-wide Statement of Net Assets and in the Proprietary Funds Statement of Net Assets. Capital assets are recorded at 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 repair not adding to the value of the asset or materially extend asset lives are not capitalized. Reportable capital assets are defined by the City as assets with initial, individual costs in excess of the following thresholds and estimated useful lives in excess of two years.

<u>Asset Class</u>	<u>Amount</u>
Land, buildings and improvements	\$ 5,000
Equipment and vehicles	5,000
Infrastructure	5,000

City of Storm Lake

Notes to Financial Statements

June 30, 2005

NOTE (1) Summary of Significant Accounting Policies - Continued

D. Assets, Liabilities and Fund Equity - Continued

Capital assets of the City are depreciated using the straight line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives (In Years)</u>
Buildings	20-40 years
Improvements other than buildings	20 years
Equipment and vehicles	5-20 years
Infrastructure	15-20 years

Other Assets – Loan fees are being amortized over the life of the loan, which is 20 years.

Deferred Revenue – Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds, as well as delinquent property tax receivable and other receivables not collected within sixty days after year end.

Deferred revenue in the Statement of Net Assets consists of succeeding year property tax and tax increment financing receivable that will not be recognized as revenue until the year for which they are levied.

Compensated Absences – City employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental fund financial statements only for employees that have resigned or retired. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2005. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund.

Long-term Liabilities – In the government-wide and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental or business type activities column in the Statement of Net Assets and the proprietary fund Statement of Net Assets.

City of Storm Lake

Notes to Financial Statements

June 30, 2005

NOTE (1) Summary of Significant Accounting Policies - Continued

D. Assets, Liabilities and Fund Equity - Continued

In the governmental fund financial statements, the face amount of debt issued is reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Equity – In the governmental 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.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

NOTE (2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2005 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 meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3.

The City's deposits at June 30, 2005 are shown below:

	<u>Carrying Value</u>	<u>Market Value</u>
Cash on hand	\$ 400	\$ 400
Deposits on demand	(437,458)	(437,458)
Deposit with employee health benefit administration	26,055	26,055
Savings account	6,219,507	6,219,507
Time deposits	<u>9,320,738</u>	<u>9,320,738</u>
	<u>\$ 15,129,242</u>	<u>\$ 15,129,242</u>

City of Storm Lake

Notes to Financial Statements

June 30, 2005

NOTE (3) Capital Assets

Capital assets activity for the year ended June 30, 2005 was as follows:

Primary Government	Balance Beginning of Year Restated	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 1,414,678	-	-	1,414,678
Construction in progress - infrastructure	483,312	399,688	483,312	399,688
Total capital assets not being depreciated	<u>1,897,990</u>	<u>399,688</u>	<u>483,312</u>	<u>1,814,366</u>
Capital assets being depreciated:				
Buildings	5,096,044	16,363	121,920	4,990,487
Improvements other than buildings	4,111,725	621,865	-	4,733,590
Equipment and vehicles	3,549,130	204,309	81,290	3,672,149
Infrastructure, road network	334,603	1,184,360	-	1,518,963
Total capital assets being depreciated	<u>13,091,502</u>	<u>2,026,897</u>	<u>203,210</u>	<u>14,915,189</u>
Less accumulated depreciation for:				
Buildings	1,758,027	146,203	-	1,904,230
Improvements other than buildings	2,422,288	109,114	-	2,531,402
Equipment and vehicles	1,558,309	208,621	69,564	1,697,366
Infrastructure, road network	-	39,898	-	39,898
Total accumulated depreciation	<u>5,738,624</u>	<u>503,836</u>	<u>69,564</u>	<u>6,172,896</u>
Total capital assets being depreciated, net	<u>7,352,878</u>	<u>1,523,061</u>	<u>133,646</u>	<u>8,742,293</u>
Governmental activities capital assets, net	<u>\$ 9,250,868</u>	<u>1,922,749</u>	<u>616,958</u>	<u>10,556,659</u>
Business type activities:				
Capital assets not being depreciated:				
Land	\$ 8,000	-	-	8,000
Construction in progress - infrastructure	4,408,312	357,371	4,408,312	357,371
Total capital assets not being depreciated	<u>4,416,312</u>	<u>357,371</u>	<u>4,408,312</u>	<u>365,371</u>
Capital assets being depreciated:				
Buildings	9,367,671	40,087	-	9,407,758
Equipment and vehicles	574,509	31,325	-	605,834
Infrastructure, water and sewer network	14,635,659	4,950,799	-	19,586,458
Total capital assets being depreciated	<u>24,577,839</u>	<u>5,022,211</u>	<u>-</u>	<u>29,600,050</u>
Less accumulated depreciation for:				
Buildings	6,425,916	288,551	-	6,714,467
Equipment and vehicles	391,630	761,217	-	1,152,847
Infrastructure, water and sewer network	5,872,372	26,653	-	5,899,025
Total accumulated depreciation	<u>12,689,918</u>	<u>1,076,421</u>	<u>-</u>	<u>13,766,339</u>
Total capital assets being depreciated, net	<u>11,887,921</u>	<u>3,945,790</u>	<u>-</u>	<u>15,833,711</u>
Business type activities capital assets, net	<u>\$ 16,304,233</u>	<u>4,303,161</u>	<u>4,408,312</u>	<u>16,199,082</u>

City of Storm Lake

Notes to Financial Statements

June 30, 2005

NOTE (3) Capital Assets - Continued

Depreciation expense was charged to functions of the primary government as follows:

Governmental activities:		
Public safety	\$	146,592
Public works		215,796
Culture and recreation		107,398
General government		<u>34,050</u>
	\$	<u>503,836</u>
Business type activities:		
Water	\$	615,393
Wastewater		460,797
Landfill		<u>231</u>
	\$	<u>1,076,421</u>

NOTE (4) Intergovernmental Receivables

Intergovernmental receivables as of June 30, 2005, include the following:

<u>From</u>	<u>For</u>	<u>Amount</u>
State of Iowa	Local option sales tax	\$ 60,703
	Liquor profits	2,795
	Road use tax	66,439
	Highway construction grant	283,761
	Community development block grant	40,639
	Fuel tax refunds	2,053
	Police grants	8,192
	Public improvement planning grant	<u>12,500</u>
		477,082
Townships	Fire protection	16,528
City of Webster City	Byrne block grant	<u>1,852</u>
		\$ <u>495,462</u>

City of Storm Lake
Notes to Financial Statements
June 30, 2005

NOTE (5) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2005 is as follows:

Transfer to	Transfer from	Amount
General	Special Revenue: Local Option Sales Tax	\$ 151,895
Special Revenue: Expendable Gift Special Revenue	Special Revenue: Local Option Revenue Bond	2,700
Debt Service	Special Revenue: Local Option Revenue Bond	285,191
Capital Projects	General	374,888
	Special Revenue: Road Use	471,000
	Debt Service	310,303
	Local Option Sales Tax	<u>18,551</u>
		1,174,742
Enterprise: Storm Water	Special Revenue: Local Option Sales Tax	54,000
	Emergency	56,167
	Capital Projects	<u>407,369</u>
		517,536
Enterprise: Lodge	Capital Projects	948,425
Fiduciary: Police/Fire Pension Trust	Special Revenue: Special Levy	<u>102,299</u>
		<u>\$ 3,182,788</u>

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

City of Storm Lake

Notes to Financial Statements

June 30, 2005

NOTE (6) Long Term Debt

The City's computed legal debt limit as of June 30, 2005 is approximately \$16,000,000, of which, \$5,736,031 is committed for outstanding general obligation debt. A summary of changes in long-term liabilities for the year ended June 30, 2005 is as follows:

	Balance Beginning of Year Restated	Increases	Decreases	Balance End of Year	Due Within One Year
Governmental activities:					
General obligation notes	\$ 247,563	5,600,000	111,532	5,736,031	232,600
Special assessment notes	35,000	0	35,000	0	0
Local option sales tax bonds	380,000	0	185,000	195,000	195,000
Compensated absences	233,452	9,272	0	242,724	97,090
Total	\$ 896,015	5,609,272	331,532	6,173,755	524,690
Business type activities:					
Revenue notes	7,141,615	355,613	279,000	7,218,228	288,000
Compensated absences	63,769	26,920	0	90,689	36,276
	\$ 7,205,384	382,533	279,000	7,308,917	324,276

General obligation notes were issued in 1999 for the purpose of providing funds to purchase a fire truck. The principal and interest on the notes are payable out of taxes levied for the debt service fund. This tax is to be collected at the same time and in the same manner as all other taxes for the City. General obligation bonds of \$5,600,000 were also issued during the current year for the purpose of providing funds to construct a resort project called "The Awaysis." The principal and interest are payable out of taxes levied for the debt service fund, hotel/motel tax revenues collected from the operations of the lodge and from the taxes paid into the urban renewal tax increment financing revenue fund. The balance of general obligation notes outstanding at June 30, 2005 is \$5,736,031. The general obligation notes issued for the fire truck are due in annual installments of \$125,000, including interest at 5.44%, with the final maturity due in the year ending June 30, 2007. The general obligation notes issued for the "Awaysis" project are due in annual installments of \$345,338, including interest ranging from 3.75% - 4.25%, with the final maturity due in the year ending June 30, 2025.

Local option sales tax bonds were issued to provide funds to construct a new police station. The principal and interest on these bonds are payable solely from the City's collections of the one-cent local option sales tax. The balance of the local option sales tax bonds outstanding at June 30, 2005 is \$195,000. The bonds are due in an annual amount of \$195,000 during the year ended June 30, 2006, and bear interest at 5.30%.

The special assessment notes were issued to provide funds to pay a portion of the cost of constructing the West Lake Estates Fifth Addition Project. The notes were paid off during the year.

City of Storm Lake

Notes to Financial Statements

June 30, 2005

NOTE (6) Long Term Debt - Continued

Details of the City's general obligation, special assessment and local option sales tax note and bonds payable at June 30, 2005 are as follows:

	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Final Due Date</u>	<u>Annual Payments</u>	<u>Amount Originally Issued</u>	<u>Outstanding 06/30/05</u>
General obligation notes:						
Fire truck	08/01/99	5.44%	06/01/07	\$ 125,000	\$ 635,000	\$ 136,031
Awaysis project	06/01/05	3.75-4.25%	06/02/25	345,338	5,600,000	<u>5,600,000</u>
						5,736,031
Special assessment bonds:						
West Lake Estates	09/01/97	6.00%	12/01/06	16,650	150,000	-
Local option sales tax bonds	06/01/96	5.30%	12/01/05	200,192	1,460,000	<u>195,000</u>
						<u>\$ 5,931,031</u>

A summary of the governmental bond/note principal and interest requirements to maturity by year is as follows:

	<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
General obligation notes	2006	\$ 232,600	237,738	470,338
	2007	148,431	226,452	374,883
	2008	130,000	219,926	349,926
	2009	165,000	214,400	379,400
	2010	185,000	207,388	392,388
	2011-2015	1,270,000	896,748	2,166,748
	2016-2020	1,615,000	614,832	2,229,832
	2021-2025	<u>1,990,000</u>	<u>257,462</u>	<u>2,247,462</u>
		5,736,031	2,874,946	8,610,977
Local option sales tax bonds	2006	<u>195,000</u>	<u>5,168</u>	<u>200,168</u>
		<u>\$ 5,931,031</u>	<u>2,880,114</u>	<u>8,811,145</u>

City of Storm Lake
Notes to Financial Statements
June 30, 2005

NOTE (6) Long Term Debt - Continued

Revenue Capital Loan Note

During the year, the City drew down proceeds of \$355,613 of its water revenue capital loan note series 2003. The note bears interest at 3% and matures in varying annual amounts ranging from \$279,000 to \$490,000, with the final maturity due in the year ending June 30, 2024.

The resolution providing for the issuance of the revenue capital loan note includes the following provisions:

- (a) The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the funds.
- (b) Sufficient monthly transfers shall be made to a revenue note retirement account for the purpose of making the note principal and interest payments when due.
- (c) User rates shall be established at a level which produces and maintains net revenues at a level not less than 110% of the amount of principal and interest on the notes falling due in the same year.
- (d) Maintain insurance on the system.

During the year ended June 30, 2005, the City was in compliance with the revenue capital loan note provisions.

Details of revenue capital loan note payable at June 30, 2005 are as follows:

Business type activities Revenue notes	Date of Issue	Interest Rates	Final Due Date	Annual Payments	Amount Originally Issued	Outstanding 06/30/05
Water revenue capital loan note	08/01/03	3.00%	06/01/24	\$ 504,000	\$ 7,500,000	\$ 7,218,228

A summary of the annual revenue capital loan note principal and interest requirements to maturity is as follows:

Year Ending June 30,	Principal	Interest	Total
2006	\$ 288,000	216,630	504,630
2007	296,000	207,990	503,990
2008	305,000	199,110	504,110
2009	314,000	189,960	503,960
2010	324,000	180,540	504,540
2011-2015	1,769,000	751,110	2,520,110
2016-2020	2,051,000	469,350	2,520,350
2021-2024	1,871,228	142,650	2,013,878
	<u>\$ 7,218,228</u>	<u>2,357,340</u>	<u>9,575,568</u>

City of Storm Lake

Notes to Financial Statements

June 30, 2005

NOTE (7) Interest Costs

Interest costs are reflected in the fund financial statements as follows:

Interest costs expensed	\$	159,751
Interest costs capitalized in enterprise fund assets		<u>73,062</u>
	\$	<u>232,813</u>

NOTE (8) Jointly-Governed Organizations

The City participates in a jointly-governed organization agreement with the Buena Vista County Solid Waste Commission, a political subdivision created under Chapter 28E of the Code of Iowa. The purpose of the Commission includes providing economic disposal of solid waste produced or generated within the member county and cities.

The City's ongoing financial interest in the jointly-governed organization consists of the operation of the landfill and other solid waste collection and disposal operations. The City collects landfill fees as a part of its regular utility billings. The Commission then bills the City quarterly for its operations. This fee is computed for each municipality on a per capita basis. For the fiscal year ended June 30, 2005 this fee totaled \$312,356.

Copies of the Commission's financial statements are available from the City Clerk at the City of Alta, or from the State Auditor's Office.

The City participates in a jointly-governed organization agreement with the Lake Improvement Commission, a political sub-division created under Chapter 28E of the Code of Iowa. The financial information for the commission is reflected as an agency fund in these financial statements. The purpose of the Commission is to finance and effect a continued dredging of the Lake Storm Lake.

Copies of the Commission's financial statements are available from the City Clerk at City of Storm Lake, or from the State Auditor's Office.

The City also participates in several jointly-governed organizations for which the City is not financially accountable, or that the nature and significance of the relationship with the City are such that exclusion does not cause the City's financial statements to be misleading or incomplete. City officials are members of the following Boards or Commissions: Buena Vista County Assessor's Conference Board, Buena Vista County Emergency Management Commission, Buena Vista County Communications Commission, Joint E911 Service Board, and Region V Drug Task Force.

City of Storm Lake
Notes to Financial Statements
June 30, 2005

NOTE (9) Construction Contracts and Commitments

The City has entered into the following contracts which were not complete as of June 30, 2005:

Project	Estimated Total Contract Price	Paid to June 30, 2005	Remaining Commitment	Retainages Payable
2005 Street Improvements Engineer	\$ 20,750	\$ 10,250	\$ 10,500	\$ -
Water Plant Renovation Construction	6,167,779	6,117,779	50,000	50,000
Dakota Well Construction	675,856	642,064	33,792	33,792
Branding Project Contract	27,000	11,816	15,184	-
TEA(21) Street Engineer	85,949	65,927	20,022	-
Construction	557,563	379,704	177,859	19,984
Awaysis Project Engineer	1,559,263	176,561	1,382,702	-
Engineer	381,038	114,311	266,727	-
			<u>1,649,429</u>	<u>-</u>
			<u>\$ 1,956,786</u>	<u>\$ 103,776</u>

NOTE (10) Commitments

The City has entered into an agreement for the operation and maintenance of the City's waste water treatment facilities through June 2013, with the fee to be negotiated yearly. The fee for the fiscal year ending June 30, 2006 is \$53,802 per month.

The City has entered into an agreement for the operations and maintenance of the City's water and water treatment facilities through June 2013, with the fee to be negotiated yearly. The fee for the fiscal year ending June 30, 2006 is \$62,408 per month.

The City has entered into an agreement for the management of the airport for the fiscal year ending June 30, 2006 for \$2,733 per month.

City of Storm Lake

Notes to Financial Statements

June 30, 2005

NOTE (11) Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductible 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.

Effective August 1, 1983, the City adopted a plan of self-insurance for employees health benefits. Deposits are made to the Employee Health Benefit Fund to pay employee claims. An excess coverage insurance policy covers individual claims over \$20,000, or total group claims exceeding 125% of expected claims.

An actuarial study of the adequacy of reserves, rates and financial condition of the Employee Health Benefit Fund was performed for the plan year January 1, 2004 to December 31, 2004. The study included census of covered members as of December 31, 2004, a summary of aggregate and specific excess loss reinsurance coverage, monthly claim expense information, a summary of revenues and expenses, and review of the plan document summary description.

Following is a financial analysis of the plan for the fiscal year ended June 30, 2005. Included in this analysis is an estimate of the amount needed at the end of the plan year for incurred but not paid claims.

	Current Year
Funds on Hand, July 1, 2004	\$ 363,134
Contributions Received	385,000
Interest Earned	8,708
Other Sources of Revenue	31,062
	<u>787,904</u>
Claims Paid	204,617
Aggregate Stop-Loss Premiums and Other Charges	120,756
	<u>325,373</u>
Funds on Hand, June 30, 2005	462,531
Reserved for Incurred but Unpaid Claims	6,837
Unreserved Funds	<u>\$ 455,694</u>

For the prior year, the actuary had estimated the incurred but unreported claims in the amount of \$9,504. The actual amount of claims paid during the current plan year, but incurred in the prior plan year was \$11,550.

City of Storm Lake

Notes to Financial Statements

June 30, 2005

NOTE (12) Deferred Compensation

The City offers its employees deferred compensation plans as allowed by Internal Revenue Code Section 457. The plan allows City employees to defer a portion of the current salary until future years. The employee becomes eligible to withdraw funds upon termination, retirement, death or unforeseeable emergency.

The City has adopted GASB Statement 32 and does not report the assets of the plans on its balance sheet.

NOTE (13) Pension and Retirement

Police and Fire Retirement System

The City contributes to the Municipal Fire and Police Retirement System of Iowa (the Plan), which is a cost-sharing multiple-employer defined benefit pension plan administered by a Board of Trustees. The Plan provides retirement and death benefits which are established by state statute to plan members and beneficiaries. The Plan issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to Municipal Fire and Police Retirement System of Iowa, 2836 104th Street, Urbandale, Iowa 50322.

Plan members are required to contribute 9.35% of earnable compensation and the City's contribution rate may not be less than 17% of earnable compensation. Contribution requirements are established by state statute. The City's contribution to the Plan for the years ended June 30, 2005, 2004, and 2003 were \$161,851, \$129,867, and \$102,275, respectively, which met the required minimum contribution for each year.

Iowa Public Employees 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 statutes to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, PO Box 9117, Des Moines, Iowa 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by State statute. The City's contributions to IPERS for the years ended June 30, 2005, 2004, and 2003 were \$76,903, \$69,386, and \$65,980, respectively, equal to the required contributions for each year.

City of Storm Lake

Notes to Financial Statements

June 30, 2005

NOTE (13) Pension and Retirement - Continued

ICMA Retirement Plan

The Chief of Police and City Administrator are covered under the nationwide retirement plan offered by the International City Manager's Association (ICMA). Contributions required by the employer are 12% of the annual salary for the Chief of Police, and \$8,000 per year for the City Administrator.

The City's responsibility is limited to payment of contributions required by the established rates. The employer's contribution paid by the City for the year ended June 30, 2005 totaled \$17,359.

NOTE (14) Conduit Debt Obligations

To provide for the construction of additions to the library, dormitories and a recreation facility at Buena Vista University, the City has issued a series of Higher Education Facilities Revenue Bonds. In addition, the City issued Elderly Housing Revenue Bonds for the construction of dietary and maintenance facilities and an addition of a 38 unit independent living facility at Methodist Manor Retirement Community. These bonds are special limited obligations of the City, payable solely from, and secured by a pledge of revenues to be received by the university and the care facility. The bonds do not constitute a debt or pledge of the faith and credit of the City, and accordingly, have not been reported in the accompanying financial statements.

A summary of conduit debt obligations is as follows:

Obligation	Amount Originally Issued	Date of Issue	Balance Outstanding June 30, 2005
Higher Education Facilities Revenue Bonds:	\$ 7,630,000 3,000,000	05/24/00 07/01/02	\$ 6,115,000 264,406 <u>6,379,406</u>
Elderly Housing Revenue Bonds:	4,615,000 5,325,000	07/01/98 10/01/03	4,155,000 5,195,000 <u>9,350,000</u>
			\$ 15,729,406

City of Storm Lake

Notes to Financial Statements

June 30, 2005

NOTE (15) Contingent Liabilities

The City has an agreement with Storm Lake Area Development Corporation (SLADC), and Tuscarora, Inc., that in the event that Tuscarora, Inc. does not exercise its option to purchase a building from SLADC, and there has been no sale or lease of the property to a third party, the City would make the remaining payments due on the note secured by the building. The City would use tax increment financing collections received to finance these payments. The City is contingently liable for semi-annual payments of \$79,996 beginning December 1, 2004 through June 1, 2007 for a total of \$479,976.

NOTE (16) Noncash Investing and Financing Activities

Noncash investing or financing transactions did not occur during the year ended June 30, 2005.

NOTE (17) Pending Litigation

The City is subject to pending litigation which could cause delay in commencement of construction of Project Awaysis. According to the City Attorney, the City has entered into contracts for which the City could be liable even if the project did not proceed. The City's exposure to loss is indeterminable.

NOTE (18) Subsequent Event

In April 2005, the City was awarded an \$8,000,000 grant by the Vision Iowa Board for the construction of "Project Awaysis." No grant proceeds were received during the year ended June 30, 2005.

NOTE (19) Prior Period Adjustment

In the government wide financial statements, beginning capital assets for governmental activities of \$14,933,318 were restated to \$14,989,492, net of accumulated depreciation of \$5,738,624. The restatement resulted from the additional capitalization of expenditures.

The effect of the restatement increased net assets at June 30, 2004 by \$56,174, and increased changes in net assets for the year then ended by that same amount. Restated beginning net assets are as follows:

	<u>Total</u>
Governmental activities:	
Net assets governmental funds at June 30, 2004, as previously reported	\$ 13,937,099
Prior period adjustment - capitalize additional assets	<u>56,174</u>
Net assets July 1, 2004, as restated for governmental funds	\$ <u><u>13,993,273</u></u>

Required Supplementary Information

City of Storm Lake

Budgetary Comparison Schedule of
Receipts, Disbursements and Changes in Balances -
Budget and Actual (Cash Basis) -
Governmental Funds and Proprietary Funds

Required Supplementary Information

Year ended June 30, 2005

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds not Required to be Budgeted
Receipts:			
Property tax	\$ 2,360,957	-	-
Tax increment financing	36,460	-	-
Other city tax	1,076,652	-	-
Licenses and permits	107,689	-	-
Use of money and property	288,896	104,309	15,406
Intergovernmental	1,808,561	-	-
Charges for service	472,177	4,532,276	682,790
Special assessments	1,343	-	-
Miscellaneous	518,125	-	-
Total receipts	<u>6,670,860</u>	<u>4,636,585</u>	<u>698,196</u>
Disbursements:			
Public safety	1,737,409	189,649	189,649
Public works	942,873	88,239	88,239
Health and social services	11,533	-	-
Culture and recreation	829,881	48,838	48,838
Community and economic development	361,516	-	-
General government	276,487	14,150	14,150
Debt service	361,282	-	-
Capital projects	2,213,284	-	-
Business type activities	-	4,735,835	112,134
Total disbursements	<u>6,734,265</u>	<u>5,076,711</u>	<u>453,010</u>
Excess (deficiency) of receipts over (under) disbursements	(63,405)	(440,126)	245,186
Other financing sources, net	<u>4,114,833</u>	<u>1,738,481</u>	<u>-</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	4,051,428	1,298,355	245,186
Balances, beginning of year	<u>4,771,932</u>	<u>4,998,730</u>	<u>674,660</u>
Balances, end of year	<u>\$ 8,823,360</u>	<u>6,297,085</u>	<u>919,846</u>

See accompanying independent auditors' report

Total Actual	Budgeted Amounts		Final to Actual Variance
	Original	Final	
2,360,957	2,231,977	2,231,977	128,980
36,460	31,307	31,307	5,153
1,076,652	1,114,925	1,114,925	(38,273)
107,689	119,600	119,600	(11,911)
377,799	147,065	147,065	230,734
1,808,561	1,869,086	1,869,086	(60,525)
4,321,663	4,165,535	4,165,535	156,128
1,343	11,313	11,313	(9,970)
518,125	356,665	6,856,665	(6,338,540)
<u>10,609,249</u>	<u>10,047,473</u>	<u>16,547,473</u>	<u>(5,938,224)</u>
1,737,409	1,786,562	1,896,562	159,153
942,873	1,009,716	1,009,716	66,843
11,533	15,700	16,533	5,000
829,881	840,990	870,990	41,109
361,516	398,162	408,162	46,646
276,487	343,561	343,561	67,074
361,282	355,987	361,487	205
2,213,284	2,270,230	2,320,230	106,946
4,623,701	4,662,763	4,837,763	214,062
<u>11,357,966</u>	<u>11,683,671</u>	<u>12,065,004</u>	<u>707,038</u>
(748,717)	(1,636,198)	4,482,469	(5,231,186)
<u>5,853,314</u>	<u>-</u>	<u>-</u>	<u>5,853,314</u>
5,104,597	(1,636,198)	4,482,469	622,128
<u>9,096,002</u>	<u>8,028,624</u>	<u>8,028,624</u>	<u>1,067,378</u>
<u>14,200,599</u>	<u>6,392,426</u>	<u>12,511,093</u>	<u>1,689,506</u>

City of Storm Lake
 Budget to GAAP Reconciliation
 Required Supplementary Information
 Year ended June 30, 2005

	<u>Governmental Funds</u>		
	<u>Cash Basis</u>	<u>Accrual Adjustments</u>	<u>Modified Accrual Basis</u>
Revenues	\$ 6,670,660	307,169	6,977,829
Expenditures/expenses	<u>6,734,265</u>	<u>(50,622)</u>	<u>6,683,643</u>
Net	(63,605)	357,791	294,186
Other financing sources, net	4,114,833	(83,093)	4,031,740
Beginning fund balances/net assets, as restated	<u>4,771,932</u>	<u>342,143</u>	<u>5,114,075</u>
Ending fund balances/net assets	<u>\$ 8,823,160</u>	<u>616,841</u>	<u>9,440,001</u>

See accompanying independent auditors' report

Proprietary Funds		
Enterprise		
Cash Basis	Accrual Adjustments	Accrual Basis
\$ 3,938,389	10,424	3,948,813
4,623,701	(320,975)	4,302,726
(685,312)	331,399	(353,913)
1,738,481	(272,520)	1,465,961
4,324,070	9,295,638	13,619,708
\$ 5,377,239	9,354,517	14,731,756

City of Storm Lake

Notes to Required Supplementary Information – Budgetary Reporting

Year ended June 30, 2005

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board (GASB) Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

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. The annual 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 is based upon 9 major classes of disbursements known as functions, not by fund or fund type. These 9 functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Fund, Permanent Fund and Enterprise 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, a budget amendment increased budgeted disbursements by \$381,333. This budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2005, disbursements did not exceed the budgeted amounts.

Other Supplementary Information

City of Storm Lake
 Combining Balance Sheet
 Nonmajor Special Revenue Funds

June 30, 2005

	Special		
	Tort Insurance	Emergency Levy	Hotel Motel Tax
Assets:			
Cash and cash equivalents	\$ -	-	-
Investments	452,974	-	-
Receivables:			
Property tax:			
Delinquent	-	1,075	-
Succeeding year	-	56,519	-
Tax increment financing:			
Succeeding year	-	-	-
Accrued interest	-	-	-
Prepaid items	30,336	-	-
Total assets	\$ 483,310	57,594	-
Liabilities and Fund Balances			
Liabilities:			
Salaries and benefits payable	\$ -	-	-
Deferred revenue:			
Succeeding year property tax	-	56,519	-
Succeeding year tax increment financing	-	-	-
Other	-	502	-
Total liabilities	-	57,021	-
Fund Balances:			
Unreserved:			
Special revenue funds	483,310	573	-
Permanent fund	-	-	-
	483,310	573	-
Total liabilities and fund balances	\$ 483,310	57,594	-

See accompanying independent auditors' report

Schedule 1

Revenue					Permanent	
Crime Prevention	Library Special Revenue	Dredging	Expendable Gift Special Revenue	Law Enforcement	Erma Myers Trust	Total
-	-	-	-	-	2,630	2,630
23,607	86,881	6,233	4,252	4,477	-	578,424
-	-	-	-	-	-	1,075
-	-	-	-	-	-	56,519
-	-	-	-	-	-	-
292	1,076	77	53	55	-	1,553
-	-	11,544	-	-	-	41,880
<u>23,899</u>	<u>87,957</u>	<u>17,854</u>	<u>4,305</u>	<u>4,532</u>	<u>2,630</u>	<u>682,081</u>
-	-	7,915	-	-	-	7,915
-	-	-	-	-	-	56,519
-	-	-	-	-	-	-
-	-	-	-	-	-	502
-	-	7,915	-	-	-	64,936
23,899	87,957	9,939	4,305	4,532	-	614,515
-	-	-	-	-	2,630	2,630
<u>23,899</u>	<u>87,957</u>	<u>9,939</u>	<u>4,305</u>	<u>4,532</u>	<u>2,630</u>	<u>617,145</u>
<u>23,899</u>	<u>87,957</u>	<u>17,854</u>	<u>4,305</u>	<u>4,532</u>	<u>2,630</u>	<u>682,081</u>

City of Storm Lake

Combining Schedule of Revenues, Expenditures and
Changes in Fund Balances
Nonmajor Governmental Funds

Year ended June 30, 2005

	<u>Special</u>		
	<u>Tort Insurance</u>	<u>Emergency Levy</u>	<u>Hotel Motel Tax</u>
Revenues:			
Property tax	\$ -	53,201	-
Other city tax	-	3,137	143,246
Use of money and property	-	-	-
Intergovernmental	-	-	-
Miscellaneous	3,741	-	-
Total revenues	<u>3,741</u>	<u>56,338</u>	<u>143,246</u>
Expenditures:			
Operating:			
Public safety	-	-	-
Culture and recreation	-	-	-
Community and economic development	-	-	143,246
General government	49,559	-	-
Total expenditures	<u>49,559</u>	<u>-</u>	<u>143,246</u>
Excess (deficiency) of revenues over (under) expenditures	(45,818)	56,338	-
Other financing sources (uses):			
Operating transfers in	-	-	-
Operating transfers out	-	(56,167)	-
	<u>-</u>	<u>171</u>	<u>-</u>
Net change in fund balances	(45,818)	171	-
Fund balance, beginning of year	<u>529,128</u>	<u>402</u>	<u>-</u>
Fund balance, end of year	\$ <u><u>483,310</u></u>	<u><u>573</u></u>	<u><u>-</u></u>

See accompanying independent auditors' report

Schedule 2

Revenue					Permanent	
Crime Prevention	Library Special Revenue	Dredging	Expendable Gift Special Revenue	Law Enforcement	Erma Myers Trust	Total
-	-	-	-	-	-	53,201
-	-	-	-	-	-	146,383
774	2,386	77	53	143	12	3,445
-	8,110	132,760	-	-	-	140,870
<u>16,195</u>	<u>6,288</u>	<u>20,139</u>	<u>4,950</u>	<u>6,797</u>	<u>-</u>	<u>58,110</u>
16,195	16,784	152,976	4,950	6,797	12	402,009
22,326	-	-	-	6,619	-	28,945
-	8,294	-	-	-	-	8,294
-	-	163,196	4,046	-	-	310,488
-	-	-	-	-	-	49,559
<u>22,326</u>	<u>8,294</u>	<u>163,196</u>	<u>4,046</u>	<u>6,619</u>	<u>-</u>	<u>397,286</u>
(5,357)	8,490	(10,220)	957	321	12	4,723
-	-	-	2,700	-	-	2,700
-	-	-	0	-	-	(56,167)
-	-	-	<u>2,700</u>	-	-	<u>(53,467)</u>
(5,357)	8,490	(10,220)	3,657	321	12	(48,744)
<u>29,256</u>	<u>79,467</u>	<u>20,159</u>	<u>648</u>	<u>4,211</u>	<u>2,618</u>	<u>665,889</u>
<u>23,899</u>	<u>87,957</u>	<u>9,939</u>	<u>4,305</u>	<u>4,532</u>	<u>2,630</u>	<u>617,145</u>

City of Storm Lake
Combining Statement of Net Assets
Nonmajor Enterprise Funds

Year ended June 30, 2005

	Enterprise Funds			
	Landfill	Storm Sewer	Lodge	Total
Assets:				
Investments	\$ 248,674	55,163	-	303,837
Receivables:				
Customer accounts and unbilled usage	45,985	-	-	45,985
Accrued interest	3,081	5,924	-	9,005
Prepaid expenses	41	1,078	-	1,119
Restricted assets:				
Investments	-	423,095	711,639	1,134,734
Capital assets	925	36,792	236,786	274,503
Total assets	<u>298,706</u>	<u>522,052</u>	<u>948,425</u>	<u>1,769,183</u>
Liabilities and Net Assets:				
Liabilities:				
Cash due bank	-	18,992	64	19,056
Accounts payable	-	2,675	-	2,675
Salaries and benefits payable	699	-	-	699
Payable from restricted assets:				
Compensated absences	1,365	-	-	1,365
Long-term liabilities:				
Compensated absences	2,048	-	-	2,048
Total liabilities	<u>4,112</u>	<u>21,667</u>	<u>64</u>	<u>25,843</u>
Net Assets:				
Invested in capital assets, net of related debt	925	36,792	236,786	274,503
Restricted for:				
Storm sewer improvement	-	406,669	-	406,669
Lodge construction	-	-	711,639	711,639
Unrestricted	293,669	56,924	(64)	350,529
Total net assets	<u>294,594</u>	<u>500,385</u>	<u>948,361</u>	<u>1,743,340</u>
Total liabilities and net assets	<u>\$ 298,706</u>	<u>522,052</u>	<u>948,425</u>	<u>1,769,183</u>

See accompanying independent auditors' report

City of Storm Lake

Statement of Revenues, Expenses and
Changes in Fund Net Assets
Nonmajor Enterprise Funds

Year ended June 30, 2005

	Enterprise Funds			
	Landfill	Storm Water	Lodge	Total
Operating revenues:				
Charges for services	\$ 370,416	-	-	370,416
Operating expenses:				
Business type activities:				
Cost of sales and services	351,647	26,766	64	378,477
Depreciation and amortization	231	-	-	231
Total operating expenses	<u>351,878</u>	<u>26,766</u>	<u>64</u>	<u>378,708</u>
Operating income (loss)	18,538	(26,766)	(64)	(8,292)
Nonoperating income:				
Interest income	<u>6,369</u>	<u>9,615</u>	<u>-</u>	<u>15,984</u>
Income (loss) before operating transfers	24,907	(17,151)	(64)	7,692
Transfers from other funds	<u>-</u>	<u>517,536</u>	<u>948,425</u>	<u>1,465,961</u>
Change in net assets	24,907	500,385	948,361	1,473,653
Net assets, beginning of year	<u>269,687</u>	<u>-</u>	<u>-</u>	<u>269,687</u>
Net assets, end of year	<u>\$ 294,594</u>	<u>500,385</u>	<u>948,361</u>	<u>1,743,340</u>

See accompanying independent auditors' report

City of Storm Lake

Statement of Changes in Assets and Liabilities – Agency Fund

Year Ended June 30, 2005

	Lake Improvement Commission			Balance End of Year
	Balance Beginning of Year	Additions	Deductions	
Assets:				
Cash and pooled investments	\$ 4,965	876,347	879,286	2,026
Interest receivable	22	25	22	25
Due from other governments	33,203	39,157	33,203	39,157
Prepaid expenses	10,950	13,080	10,950	13,080
Total assets	\$ <u>49,140</u>	<u>928,609</u>	<u>923,461</u>	<u>54,288</u>
Liabilities:				
Accounts payable	\$ 4,321	229	4,321	229
Contracts payable	36,246	-	36,246	-
Other liabilities	8,573	928,380	882,894	54,059
Total liabilities	\$ <u>49,140</u>	<u>928,609</u>	<u>923,461</u>	<u>54,288</u>

See accompanying independent auditors' report

City of Storm Lake

Schedule of Revenue By Source and Expenditures By Function –

All Governmental Funds

Year ended June 30, 2005

	Modified Accrual Basis			
	2005	2004	2003	2002
Receipts				
Property tax	\$ 2,369,578	2,201,582	2,143,224	2,067,635
Tax increment financing revenue	36,460	33,264	31,544	30,661
Other city tax	1,076,883	1,113,416	961,224	830,486
License and permits	100,288	142,724	97,694	127,029
Use of money and property	298,777	445,652	184,277	312,140
Intergovernmental	2,059,008	1,476,894	1,291,763	2,093,900
Charges for service	472,177	464,140	372,442	358,163
Special assessments	1,343	50,142	21,963	22,513
Miscellaneous	563,315	130,143	328,504	263,919
Total	\$ 6,977,829	6,057,957	5,432,635	6,106,446
Disbursements				
Operating:				
Public safety	\$ 1,741,482	1,640,085	1,720,395	1,633,205
Public works	947,440	819,776	812,980	716,976
Health and social services	9,034	15,700	15,700	10,000
Culture and recreation	829,871	837,515	826,506	718,526
Community and economic development	365,144	408,725	330,421	517,937
General government	278,934	268,705	242,472	329,345
Debt service	361,282	456,073	355,951	386,814
Capital projects	2,150,456	1,676,848	1,662,726	1,643,794
Total	\$ 6,683,643	6,123,427	5,967,151	5,956,597

See accompanying independent auditors' report

City of Storm Lake
 Schedule of Expenditures of Federal Awards
 Year ended June 30, 2005

Grantor/Program	CFDA Number	Agency Pass- Through Number	Program Expenditures
Direct:			
U.S. Department of Transportation: Airport Improvement Program	20.106		\$ 313,913
U.S. Environmental Protection Agency: Clean Water Grant	66.606		331,560
Indirect:			
U.S. Department of Justice: Flow Through City of Webster City: Byrne Block Grant	16.579	FY 05	3,926
U.S. Department of Transportation: Iowa Department of Transportation: Highway Planning and Construction	20.205	STP-E-7422	409,635
Safety Incentive Grants for Use of Seatbelt	20.604	FY 05	3,013
Intoxicated Driver Prevention	20.605	FY 05	<u>10,783</u>
			423,431
U.S. Environmental Protection Agency: Iowa Department of Natural Resources: Drinking Water State Revolving Loan Fund Capitalization Grant	66.468	FS-11-03-DWSRF-003	195,163
U.S. Department of Housing and Urban Development Community Development Block Grant /State's Program	14.228	04-HS6-019	90,165
U.S. Department of Homeland Security: Iowa Department of Public Defense: Iowa Homeland Security and Emergency Management Division/ Public Assistance Grants	97.036	FY05	<u>98,000</u>
			<u>\$ 1,456,158</u>

Basis of Presentation – The Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Storm Lake. The financial statements of the City of Storm Lake are presented on the accrual or modified accrual 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.

See accompanying independent auditors' report

City of Storm Lake

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

August 23, 2005

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

To the Honorable Mayor and
Members of the City Council:

We have audited the financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Storm Lake, Iowa, as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements listed in the table of contents and have issued our report thereon dated August 23, 2005. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Storm Lake's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements, and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable 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 caused by error or fraud 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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Continued...

Compliance

As part of obtaining reasonable assurance about whether the City of Storm Lake's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under *Government Auditing Standards*. However, we noted a certain immaterial instance of non-compliance that is 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, 2005 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.

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 Storm Lake and other parties to whom the City of Storm Lake 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 Storm Lake during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

**Independent Auditors' Report on Compliance with Requirements Applicable
to Each Major Program and Internal Control over Compliance**

August 23, 2005

Independent Auditors' 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 Storm Lake, 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, 2005. The City of Storm Lake'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 grant agreements applicable to each major federal program is the responsibility of the City of Storm Lake's management. Our responsibility is to express an opinion on City of Storm Lake's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, 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 OMB Circular A-133 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 Storm Lake'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 Storm Lake's compliance with those requirements.

In our opinion, the City of Storm Lake complied, in all material respects, with the requirements referred to above that are applicable to each major federal program for the year ended June 30, 2005.

Continued...

August 23, 2005
City of Storm Lake
Report on Compliance to Each Major Program

Internal Control Over Compliance

The management of the City of Storm Lake is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered the City of Storm Lake'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.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable 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 grant agreements caused by error or fraud 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. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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 Storm Lake and other parties to whom the City of Storm Lake 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.

City of Storm Lake
Schedule of Findings and Questioned Costs
Year ended June 30, 2005

Part I: Summary of the Independent Auditors' Results:

- (a) Unqualified opinions were issued on the financial statements.
- (b) No reportable conditions or material weaknesses in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) No material weaknesses in internal control over the major program were noted.
- (e) An unqualified opinion was issued on compliance with requirements applicable to the major program.
- (f) The audit disclosed no audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) The major programs were CFDA Number 20.106 – Federal Aviation Program, CFDA Number 20.205 – Highway Planning and Construction and CFDA Number 66.606 – Clean Water Grant.
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) City of Storm Lake did not qualify as a low-risk auditee.

City of Storm Lake
Schedule of Findings and Questioned Costs
Year ended June 30, 2005

Part II: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

No comments or recommendations.

City of Storm Lake

Schedule of Findings and Questioned Costs

Year ended June 30, 2005

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

No material weaknesses in internal control over its major programs were noted.

City of Storm Lake

Schedule of Findings and Questioned Costs

Year ended June 30, 2005

Part IV: Other Findings Related to Required Statutory Reporting:

IV-A-05 Official Depositories

A resolution naming official depositories has been approved by the City Council. The maximum deposit amounts stated in the resolution were exceeded during the year ended June 30, 2005.

IV-B-05 Certified Budget

Disbursements during the year ended June 30, 2005 did not exceed the amounts in the amended budgeted.

IV-C-05 Entertainment Expense

We noted no disbursements for parties, banquets or other entertainment for employees that we believe may constitute an unlawful expenditure from public funds as defined in an Attorney General's opinion dated April 25, 1979.

IV-D-05 Travel Expense

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

IV-E-05 Business Transactions

No business transactions were noted between the City and City officials or employees.

IV-F-05 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 the coverage is adequate for current operations.

IV-G-05 Council Minutes

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

City of Storm Lake
Schedule of Findings and Questioned Costs
Year ended June 30, 2005

Part IV: Other Findings Related to Required Statutory Reporting:

IV-H-05 Revenue Note

The City complied with the provisions of the revenue capital loan note resolution.

IV-I-05 Deposits and Investments

We noted no instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City's investment policy.

IV-J-05 Excess Balances

Comment - The cash and investment balances in the Special Revenue Funds – Tort Insurance, and Urban Renewal Tax Increment Accounts at June 30, 2005 were in excess of the disbursements made from the respective funds during the year.

Recommendation – Although the City indicated that the balances would be used for future projects or costs, the City should consider the necessity of maintaining these substantial balances, and where feasible, consider reducing the balances in an orderly manner through revenue reductions.

Response – The City has discontinued the levy of taxes for tort insurance. The balance in the Special Revenue Urban Renewal Tax Increment Account is needed for project and debt service costs.

Conclusion – Response accepted.

NEWS RELEASE

Schroer & Associates, P.C. today released an audit report on the City of Storm Lake, Iowa.

The City's revenues totaled \$10,954,204 for the year ended June 30, 2005, a 12 percent increase from the prior year. Revenues included \$2,681,137 in property tax, \$36,460 for tax increment financing revenues, \$4,396,546 from charges for service, \$1,466,650 from operating grants, contributions and restricted interest, \$1,410,861 from capital grants, contributions and restricted interest, \$793,992 from local option sales tax, \$168,271 from unrestricted investment earnings and \$287 from other general revenues.

Expenses for City operations totaled \$9,218,621, an 8 percent decrease from the previous year. Expenses included \$1,957,298 for public safety, \$1,339,198 for culture and recreation, and \$823,169 for public works. Expenses for business type activities totaled \$4,238,549.

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

